



Digital Bros S.p.A.

Consolidated quarterly report at 30 September 2007

(1st quarter of fiscal year 2007-2008)

Digital Bros S.p.A.

Via Bisceglie, 76 – 20152 Milan, Italy

VAT and tax identification no. 09554160151

Share capital: EUR 5,644,334.80 fully paid-in

Milan Companies Register no. 290680 - Vol. 7394 Chamber of Commerce no. 1302132

This report can be downloaded from the Investor Relations section
at www.digital-bros.net.

CONTENTS

Directors' report:	
Corporate officers	3
Group structure and scope of consolidation	4
The video games market	8
Seasonal patterns	10
Significant events during the period	11
Economic performance in the period ended 30 September 2007	12
Outlook	14
Financial statements:	
Consolidated balance sheet at 30 September 2007	15
Consolidated income statement for the quarter to 30 September 2007	16
Consolidated cash flow statement	17
Statement of changes in consolidated shareholders' equity	20
Segment reporting	21
Digital Bros S.p.A. balance sheet at 30 September 2007	22
Digital Bros S.p.A. income statement for the quarter to 30 September 2007	23
Notes:	
Accounting standards and principles	24
Accounting policies	27
Use of estimates	37
Consolidation methods	39
Analysis of the balance sheet	40
Revenues by geographical segment	47
Performance of business segments	48
Subsequent events	63
Contingent assets and liabilities	63
Related party transactions	64
Declaration by the financial reporting officer	66

REPORT ON OPERATIONS

CORPORATE OFFICERS

Board of Directors

Abramo Galante	Chairman and managing director (1)
Raffaele Galante	Managing director (1)
Davide Galante	Director (1)
Stefano Salbe	Director (1) (4)
Bruno Soresina	Director (3)
Dario Treves	Director (2)
Sergio Treves	Director (3)
Umberto Virri	Director (2)

(1) Executive directors

(2) Non-executive directors

(3) Independent directors

(4) Financial reporting officer per Art. 154 bis of Legislative Decree 58/98

Internal Control Committee

Umberto Virri (Chairman)
Sergio Treves
Bruno Soresina

Compensation Committee

Sergio Treves (Chairman)
Bruno Soresina
Umberto Virri

Board of Statutory Auditors

Nicolino Cavalluzzo	Chairman
Franco Gaslini	Standing Auditor
Paolo Villa	Standing Auditor
Enrico Muscato	Alternate auditor
Marcello Priori	Alternate auditor

The term of office of the Board of Directors and Board of Statutory Auditors will end as of the date of the shareholders' meeting that approves the financial statements at 30 June 2008.

On 14 November 2005 the Board of Directors granted to managing directors Abramo and Raffaele Galante powers of ordinary and extraordinary administration, to be exercised individually up to amounts of €5,000,000 and jointly for amounts in excess of that figure. The managing directors do not have authority over the matters reserved to the Board of Directors or those reserved by law or by the company's by-laws to the shareholders.

By resolution of 7 August 2007, the Board of Directors appointed board member Stefano Salbe to the position of financial reporting officer pursuant to Art. 154 bis of Legislative Decree 58/98, granting the appropriate powers.

External auditors

Reconta Ernst & Young S.p.A.

At the meeting of 30 October 2007 the shareholders renewed Reconta Ernst & Young's assignment to audit the separate and consolidated financial statements until approval of the accounts at 30 June 2012.

GROUP STRUCTURE AND SCOPE OF CONSOLIDATION

The Digital Bros Group publishes, distributes and sells video games. In recent years it has diversified into operations complementary to video games themselves, to provide a wide range of digital entertainment products using the media in every available form. These operations are performed under distinctive brands to better denote the business segment.

With more than a decade's worth of experience in localizing and distributing video games in the domestic market (Distribution segment), in recent years the Group has expanded into video game publishing and distribution on an international scale (International Publishing segment) and into the new media industry through online gaming and Internet digital entertainment (New Media segment).

With the growth spurt in recent years in the distribution via newsstands of video games and DVDs, and as a reflection of the Group's strategy of devoting steady attention to this business, the relevant costs and revenues have been split off from the Distribution segment and allocated to the Newsstands segment.

In addition to these is the Holding segment, responsible for costs not directly associated with the operating segments listed above, but which are necessary for coordinating Group activities. This includes the implementation of sound financial policies to support the development process and management of the buildings where the Group has its premises.

Group operations can be divided into the five segments described below:

Distribution: namely the localization of video games acquired from international publishers and their subsequent distribution in Italy.

This is conducted by two divisions of Digital Bros S.p.A. under the brands Halifax and DTI, and by the subsidiary Game Service S.r.l., which specializes in rack jobbing (the exclusive management of gaming displays at retail chains).

International Publishing: the purchase of video game rights from developers and their distribution by way of an international sales network. These operations differ from those of the Distribution segment because the games are produced under license with international exploitation rights normally valid for several years.

The division of the parent company called 505 Games (formerly 505 Game Street) has been in charge of this segment for the past two years. For market reasons and in light of the segment's fast growth, since October 2006 International Publishing operations have been handled by the subsidiary 505 Games S.r.l. (following a name change from DB International S.r.l.), together with the newly incorporated Digital Bros France S.a.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint venture with Japan's D3 Publisher Inc. set up for the exclusive distribution of games in the lower price range in PAL system countries (Europe, Australia and South Africa).

New Media: this segment covers all forms of interactive entertainment distributed over the new media. Digital entertainment content is provided over channels such as digital TV, mobile phones, e-commerce, d-commerce and IP TV, and is managed by the subsidiary Game Media Networks S.r.l. Since 1 January 2007, as an effect of the streamlining process, the online gaming business (the exploitation of international licenses for online games)—formerly run by 505 Games S.r.l.—has been operated by the subsidiary Game Media Networks S.r.l.

In 2006-2007, the Digital Bros Group and RCS Mediagroup formed the joint venture RCS DB Games S.p.A. to develop an online gaming portal and e-commerce/d-commerce operations for the Italian market. Through its subsidiary Game Media Networks S.r.l., Digital Bros is the joint venture's sole supplier of entertainment content.

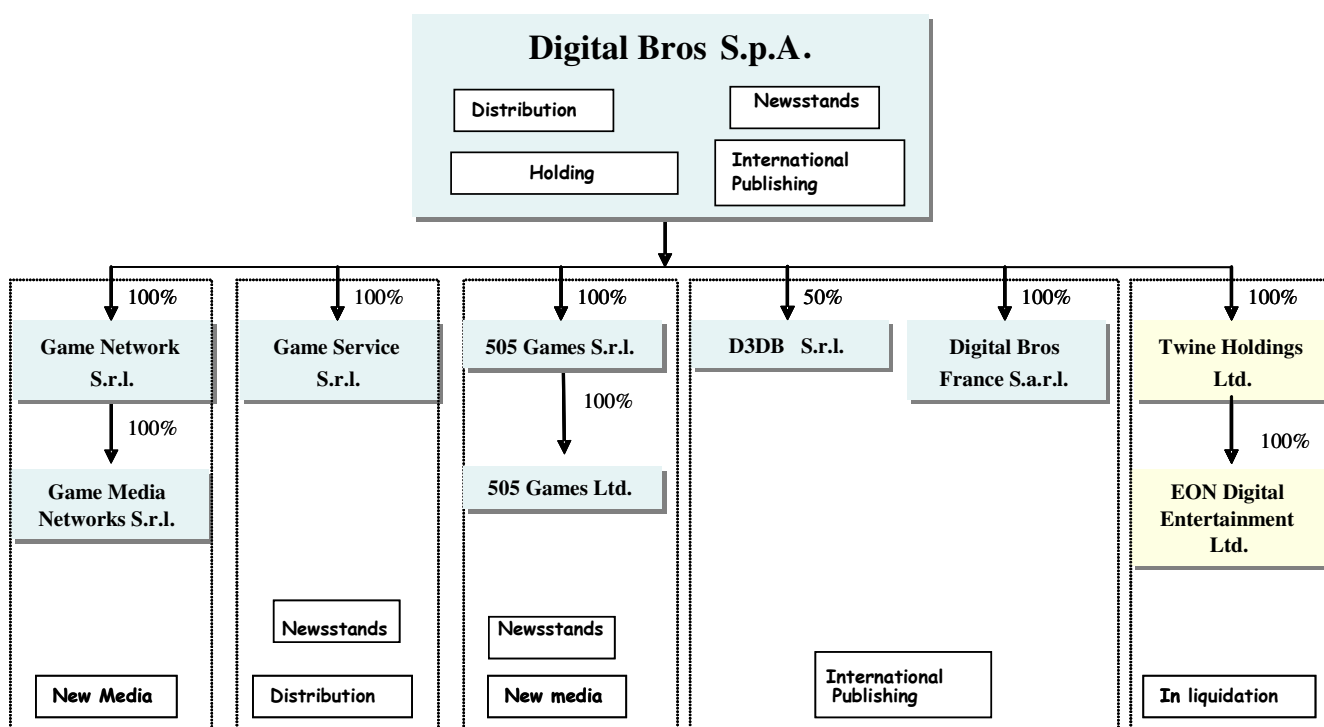
In May 2007 the Group incorporated Game Media Networks Ltd. in the United Kingdom, and in July it founded Game Media Networks S.a.r.l. in France. The purpose of the two companies is to provide commercial, promotional and public relations support in those countries for the Group's European online gaming portal, www.gametribe.com.

Newsstands: the distribution of video games as newspaper or magazine add-ons, and the distribution through newsstands of entertainment DVDs. Since 2006-2007, as a result of the streamlining process, these operations have been handled by the subsidiary Game Entertainment S.r.l.

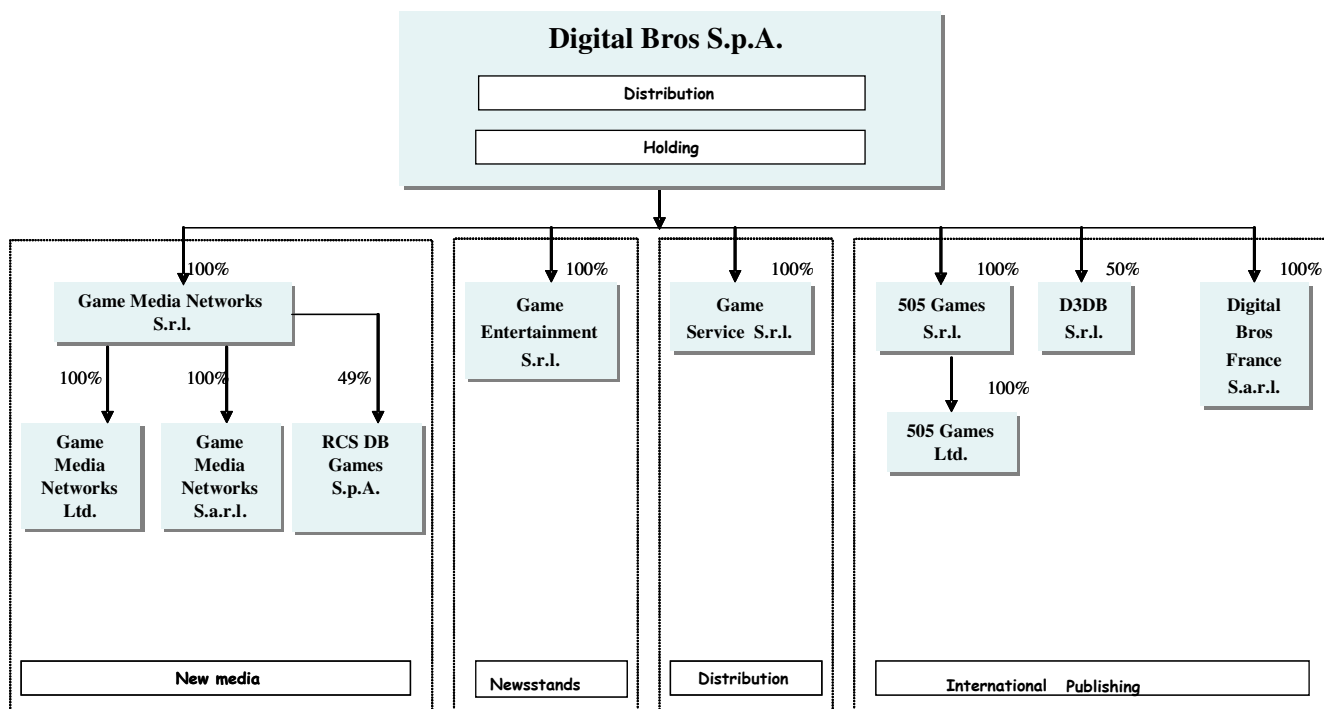
Holding: includes all coordination functions provided by the parent company Digital Bros S.p.A., specifically the management of property investments and brands, as well as Group finance operations.

The following two charts present the Group's structure by business segment in the first quarter of 2007-2008 and in the same period last year, highlighting its total reorganization:

1st quarter of fiscal year 2006-2007:



1st quarter of fiscal year 2007-2008:



The scope of consolidation includes all companies that Digital Bros S.p.A. controls directly or indirectly, thus excluding the 50-50 joint venture D3DB S.r.l. and the newly incorporated RCS DB Games S.p.A., a joint venture held 49% by the subsidiary Game Media Networks S.r.l. and 51% by RCS Mediagroup.

Below is the list of consolidated companies at 30 September 2007:

Name	Head office	Share capital	% held directly	% held indirectly	Consolidation method
Digital Bros S.p.A.	Milan	EUR 5,644,334.80	Parent company		Line-by-line
Game Entertainment S.r.l.(3)	Milan	EUR 100,000	100%		Line-by-line
Game Media Networks S.r.l.	Milan	EUR 10,000	100%		Line-by-line
Game Service S.r.l.	Milan	EUR 50,000	100%		Line-by-line
505 Games S.r.l. (2)	Milan	EUR 100,000	100%		Line-by-line
Digital Bros France S.a.r.l.	Lyons	EUR 100,000	100%		Line-by-line
505 Games Ltd. (1)	London	GBP 100,000		100%	Line-by-line
Game Media Networks Ltd. (4)	Northampton	GBP 50,000		100%	Line-by-line
Game Media Networks S.a.r.l. (4)	Lyons	EUR 50,000		100%	Line-by-line

(1) interest held 100% by 505 Games S.r.l.

(2) formerly called DB International S.r.l., subsequent to Game Network On Line S.r.l.

(3) formerly called Game Network S.r.l.

(4) interests held 100% by Game Media Networks S.r.l.

Below is a list of non-consolidated holdings carried at equity:

Name	Head office	Share capital	% held
D3DB S.r.l.	Milan	EUR 10,000	50%
RCS DB Games S.p.A.	Milan	EUR 1,500,000	49%

During the period the Group operated from the following locations:

Company	Address	Type
Digital Bros S.p.A.	Via Bisceglie 76, Milan	Offices
Digital Bros S.p.A.	Via Petrella, Trezzano sul Naviglio (MI)	Warehouse
505 Games Ltd.	Suite 366, Court Silbury Boulevard, Milton Keynes, U. K.	Offices
Game Service S.r.l.	Via Bisceglie 76, Milan	Offices
505 Games S.r.l.	Via Bisceglie 76, Milan	Offices
Game Entertainment S.r.l.	Via Bisceglie 76, Milan	Offices
Game Media Networks S.r.l.	Via Bisceglie 76, Milan	Offices
Digital Bros France S.a.r.l.	2, Chemin de la Chauderaie, Francheville, Lyons, France	Offices
Game Media Networks Ltd.	Thames Court 1, Victoria Street, Windsor SL4 1YB, U.K.	Offices
Game Media Networks S.a.r.l.	2, Chemin de la Chauderaie, Francheville, Lyons, France	Offices

THE VIDEO GAMES MARKET

About 25 years since the first video games came out, the market has now outsized the movie industry, and has become one of the key components of the entertainment market. Today, according to industry figures, the European market is worth more than €5 billion, and the Italian market has topped €400 million in value.

The industry owes its growth to several underlying factors, not least of which are the constant technological progress that has made games increasingly polished in terms of look, playability and depth of content; the increasing number of players; and the fact that players are older, as those who start to play when young continue to do so at a later age allowing the market to release games for an ever more mature audience. Meanwhile, the industry is welcoming growing numbers of female players, who in recent years have become avid leisure time fans. In Europe, thanks to these trends, the video game sector now accounts for 34% of the total entertainment market.

Technological development allows hardware manufacturers to launch more powerful consoles than ever that can also improve the quality of games. In fiscal year 2006-2007, the Nintendo Wii reached stores just before Christmas, and was joined by the Sony Playstation 3 in March. The market thus performs in cycles, in parallel with the life cycle of the consoles for which the games are developed. With the rollout of a given console, the price of both the machines and the video games is high, and relatively small quantities are sold. Console and game prices then gradually go down, as they pass from start-up to maturity, but the quantities sold increase along with the quality of the video games. The games market for a given console usually peaks in its fifth year on the market. The lifespan for consoles is currently around seven years.

The value chain for the sector is fairly elaborate and consists of five main figures who often overlap:

- Developers
- Publishers
- Console manufacturers
- Distributors
- Dealers: specialized chains, mass retailers and shops.

Developers are those who create and program the game, which is usually based on an original idea, a hot brand, a film, a book and/or a cartoon. The developers retain the intellectual property rights, but they transfer the exploitation rights—for a limited amount of time agreed by contract—to international video game publishers, who are therefore crucial for giving the game a global reputation and clientele.

For developers, publishers are the links of the chain that allow the game to reach the consumer, thanks to their international sales networks, but they are also the ones who finance the phases of development and implement marketing policies to maximize global sales.

The console manufacturer is the company that designs, engineers and produces the hardware on which the consumer plays the game. Sony is the console manufacturer for Sony Playstation 3 and 2 and Sony PSP; Microsoft is the console manufacturer for Microsoft XBox and Microsoft XBox 360; and Nintendo is the console manufacturer for Nintendo GameBoy Advance, Nintendo DS and Nintendo Wii.

The console manufacturer is also the member of the value chain that physically produces the game, using its own equipment, on behalf of the international publishers. The game, therefore, must be approved in advance by the manufacturer, through a process known as submission. Only publishers selected in advance will be licensed to make games by the console manufacturer, according to a Licensing Publishing Agreement. The console manufacturer and the publisher are often one and the same.

The role of the distributor varies from market to market. The more the market is fragmented, like Italy's, the more the distributor's role is integrated with that of the publisher—making it a sort of co-publisher that sets up marketing policies for a local audience and organizes specialized PR events. In other markets, like the U.K.'s, dealers are highly concentrated so publishers usually have a direct commercial presence. In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores. The Group has therefore set up an internal key account network to serve the former and a team of sales representatives to serve the latter.

The dealer is the outlet where the consumer buys the game. Dealers can be international chains specialized in the sale of video games, mass retail stores, specialized independent shops, or online stores.

SEASONAL TRENDS IN THE MARKET

The video game distribution market has some typical seasonal trends. Consumers are most likely to buy in the autumn, due to the approaching holidays and the imminent cold season when they spend more of their free time indoors. This is why video game publishers prefer to launch their best products in October and November.

These trends have a strong impact on the structure of the Group's income statement and balance sheet. As far as revenues and costs are concerned, fixed costs tend to be under- or over-absorbed. Their higher or lower impact on margins is quite apparent in the second quarter of the fiscal year (over-absorption of fixed costs, hence greater margins in both absolute and percentage terms), which is usually when the Group makes 40-50% of its annual sales, and during the first quarter of the year (July to September, when fixed costs are under-absorbed and margins and profits are lower), when less than 15% of revenues are earned.

The financial structure is also closely related to the pattern in sales. Net working capital rises gradually during the first few months of the year, due to the steady increase in finished product inventories and trade receivables, while for exactly the opposite reason—a decrease in inventories and receivables—net working capital tends to fall off during the second half. The same trend is found for the net financial position, which reaches a high toward the end of the calendar year.

Seasonal trends can be influenced by launching hit products at non-traditional times of the year.

SIGNIFICANT EVENTS DURING THE PERIOD

- August 2007: On the basis of results at 30 June 2007, the Board of Directors approves forecasts for fiscal year 2007-2008. Board member Stefano Salbe is named financial reporting officer, pursuant to Art. 154 *bis* of Legislative Decree 58/98, and given the appropriate powers. Finally, the Board of Directors approves the plan for increasing the publishing and content-providing component of the Group's core business. Under the plan, through its subsidiary 505 Games S.r.l. the Group has signed an agreement with Cooking Mama Ltd. for the publication of "Cooking Mama 2," the eagerly awaited sequel to the game for Nintendo DS and Wii. "Cooking Mama 2" is scheduled for release in early 2008 and management expects it to contribute some €7 million to the year's revenues;
- september 2007: launch of fueps.com, the vertical gaming site created by RCD DB Games, the group's online entertainment joint venture. The JV is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.). Fueps, an acronym for "*Faccio l'Ultima e Poi Smetto*" offers a wide range of high-quality games and an innovative community and ranking system. Users can also shop from the site, choosing from around 3,000 titles for all consoles and PCs; download games directly to their computers; or browse a broad selection of cell phone games.

ECONOMIC PERFORMANCE IN THE PERIOD ENDED 30 SEPTEMBER 2007

Below are the Group's results for the first three months of 2007-2008, with prior-year figures shown for comparison:

	EUR/000	1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	22,486	109.7%	15,364	104.7%	7,122	46.4%
2	Revenue adjustments	(1,982)	-9.7%	(688)	-4.7%	(1,294)	n.a.
3	Total net revenues	20,504	100.0%	14,676	100.0%	5,828	39.7%
4	Purchase of goods for resale	(14,110)	-68.8%	(10,614)	-72.3%	(3,496)	32.9%
5	Purchase of services for resale	(109)	-0.5%	(304)	-2.1%	195	-64.1%
6	Royalties	(1,259)	-6.1%	(723)	-4.9%	(536)	74.1%
7	Change in inventories of finished products	1,500	7.3%	1,066	7.3%	434	40.7%
8	Total cost of goods sold	(13,978)	-68.2%	(10,575)	-72.1%	(3,403)	32.2%
9	Gross profit (3+8)	6,526	31.8%	4,101	27.9%	2,425	59.1%
10	Other income	15	0.1%	1	0.0%	14	n.a.
11	Cost of services	(2,570)	-12.5%	(1,350)	-9.2%	(1,220)	90.4%
12	Rent and leasing	(93)	-0.5%	(102)	-0.7%	9	-8.8%
13	Payroll costs	(2,394)	-11.7%	(1,850)	-12.6%	(544)	29.4%
14	Other operating expenses	(381)	-1.9%	(360)	-2.5%	(21)	5.8%
15	Total operating expenses	(5,438)	-26.5%	(3,662)	-25.0%	(1,776)	48.5%
16	EBITDA (9+10+15)	1,103	5.4%	440	3.0%	663	n.a.
17	Depreciation and amortization	(147)	-0.7%	(122)	-0.8%	(25)	20.5%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(147)	-0.7%	(122)	-0.8%	(25)	20.5%
22	EBIT (16+21)	956	4.7%	318	2.2%	638	n.a.
23	Interest income	36	0.2%	3	0.0%	33	n.a.
24	Interest expense	(768)	-3.7%	(441)	-3.0%	(327)	74.1%
25	Net interest income (expense)	(732)	-3.6%	(438)	-3.0%	(294)	67.1%
26	Profit before taxes (22+25)	224	1.1%	(120)	-0.8%	344	n.a.
27	Current taxes	(98)	-0.5%	(107)	-0.7%	9	-8.4%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
29	Total taxes	(98)	-0.5%	(107)	-0.7%	9	-8.4%
30	Net profit (26+29)	126	0.6%	(227)	-1.5%	353	n.a.
Earnings per share:							
31	Basic earnings per share (in EUR)	0.01		(0.02)		0.03	n.a.
32	Diluted earnings per share (in EUR)	0.01		(0.02)		0.03	n.a.

In the first three months of the year, the Group earned gross revenues of €22,486 thousand and net revenues of €20,504 thousand, for respective increases on the previous year's 1Q figures of €7,122 thousand and €5,828 thousand. Below is the breakdown of revenues by business segment for the first quarter of this and the previous year:

EUR/000	Gross revenues				Net revenues			
	07-08	06-07	Change		07-08	06-07	Change	
Distribution	14,818	13,490	1,328	9.8%	13,713	12,802	911	7.1%
Newsstands	696	583	114	19.5%	661	583	79	13.6%
New Media	54	178	(124)	-69.6%	54	178	(124)	-69.6%
International Publishing	6,918	1,113	5,804	n.a.	6,076	1,113	4,963	n.a.
Total gross revenues	22,486	15,364	7,122	46.4%	20,504	14,676	5,828	39.7%

Revenue growth in the first quarter results mainly from expansion in the International Publishing division, where sales soared from €1,113 thousand in 2006-2007 to €6,918 thousand this year. Growth was also swift (although less spectacular) in the Distribution segment, coming to +9.8% for gross revenues and +7.1% on a net-revenue basis.

The cost of sales decreased slightly as a percentage of revenues, from 72.1% to 68.2%, permitting a gross profit of €6,526 thousand compared with €4,101 thousand for the quarter ended 30 September 2006 (+€2,425 thousand).

Operating expenses rose by €1,776 thousand or 48.5%, growing at a slightly faster pace than sales because of the higher costs incurred by the International Publishing segment. The most significant increase in operating expenses pertained to the cost of services, which rose from €1,350 thousand to €2,570 thousand (+€1,220 thousand), due mainly to the advertising costs incurred to support video game sales in the local and international market and the greater amount spent by the International Publishing segment for the production and localization of games. Payroll costs were up by €544 thousand, due to constant hiring in the New Media and International Publishing segments.

EBITDA rose from €440 thousand to €1,103 thousand, an increase of €663 thousand. As a result, EBIT was also up by an impressive €638 thousand.

Earnings per share changed by €0.03 in comparison with the same period last year.

Basic earnings per share is calculated by dividing the net profit for the period by the number of shares outstanding, net of treasury shares. For the Group, diluted earnings per share is the same as basic earnings per share, since there were no financial instruments convertible into shares in circulation during the period.

OUTLOOK

The forecast for 2007-2008, approved by the Board of Directors on 7 August 2007, is shown below with comparative figures for the previous year:

EUR/000	Forecast 2007-2008	Actual 2006-2007	Change
Gross revenues	140,474	133,926	6,548
EBIT	10,086	9,378	708

More specifically, the forecast per business segment is as follows:

EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
Gross revenues	96,026	2,002	1,003	41,443	0	140,474
EBITDA	6,905	510	(1,995)	6,464	(1,488)	10,396
EBIT	6,731	503	(2,011)	6,428	(1,565)	10,086

Forecasts for 2007-2008 are based on an assumption of lower revenues from the traditional business of distributing video games in Italy, due to the gradual replacement of the Sony Playstation 2 with the Sony Playstation 3. Although volumes are expected to stay high, this factor will reduce the average unit prices for games played on the mature console, while the new console will not yet be present in enough homes to allow distributors to make up the difference. The transition period requires forecasts for the distribution segment to be highly conservative, in light of past experience.

The Group's strategy of expanding upstream in the International Publishing segment and of diversifying geographically should more than compensate for the drop in Distribution revenues. Turnover by the International Publishing segment, in fact, is expected to more than double to about €41 million this year.

Forecasts for the Newsstand segment are especially prudent, given its performance in 2006-2007. For the New Media segment, the significant investments planned for the launch of the European online gaming portal (www.gametribe.com) will increase the operating loss with respect to the previous year.

Management constantly monitors the company's performance using various means of control, compares forecasts with actual figures on a monthly basis, and informs the market promptly if there are any significant changes with respect to data announced in the past.

FINANCIAL STATEMENTS

Digital Bros Group

Consolidated balance sheet

	EUR/000	30 September 2007	30 June 2007	Change	
	Non-current assets				
1	Property, plant and equipment	3,305	3,378	(73)	-2.2%
2	Investment property	455	455	0	0.0%
3	Intangible assets	537	517	20	3.9%
4	Equity investments	740	740	0	0.0%
5	Non-current receivables and other assets	60	61	(1)	-1.6%
6	Deferred tax assets	2,688	2,695	(7)	-0.3%
	Total non-current assets	7,785	7,846	(61)	-0.8%
	Non-current liabilities				
7	Employee benefits	(726)	(786)	60	-7.6%
8	Non-current provisions	(206)	(206)	0	0.0%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(932)	(992)	60	-6.0%
	Net working capital				
10	Inventories	40,540	39,040	1,500	3.8%
11	Trade receivables	33,168	31,157	2,011	6.5%
12	Tax credits	3,220	2,538	682	26.9%
13	Other current assets	11,618	8,412	3,206	38.1%
14	Trade payables	(14,237)	(15,570)	1,333	-8.6%
15	Taxes payable	(3,803)	(3,533)	(270)	7.6%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(2,006)	(2,566)	560	-21.8%
	Total net working capital	68,500	59,478	9,022	15.2%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,505)	(19,457)	(48)	0.2%
20	Treasury shares	229	204	25	12.3%
21	Profit (losses) carried forward	(7,569)	(7,493)	(76)	1.0%
	Total capital and reserves	(32,489)	(32,390)	(99)	0.3%
	Total net assets	42,864	33,942	8,922	26.3%
22	Cash and cash equivalents	4,495	7,080	(2,585)	-36.5%
23	Short-term payables to banks	(38,562)	(32,676)	(5,886)	18.0%
24	Other current financial liabilities	(3,249)	(3,250)	1	0.0%
	Current net debt	(37,316)	(28,846)	(8,470)	29.4%
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(3,205)	(2,673)	(532)	19.9%
27	Other non-current financial liabilities	(2,343)	(2,423)	80	-3.3%
	Non-current net debt	(5,548)	(5,096)	(452)	8.9%
	Total net debt	(42,864)	(33,942)	(8,922)	26.3%

Digital Bros Group
Consolidated income statement for the period ended 30 September 2007 (first quarter of 2007-2008)

	EUR/000	1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	22,486	109.7%	15,364	104.7%	7,122	46.4%
2	Revenue adjustments	(1,982)	-9.7%	(688)	-4.7%	(1,294)	n.a.
3	Total net revenues	20,504	100.0%	14,676	100.0%	5,828	39.7%
4	Purchase of goods for resale	(14,110)	-68.8%	(10,614)	-72.3%	(3,496)	32.9%
5	Purchase of services for resale	(109)	-0.5%	(304)	-2.1%	195	-64.1%
6	Royalties	(1,259)	-6.1%	(723)	-4.9%	(536)	74.1%
7	Change in inventories of finished products	1,500	7.3%	1,066	7.3%	434	40.7%
8	Total cost of goods sold	(13,978)	-68.2%	(10,575)	-72.1%	(3,403)	32.2%
9	Gross profit (3+8)	6,526	31.8%	4,101	27.9%	2,425	59.1%
10	Other income	15	0.1%	1	0.0%	14	n.a.
11	Cost of services	(2,570)	-12.5%	(1,350)	-9.2%	(1,220)	90.4%
12	Rent and leasing	(93)	-0.5%	(102)	-0.7%	9	-8.8%
13	Payroll costs	(2,394)	-11.7%	(1,850)	-12.6%	(544)	29.4%
14	Other operating expenses	(381)	-1.9%	(360)	-2.5%	(21)	5.8%
15	Total operating expenses	(5,438)	-26.5%	(3,662)	-25.0%	(1,776)	48.5%
16	EBITDA (9+10+15)	1,103	5.4%	440	3.0%	663	n.a.
17	Depreciation and amortization	(147)	-0.7%	(122)	-0.8%	(25)	20.5%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(147)	-0.7%	(122)	-0.8%	(25)	20.5%
22	EBIT (16+21)	956	4.7%	318	2.2%	638	n.a.
23	Interest income	36	0.2%	3	0.0%	33	n.a.
24	Interest expense	(768)	-3.7%	(441)	-3.0%	(327)	74.1%
25	Net interest income (expense)	(732)	-3.6%	(438)	-3.0%	(294)	67.1%
26	Profit before taxes (22+25)	224	1.1%	(120)	-0.8%	344	n.a.
27	Current taxes	(98)	-0.5%	(107)	-0.7%	9	-8.4%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
29	Total taxes	(98)	-0.5%	(107)	-0.7%	9	-8.4%
30	Net profit (26+29)	126	0.6%	(227)	-1.5%	353	n.a.
	Earnings per share:						
31	Basic earnings per share (in EUR)	0.01		(0.02)		0.03	n.a.
32	Diluted earnings per share (in EUR)	0.01		(0.02)		0.03	n.a.

Digital Bros Group

Consolidated cash flow statement

EUR/000	30 September 2007	30 September 2006
A. Opening net debt	(33,942)	(20,741)
Cash flow from operating activities		
Group's share of net profit (loss) for the year	126	(227)
Depreciation, amortization and provisions:		
Amortization	48	57
Depreciation	98	63
Net change in other provisions	0	13
Net change in employee benefit provisions	(60)	55
B. TOTAL	212	(39)
Change in net working capital		
Inventories	(1,500)	(1,041)
Trade receivables	(2,011)	(4,400)
Tax credits	(683)	(184)
Other current assets	(3,206)	(915)
Trade payables	(1,333)	5,900
Taxes payable	270	277
Current provisions	0	0
Other current liabilities	560	(292)
C. TOTAL	(9,022)	(656)
Cash flow from investing activities		
Net investments in intangible assets	(67)	(57)
Net investments in property, plant and equipment	(25)	(66)
Net investments in financial fixed assets	7	(214)
D. TOTAL	(84)	(337)
Cash flow from financing activities		
Capital increases	0	0
E. TOTAL	0	0
Movements in consolidated capital and reserves		
Dividends paid	0	0
Change in treasury shares held	(25)	0
Increases (decreases) in other components of capital and reserves	(2)	(23)
F. TOTAL	(27)	(23)
G. Cash flow for the period (B+C+D+E+F)	(8,922)	(1,055)
H. Closing net debt (A+G)	(42,864)	(21,796)

Details of cash flow movements by maturity

EUR/000	30 September 2007	30 September 2006
Increase (decrease) in securities and cash & cash equivalents	(2,585)	32
Decrease (increase) in short-term payables to banks	(5,886)	(557)
Decrease (increase) in other current financial liabilities	1	(441)
Short-term cash flow for the period	(8,470)	(966)
Medium-term cash flow for the period	(452)	(89)
Cash flow for the period	(8,922)	(1,055)

Digital Bros Group

Statement of changes in consolidated shareholders' equity

EUR/000	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Profit (losses) carried forward	Net profit (loss) for the year	Total unallocated income (D)	Consolidated capital and reserves: Group's share (A+B+C+D)
Total at 1 July 2006	5,644	16,954	1,129	1,367	(9)	19,441	(671)	965	3,823	4,788	29,202
Allocation of net profit						0		3,823	(3,823)	0	0
Dividend payments						0		(1,117)		(1,117)	(1,117)
Purchase of treasury shares						0	467			0	467
Other changes					16	16		(8)		(8)	8
Net profit for the period						0			3,830	3,830	3,830
Total at 30 June 2007	5,644	16,954	1,129	1,367	7	19,457	(204)	3,663	3,830	7,493	32,390
Allocation of net profit					50	50		3,780	(3,830)	(50)	0
Purchase of treasury shares						0	(25)			0	(25)
Other changes					(2)	(2)				0	(2)
Net profit for the period						0			126	126	126
Total at 30 September 2007	5,644	16,954	1,129	1,367	55	19,505	(229)	7,443	126	7,569	32,489

Segment reporting

Consolidated income statement

	EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Gross revenues	14,818	696	54	6,918	0	22,486
2	Revenue adjustments	-1,105	-35	0	-842	0	-1,982
3	Total net revenues	13,713	661	54	6,076	0	20,504
4	Purchase of goods for resale	-10,047	-1,094	-5	-2,964	0	-14,11
5	Purchase of services for resale	0	-109	0	-1	0	-109
6	Royalties	-118	-57	-8	-1,076	0	-1,26
7	Change in inventories of finished products	-111	935	0	676	0	1,5
8	Total cost of goods sold	-10,276	-325	-13	-3,364	0	-13,978
9	Gross profit (3+8)	3,437	336	41	2,712	0	6,526
10	Other income	3	1	9	1	0	15
11	Cost of services	-1,137	-160	-306	-946	-22	-2,57
12	Rent and leasing	-67	0	-7	-17	-2	-93
13	Payroll costs	-1,402	0	-316	-415	-261	-2,394
14	Other operating expenses	-239	0	-22	-63	-56	-381
15	Total operating expenses	-2,845	-160	-651	-1,44	-342	-5,438
16	EBITDA (9+10+15)	595	177	-601	1,274	-342	1,103
17	Depreciation and amortization	-100	-1	-3	-22	-21	-147
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total depreciation, amortization and impairment	-100	-1	-3	-22	-21	-147
22	EBIT (16+21)	495	176	-604	1,252	-362	956

Digital Bros S.p.A.

Balance sheet at 30 September 2007

	EUR/000	30 September 2007	30 June 2007	Change	
	Non-current assets				
1	Property, plant and equipment	3,188	3,253	(65)	-2.0%
2	Investment property	455	456	(1)	-0.2%
3	Intangible assets	493	466	27	5.8%
4	Equity investments	1,355	1,355	0	0.0%
5	Non-current receivables and other assets	4	4	0	0.0%
6	Deferred tax assets	1,027	1,027	0	0.0%
	Total non-current assets	6,522	6,561	(39)	-0.6%
	Non-current liabilities				
7	Employee benefits	(600)	(653)	53	-8.1%
8	Non-current provisions	(206)	(206)	0	0.0%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(806)	(859)	53	-6.2%
	Net working capital				
10	Inventories	31,191	34,298	(3,107)	-9.1%
11	Trade receivables	12,724	18,758	(6,034)	-32.2%
12	Due from subsidiaries	15,062	10,626	4,436	41.7%
13	Tax credits	1,696	1,694	2	0.1%
14	Other current assets	11,644	3,558	8,086	n.a.
15	Trade payables	(7,981)	(8,739)	758	-8.7%
16	Due to subsidiaries	(509)	(1,801)	1,292	-71.7%
17	Taxes payable	(2,533)	(1,746)	(787)	45.1%
18	Current provisions	0	0	0	0.0%
19	Other current liabilities	(2,131)	(2,180)	49	-2.2%
	Total net working capital	59,163	54,468	4,695	8.6%
	Capital and reserves				
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,965)	(17,965)	0	0.0%
22	Treasury shares	229	204	25	12.3%
23	Profit (losses) carried forward	(4,182)	(5,704)	1,522	-26.7%
	Total capital and reserves	(27,562)	(29,109)	1,547	-5.3%
	Total net assets	37,317	31,061	6,256	20.1%
24	Cash and cash equivalents	3,995	6,739	(2,744)	-40.7%
25	Short-term payables to banks	(34,749)	(31,007)	(3,742)	12.1%
26	Other current financial liabilities	(3,249)	(3,250)	1	0.0%
	Current net debt	(34,003)	(27,518)	(6,485)	23.6%
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(971)	(1,120)	149	-13.3%
29	Other non-current financial liabilities	(2,343)	(2,423)	80	-3.3%
	Non-current net debt	(3,314)	(3,543)	229	-6.5%
	Total net debt	(37,317)	(31,061)	(6,256)	20.1%

Digital Bros S.p.A.

Consolidated income statement for the period ended 30 September 2007 (first quarter of 2007-2008)

	EUR/000	1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	17,345	105.6%	14,427	104.3%	2,918	20.2%
2	Revenue adjustments	(927)	-5.6%	(599)	-4.3%	(328)	54.8%
3	Total net revenues	16,418	100.0%	13,828	100.0%	2,590	18.7%
4	Purchase of goods for resale	(10,690)	-65.1%	(10,279)	-74.3%	(411)	4.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	n.a.
6	Royalties	(263)	-1.6%	(608)	-4.4%	345	-56.7%
7	Change in inventories of finished products	(3,106)	-18.9%	951	6.9%	(4,057)	n.a.
8	Total cost of goods sold	(14,059)	-85.6%	(9,936)	-71.9%	(4,123)	41.5%
9	Gross profit (3+8)	2,359	14.4%	3,892	28.1%	(1,533)	-39.4%
10	Other income	332	2.0%	104	0.8%	228	n.a.
11	Cost of services	(1,200)	-7.3%	(1,182)	-8.5%	(18)	1.5%
12	Rent and leasing	(69)	-0.4%	(89)	-0.6%	20	-22.5%
13	Payroll costs	(1,842)	-11.2%	(1,547)	-11.2%	(295)	19.1%
14	Other operating expenses	(368)	-2.2%	(340)	-2.5%	(28)	8.2%
15	Total operating expenses	(3,479)	-21.2%	(3,158)	-22.8%	(321)	10.2%
16	EBITDA (9+10+15)	(788)	-4.8%	838	6.1%	(1,626)	n.a.
17	Depreciation and amortization	(118)	-0.7%	(113)	-0.8%	(5)	4.4%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(118)	-0.7%	(113)	-0.8%	(5)	4.4%
22	EBIT (16+21)	(906)	-5.5%	725	5.2%	(1,631)	n.a.
23	Interest income	34	0.2%	3	0.0%	31	n.a.
24	Interest expense	(650)	-4.0%	(441)	-3.2%	(209)	47.4%
25	Net interest income (expense)	(616)	-3.8%	(438)	-3.2%	(178)	40.6%
26	Profit before taxes (22+25)	(1,522)	-9.3%	287	2.1%	(1,809)	n.a.
27	Current taxes	0	0.0%	(107)	-0.8%	107	-100.0%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
29	Total taxes	0	0.0%	(107)	-0.8%	107	-100.0%
30	Net profit (26+29)	(1,522)	-9.3%	180	1.3%	(1,702)	n.a.

ACCOUNTING STANDARDS AND PRINCIPLES

The consolidated quarterly report of the Digital Bros Group for the first quarter of fiscal year 2007-2008 was approved by resolution of the Board of Directors on 7 November 2007. Digital Bros is a joint-stock company incorporated and domiciled in Italy. Its main operations and those of its subsidiaries are described in the notes to the financial statements.

These financial statements were prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) at 30 September 2007, as approved by the European Union. The term “IFRS” encompasses all of the International Accounting Standards (IAS) and all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC). All amounts are expressed in thousands of euros, unless otherwise specified.

In addition, the consolidated financial statements at 30 September 2007 have been prepared in accordance with Art. 77 et seq. of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 and with CONSOB announcement DEM/6064293 of 28 July 2006.

No changes have been made to the reporting format with respect to previous years, and all schedules are consistent with those used for the consolidated financial statements at 30 June 2007.

In exception to CONSOB Resolution 15519 of 27 July 2006, the financial statements do not include sub-headings for positions and/or transactions with related parties, as these are not deemed significant for purposes of understanding the Group's financial position, performance and cash flows. In accordance with CONSOB announcement DEM/6064293 of 28 July 2006, the information on related parties is included in the notes.

The income statements do not show sub-headings for costs and income arising from non-recurring events and/or transactions, as these are immaterial.

The financial statements are made up of:

- consolidated balance sheet at 30 September 2007 with comparative figures at 30 June 2007 (the previous year-end reporting date);
- consolidated income statement for the period ended 30 September 2007, in comparison with the consolidated income statement for the period ended 30 September 2006;
- consolidated cash flow statement for the period under review, in comparison with the consolidated cash flow statement for the first quarter of the previous year;

- details of cash flows by maturity, compared with movements taking place the previous year;
- statement of changes in consolidated shareholders' equity, preceded by changes in consolidated shareholders' equity taking place between 1 July 2006 and 30 September 2007;
- income statement: segment reporting;
- balance sheet of the parent company Digital Bros S.p.A. at 30 September 2007 with comparative figures at 30 June 2007 (the year-end reporting date);
- Digital Bros S.p.A. consolidated income statement for the period ended 30 September 2007, in comparison with the consolidated income statement for the period ended 30 September 2006.

The first column of the official balance sheet and of the balance sheet provided for segment reporting purposes indicates the number of the relevant note.

The balance sheet format divides items into five categories:

- non-current assets
- non-current liabilities
- net working capital
- capital and reserves
- net financial position.

Non-current assets are those whose duration is long-term by nature, such as fixed assets used in the business, equity investments, and receivables due in subsequent years. They also include investment property and deferred tax assets.

Non-current liabilities cover provisions not expected to be used during the next 12 months and for post-employment benefits, in particular the provision for employee termination indemnities at the parent company and its Italian subsidiaries.

Net working capital encompasses current assets and liabilities. Because of the commercial nature of the Group's operations, net working capital is especially significant, as it represents the amount invested in operating activities in support of the Group's development. The trend in net working capital in relation to business volumes is extremely important.

Capital and reserves consist of share capital, reserves, unallocated earnings (the profit for the year plus the portion of previous years' profits not allocated to reserves by the shareholders), as adjusted by treasury shares.

The net financial position is divided into current and non-current debt.

The first column of the official income statement and of the income statement provided for segment reporting purposes indicates the number of the relevant note.

The income statement has been prepared in vertical format, with individual entries grouped by type, and shows four intermediate levels of profit:

- gross profit, the difference between net revenues and the total cost of sales
- EBITDA, the difference between the gross profit and total operating costs
- EBIT, the difference between EBITDA and total depreciation, amortization and impairment
- pre-tax profit, the difference between EBIT and net interest income or expense.

The net profit, the difference between the pre-tax profit and total tax, is followed by earnings per share.

The cash flow statement has been prepared using the indirect method, whereby profit is adjusted for the effects of transactions of a non-cash nature, of changes in net working capital, and of cash flows arising from financing or investing activities.

The overall change for the year is given by the sum of the following items:

- cash flow from operating activities
- changes in net working capital
- cash flow from investing activities
- cash flow from financing activities
- movements in capital and reserves.

The statement of changes in shareholders' equity has been drawn up in accordance with IAS/IFRS, and shows movements for the two previous fiscal years.

Minority interests are not reported because they do not exist.

ACCOUNTING POLICIES

Figures were determined according to the interpretations of the International Accounting Standards in force as of 30 September 2007. The consolidated quarterly accounts are based on the on the historical cost principle, with the sole exception of derivative financial instruments and financial assets available for sale (recognized at fair value).

The consolidated financial statements were prepared on the basis of the accounts at 30 September 2007 submitted by the companies in the consolidation, which have been adjusted, where necessary, to bring them into line with group accounting policies and IAS/IFRS. All comparative figures from prior periods have been modified as necessary in order to render them IAS/IFRS-compliant.

The accounting policies used for the consolidated quarterly accounts at 30 September 2007 are consistent with those used to prepare the consolidated financial statements at 30 June 2006.

Property, plant and equipment

Property, plant and equipment are recognized at purchase or production cost and are shown net of depreciation and impairment. No revaluations have been conducted in previous years.

Costs incurred after purchase are capitalized only if they increase the future economic benefits associated with the asset. All other costs are charged to profit or loss when incurred.

Leasehold improvements are classified under property, plant and equipment in keeping with the nature of the cost incurred. They are amortized over the asset's residual useful life or the leasing contract, whichever is shorter.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life, as follows:

Buildings	3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%

Assets acquired under existing finance leases, in which all of the risks and benefits of ownership are transferred to the Group, are recognized at the lower of purchase cost and the present value of the minimum payments due for the entire duration of the lease. The corresponding debt to the lessor is listed under financial payables. Depreciation is charged on a straight-line basis over the estimated useful life of the asset.

Leasing arrangements in which the lessor substantially maintains all of the risks and benefits of ownership are classified as operating leases. The costs of operating leases are charged to profit or loss in relation to the term of the contract.

Land is not depreciated, although impairment losses are charged if the fair value falls below cost.

Investment property

Buildings and property units held for appreciation of the invested capital are recognized at historical cost and are not depreciated. Impairment losses are charged if their market value falls below cost.

Intangible assets

Intangible assets purchased or produced internally are capitalized in accordance with IAS 38, when it is likely that their use will generate future economic benefits and when their cost can be reliably determined.

They are recognized at purchase or production cost and, if they have a finite useful life, are amortized on a straight-line basis over that period.

Amortization rates are as follows:

Brands 10%

Licenses 20%

The amortization charge is shown in the income statement.

Goodwill

When companies are acquired, their identifiable assets, liabilities and contingent liabilities are recognized at their fair value as of the acquisition date. The difference between the purchase cost and the Group's interest in the fair value of those assets and liabilities, if positive, is classified as goodwill and recognized as an intangible asset. Any negative difference ("negative goodwill") is charged to profit or loss at the time of the acquisition.

Goodwill is not amortized, but is subject to impairment testing on a yearly basis (or more frequently if specific events or changed circumstances indicate the possibility of a loss in value), in accordance with IAS 36 ("Impairment of Assets"). After its initial recognition, goodwill is valued at cost net of any accumulated impairment.

Upon the sale of a company or part of a company whose previous acquisition gave rise to goodwill, account is taken of the residual value of the goodwill in determining the capital gain or loss from the sale.

Upon first-time adoption of IFRS, the Group chose not to apply IFRS 3 (Business Combinations) retroactively to the acquisition of companies taking place before 1 July 2004. Consequently, the goodwill generated on acquisitions prior to the IFRS transition date has been maintained at the Italian GAAP value, after testing for and recognizing any impairment.

Impairment of assets

IAS 36 requires that intangible assets, property, plant & equipment, and investment property be tested for impairment by discounting future cash flows.

At least once a year, therefore, the Group tests the recoverability of these assets' carrying value. If they are found to be impaired, the asset's recoverable amount is estimated in order to determine the extent of the writedown. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount of an asset is its fair value net of costs to sell or its value in use, whichever is higher. An assets' value in use is estimated by discounting the present value of estimated future cash flows at a pre-tax rate that reflects the current time value of money and the specific risks inherent to the asset.

An impairment loss is charged if the recoverable amount is below carrying value. If impairment is subsequently reduced or reversed, the carrying value of the asset or cash generating unit is written back to the new estimate of recoverable amount, not to exceed the value that would have been recognized had no impairment losses been charged. The reversal of an impairment loss is immediately recognized in profit or loss.

Employee benefits

Post-employment benefits (*trattamento di fine rapporto* or TFR), which are mandatory for Italian companies pursuant to Art. 2120 of the Civil Code, qualify as deferred compensation and depend on the employee's duration of employment and amount of compensation received while in the company's service.

Since 1 January 2007, Italy has made significant changes to the TFR system, including the employee's choice as to where his or her benefits are to be held (in complementary pension funds or in the "Treasury Fund" managed by the Social Security agency INPS). Thus, the obligation to INPS and the payments to complementary pension funds qualify as defined contribution plans, while the amounts remaining in the TFR fund, in accordance with IAS 19, retain their status as defined benefit plans. Legislative changes have also led to the redetermination of actuarial assumptions and the consequent calculations used to quantify TFR.

Inventories

Finished product inventories are recognized at the lower of cost including ancillary expenses and realizable value, as estimated from market trends. Cost is defined as the specific purchase cost.

When the realizable value of inventories is less than their purchase cost and/or their realizable value the previous year, impairment is charged directly to the unit value of the article in question.

Receivables and payables

Receivables are recognized at their estimated realizable value. The face value of receivables is adjusted to their estimated realizable value by means of a provision for doubtful accounts, which is formed in consideration of debtors' individual situations.

Receivables from customers undergoing insolvency procedures are written off in full, or written down to the extent that legal action in course indicates their partial collectibility.

Payables are shown at face value.

Factoring of trade receivables

The Group has factored without recourse, to various companies, a significant share of its trade receivables. In accordance with IAS 39, factored assets can be eliminated from the financial statements only when the associated risks and benefits have been substantially transferred. Thus, receivables factored without recourse that include provisions limiting the transfer of these risks and benefits at the time of the transaction, such as deferred payments or deductibles by the transferor, or that imply continued significant exposure to the trend in inflows deriving from the receivables, remain in the consolidated financial statements even though said receivables have been legally assigned. A short-term financial liability of an amount equal to the sums advanced is therefore recognized in the consolidated financial statements. Gains and losses from factoring are recognized only when the assets themselves have been removed from the balance sheet.

Current and non-current provisions

The Group makes provisions against legal or constructive obligations to third parties whose exact amount and/or timing are unknown, and/or it is likely that the Group's resources will have to be employed to fulfill the obligation and the amount can be reliably estimated. The provisions are adjusted periodically to reflect any changes in the estimated amount of the liability.

Changes in estimates are recorded in profit or loss for the year in which the changes are made.

Financial assets and liabilities

Current financial assets, non-current financial assets, and current and non-current financial liabilities are recognized in accordance with IAS 39 (“Financial Instruments: Recognition and Measurement”).

Cash and cash equivalents include cash on hand, bank deposits, mutual fund units, other highly negotiable securities, and other financial assets recognized as assets available for sale.

Current financial assets and securities are booked on the basis of their trading date; upon first-time recognition they are valued at purchase cost including expenses ancillary to the individual transactions.

Following first-time recognition, financial instruments available for sale and trading securities are posted at fair value. If the market price is unavailable, the fair value of financial instruments available for sale is measured with the most appropriate valuation techniques, such as the discounted cash flow method, using the market information available at the close of the year.

Financial liabilities include financial payables as well as other financial liabilities, including those arising from the recognition of derivative instruments at market value.

Financial liabilities hedged by derivatives are shown at fair value, according to the rules of hedge accounting: gains and losses from subsequent recognition at fair value, due to changes in interest rates and/or exchange rates, are posted to the income statement and offset by the effective portion of the loss or gain deriving from the subsequent fair-value recognition of the instrument hedged.

Derivative financial instruments

Derivative financial instruments are normally used to hedge the risk of fluctuation in exchange rates, interest rates and market prices. In accordance with IAS 39, derivative financial instruments may be recognized on a hedge accounting basis only if, at the inception of the hedge, the relationship is formally designated and documented; the hedge is expected to be highly effective; its effectiveness can be reliably measured; and the hedge is assessed as being highly effective throughout the financial reporting periods for which it was designated.

All derivative financial instruments are measured at fair value, as established by IAS 39.

When the financial instruments qualify for hedge accounting, the following rules apply:

Fair value hedge - If a derivative financial instrument is designated as a hedge against changes in the fair value of a recognized asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value accounting of the hedge is recognized in profit or loss.

The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of that item

and is recognized in profit or loss.

Cash flow hedge - If a financial instrument is designated as a hedge against exposure to variations in the cash flows of a recognized asset or liability or a forecast transaction that is highly probable and could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognized directly in capital and reserves. The cumulative gains and losses are removed from capital and reserves and reclassified to profit or loss in the same period in which the hedged transaction is recognized. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in profit or loss. If a hedge or a hedging relationship is closed, but the hedged transaction has not yet taken place, the gains or losses accrued up to that time in capital and reserves are reclassified to profit or loss as soon as the transaction occurs. If the transaction is no longer expected to occur, the unrealized gains or losses still recognized directly in capital and reserves are immediately reclassified to profit or loss.

If hedge accounting cannot be used, the gains or losses arising from the fair value accounting of the derivative financial instrument are recognized immediately to profit or loss.

Treasury shares

Treasury shares held by Digital Bros S.p.A. and other companies in the consolidation are deducted from capital and reserves. Their original cost and any positive/negative differences from their subsequent sale are recorded as equity movements under “other reserves.”

Revenues

Revenues are recognized when the Group is expected to obtain economic benefits whose amount can be reliably determined. Specifically, revenues from the sale of goods are recognized when the risks and benefits of ownership are transferred to the buyer, and the price has been agreed or can be determined and is expected to be received.

Revenues from services are recognized when the services are rendered and accepted by the customer.

“Gross revenues” are shown net of discounts, rebates, returns, and other components estimated as a percentage of revenues. Revenue adjustments are comprised of variable costs depending on the revenues and estimated returns from customers, both contractual and non-contractual.

Costs

Costs and other operating expenses are recognized when incurred in accordance with the principles of accrual and matching, when they do not produce future economic benefits, or when those benefits do not qualify for recognition as assets.

Cost of sales

The cost of sales is the purchase or production cost of products, goods and/or services for resale. It includes all materials and workmanship costs.

The item "change in inventories" covers the gross change in year-end inventories net of any additions to and/or withdrawals from the provisions for inventory obsolescence, and net of any impairment losses charged directly to the articles stored.

Royalties paid for the exploitation of international and national licenses are treated as a component of the cost of sales.

If royalty advances are wholly recouped, the calculation method is the same as in prior years, with recoupment determined by multiplying the unit royalty by the quantities sold during the period. In the case of partial recoupment, a new method has been adopted with respect to previous years, when recoupment was calculated for each license according to the following formula:

phase 1 - calculation of actual royalties:

total royalties paid/(quantity sold + quantity forecast)

phase 2 - calculation of recoupment:

quantity sold*actual royalties, as determined in phase 1.

Starting with the year ended 30 June 2007, the expense is now split between recoupment and impairment, calculated for each licence according to the following formula:

total advances - (quantity forecast*unit royalty).

Recoupment is determined as:

quantity sold*unit royalty;

while impairment is calculated as:

(total contractual quantity - quantity sold - quantity forecast)*unit royalty.

Interest income and expense

Interest income and expense are shown separately in the income statement and are recognized on an accruals basis.

Current taxes

Income taxes include all charges calculated on the Group's taxable income. Income taxes are generally recognized to profit or loss, except when they pertain to items directly charged from or credited to capital

and reserves, in which case the tax effect is recognized directly to capital and reserves.

Other taxes not related to income, such as those on property and capital, are booked to other operating expenses.

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the “group tax election” now provided for by Italian law. This has made it necessary to prepare a set of rules for intercompany relations to ensure that no prejudice is caused to the individual participants in the system.

Deferred taxes

Deferred taxes are determined according to the balance sheet liability method. They are calculated on all temporary differences between the accounting and tax value of an asset or liability, with the exception of non-deductible goodwill and differences deriving from investments in subsidiaries that are not expected to reverse in the foreseeable future.

Deferred tax assets on business losses and unused tax credits eligible to be carried forward are recognized in proportion to the likelihood of earning enough future taxable income for these to be recovered. Deferred tax assets and liabilities are calculated at the tax rates expected to be in force under the systems of the countries where the Group operates when the temporary differences are realized or reversed.

They are classified as non-current assets and liabilities.

Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period by the number of shares outstanding, net of treasury shares. For Digital Bros, diluted earnings per share is the same as basic earnings per share, since there were no financial instruments convertible into shares in circulation during the period.

Foreign currency transactions

Transactions in foreign currencies are recognized at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated at the exchange rate in force on that date. Exchange gains and losses generated by the closure of monetary items or by their translation at rates other than those used upon initial recognition during the year or in prior periods are recognized to profit or loss.

New standards and interpretations approved by the EU and effective since 1 January 2007

As required by IAS 8 (“Accounting policies, changes in accounting estimates and errors”), below is a brief description of the IFRS in effect as from 1 July 2006.

IFRS 7 - Financial instruments: disclosures

This standard, adopted by the EU in January 2006 (Regulation EC No. 108-2006), supersedes IAS 30 (Disclosures in the financial statements of banks and similar financial institutions) and incorporates the disclosure requirements of IAS 32 (Financial instruments: presentation and disclosure), with certain changes and additions. As a result, IAS 32 is now entitled “Financial instruments: presentation.”

Amendments to IAS 1- Presentation of financial statements – capital disclosures

These amendments, adopted by the EU in January 2006 (Regulation EC No. 108-2006), require an entity to make disclosures that will allow users of the financial statements to assess its objectives, policies and processes for managing capital.

IFRIC 8 - Scope of IFRS 2

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC interpretation 8 (Scope of IFRS 2). IFRIC 8 specifies that IFRS 2 (Share-based payment) applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. Compliance with this interpretation has had no effect on the financial statements.

IFRIC 9 – Reassessment of embedded derivatives

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC Interpretation 9 (Reassessment of embedded derivatives). This interpretation specifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment of the separation is required. Compliance with this interpretation has had no effect on the financial statements.

IFRIC 10 – Interim financial reporting and impairment

On 1 June 2007, the European Commission (Regulation EC No. 610-2007) adopted IFRIC Interpretation 10 (Interim financial reporting and impairment). IFRIC 10 addresses the interaction between IAS 34 on interim financial reporting and the recognition of impairment losses on goodwill (IAS 36) and on certain financial assets (IAS 39), and the effect of this interaction on subsequent interim and annual financial statements. It

clarifies the treatment to be applied in the annual financial statements or in subsequent interim accounts for impairment losses recognized in an interim (e.g. quarterly or half-year) report that by the end of the subsequent period are no longer justified. Compliance with this interpretation has had no effect on the financial statements.

New standards and interpretations approved by the EU but not yet in effect

The IFRS in effect since 1 July 2007 or later are briefly described below.

IFRIC 11 - (IFRS 2 – Group and treasury share transactions)

On 1 June 2007, the European Commission (Regulation EC No. 611-2007) adopted IFRIC Interpretation 11 (IFRS 2 - Group and treasury share transactions). IFRIC 11 states that share-based payment, in which an entity receives services (e.g. from employees) in exchange for its own shares, must be accounted for as equity-settled transactions regardless of whether the entity chooses or is required to buy its own shares from a third party to settle the obligation. It also clarifies the treatment applicable in the financial statements of subsidiaries to share-based payments involving the equity instruments of the parent company, under certain specified conditions. IFRIC 11 will be applicable as from 2008.

USE OF ESTIMATES

The preparation of the financial statements and notes on an IFRS-compliant basis requires the company to make certain discretionary valuations. These are used to prepare estimates and assumptions that affect the value of recognized assets and liabilities and the information on contingent assets and liabilities as of the reporting date. Actual results may differ.

In particular, estimates are used to report provisions for doubtful accounts, the writedown of inventories to market value, depreciation and amortization, asset impairment, employee benefits, deferred taxes, and other provisions and reserves. Estimates and assumptions are reviewed at least quarterly, and any changes are reflected immediately in profit or loss.

Sources of uncertainty in making estimates

The main sources of uncertainty in making estimates concern doubtful accounts, inventory writedowns, employee benefits, and revenue adjustments.

Doubtful accounts

To assess the risk of credit default, the Group relies on the opinion of the external legal advisor in charge of customer disputes. According to the Group's credit collection procedure, receivables not paid within 45 days of falling due are passed on to the legal advisor for collection. Frequent meetings between the legal advisor and the credit manager, and frequent updates of the legal advisor's collectibility forecasts, make the estimate of doubtful accounts reliable over time.

Inventory writedowns

The Group estimates inventory writedowns on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment is charged to reflect individual products' lower market value with respect to their historical cost. To arrive at these estimates, the Group uses revenue forecasts for the six following quarters, produced every quarter by the sales department. The forecasts are the basic documents used to draw up budgets. Any differences found between the market valuation of a product held in inventory and its historical cost are recognized to profit or loss in the quarter they are discovered.

Employee benefits

The Group offers no pension plans and/or other employee benefits, with the exception of the employee termination indemnities (*trattamento di fine rapporto*, or TFR) required by Italian law. Estimating those benefits requires an assessment of the future financial outlays that may arise as a result of employees'

voluntary and involuntary departure from the company, in relation to their seniority and the revaluation rates these benefits enjoy by law.

The TFR system underwent significant changes during the year. Estimating the liability is still complex, however, due to a small portion of benefits that have remained with Group companies.

To arrive at this estimate, the Group relies on a registered actuary to define the necessary parameters.

Revenue adjustments

A significant cost element defined as “revenue adjustments” involves analytical computations for which the Group has adopted suitable procedures.

Revenue adjustments are made up of two kinds of cost. The first, discounts granted to customers in accordance with the terms of a contract, are easy to determine. The second are difficult to estimate and consist of potential credit notes that the Group will have to issue for returns of unsold products and/or price reductions to be granted even where not agreed in the contract. To estimate this amount, management uses calculations based on an analysis by individual customer as well as an analysis by individual product, in which the risk is shown separately for price cuts and returns. The estimate is made on a quarterly basis.

CONSOLIDATION METHODS

Subsidiaries

Subsidiaries are companies the Group controls. Control exists when the Group has the power, directly or indirectly, to influence their financial and managerial policies in such a way as to obtain benefits from their operations. The financial statements of subsidiaries are consolidated as from the date control is assumed until the date control ceases to exist.

The statements used for the consolidation are prepared as of the same reporting date, using identical accounting standards.

Joint ventures are equity accounted.

Transactions eliminated in the consolidation process

In preparing the consolidated financial statements, all assets, liabilities, and economic and financial transactions existing between Group companies are eliminated, as are unrealized profits and losses on intercompany transactions.

ANALYSIS OF THE BALANCE SHEET

The consolidated balance sheet at 30 September 2007 is reported below, in comparison with the previous year's figures:

	EUR/000	30 September 2007	30 June 2007	Change	
	Non-current assets				
1	Property, plant and equipment	3,305	3,378	(73)	-2.2%
2	Investment property	455	455	0	0.0%
3	Intangible assets	537	517	20	3.9%
4	Equity investments	740	740	0	0.0%
5	Non-current receivables and other assets	60	61	(1)	-1.6%
6	Deferred tax assets	2,688	2,695	(7)	-0.3%
	Total non-current assets	7,785	7,846	(61)	-0.8%
	Non-current liabilities				
7	Employee benefits	(726)	(786)	60	-7.6%
8	Non-current provisions	(206)	(206)	0	0.0%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(932)	(992)	60	-6.0%
	Net working capital				
10	Inventories	40,540	39,040	1,500	3.8%
11	Trade receivables	33,168	31,157	2,011	6.5%
12	Tax credits	3,220	2,538	682	26.9%
13	Other current assets	11,618	8,412	3,206	38.1%
14	Trade payables	(14,237)	(15,570)	1,333	-8.6%
15	Taxes payable	(3,803)	(3,533)	(270)	7.6%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(2,006)	(2,566)	560	-21.8%
	Total net working capital	68,500	59,478	9,022	15.2%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,505)	(19,457)	(48)	0.2%
20	Treasury shares	229	204	25	12.3%
21	Profit (losses) carried forward	(7,569)	(7,493)	(76)	1.0%
	Total capital and reserves	(32,489)	(32,390)	(99)	0.3%
	Total net assets	42,864	33,942	8,922	26.3%
	Current net debt				
22	Cash and cash equivalents	4,495	7,080	(2,585)	-36.5%
23	Short-term payables to banks	(38,562)	(32,676)	(5,886)	18.0%
24	Other current financial liabilities	(3,249)	(3,250)	1	0.0%
	Current net debt	(37,316)	(28,846)	(8,470)	29.4%
	Non-current net debt				
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(3,205)	(2,673)	(532)	19.9%
27	Other non-current financial liabilities	(2,343)	(2,423)	80	-3.3%
	Non-current net debt	(5,548)	(5,096)	(452)	-8.9%
	Total net debt	(42,864)	(33,942)	(8,922)	26.3%

NON-CURRENT ASSETS

The investment policy during the period was geared mainly towards implementation of the new ERP system based on Microsoft Dynamics Navision. Total investments for the period came to €94 thousand, made up chiefly of €67 thousand for the ERP system and €25 thousand for the purchase of office automation machines and equipment.

NET WORKING CAPITAL

Net working capital increased by €9,022 thousand with respect to 30 June 2007 (+15.2%). The trend is explained primarily by a rise of €2,011 thousand in trade receivables, of €1,500 thousand in inventories, and of €3,206 thousand in other current assets. This trend should be analyzed in light of the Group's significant increase in sales (+€5,828 thousand) during the first quarter with respect to the same period last year.

The increase in inventories (€1,500 thousand) was caused mainly by the growth in revenues and publishers represented on an exclusive basis in Italy, but also by the rise in inventories kept by the International Publishing segment.

An analysis of net working capital in comparison with figures at 30 June 2007 is provided below:

	EUR/000	30 September 2007	30 June 2007	Change	
10	Inventories	40,540	39,040	1,500	3.8%
11	Trade receivables	33,168	31,157	2,011	6.5%
12	Tax credits	3,220	2,538	682	26.9%
13	Other current assets	11,618	8,412	3,206	38.1%
14	Trade payables	(14,237)	(15,570)	1,333	-8.6%
15	Taxes payable	(3,803)	(3,533)	(270)	7.6%
17	Other current liabilities	(2,006)	(2,566)	560	-21.8%
	Total net working capital	68,500	59,478	9,022	15.2%

The increase of €3,206 thousand in other non-current assets (from €8,412 thousand to €11,618 thousand) stems from the rise in receivables for video game licenses, given the constant acquisition of licenses during the period, in line with the growth enjoyed by the International Publishing segment. This heading consists of both advances for video game licenses still to be exploited in full, and the portion of partially exploited licenses expected to be of further use.

Also, in the first quarter of the year, advances of €3 million were paid by the International Publishing segment for video games to be sold during the Christmas season.

CAPITAL AND RESERVES

Detailed movements in capital and reserves are reported in the consolidated statement of changes in shareholders' equity (attached to this report). They can be summarized as follows:

	EUR/000	30 September 2007	30 June 2007	Change	
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,505)	(19,457)	(48)	0.2%
20	Treasury shares	229	204	25	12.3%
21	Profit (losses) carried forward	(7,569)	(7,493)	(76)	1.0%
	Total capital and reserves	(32,489)	(32,390)	(99)	0.3%

No specific uses or objectives have been designated for the individual equity reserves, other than those defined by law.

NET DEBT

In line with the increase in net working capital (€9,022 thousand), net debt grew by €8,922 thousand with respect to 30 June 2007. The trend is explained mostly by a rise in short-term payables to banks. For a more in-depth analysis of cash flow, see the consolidated cash flow statement attached to this report.

The breakdown of consolidated net debt with comparative figures at 30 June 2007 is as follows:

	EUR/000	30 September 2007	30 June 2007	Change
22	Cash and cash equivalents	4,495	7,080	(2,585)
23	Short-term payables to banks	(38,562)	(32,676)	(5,886)
24	Other current financial liabilities	(3,249)	(3,250)	1
	Current net debt	(37,316)	(28,846)	(8,470)
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(3,205)	(2,673)	(532)
27	Other non-current financial liabilities	(2,343)	(2,423)	80
	Non-current net debt	(5,548)	(5,096)	(452)
	Total net debt	(42,864)	(33,942)	(8,922)

Current net debt

Current net debt is made up as follows:

	EUR/000	30 September 2007	30 June 2007	Change
22	Cash and cash equivalents	4,495	7,080	(2,585)
23	Short-term payables to banks	(38,562)	(32,676)	(5,886)
24	Other current financial liabilities	(3,249)	(3,250)	1
	Total current net debt	(37,316)	(28,846)	(8,470)

22. Cash and cash equivalents

Cash and cash equivalents at 30 September 2007 are comprised of sight deposits at banks, securities and money market funds used as short-term investments of cash, and a Quadrante policy taken out by Digital Bros S.p.A. on 21 October 2002 in connection with the Montepaschivita insurance scheme (€264 thousand).

EUR/000	30 September 2007	30 June 2007	Change
Cash on hand and bank deposits	2,080	4,689	(2,609)
Securities held at Banca Antonveneta	2,151	2,129	22
Quadrante policy (Banca Toscana)	264	262	2
Total cash and cash equivalents	4,495	7,080	(2,585)

Cash and cash equivalents at 30 September 2007 amount to €4,495 thousand, a decrease of €2,583 thousand with respect to 30 June due to a reduction in cash on hand and bank deposits.

23. Short-term payables to banks

Short-term payables to banks are comprised of account overdrafts, import-export financing, advances on invoices, advances subject to collection, and the portion of derivatives and bank loans due within 12 months. The amount due for short-term derivatives is €366 thousand.

EUR/000	30 September 2007	30 June 2007	Change
Account overdrafts	(3,462)	(2,314)	(1,148)
Import-export financing	(23,232)	(18,709)	(4,523)
Advances on invoices and subject to collection	(9,267)	(10,170)	903
Loan installments due within 12 months	(2,235)	(1,082)	(1,153)
Fair value recognition of derivatives - due within 12 months	(366)	(401)	35
Total short-term payables to banks	(38,562)	(32,676)	(5,886)

Loan installments due within 12 months are shown below:

EUR/000	30 September 2007	30 June 2007	Change
To Banca Intesa San Paolo	(602)	(816)	214
To UniCredit Banca	(1,633)	(266)	(1,367)
Total short term loans and borrowings	(2,235)	(1,082)	(1,153)

The increase in loan installments due to UniCredit Banca within 12 months is the result of a new loan taken out by the subsidiary 505 Games S.r.l. on 18 September 2007 for €2,050 thousand. The loan will finance the company's development and is due in full on 18 March 2009. The current portion amounts to €1,367 thousand. The loan charges variable interest starting at 6.80% per year, calculated as the three-month Euribor plus a 2-point spread. Interest is paid quarterly, while the principal will be repaid in a lump sum on 18 March 2009 or before (with no penalties applying).

24. Other current financial liabilities

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasing falling due within 12 months, recognized in the amount of €175 thousand in accordance with IAS 17. The leasing agreements currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars. The item also includes advances on trade receivables factored without recourse, in keeping with IAS 39, totaling €3,074 thousand.

Non-current net debt

Non-current net debt is made up as follows:

	EUR/000	30 September 2007	30 June 2007	Change
26	Non-current payables to banks	(3,205)	(2,673)	(532)
27	Other non-current financial liabilities	(2,343)	(2,423)	80
	Non-current net debt	(5,548)	(5,096)	(452)

26. Non-current payables to banks

Non-current payables to banks consist of the long-term portion of loans being paid in installments, for a total of €3,205 thousand.

At 30 September 2007 the Group had the following loans outstanding:

- two five-year loans taken out in 2005 by Digital Bros S.p.A. from Banca Intesa San Paolo and UniCredit Banca d'Impresa. The amounts borrowed, net of ancillary expenses, have been credited to ordinary accounts at the two banks, which the company has agreed to keep open until the loans are fully repaid. The Intesa San Paolo loan was granted on 14 March 2005 with a term of 24 months. It charges interest at a floating annual rate of the three-month Euribor plus 2%. Installments fall due every quarter, with the last payment scheduled for July 2007. The UniCredito Banca d'Impresa loan, taken out on 15 June 2005 and maturing on 30 September 2010, required no principal to be reimbursed until 31 December 2006. Until then, at the end of each calendar quarter the Group made a payment consisting of accrued interest only. That interest was charged at an annual rate of the three-month Euribor plus 1.5 points. In March 2007 the Group began to make equal payments against the principal at the end of every quarter. The interest rate will be the same as during the pre-reimbursement period. This loan is also secured by an interest rate swap taken out from the same bank on 15 June 2005, with a term of 5.25 years and notional principal of €1,000K. Under the terms of the IRS, for the first year the Group collects the three-month Euribor while paying fixed interest of 2.30%; for the second year it will collect the three-month Euribor and pay fixed interest of 2.75%; and for the final three years and three months it will collect the three-month Euribor and pay fixed interest of 3.30%. The IRS is settled upon payment of the loan installments;
- a five-year loan taken out on 2 February 2007 by 505 Games S.r.l. from Banca Intesa San Paolo. The €2 million borrowed will finance the purchase of new video game exploitation licenses. The loan charges interest at a floating annual rate of the three-month Euribor plus 2%. Interest and principal will be paid in 20 installments, at the end of every quarter, on a constant amortization basis;
- a loan of €2,050 granted by UniCredit Banca to 505 Games Srl on 18 September 2007 to finance the company's development, due on 18 March 2009. The loan charges variable interest starting at 6.80% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 18 September 2007, plus a 2-point spread for the year. Interest is paid quarterly, while the principal will be repaid in a lump sum on 18 March 2009 or before (with no penalties applying).

27. Other non-current financial liabilities

Other non-current financial liabilities refer to the fair-value recognition of non-hedge derivatives and the finance lease for the warehouse in Trezzano sul Naviglio.

In detail:

EUR/000	30 September 2007	30 June 2007	Change
Leasing installments falling due beyond 12 months	1,831	1,875	(44)
Fair value recognition of derivatives - beyond 12 months	512	548	(36)
Total non-current financial liabilities	2,343	2,423	(80)

Leasing installments falling due beyond 12 months pertain to the leasing contract for the purchase of the Trezzano sul Naviglio warehouse taken out on 25 November 2004.

The contract calls for 120 monthly payments of €16 thousand each, plus a payment upon delivery of €528 thousand and an end of lease purchase option of €792 thousand.

The nominal annual interest rate is 3.87%. Payments falling due after the building is delivered are indexed to the monthly average of the three-month Euribor. For each installment, the average rate is calculated for the period between the day prior to the due date of the payment to be indexed and the due date of the previous payment. The final installment will be calculated using the same average as for the second-to-last payment. The lease will mature on 30 November 2014. The installments falling due within 12 months total €122 thousand; those with a maturity of one to five years amount to €691 thousand, and those due beyond five years total €999 thousand. To hedge the risk of rising interest rates during the term of the lease, the Group took out an interest rate swap with Banca Intesa on 29 November 2005 with the same maturity as the leasing contract. Under the terms of the IRS, simultaneously with the payment of leasing installments the Group will pay interest of 3.35% annually and receive the three-month Euribor. The notional amount of the IRS varies according to the residual principal of the lease.

Non-hedge derivatives are recognized at fair value. The Group uses derivatives to minimize interest rate and exchange rate risks. In keeping with IAS 39, financial liabilities hedged by derivatives are recognized at fair value according to the rules for hedge accounting. Derivatives for which gains and losses are recognized to profit or loss refer to various interest rate hedges.

The derivatives outstanding at 30 September 2007 to which hedge accounting does not apply are as follows:

- an interest rate swap taken out on 27 December 2004 with Banca Intesa San Paolo, maturing on 28 December 2009 with a notional principal amount of €20,000,000. Under this arrangement the Group pays quarterly interest corresponding to the three-month Euribor ACT/360 +2% and collects a variable three-month Euribor. A ceiling of 7% applies;
- an interest rate swap taken out on 21 July 2003 with Banca Intesa San Paolo, maturing on 21 July 2008 with a notional principal amount of €3,000,000. With this instrument, the Group pays the maximum quarterly interest rate (2 x 3M Euribor in arrears - 2.25%) with a ceiling of 5.50% per quarter, and collects the variable three-month Euribor.

REVENUES BY GEOGRAPHICAL SEGMENT

The Group has chosen to use business segments as its primary segment reporting format, and geographical segments, considered to be less significant, as its secondary reporting format.

Gross consolidated revenues outside Italy increased by €7,122 thousand, from €15,364 thousand in the first quarter of 2006-2007 to €22,486 thousand for the period under review.

EUR/000	1Q 2007-2008	1Q 2006-2007	Change	
Italy	15,536	14,159	1,377	10.0%
Elsewhere	6,950	1,205	5,745	477.0%
Total consolidated revenues	22,486	15,364	7,122	46.0%

As shown in the table below, most sales outside Italy were generated by the International Publishing segment, which distributes and markets video games on an international scale and on which the Group is focusing its resources.

Foreign revenues are broken down below by business segment:

EUR/000	1Q 2007-2008	1Q 2006-2007	Change	
New Media	32	91	(59)	-64.8%
International Publishing	6,918	1,113	5,805	n.a.
Total gross foreign revenues	6,950	1,204	5,746	n.a.

The decrease in foreign revenues by the New Media segment stems from the restructuring process, which involves the launch of new interactive entertainment operations for which sales during the year were not yet substantial, in line with strategic plans.

PERFORMANCE BY BUSINESS SEGMENTS

One result of the Group's reorganization was the launch of distribution via newsstands. This led to the creation of the "Newsstands" segment, while the online gaming and television businesses were grouped into the New Media segment, given the relative insignificance of their operations and the fact that they share expenses such as payroll and office management.

As a result of these changes, the Group's business segments are as follows:

- Italian Distribution;
- International Publishing;
- New Media;
- Newsstands;
- Holding.

Below are the details of revenues by business segment for the period ended 30 September 2007, with comparative figures for the previous year:

EUR/000	Gross revenues				Net revenues			
	1Q 07-08	1Q 06-07	Change		1Q 07-08	1Q 06-07	Change	
Distribution	14,818	13,490	1,328	9.8%	13,713	12,802	911	7.1%
Newsstands	696	583	113	19.5%	661	583	78	13.6%
New Media	54	178	(124)	-69.6%	54	178	(124)	-69.6%
International Publishing	6,918	1,113	5,805	521.6%	6,076	1,113	4,963	445.9%
Total gross revenues	22,486	15,364	7,122	46.4%	20,504	14,676	5,828	39.7%

Profit margins for the segments were as follows:

	Consolidated figures in EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Gross revenues	14,818	696	54	6,918	0	22,486
2	Revenue adjustments	(1,105)	(35)	0	(842)	0	(1,982)
3	Total net revenues	13,713	661	54	6,076	0	20,504
4	Purchase of goods for resale	(10,047)	(1,094)	(5)	(2,964)	0	(14,110)
5	Purchase of services for resale	0	(109)	0	(1)	0	(109)
6	Royalties	(118)	(57)	(8)	(1,076)	0	(1,260)
7	Change in inventories of finished products	(111)	935	0	676	0	1,500
8	Total cost of goods sold	(10,276)	(325)	(13)	(3,364)	0	(13,978)
9	Gross profit (3+8)	3,437	336	41	2,712	0	6,526
10	Other income	3	1	9	2	0	15
11	Cost of services	(1,137)	(160)	(306)	(946)	(22)	(2,570)
12	Rent and leasing	(67)	0	(7)	(17)	(2)	(93)
13	Payroll costs	(1,402)	0	(316)	(415)	(261)	(2,394)
14	Other operating expenses	(239)	0	(22)	(62)	(56)	(381)
15	Total operating expenses	(2,845)	(160)	(651)	(1,440)	(342)	(5,438)
16	EBITDA (9+10+15)	595	177	(601)	1,274	(342)	1,103
17	Depreciation and amortization	(100)	(1)	(3)	(22)	(21)	(147)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total depreciation, amortization and impairment	(100)	(1)	(3)	(22)	(21)	(147)
22	EBIT (16+21)	495	176	(604)	1,252	(362)	956

Distribution

Distribution is the Group's core business and its main source of earnings. It consists of the localization and subsequent distribution in Italy, on an exclusive basis, of video games acquired from international publishers.

Localization refers to the linguistic and cultural adaptation of games to the Italian market; the translation of instruction manuals; the dubbing of any voices contained in the game; the management of advertising campaigns; local media relations; and the organization of events for the product's rollout.

Two divisions of the parent company, Halifax and DTI, divide these responsibilities by type of publisher and distribution channel:

- Halifax is the exclusive representative in Italy for publishers like Konami International, Buena Vista Games Inc., Sega, Square Enix and Capcom, whose products are sold through all distribution channels (retail shops and major chains);
- DTI (Distribuzione Trade Italia), using the small retail channel only, distributes games produced by publishers with their own organization in Italy, such as Electronic Arts, Activision Italia, Vivendi Universal Games and THQ Italia.

The subsidiary Game Service S.r.l. performs distribution activities jointly with the parent company, in the form of rack jobbing (the exclusive management of gaming displays at large retail chains).

Key results

	EUR/000	Distribution					
		1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	14,818	108.1%	13,490	105.4%	1,328	9.8%
2	Revenue adjustments	(1,105)	-8.1%	(688)	-5.4%	(417)	60.6%
3	Total net revenues	13,713	100.0%	12,802	100.0%	911	7.1%
4	Purchase of goods for resale	(10,047)	-73.3%	(9,840)	-76.9%	(207)	2.1%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(118)	-0.9%	(25)	-0.2%	(94)	379.1%
7	Change in inventories of finished products	(111)	-0.8%	636	5.0%	(747)	-117.4%
8	Total cost of goods sold	(10,276)	-74.9%	(9,228)	-72.1%	(1,048)	11.4%
9	Gross profit	3,437	25.1%	3,574	27.9%	(137)	21.1%
10	Other income	3	0.0%	2	0.0%	2	93.5%
11	Cost of services	(1,137)	-8.3%	(1,140)	-8.9%	4	-0.3%
12	Rent and leasing	(67)	-0.5%	(89)	-0.7%	21	-24.1%
13	Payroll costs	(1,402)	-10.2%	(1,123)	-8.8%	(278)	24.8%
14	Other operating expenses	(239)	-1.7%	(249)	-1.9%	10	-4.1%
15	Total operating expenses	(2,845)	-20.7%	(2,602)	-20.3%	(243)	9.3%
16	EBITDA	595	4.3%	974	7.6%	(378)	-38.9%
17	Depreciation and amortization	(100)	-0.7%	(67)	-0.5%	(32)	47.9%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(100)	-0.7%	(67)	-0.5%	(32)	47.9%
22	EBIT	495	3.6%	906	7.1%	(411)	-45.3%

In the Distribution segment the Group maintained the growth rates achieved in prior years, with gross revenues up by 9.8% (+€1,328 thousand), from €13,490 thousand to €14,818 thousand.

Net revenues increased by €911 thousand, from €12,802 thousand to €13,713 thousand (+7.1%).

The breakdown of gross revenues by type of video game distributed is as follows:

EUR/000	1Q 2007-2008	1Q 2006-2007	Change	
Distribution of video games for consoles	13,004	12,314	690	5.6%
Distribution of video games for PC/CD-ROM	1,745	1,045	700	67.0%
Distribution of other products and services	100	176	(76)	-43.3%
Financial discounts	(31)	(45)	14	-31.1%
Gross revenues	14,818	13,490	1,328	9.8%

Gross revenues from video game distribution increased by €1,328 thousand, from €13,490 thousand in the first quarter of 2006-2007 to €14,818 thousand, with a significant upward trend in games for both

consoles and personal computers. Sales of games for PCs/CD-ROMs were up by 70%, from €1,045 thousand for the quarter to 30 September 2006 to €1,776 thousand this year. The increase in sales of console games (which in any case amount to 87.5% of gross revenues for the segment and 57.7% of consolidated gross turnover) came to €657 thousand or 5.3%.

Figures for the first quarter of 2007-2008 reflect a decline in the average unit prices of games for the mature console (Playstation 2), whose volumes however remained high, and the fact that the new console (Playstation 3) is not yet present in enough homes to make up the difference. Also, during the first quarter of the year the Group sold large quantities of stock products, which offer lower than average prices and profit margins. As a result, EBITDA came to €595 thousand, a decrease of €378 thousand with respect to the first quarter of 2006-2007.

EBIT went from €906 thousand to €495 thousand, falling by €411 thousand.

For a better understanding of gross revenues from the distribution of console games, the following table shows units sold and revenues per console:

EUR/000	1Q 2007-2008		1Q 2006-2007		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Nintendo Gameboy Advance	44,229	598	67,967	1,437	-34.9%	-58.4%
Sony Playstation 2	366,029	4,935	321,619	7,022	13.8%	-29.7%
Sony Playstation 3 ⁽¹⁾	22,507	1,005	n.a	n.a	n.a	n.a
Nintendo Wii	10,466	271	n.a	n.a	n.a	n.a
Microsoft Xbox	5,537	35	10,959	85	-49.5%	-59.3%
Microsoft Xbox 360	25,552	891	23,568	1,020	8.4%	-12.6%
Nintendo DS	121,831	3,070	53,103	1,196	129.4%	156.7%
Sony PSP	98,833	2,132	57,150	1,517	72.9%	40.5%
Other consoles	443	2	8,647	37	-94.9%	-93.5%
Total revenues from distribution for consoles	695,427	12,940	543,013	12,314	28.1%	5.1%

(1) launched in March 2007

In keeping with the pattern described above, revenue growth for the console market was influenced by two contrasting trends:

- an increase in units sold, by more than 172,000 (+31.8%). The growth pertains to the sale of products for consoles long on the market, but mainly to the sale of games for new-generation consoles such as the Nintendo DS, Microsoft XBox 360, Sony PSP and Nintendo Wii. The number of games sold for the consoles mentioned above increased by 122,861, from 133,821 to 256,682 units, accounting for 36.9% of total quantities sold%;
- a 17.9% reduction in unit prices, as shown in the table below.

Last year saw the launch of two new consoles: the Nintendo Wii (December 2006), with a controller designed for highly interactive play, and the Sony Playstation 3 (March 2007) which will gradually replace Sony's PS2. However, because the PS3 is not fully backward compatible (not all Playstation 2

games can be played on it) and because so many Italian households already have the PS2, the life cycle of the older console is likely to be extended.

The trend in average video game prices is shown below:

EUR/000	1Q 2007-2008	1Q 2006-2007	Change
Nintendo Gameboy Advance	13.5	21.1	-36.0%
Sony Playstation 2	13.5	21.8	-38.2%
Sony Playstation 3	44.7	n.a.	n.a.
Nintendo Wii	25.9	n.a.	n.a.
Microsoft Xbox	6.2	7.8	n.a.
Microsoft Xbox 360	34.9	43.3	-19.4%
Nintendo DS	25.2	22.5	11.9%
Sony PSP	21.6	26.5	-18.7%
Other consoles	5.4	4.3	26.6%
Average price	18.6	22.7	-17.9%

Price trends are typical of the video games market. Games for new-generation consoles (Sony Playstation 3, Nintendo Wii) are priced above average, while games for older ones cost less, and their prices will continue to go down until the console is completely phased out. When a console is mature, price drops are steeper and the games cost well below average (consider the Nintendo Gameboy Advance, successfully replaced by Nintendo DS, and the Microsoft Xbox, now replaced by the Xbox 360).

The table below shows the percent breakdown of revenues by type of console:

	1Q 2007-2008	1Q 2006-2007	Change
Nintendo Gameboy Advance	4.5%	11.7%	-61%
Sony Playstation 2	37.4%	57.0%	-34%
Sony Playstation 3	7.6%	n.a.	n.a.
Nintendo Wii	2.1%	n.a.	n.a.
Microsoft Xbox	0.3%	0.7%	-62%
Microsoft Xbox 360	8.6%	8.3%	4%
Nintendo DS	23.3%	9.7%	140%
Sony PSP	16.2%	12.3%	31%
Other consoles	0.0%	0.3%	-94%
Total revenues from distribution for consoles	100%	100%	

New Media

This segment covers all interactive entertainment products distributed over the new media, such as digital TV, the Web, cell phones, e-commerce, d-commerce and IP TV.

Under the Group's new organization, since 1 January 2007 the online gaming business has been operated by the subsidiary Game Media Networks S.r.l. The business consists of the exclusive sale of the games "Legend of Mir" and "Myth of Soma" in Europe. In online gaming, players who subscribe to the service connect from their own computers to one or more servers owned by the Group, to play against others who are currently online. Since the start of 2007, as an effect of the streamlining process, this business has been operated by the subsidiary Game Media Networks S.r.l.

In March 2007, the Digital Bros Group and the RCS Group launched a joint venture in the online entertainment business. Called RCS DB Games S.p.A., the new company is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.). With an initial investment of €735 thousand from the Digital Bros Group, its purpose is to manage and develop an online portal for single- and multi-player gaming.

In May 2007 the Group incorporated Game Media Networks Ltd. in the United Kingdom, and in July it founded Game Media Networks S.a.r.l. in France. The two companies were not active during the period; their purpose is to provide commercial, promotional and public relations support in those countries for the Group's European online gaming portal, www.gametribe.com.

Key results

	EUR/000	New Media					
		1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	54	100.0%	178	100.0%	(124)	-69.7%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Total net revenues	54	100.0%	178	100.0%	(124)	-69.7%
4	Purchase of goods for resale	(5)	-9.3%	0	0.0%	(5)	100.0%
5	Purchase of services for resale	0	0.0%	(7)	-3.9%	7	0.0%
6	Royalties	(8)	-14.8%	(18)	-10.1%	10	-55.6%
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of goods sold	(13)	-24.1%	(25)	-14.0%	12	-48.0%
9	Gross profit	41	75.9%	153	86.0%	(112)	21.1%
10	Other income	9	16.7%	2	1.0%	7	n.a.
11	Cost of services	(306)	n.a.	(233)	n.a.	(73)	31.3%
12	Rent and leasing	(7)	-13.0%	(9)	-5.1%	2	-22.2%
13	Payroll costs	(316)	n.a.	(210)	n.a.	(106)	50.2%
14	Other operating expenses	(22)	-40.7%	(20)	-11.5%	(2)	7.8%
15	Total operating expenses	(651)	n.a.	(473)	n.a.	(178)	37.7%
16	EBITDA	(601)	n.a.	(318)	n.a.	(283)	88.9%
17	Depreciation and amortization	(3)	-5.6%	(7)	-3.9%	4	-57.1%
18	Provisions	0	0.0%	0	0.2%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(3)	-5.6%	(7)	-3.8%	4	-59.7%
22	EBIT	(604)	n.a.	(325)	n.a.	(279)	85.9%

Most revenues were earned through subscriptions to online games (€32 thousand) and the sale of digital entertainment content (€22 thousand).

Revenues from “Legend of Mir” and “Myth of Soma” subscriptions fell from €178 thousand to €32 thousand, and the titles will soon be replaced by a new generation of games accessed from the portal for the European market, www.gametribe.com. Construction of the portal will be completed during the first half of this year.

At €651 thousand, operating expenses increased by €178 thousand, and were influenced by the contractual expense of the online connections used by players to access the games, which was once in proportion to revenues but is now too high with respect to the numbers of players attracted. The offer of more content through the portal should attract significant numbers of new players, thereby reducing the influence of this expense on the overall income statement structure. Additional investments were incurred during the quarter with a view to completing the portal.

The combination of these factors led to negative EBITDA of €601 thousand, compared with a negative €318 thousand for the period ended 30 September 2006.

EBIT followed the same pattern, falling from a negative €325 thousand to -€604 thousand.

International Publishing

In the International Publishing business, video game rights are acquired from developers, and the products are subsequently launched by way of an international sales network after a phase of quality assurance, rating and approval.

For market reasons and in light of the segment's fast growth, since the second quarter of 2006-2007 International Publishing operations have been handled by the subsidiary 505 Games S.r.l. (following a name change from DB International S.r.l.), by the newly incorporated Digital Bros France S.a.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint venture with Japan's D3 Publisher Inc. set up for the exclusive distribution in PAL system countries (Europe, Australia and South Africa) of games in the lower price range.

Key results

EUR/000		International Publishing					
		1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	6,918	113.9%	1,113	100.0%	5,805	521.6%
2	Revenue adjustments	(842)	-13.9%	0	0.0%	(842)	100.0%
3	Total net revenues	6,076	100.0%	1,113	100.0%	4,963	n.a.
4	Purchase of goods for resale	(2,964)	-48.8%	(659)	-59.2%	(2,305)	349.8%
5	Purchase of services for resale	(1)	0.0%	0	0.0%	(1)	100.0%
6	Royalties	(1,076)	-17.7%	(583)	-52.4%	(493)	84.5%
7	Change in inventories of finished products	676	11.1%	430	38.6%	246	57.3%
8	Total cost of goods sold	(3,364)	-55.4%	(812)	-73.0%	(2,552)	n.a.
9	Gross profit	2,712	44.6%	301	27.0%	2,411	21.1%
10	Other income	2	0.0%	0	0.0%	2	100.0%
11	Cost of services	(946)	-15.6%	(72)	-6.5%	(874)	n.a.
12	Rent and leasing	(17)	-0.3%	(3)	-0.3%	(14)	n.a.
13	Payroll costs	(415)	-6.8%	(242)	-21.8%	(172)	71.0%
14	Other operating expenses	(62)	-1.0%	(13)	-1.2%	(49)	n.a.
15	Total operating expenses	(1,440)	-23.7%	(331)	-29.7%	(1,109)	n.a.
16	EBITDA	1,274	21.0%	(30)	-2.7%	1,304	n.a.
17	Depreciation and amortization	(22)	-0.4%	(2)	-0.2%	(20)	n.a.
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(22)	-0.4%	(2)	-0.2%	(20)	n.a.
22	EBIT	1,252	20.6%	(32)	-2.8%	1,284	n.a.

The trend in gross revenues was especially vibrant. Totalling €6,918 thousand for the quarter, they increased by €5,805 thousand with respect to the previous year's figure of €1,113 thousand. The growth in turnover reflects a flurry of international license acquisitions and the healthy development of the foreign distribution network.

Net revenues show a similar year-on-year trend. They grew somewhat more slowly than gross sales because of €842 thousand in revenue adjustments. This reflects an estimate of potential returns, which was not necessary last year because the distribution network was in its inception (especially in France and the United Kingdom), and costs directly related to revenues such as year-end customer discounts.

The policy of content expansion pursued by the Group in the last two years now gives it more than 99 international licenses for video games, of which some are already in stores, including “Arma: Armed Assault” for computers, “Cooking Mama” for Nintendo Wii and “Armored Core” for Sony Playstation 3.

Licenses for games to be rolled out over the next 12 months include “Destiny of Zorro” for Nintendo Wii, and “Cooking Mama 2,” “Fashion Designer” and “Kira Kira” for Nintendo DS.

Profitability for the quarter was excellent, because with the exception of “Cooking & Cream” and “Left or Right,” the Group continued to sell products launched the previous year, in particular “Cooking Mama” for Nintendo DS and “Bust a Move” for Nintendo Wii.

The cost of sales increased by €2,552 thousand, from €812 thousand to €3,364 thousand, and operating expenses rose from €1,109 thousand to €1,440 thousand due to royalties paid to video game developers, the cost of physically producing and localizing games, and advertising investments to support international operations.

EBITDA and EBIT stood at 21% and 20.6% of net revenues, respectively.

Newsstands

One of the Group's businesses is the distribution of video games as add-ons to products sold at newsstands, and the sale of DVDs and other entertainment-related publications. As a result of the streamlining process, newsstand distribution has been handled by the subsidiary Game Entertainment S.r.l. since fiscal year 2006-2007.

Key results

	EUR/000	Newsstands					
		1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	696	105.3%	582	100.0%	114	19.6%
2	Revenue adjustments	(35)	-5.3%	0	0.0%	(35)	-100.0%
3	Total net revenues	661	100.0%	582	100.0%	79	13.6%
4	Purchase of goods for resale	(1,094)	-165.5%	(116)	-19.9%	(978)	n.a.
5	Purchase of services for resale	(109)	-16.5%	(102)	-17.5%	(7)	7.3%
6	Royalties	(57)	-8.6%	(97)	-16.6%	40	-41.0%
7	Change in inventories of finished products	935	141.5%	0	0.0%	935	100.0%
8	Total cost of goods sold	(325)	-49.2%	(314)	-54.0%	(11)	3.4%
9	Gross profit	336	50.8%	268	46.0%	68	25.5%
10	Other income	1	0.2%	0	0.0%	1	100.0%
11	Cost of services	(160)	-24.2%	(28)	-4.8%	(132)	471.4%
12	Rent and leasing	0	0.0%	0	0.0%	0	0.0%
13	Payroll costs	0	0.0%	(3)	-0.5%	3	-100.0%
14	Other operating expenses	0	0.0%	0	0.0%	0	0.0%
15	Total operating expenses	(160)	-24.2%	(31)	-5.3%	(129)	n.a.
16	EBITDA	177	26.8%	237	40.7%	(60)	-25.3%
17	Depreciation and amortization	(1)	-0.2%	0	0.0%	(1)	0.0%
18	Provisions	0	0.0%	0	0.1%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(1)	-0.2%	0	0.1%	(1)	-100.0%
22	EBIT	176	26.6%	237	40.7%	(61)	-25.6%

Revenues were earned from the distribution of the following products:

- the DVD series “WWE Wrestling Megastars” and “Greatest Hits,” on the lives of popular wrestlers;
- the first issues of “DVD-games,” a new series of games played on a DVD player using the remote control, based on popular Dreamworks titles;
- the game series “The Sims,” a real-life simulation game, distributed as an add-on with newspapers published by the RCS Group;

- the “Maxima 2” series of video games for PC/CD-ROM, also sold as add-ons to RCS Group newspapers;
- the fourth and final issue of the series “Wanted” (“The Pirates of Tortuga”), inspired by hit TV shows.

Total net revenues came to €661 thousand, an increase of €79 thousand with respect to the same period in 2006-2007.

The cost of sales (+€11 thousand) and operating expenses (+€129 thousand) are limited by having the distribution process managed by newsstands.

Margins are high in this segment, with EBITDA at 26.8% and EBIT at 26.6% of sales.

Holding

The Holding segment covers all of the parent company's coordination duties, including the management of investment property and corporate brands.

Key results

	EUR/000	Holding					
		1Q 2007-2008		1Q 2006-2007		Change	
1	Gross revenues	0	n.a.	0	n.a.	0	n.a.
2	Revenue adjustments	0	n.a.	0	n.a.	0	n.a.
3	Total net revenues	0	n.a.	0	n.a.	0	n.a.
4	Purchase of goods for resale	0	n.a.	0	n.a.	0	n.a.
5	Purchase of services for resale	0	n.a.	0	n.a.	0	n.a.
6	Royalties	0	n.a.	0	n.a.	0	n.a.
7	Change in inventories of finished products	0	n.a.	0	n.a.	0	n.a.
8	Total cost of goods sold	0	n.a.	0	n.a.	0	n.a.
9	Gross profit	0	n.a.	0	n.a.	0	n.a.
10	Other income	0	n.a.	0	n.a.	0	n.a.
11	Cost of services	(22)	n.a.	(72)	n.a.	50	-69.4%
12	Rent and leasing	(2)	n.a.	0	n.a.	(2)	-100.0%
13	Payroll costs	(261)	n.a.	(271)	n.a.	10	-3.7%
14	Other operating expenses	(56)	n.a.	(79)	n.a.	23	-29.1%
15	Total operating expenses	(342)	n.a.	(422)	n.a.	81	-19.2%
16	EBITDA	(342)	n.a.	(422)	n.a.	81	-19.2%
17	Depreciation and amortization	(21)	n.a.	(47)	n.a.	26	-55.3%
18	Provisions	0	n.a.	0	n.a.	0	0.0%
19	Asset impairment charge	0	n.a.	0	n.a.	0	0.0%
20	Impairment reversal	0	n.a.	0	n.a.	0	0.0%
21	Total depreciation, amortization and impairment	(21)	n.a.	(47)	n.a.	26	-55.7%
22	EBIT	(363)	n.a.	(469)	n.a.	107	-22.8%

The cost structure is essentially the same as it was last year; operating expenses include directors' fees approved at the latest shareholders' meeting and general and entertainment expenses not allocable to other segments.

Depreciation, amortization and writedowns refer to the depreciation of the Group's warehouse at Trezzano sul Naviglio and the amortization of brands.

SIGNIFICANT SUBSEQUENT EVENTS

On 30 October 2007 the shareholders' meeting passed the following motions:

- approval of the consolidated and separate financial statements for the year ended 30 June 2007, the reports of the Board of Directors and Board of Statutory Auditors, and related and consequent resolutions;
- extension of the assignment of Reconta Ernst & Young S.p.A. to audit the financial statements for the years 2010, 2011 and 2012;
- determination of directors' fees for the year ending 30 June 2008;
- authorization to purchase and dispose of treasury shares.

CONTINGENT ASSETS AND LIABILITIES

In May 2006, the parent company was audited by the local revenue office with regard to direct taxes and VAT for fiscal year 2002-2003. The assessment notice was received on 12 October 2007, but the Group still feels that no tax liability will arise.

There were no other contingent assets or liabilities at 30 September 2007.

RELATED PARTY TRANSACTIONS

In accordance with CONSOB Communications DAC/RM/97001574 of 20 February 1997 and DAC/98015375 of 27 February 1998, it is hereby reported that all commercial and financial transactions between Digital Bros S.p.A. and its direct subsidiaries and associates have been conducted under arm's-length conditions and do not qualify as atypical or unusual transactions.

Non-consolidated subsidiaries

Below are key figures for the non-consolidated subsidiary D3DB S.r.l. (held 50%) at 31 March 2007, its year-end reporting date:

EUR/000	
Assets	1,283
Capital and reserves	(2)
Liabilities	(1,281)
Revenues	134
Costs	(142)
Net profit (loss) for the year	(8)

Key figures at 30 June 2007 for the non-consolidated company RCS DB Games S.p.A. (held 49%) are as follows:

EUR/000	
Assets	1,514
Capital and reserves	(1,325)
Liabilities	(189)
Revenues	0
Costs	(175)
Net profit (loss) for the year	(175)

Subsidiaries

The balances of commercial and financial transactions between Group companies at 30 September 2007 are shown below:

EUR/000	receivables		payables		revenues	costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	3,877	580	(282)	0	31	(404)
Game Media Networks S.r.l.	578	4,077	0	0	195	0
Game Service S.r.l.	176	1,979	0	0	2,707	0
Game Entertainment S.r.l.	2,300	0	0	(227)	922	(10)
Digital Bros France S.a.r.l.		4,000	0	0	0	0
505 Games Ltd.		1,086	0	0	0	0
Total	6,931	11,722	(282)	(227)	3,855	(414)

Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, who received €46 thousand for the quarter.

Group tax election

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the “group tax election” now provided for by Italian law. This has made it necessary to prepare a set of rules for intercompany relations to ensure that no prejudice is caused to the individual participants in the system.

DECLARATION BY THE FINANCIAL REPORTING OFFICER

Declaration per Art. 154 bis, paragraph 2 - Part IV, Title III, Chapter II, Section V-bis of Legislative Decree 58 of 24 February 1998: the “Consolidated Finance Act pursuant to Arts. 8 and 21 of Law 52 of 6 February 1996”

I, the undersigned, Stefano Salbe, financial reporting officer of the Digital Bros Group, hereby declare in accordance with the second paragraph of Art. 154-bis, Part IV, Title III, Chapter II, Section V-bis of Legislative Decree 58 of 24 February 1998 that to the best of my knowledge, the consolidated quarterly report at 30 September 2007 corresponds to the Group’s records, ledgers and accounting entries.

Signed

Abramo Galante

Chairman of the Board of Directors