



Annual Report for the year ended 30 June 2009

(Fiscal year 2008-2009)

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.

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OFFICERS AND CONTROL

Board of Directors

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

(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

Alberto Pianta (Chairman)
Umberto Virri
Bruno Soresina

Compensation Committee

Alberto Pianta (Chairman)
Umberto Virri
Bruno Soresina

Board of Statutory Auditors

Michele Rutigliano	Chairman
Franco Gaslini	Standing auditor
Paolo Villa	Standing auditor
Enrico Muscato	Alternate auditor
Marcello Priori	Alternate auditor

The terms of office of the directors and statutory auditors will end with the shareholders' meeting that approves the financial statements at 30 June 2011.

On 28 October 2008 the board of directors granted to managing directors Abramo Galante 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.

DIRECTORS' REPORT

1. GROUP STRUCTURE

The Digital Bros Group publishes, distributes and markets video games. It has diversified in recent years into operations complementary to video games themselves, with a wide range of digital entertainment products, using the available forms of media and distribution. The separate operations are performed under distinctive brands to better denote the business segment.

With nearly 20 years' experience in localizing and distributing video games in the Italian market (Italian Distribution segment), the Group has undergone a process of upstream integration into video game publishing and distribution on an international scale (International Publishing segment), along with operations in the media industry through the online distribution and sale of video games and the supply of Internet digital entertainment (New Media segment). The costs, revenues, assets and liabilities from distributing video games and DVDs through newsstands are shown in a separate Newsstands segment.

The Holding segment is 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, management of the buildings where the Group has its premises, brand management, etc.

Group operations are divided into the five segments described below:

Italian Distribution: the distribution in Italy of video games acquired from international publishers. The games are marketed directly, through key accounts and a network of sales representatives.

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 Italian Distribution segment because the games are produced under license with international exploitation rights normally valid for several years.

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 Digital Bros France S.a.s. and 505 Games Ltd. operating respectively in the French and U.K. markets, 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). In November 2007 and February 2008, respectively, the Group formed the subsidiaries 505 Games U.S. Inc. and Digital Bros Iberia S.I.

The former became fully operational in July 2008 and the latter in January 2009. These two companies will pave the way for the process undertaken in the last two years to enter the Spanish and American markets.

New Media: this segment covers all forms of interactive entertainment distributed over the new media. Digital entertainment content is provided over channels such as 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.

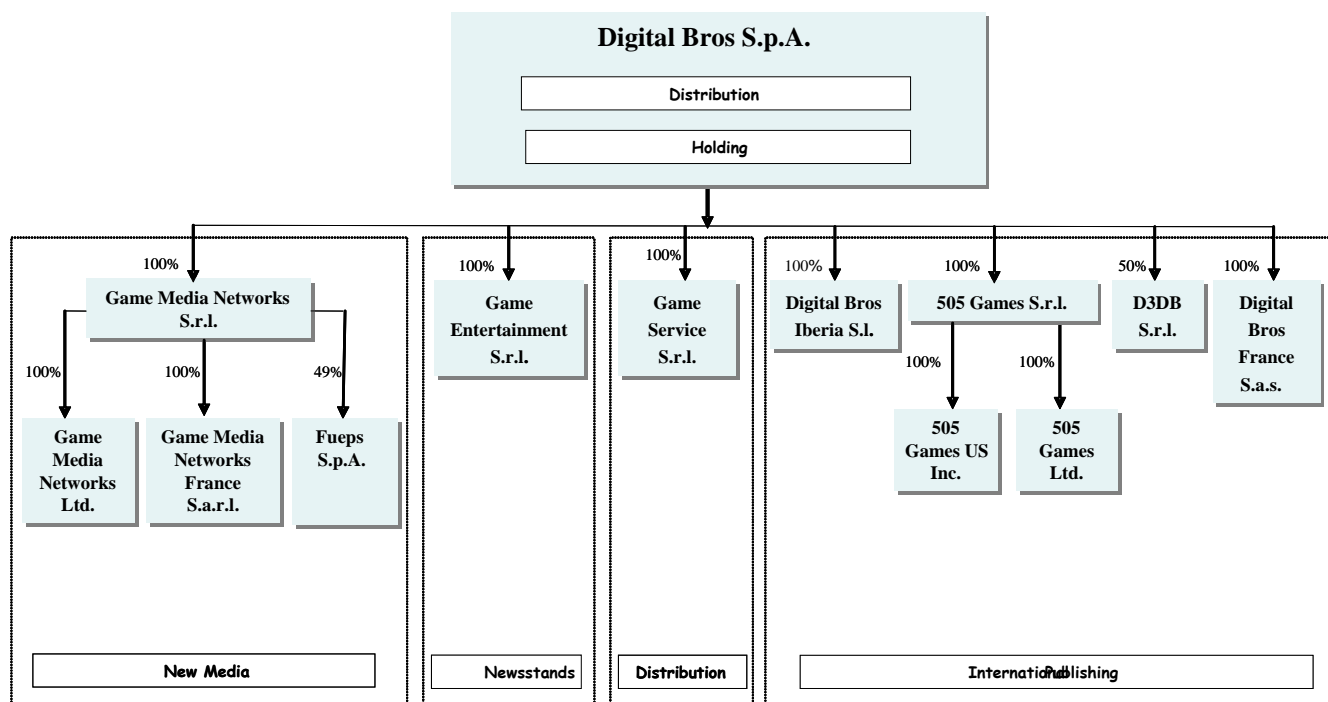
During the year the Group began to liquidate Game Media Networks Ltd. in the United Kingdom and Game Media Networks S.a.r.l. in France, which were set up in May 2007 and July 2007, respectively. The purpose of these two companies was to provide sales, promotional, and media relations support in their home countries to benefit the Group's European online gaming portal, www.gametribe.com, but results were not good enough to justify the maintenance of a local presence.

The activities of www.gametribe.com will be dropped during the first half of 2009-2010.

Newsstands: the distribution of video games as newspaper or magazine add-ons, and the distribution through newsstands of digital entertainment publications. Since 2005-2006, due to the streamlining of the Group's operations, this business has 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.

The following chart presents the Group's structure by business segment in 2008-2009.



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)	Logistics
Digital Bros France S.a.s.	2, Chemin de la Chauderaie, Francheville, France	Offices
Digital Bros Iberia S.I.	Calle Londres 38, Las Rozas de Madrid, Spain	Offices
Game Entertainment S.r.l.	Via Bisceglie 76, Milan	Offices
Game Media Networks S.r.l.	Via Bisceglie 76, Milan	Offices
Game Media Networks Ltd.	Court Silbury Boulevard, Milton Keynes, U. K.	Offices
Game Media Networks France S.a.r.l.	2, Chemin de la Chauderaie, Francheville, France	Offices
Game Service S.r.l.	Via Bisceglie 76, Milan	Offices
505 Games S.r.l.	Via Bisceglie 76, Milan	Offices
505 Games Ltd.	Court Silbury Boulevard, Milton Keynes, U. K.	Offices
505 Games US Inc.	Chesebro Rd. Suite 102, Agoura Hills, CA, U.S.A.	Offices

2. THE VIDEO GAMES MARKET

Since the first video games came out about 25 years ago, the market has been growing non-stop. It has become a major segment of the entertainment market around the world, and is now estimated to have outgrown the movie industry.

The gaming industry owes its rapid 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, and the increasing number of players. The average age is constantly rising 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. Growing just as fast is the market of video games for female players, who in recent years have become avid leisure time fans.

Over the past two years, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS and Nintendo Wii consoles. The games include Brain Trainer, a sort of digital puzzle book; various animal training games involving dogs, cats and even dolphins; and simulation games for cooking, gardening, and more. Because they are simple and user-friendly, this kind of game boosted the growth rates for the video game market in 2007-2008. This year, however, the fact that they behave more like mass merchandise and do not have the immunity from cyclical patterns that classic games have always enjoyed caused sales to decrease in line with the international crisis.

The market 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 hardware 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 macroeconomic trends that affected various sectors of the global economy in the last six months had a pronounced impact in certain areas, like Spain, Great Britain and the United States, and a less visible impact in countries like Italy and France. The U.K. market was sharply penalized not only by the poor economy, but by the weakness of the pound during the winter months, which reduced profit margins.

In Spain, there was an across-the-board drop in consumption that did not spare the national video games market. Especially in light of the global crisis, performance was good in Italy and France, where at least through June 2009 the poor economy had less of an impact on the video games sector. The American market was hit extremely hard during the spring quarter, with sales down by 50% on the same period the previous year.

The value chain for the sector is fairly elaborate, consisting 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, but can also take the form of simulation games that mimic sports, racecar driving, etc. 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 completing the game and giving it a global reputation and clientele.

For developers, publishers are the links of the chain that allow the game to reach the consumer, as most of them are equipped with direct and indirect sales networks in various countries. They are also the ones who finance the phases of development and implement communication strategies to maximize international sales. The publisher decides on a game's release schedule, price, international sales policy, positioning, and package design, while taking on all of the risks and rewards that the game may generate.

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, Sony Playstation 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 also physically produces the games, using its own printing equipment. The game must be approved in advance by the manufacturer, through a process known as submission. Only publishers selected in advance will be allowed to publish games by the console manufacturer, according to a licensing publishing agreement. The console manufacturer and the video game publisher are often one and the same.

The role of the distributor varies from market to market. The more a 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 communication policies for a local audience and organizes PR activities, marketing policy implementation, etc. In other markets, like the U.K., dealers are highly concentrated so publishers usually have a direct commercial presence. The situation in France and Spain is somewhere between the British and the Italian markets.

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.

In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores often grouped into chains. 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. For back-catalog sales, i.e. the sale of games that no longer qualify as current releases, dealers can access a reserved area of the website to check availability and directly place an order.

3. SEASONAL TRENDS

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 times other than the traditional Christmas period. This causes sales to build up just before the official release date (known as “day one”), as occurred, for example, with the launch of “Resident Evil 5” in March.

4. SIGNIFICANT EVENTS DURING THE YEAR

The main events occurring from July 2008 to June 2009 were as follows.

- July 2008: the Group's Spanish subsidiary, Digital Bros Iberia S.I., opens for business on 1 July.
- September 2008: Digital Bros signs an agreement with Cooking Mama Ltd. for the rights to and the publication of Gardening Mama in Europe.
- October 2008: on 30 October the annual general meeting of Digital Bros S.p.A. resolves to:
 - approve the financial statements for the year ended 30 June 2008, along with the directors' and statutory auditors' reports;
 - allocate the net profit for the year, €1,320,074.36, as follows:
 - a dividend of €0.08 per share for a maximum payout of €1,128,867;
 - the remaining €191,207.36 to be carried forward.

At the meeting, the shareholders also:

- elect an eight-member board of directors to serve for the period 2008-2011, i.e. until approval of the financial statements for the year ending 30 June 2011;
 - set directors' fees for the year ending 30 June 2009;
 - elect a board of statutory auditors to serve for a three-year term, until approval of the financial statements for the year ending 30 June 2011;
 - authorize the purchase and sale of treasury shares. Specifically, until the date on which the financial statements at 30 June 2009 are approved, the board of directors is authorized to buy a maximum of one million treasury shares representing no more than 10% of the currently existing share capital, at a price that cannot be lower than €0.40 per share or higher than €10.00 per share. The board is simultaneously authorized, with no timing restrictions, to dispose of treasury shares previously acquired at a price equal to or higher than their average carrying value.
- October 2008: the French subsidiary is converted from a limited-liability company (S.a.r.l.) to a simplified joint-stock company (S.a.s.), resulting in a name change to Digital Bros France S.a.s.
 - November 2008: Digital Bros S.p.A. rolls out the seventh edition of the soccer simulation game PES 2009, which sells 675,000 units in Italy, topping the first-month record for the sixth edition

by 65,000 units and grossing €25.5 million. This confirms its position as the best-selling soccer title in the Italian video games market.

- November 2008: 505 Games US Inc. announces the launch of “Hotel for Dogs,” inspired by the DreamWork Pictures film, marking the affiliate's debut as a direct distributor.
- December 2008: PES 2009 is soccer team Lazio's main sponsor for Serie A day 15 in Lazio's home game against Inter.
- January 2009: the American affiliate, 505 Games US Inc., opens for business on 1 January.
- June 2009: Digital Bros signs a deal with Cooking Mama Ltd. for the exclusive European release of “Cooking Mama 3,” to reach stores during the first half of next year.

5. ECONOMIC PERFORMANCE IN THE YEAR ENDED 30 JUNE 2009

Below is the consolidated income statement for the year ended 30 June 2009, with comparative figures for the previous year:

	EUR/000	2008-2009		2007-2008		Change	
1	Gross revenues	176,004	121.9%	178,789	114.1%	(2,785)	-1.6%
2	Revenue adjustments	(31,612)	-21.9%	(22,027)	-14.1%	(9,585)	43.5%
3	Net revenues	144,392	100.0%	156,762	100.0%	(12,370)	-7.9%
4	Purchase of goods for resale	(93,326)	-64.6%	(102,627)	-65.5%	9,301	-9.1%
5	Purchase of services for resale	(2,710)	-1.9%	(2,764)	-1.8%	54	-2.0%
6	Royalties	(12,671)	-8.8%	(8,130)	-5.2%	(4,541)	55.9%
7	Change in inventories of finished products	2,576	1.8%	513	0.3%	2,064	n.a.
8	Total cost of goods sold	(106,131)	-73.5%	(113,008)	-72.1%	6,877	-6.1%
9	Gross profit (3+8)	38,261	26.5%	43,754	27.9%	(5,493)	-12.6%
10	Other income	141	0.1%	117	0.1%	24	20.2%
11	Cost of services	(22,803)	-15.8%	(16,452)	-10.5%	(6,351)	38.6%
12	Rent and leasing	(684)	-0.5%	(446)	-0.3%	(238)	53.4%
13	Payroll costs	(13,623)	-9.4%	(11,546)	-7.4%	(2,077)	18.0%
14	Other operating expenses	(2,804)	-1.9%	(2,436)	-1.6%	(368)	15.1%
15	Total operating expenses	(39,914)	-27.6%	(30,880)	-19.7%	(9,034)	29.3%
16	EBITDA (9+10+15)	(1,512)	-1.0%	12,991	8.3%	(14,503)	n.a.
17	Depreciation and amortization	(795)	-0.6%	(656)	-0.4%	(139)	21.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	(694)	-0.4%	694	-100%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions & impairment	(795)	-0.6%	(1,350)	-0.9%	555	-41.1%
22	EBIT (16+21)	(2,307)	-1.6%	11,641	7.4%	(13,948)	n.a.
23	Interest income	200	0.1%	360	0.2%	(160)	-44.5%
24	Interest expense	(4,700)	-3.3%	(3,973)	-2.5%	(727)	18.3%
25	Net interest income (expense)	(4,500)	-3.1%	(3,613)	-2.3%	(887)	24.6%
26	Profit before taxes (22+25)	(6,807)	-4.7%	8,028	5.1%	(14,835)	n.a.
27	Current taxes	(854)	-0.6%	(3,645)	-2.3%	2,791	n.a.
28	Deferred taxes	2,283	1.6%	(635)	-0.4%	2,918	n.a.
29	Total taxes	1,429	1.0%	(4,280)	-2.7%	5,709	n.a.
30	Net profit (26+29)	(5,378)	-3.7%	3,748	2.4%	(9,126)	n.a.
	Earnings per share:						
33	Basic earnings per share (in EUR)	(0.39)		0.27		(0.66)	
34	Diluted earnings per share (in EUR)	(0.39)		0.27		(0.66)	

During the year the Group earned gross revenues of €176,004 thousand and net revenues of €144,392 thousand, for a decrease of €2,785 thousand in gross revenues and €12,370 thousand in net revenues compared with 2007-2008. Below is the breakdown of revenues by business segment for this and the previous year:

EUR/000	Gross revenues				Net revenues			
	2008-2009	2007-2008	Change		2008-2009	2007-2008	Change	
Italian distribution	109,979	119,440	(9,461)	-7.9%	96,973	107,360	(10,387)	-9.7%
Newsstands	1,877	1,319	558	42.3%	1,858	1,240	618	49.8%
New Media	637	486	151	31.1%	637	486	151	31.1%
International Publishing	63,511	57,544	5,967	10.4%	44,924	47,676	(2,752)	-5.7%
Total revenues	176,004	178,789	(2,785)	-1.6%	144,392	156,762	(12,370)	-7.9%

The decrease in gross and net revenues is due primarily to the Italian Distribution segment, and was fully expected as a result of the decision to downsize the activities of DTI, i.e. the non-exclusive distribution of the products of video game publishers present in Italy. Net revenues for this segment went from €107,360 thousand in 2007-2008 to €96,973 thousand this year. In the International Publishing segment, net revenues decreased by €2,752 thousand, from €47,676 thousand to €44,924 thousand.

Net sales in the Newsstands segment grew from €1,240 thousand to €1,858 thousand, thanks especially to sales of Yu-Gi-Oh! trading cards, which have been distributed in Italy since May 2009.

In the New Media segment, sales were up sharply in percentage terms but only modestly in absolute terms, rising from €486 thousand in 2007-2008 to €637 thousand this year.

The cost of sales decreased by €6,877 thousand, which was less than proportional to the drop in net sales, leading to a reduction of €5,493 thousand in gross profit compared with the previous year's €43,754 thousand.

More specifically, the decline in gross profit was fairly steep in the last quarter of the year, due mainly to the drop in worldwide consumption especially in the United States, the United Kingdom and Spain. The impact was most obvious in the casual gaming business, where the Group is especially active, and where price cuts and lower volumes did substantial damage to margins.

Operating expenses rose by €9,034 thousand (+29%), due mainly to the higher costs incurred in the International Publishing segment. The most significant increase in operating expenses pertained to the cost of services, which rose from €16,452 thousand to €22,803 thousand (+€6,351 thousand), due mainly to the advertising costs incurred to support video game sales (especially in the international market).

Payroll costs were up by €2,077 thousand, due to continued hiring in the International Publishing segment, with the opening of Digital Bros Iberia S.I. and 505 Games US Inc. The average number of employees increased by 28%, from 127 to 162.

As a result of these trends, EBITDA fell from €12,991 thousand to a negative €1,512 thousand, a decrease of €14,503 thousand.

The balance shown for “depreciation, amortization, provisions and impairment” (€95 thousand) consists of depreciation and amortization only.

Heavy losses were suffered due to the start-ups in the U.S. and Spain, which detracted €1,819 thousand and €1,238 thousand, respectively, from consolidated EBIT.

Due to the costs of the international network and an increase in advertising expenses, EBIT decreased by €13,948 thousand, from €1,641 thousand to a negative €2,307 thousand. The year closed with a net loss of €3.378 thousand, compared with a profit of €3,748 thousand in 2007-2008.

Loss per share and diluted loss per share came to €0.39, versus earnings per share of €0.27 the previous year.

6. ANALYSIS OF THE BALANCE SHEET AT 30 JUNE 2009

The Group's balance is shown below with comparative figures for the previous year:

	EUR/000	30 June 2009	30 June 2008	Change	
Non-current assets					
1	Property, plant and equipment	3,705	3,753	(48)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	700	680	20	3.0%
4	Equity investments	1,018	740	278	37.6%
5	Non-current receivables and other assets	783	132	651	n.a.
6	Deferred tax assets	4,386	2,103	2,283	n.a.
	Total non-current assets	11,047	7,863	3,184	40.5%
Non-current liabilities					
7	Employee benefits	(501)	(555)	54	-9.8%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(785)	(804)	19	-2.4%
Net working capital					
10	Inventories	42,129	39,553	2,576	6.5%
11	Trade receivables	36,227	42,110	(5,883)	-14.0%
12	Tax credits	2,267	1,440	827	57.4%
13	Other current assets	13,086	14,682	(1,596)	-10.9%
14	Trade payables	(13,539)	(14,436)	897	-6.2%
15	Taxes payable	(1,462)	(5,202)	3,740	-71.9%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(1,818)	(2,477)	659	-26.6%
	Total net working capital	76,890	75,670	1,220	1.6%
Capital and reserves					
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,498)	(19,462)	(36)	0.2%
20	Treasury shares	1,489	717	772	n.a.
21	(Profits) losses carried forward	(3,486)	(10,113)	6,627	n.a.
	Total capital and reserves	(27,139)	(34,502)	7,363	-21.3%
	Total net assets	60,013	48,227	11,786	24.4%
Current liabilities					
22	Cash and cash equivalents	6,369	11,279	(4,910)	-43.5%
23	Short-term payables to banks	(59,059)	(49,730)	(9,329)	18.8%
24	Other current financial liabilities	(1,953)	(3,309)	1,356	-41.0%
	Current net debt	(54,643)	(41,760)	(12,883)	30.9%
Non-current liabilities					
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(3,809)	(4,679)	870	-18.6%
27	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(5,370)	(6,467)	1,097	-17.0%
	Total net debt	(60,013)	(48,227)	(11,786)	24.4%

See the notes to the financial statements for comments on the most significant changes.

7. INTERCOMPANY AND RELATED PARTY TRANSACTIONS

All intercompany and related party transactions within the Digital Bros Group are conducted under arm's-length conditions.

The main intercompany transactions are the sale of video games by 505 Games S.r.l. to the local distributors. As is typical for the sector, another significant item is the portion of advertising costs incurred by distributors that are charged to the Group's publisher, 505 Games S.r.l.

More minor transactions consist of administrative, financial, legal/advisory and general services performed by Digital Bros S.p.A. for the rest of the Group.

Group companies in Italy also transfer tax receivables and payables to the parent company in the context of the group tax election.

In the consolidated financial statements at 30 June 2009, the effects of intercompany transactions on the balance sheet and income statement have been eliminated. Related party transactions are discussed in the notes.

8. TREASURY SHARES

Pursuant to Art. 2428 (2.3) of the Italian Civil Code, at 30 June 2009 Digital Bros S.p.A. owned 458,774 treasury shares.

Pursuant to paragraph 2.4 of that article, we report that in 2008-2009 the company purchased 309,835 treasury shares and disposed of 5,324.

The purchase, approved on 28 October 2008 by the general meeting of shareholders, is designed to support transactions such as the sale, transfer or swap of Digital Bros S.p.A. shares for the acquisition of equity investments and/or the conclusion of strategic agreements that further the company's goals of expansion.

On 28 October 2008, the shareholders granted further authorization to purchase treasury shares, valid until the AGM held to approve the financial statements at 30 June 2009.

9. RESEARCH AND DEVELOPMENT

The Group did not engage in research and development during the period.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The main financial instruments used by the Group are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts.

The purpose of these instruments is to finance the Group's operating activities.

The parent company Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008, the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth.

The Group maintains a balance between short-term and long-term financial instruments. The Group's core business, the marketing of video games, entails investments primarily in net working capital which are funded through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Group's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk.

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- business with an extensive number of banks and financial institutions, giving the company a competitive edge in the negotiation of interest rates;
- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Given the absolute value of the Group's unhedged, variable-rate borrowings, it is estimated that a 0.5-point change in annual interest rates would affect the pre-tax profit by around €300 thousand.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business. The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Group has reduced this risk by:

- setting up the centralized management of treasury procedures and therefore of credit lines;
- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned.

Exchange rate risk

The Group is not heavily influenced by exchange rate fluctuations, with the exception of the British pound. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds and U.S. dollars due to the manufacturing and structural costs of 505 Games US Inc.

Royalties on international video game exploitation rights are paid partly in Japanese yen. Payments are made in advance, so the Group knows the actual cost of royalties ahead of time and is able to transfer any higher charges due to exchange rates onto its prices.

The Group's exposure in USD due to the opening of the United States subsidiary is mitigated by the fact that it has many game development contracts in that currency, so any negative changes in the EUR/USD exchange rate would cause license costs to go up but would also produce exchange gains on payments received (the reverse also holds true).

The Group's main source of exchange rate risk is the U.K. subsidiary 505 Games Ltd. It is estimated that a 5% change in the EUR/GBP exchange rate would affect the pre-tax profit by around €640 thousand.

To monitor the risk level of the EUR/GBP exchange rate, the Group now closely monitors exchange rate forecasts from accredited analysts and other sources, and requests frequent quotes on derivative instruments that could be used to hedge this risk.

Credit risk

In Italy the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, the Group has insurance covering the buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

All foreign subsidiaries have taken out credit insurance with the same global insurance group. The policy is never to exceed the limits of coverage for each individual customer.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

11. SHAREHOLDERS' EQUITY AND PROFIT RECONCILIATION BETWEEN THE CONSOLIDATED AND SEPARATE ACCOUNTS

	Profit		Capital and reserves	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Capital & reserves and profit of Digital Bros S.p.A.	648	1,320	27,557	28,787
Capital & reserves and profit of subsidiaries	(5,936)	1,405	2,385	7,263
Carrying value of equity investments	0	0	(2,736)	(2,700)
Consolidation adjustments				
Writedown of equity investments in subsidiaries	1,719	2,230	1,719	2,230
Elimination of intercompany profits	(709)	(607)	(1,786)	(1,078)
Other adjustments	(1,100)	(600)	0	0
Group capital & reserves and profit	(5,378)	3,748	27,139	34,502

The writedown of equity investments in subsidiaries concerns the reversal of the parent company's provision of €1,719 thousand against losses by the subsidiary Game Media Networks S.r.l. The elimination of intercompany profits refers to profits in inventory at 30 June 2009. "Other adjustments" concern the elimination of dividends received by Digital Bros S.p.A. from 505 Games S.r.l. (€800 thousand) and Game Entertainment S.r.l. (€300 thousand).

12. SECURITY PLAN

The Group's Italian companies are compliant with Legislative Decree 196 of 30 June 2003 (the data protection code), and have expressly confirmed that they have taken appropriate security measures including with reference to knowledge acquired through technical advancement, the nature of the data obtained and the specific ways in which it is used, thus reducing to a minimum the risks of deliberate or accidental destruction or loss of the data, unauthorized access to the data, and use of the data that is unauthorized or inconsistent with stated ends.

The individual companies have each prepared a Security Plan, in accordance with Annex B of Decree 196.

13. USE OF ESTIMATES

The preparation of the consolidated financial statements and notes for the year ended 30 June 2009 required Group companies to make certain discretionary valuations. These were 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 future 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 concerned doubtful accounts, inventory impairment, employee benefits, revenue adjustments, and deferred taxes.

Doubtful accounts

To assess the risk of credit default from Italian customers, the Group periodically obtains an opinion from 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.

As for trade receivables outside Italy, the policy is never to exceed the insurance limit for individual customers, so there are no particular issues of risk assessment.

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 by the sales managers of each segment. 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. The six-quarter forecasts are the foundation for drawing up budgets.

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 ended 30 June 2006. Estimating the liability is still complex, due to a small portion of benefits that have remained with Group companies. To arrive at this estimate, the Group has engaged 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 at the end of the contractual period (known as year-end credits), 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 if not necessarily 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 potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to the Group's customers with the volumes they have sold to end consumers. The availability of these sales figures makes the estimate reliable.

Deferred taxes

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty the Group mitigates by comparing the deferred tax assets generated by individual companies with their budgets. The second is the tax rate, which is assumed to be constant over time.

14. 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 and has been appealed. The provincial tax commission of Milan (level one for tax disputes) has partially ruled in the company's favor, which reinforces the expectation that no liability will arise. Together with its tax advisors, the company is considering how to proceed with this dispute.

There were no other contingent assets or liabilities at 30 June 2009.

15. SUBSEQUENT EVENTS

The following significant events have occurred since 30 June 2009:

- 505 Games GmbH, a wholly-owned subsidiary of 505 Games S.r.l., has been formed in Germany to market the products of 505 Games in German-speaking countries.
- 505 Games Nordic AB, a wholly-owned subsidiary of 505 Games S.r.l., has been set up in Sweden to market the products of 505 Games in Scandinavia.
- The activities of the online gaming portal www.gametribe.com will be suspended as from 31 October 2009.
- The Group is negotiating the sale of its interest in the joint venture Fueps S.p.A., held 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of the parent company Digital Bros S.p.A.).

16. OUTLOOK

The factors that hurt the video games market in the spring of 2009, with a drop in consumption by casual gamers and depressed profit margins in the International Publishing segment, seem to be easing thanks to an expected improvement in the general economy and to price reductions for the Sony Playstation 3 and Microsoft Xbox 360 consoles. In addition, there should be less pressure on selling prices as video game publishers will probably take a more prudent attitude to the upcoming Christmas season, by trying to optimize the ratio of quantities produced to quantities sold and avoid the gluts experienced last year.

In the International Publishing segment, the Group took corrective measures this year that will start to pay off in the coming quarters. These consist of:

- a more balanced mix between casual products and those for expert gamers. The latter are performing in contrast to current macroeconomic trends and will benefit more substantially from reductions in the price of the hardware;

- the selection of a German distributor with the formation of a local company to take care of marketing activities in the region, which will allow access to this important market without the risk of setting up local commercial entities.

As a result, we expect the coming year to produce steady revenues and a return to operating profit.

In the Italian Distribution segment, after this year's predictable drop in revenues due to the downsizing of DTI's operations (the non-exclusive distribution of games in the small retail channel only), the Group should see a modest increase in sales thanks in part to the exclusive distribution of Yu-Gi-Oh! trading cards (the greatest benefit will go to the Newsstands segment, which is expected to earn more than half of the revenues from this particular form of distribution).

In the New Media segment, the operating loss will be significantly reduced due to the suspension of the European game portal www.gametribe.com. The operating loss should not exceed €500 thousand, compared with €2,600 thousand in 2008-2009.

Costs in the Holding segment are expected to be stable.

Given the above, consolidated results for 2009-2010 should include a slight increase in revenues and a definite improvement in operating margins. A decrease in net debt due to reduced investments in finished product inventory (a policy implemented in the first quarter of the new financial year) will bring down financial charges on a like-for-like interest rate basis. A return to net profit is therefore the most likely scenario.

17. OTHER INFORMATION

EMPLOYEES

Below are the details of the year-end workforce with comparative figures at 30 June 2008:

Category	30 June 2009	30 June 2008	Change
Executives	10	10	0
White collar	145	121	24
Blue collar and trainees	13	10	3
Total employees	168	141	27

The same details for employees at the Group's foreign companies are as follows:

Category	30 June 2009	30 June 2008	Change
Executives	4	4	0
White collar	58	39	19
Total employees abroad	62	43	19

The most significant increase occurred at 505 Games US Inc. and Digital Bros Iberia S.I.

The average headcount, calculated as the average number of employees in service at the end of every month, is shown below:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	10	9	1
White collar	139	108	31
Blue collar and trainees	13	10	3
Total employees	162	127	35

The average headcount at foreign companies is as follows:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	4	3	1
White collar	51	21	30
Total employees abroad	55	24	31

The Group's Italian companies use the national collective employment contract for the commercial sector.

ENVIRONMENT

At 30 June 2009 there were no issues of an environmental nature, and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise.



**Consolidated financial statements at
30 June 2009**

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated balance sheet at 30 June 2009

	EUR/000	30 June 2009	30 June 2008	Change	
	Non-current assets				
1	Property, plant and equipment	3,705	3,753	(48)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	700	680	20	3.0%
4	Equity investments	1,018	740	278	37.6%
5	Non-current receivables and other assets	783	132	651	n.a.
6	Deferred tax assets	4,386	2,103	2,283	n.a.
	Total non-current assets	11,047	7,863	3,184	40.5%
	Non-current liabilities				
7	Employee benefits	(501)	(555)	54	-9.8%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(785)	(804)	19	-2.4%
	Net working capital				
10	Inventories	42,129	39,553	2,576	6.5%
11	Trade receivables	36,227	42,110	(5,883)	-14.0%
12	Tax credits	2,267	1,440	827	57.4%
13	Other current assets	13,086	14,682	(1,596)	-10.9%
14	Trade payables	(13,539)	(14,436)	897	-6.2%
15	Due to tax authorities	(1,462)	(5,202)	3,740	-71.9%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(1,818)	(2,477)	659	-26.6%
	Total net working capital	76,890	75,670	1,220	1.6%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,498)	(19,462)	(36)	0.2%
20	Treasury shares	1,489	717	772	n.a.
21	(Profits) losses carried forward	(3,486)	(10,113)	6,627	n.a.
	Total capital and reserves	(27,139)	(34,502)	7,363	-21.3%
	Total net assets	60,013	48,227	11,786	24.4%
	Current net debt				
22	Cash and cash equivalents	6,369	11,279	(4,910)	-43.5%
23	Short-term payables to banks	(59,059)	(49,730)	(9,329)	18.8%
24	Other current financial liabilities	(1,953)	(3,309)	1,356	-41.0%
	Current net debt	(54,643)	(41,760)	(12,883)	30.9%
	Non-current net debt				
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(3,809)	(4,679)	870	-18.6%
27	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(5,370)	(6,467)	1,097	-17.0%
	Total net debt	(60,013)	(48,227)	(11,786)	24.4%

Digital Bros Group

Consolidated income statement for the year ended 30 June 2009 (fiscal year 2008-2009)

	EUR/000	2008-2009		2007-2008		Change	
1	Gross revenues	176,004	121.9%	178,789	114.1%	(2,785)	-1.6%
2	Revenue adjustments	(31,612)	-21.9%	(22,027)	-14.1%	(9,585)	43.5%
3	Total net revenues	144,392	100.0%	156,762	100.0%	(12,370)	-7.9%
4	Purchase of goods for resale	(93,326)	-64.6%	(102,627)	-65.5%	9,301	-9.1%
5	Purchase of services for resale	(2,710)	-1.9%	(2,764)	-1.8%	54	-2.0%
6	Royalties	(12,671)	-8.8%	(8,130)	-5.2%	(4,541)	55.9%
7	Change in inventories of finished products	2,576	1.8%	513	0.3%	2,064	n.a.
8	Total cost of goods sold	(106,131)	-73.5%	(113,008)	-72.1%	6,877	-6.1%
9	Gross profit (3+8)	38,261	26.5%	43,754	27.9%	(5,493)	-12.6%
10	Other income	141	0.1%	117	0.1%	24	20.2%
11	Cost of services	(22,803)	-15.8%	(16,452)	-10.5%	(6,351)	38.6%
12	Rent and leasing	(684)	-0.5%	(446)	-0.3%	(238)	53.4%
13	Payroll costs	(13,623)	-9.4%	(11,546)	-7.4%	(2,077)	18.0%
14	Other operating expenses	(2,804)	-1.9%	(2,436)	-1.6%	(368)	15.1%
15	Total operating expenses	(39,914)	-27.6%	(30,880)	-19.7%	(9,034)	29.3%
16	EBITDA (9+10+15)	(1,512)	-1.0%	12,991	8.3%	(14,503)	n.a.
17	Depreciation and amortization	(795)	-0.6%	(656)	-0.4%	(139)	21.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	(694)	-0.4%	694	-100%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(795)	-0.6%	(1,350)	-0.9%	555	-41.1%
22	EBIT (16+21)	(2,307)	-1.6%	11,641	7.4%	(13,948)	n.a.
23	Interest income	200	0.1%	360	0.2%	(160)	-44.5%
24	Interest expense	(4,700)	-3.3%	(3,973)	-2.5%	(727)	18.3%
25	Net interest income (expense)	(4,500)	-3.1%	(3,613)	-2.3%	(887)	24.6%
26	Profit before taxes (22+25)	(6,807)	-4.7%	8,028	5.1%	(14,835)	n.a.
27	Current taxes	(854)	-0.6%	(3,645)	-2.3%	2,791	n.a.
28	Deferred taxes	2,283	1.6%	(635)	-0.4%	2,918	n.a.
29	Total taxes	1,429	1.0%	(4,280)	-2.7%	5,709	n.a.
30	Net profit (26+29)	(5,378)	-3.7%	3,748	2.4%	(9,126)	n.a.
Earnings per share:							
33	Basic earnings per share (in EUR)	(0.39)		0.27		(0.66)	
34	Diluted earnings per share (in EUR)	(0.39)		0.27		(0.66)	

Digital Bros Group**Consolidated cash flow statement for the year 2008-2009**

	EUR/000	2008-2009	2007-2008
A. Opening net debt		(48,227)	(33,942)
B. Cash flow from operating activities			
Group's share of net profit (loss) for the year		(5,378)	3,748
Depreciation, amortization and provisions			
Amortization		322	312
Depreciation		473	344
Net change in other provisions		35	43
Net change in employee benefit provisions		(54)	(108)
SUBTOTAL B.		(4,602)	4,339
C. Change in net working capital			
Inventories		(2,576)	(513)
Trade receivables		5,883	(10,953)
Tax credits		(827)	213
Other current assets		1,596	(6,270)
Trade payables		(897)	(1,134)
Taxes payable		(3,740)	2,554
Current provisions		0	0
Other current liabilities		(659)	(212)
SUBTOTAL C.		(1,220)	(16,315)
D. Cash flow from investing activities			
Net investments in intangible assets		(341)	(474)
Net investments in property, plant and equipment		(425)	(719)
Net investments in financial fixed assets		(3,212)	520
SUBTOTAL D.		(3,979)	(673)
E. Cash flow from financing activities			
Capital increases		0	0
SUBTOTAL E.		0	0
F. Movements in consolidated capital and reserves			
Dividends paid		(1,103)	(1,128)
Change in treasury shares held		(772)	(513)
Increases (decreases) in other components of capital and reserves		(110)	5
SUBTOTAL F.		(1,985)	(1,636)
G. Cash flow for the period (B+C+D+E+F)		(11,786)	(14,285)
H. Closing net debt (A+G)		(60,013)	(48,227)

Details of cash flow movements by maturity:

EUR/000	2008-2009	2007-2008
Increase (decrease) in securities and cash & cash equivalents	(4,910)	4,199
Decrease (increase) in short-term payables to banks	(9,329)	(16,860)
Decrease (increase) in other current financial liabilities	1,356	(59)
Short-term cash flow for the period	(12,883)	(12,720)
Medium-term cash flow for the period	1,097	(1,565)
Cash flow for the period	(11,786)	(14,285)

Additional information on the consolidated cash flow statement:

EUR/000	2008-2009	2007-2008	Change
Income tax paid	(4,232)	(1,333)	(2,898)
Interest paid	(4,700)	(3,973)	(727)
Interest received	200	360	(160)
Dividends paid	(1,103)	(1,128)	25
Total	(9,835)	(6,074)	(3,760)

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 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						0		3,830	(3,830)	0	0
Dividend payments						0		(1,128)		(1,128)	(1,128)
Purchase of treasury shares						0	(513)			0	(513)
Other changes					5	5				0	5
Profit for the period						0			3,748	3,748	3,748
Total at 1 July 2008	5,644	16,954	1,129	1,367	12	19,462	(717)	6,365	3,748	10,113	34,502
Allocation of net profit						0		3,748	(3,748)	0	0
Dividend payments						0		(1,103)		(1,103)	(1,103)
Purchase of treasury shares						0	(772)			0	(772)
Other changes					36	36		(146)		(146)	(110)
Profit for the period						0			(5,378)	(5,378)	(5,378)
Total at 30 June 2009	5,644	16,954	1,129	1,367	48	19,498	(1,489)	8,864	(5,378)	3,486	27,139

Segment reporting

Consolidated balance sheet at 30 June 2009

	EUR/000	Italian Distribution	Newsstands	New Media	International Publishing	Holding	Unallocated items	Consolidated
	Non-current assets							
1	Property, plant and equipment	518	0	22	464	2,701	0	3,705
2	Investment property	0	0	0	0	455	0	455
3	Intangible assets	650	0	28	12	12	0	700
4	Equity investments	0	0	1,013	5	0	0	1,018
5	Non-current receivables and other assets	641	3	0	138	0	0	783
6	Deferred tax assets	0	0	0	0	0	4,386	4,386
	Total non-current assets	1,809	4	1,062	619	3,168	4,386	11,047
	Non-current liabilities							
7	Employee benefits	(479)	0	(22)	0	0	0	(501)
8	Non-current provisions	(284)	0	0	0	0	0	(284)
9	Other non-current payables and liabilities	0	0	0	0	0	0	0
	Total non-current liabilities	(763)	0	(22)	0	0	0	(785)
	Net working capital							
10	Inventories	33,621	1,288	0	7,220	0	0	42,129
11	Trade receivables	19,934	469	451	15,373	0	0	36,227
12	Tax credits	0	0	0	0	0	2,267	2,267
13	Other current assets	3,506	45	501	9,034	0	0	13,086
14	Trade payables	(3,902)	(478)	(348)	(8,811)	0	0	(13,539)
15	Taxes payable	0	0	0	0	0	(1,462)	(1,462)
16	Current provisions	0	0	0	0	0	0	(0)
17	Other current liabilities	(1,524)	0	(68)	(225)	0	0	(1,818)
	Total net working capital	51,635	1,324	536	22,589	0	805	76,890
	Total	52,681	1,328	1,576	23,208	3,168	5,191	87,152

Segment reporting

Consolidated income statement for the year ended 30 June 2009

	EUR/000	Italian Distribution	Newsstands	New Media	International Publishing	Holding	Total
1	Revenues	109,979	1,877	637	63,511	0	176,004
2	Revenue adjustments	(13,006)	(19)	0	(18,587)	0	(31,612)
3	Total revenues	96,973	1,858	637	44,924	0	144,392
4	Purchase of goods for resale	(69,859)	(836)	(23)	(22,608)	0	(93,326)
5	Purchase of services for resale	0	(160)	(1,040)	(1,510)	0	(2,710)
6	Royalties	(354)	(333)	(561)	(11,423)	0	(12,671)
7	Change in inventories of finished products	860	100	0	1,616	0	2,576
8	Total cost of goods sold	(69,353)	(1,229)	(1,624)	(33,925)	0	(106,131)
9	Gross profit (3+8)	27,620	629	(987)	10,999	0	38,261
10	Other income	42	0	87	12	0	141
11	Cost of services	(10,606)	(357)	(1,084)	(10,594)	(162)	(22,803)
12	Rent and leasing	(295)	0	(63)	(325)	(1)	(684)
13	Payroll costs	(6,611)	0	(522)	(5,350)	(1,140)	(13,623)
14	Other operating expenses	(1,783)	(9)	(29)	(623)	(360)	(2,804)
15	Total operating expenses	(19,295)	(366)	(1,698)	(16,892)	(1,663)	(39,914)
16	EBITDA (9+10+15)	8,367	263	(2,598)	(5,881)	(1,663)	(1,512)
17	Depreciation and amortization	(512)	(2)	(35)	(152)	(94)	(795)
18	Provisions	0	0	0	0	0	0
19	Impairment losses	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total depreciation, amortization, provisions and impairment	(512)	(2)	(35)	(152)	(94)	(795)
22	EBIT (16+21)	7,855	261	(2,633)	(6,033)	(1,757)	(2,307)

Digital Bros S.p.A.

Digital Bros S.p.A. balance sheet at 30 June 2009

	EUR/000	30 June 2009	30 June 2008	Change	
Non-current assets					
1	Property, plant and equipment	3,218	3,261	(43)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	646	595	51	8.5%
4	Equity investments	2,240	2,204	36	1.6%
5	Non-current receivables and other assets	641	4	637	n.a.
6	Deferred tax assets	817	525	292	55.5%
	Total non-current assets	8,017	7,044	973	13.8%
Non-current liabilities					
7	Employee benefits	(475)	(531)	56	-10.6%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(759)	(780)	21	-2.7%
Net working capital					
10	Inventories	32,118	31,401	717	2.3%
11	Trade receivables	18,715	26,888	(8,173)	-30.4%
12	Due from subsidiaries	22,458	13,131	9,327	71.0%
13	Tax credits	987	77	910	n.a.
14	Other current assets	3,496	6,441	(2,945)	-45.7%
15	Trade payables	(3,833)	(6,129)	2,296	-37.5%
16	Due to subsidiaries	(150)	(1,451)	1,301	-89.7%
17	Taxes payable	(1,138)	(4,190)	3,052	-72.8%
18	Current provisions	(1,719)	(2,230)	511	0.0%
19	Other current liabilities	(1,516)	(2,280)	764	-33.5%
	Total net working capital	69,418	61,658	7,760	12.6%
Capital and reserves					
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,962)	(17,965)	3	0.0%
22	Treasury shares	1,489	717	772	n.a.
23	(Profits) losses carried forward	(5,440)	(5,895)	455	-7.7%
	Total capital and reserves	(27,557)	(28,787)	1,230	-4.3%
	Total net assets	49,119	39,135	9,984	25.5%
Current net debt					
24	Cash and cash equivalents	3,491	8,014	(4,523)	-56.4%
25	Short-term payables to banks	(48,098)	(40,451)	(7,647)	18.9%
26	Other current financial liabilities	(1,953)	(1,803)	(150)	8.3%
	Current net debt	(46,560)	(34,240)	(12,320)	36.0%
Non-current net debt					
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(998)	(3,107)	2,109	-67.9%
29	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(2,559)	(4,895)	2,336	-47.7%
	Total net debt	(49,119)	(39,135)	(9,984)	25.5%

Digital Bros S.p.A.
Digital Bros S.p.A. income statement for the year ended 30 June 2009

	EUR/000	2008-2009		2007-2008		Change	
1	Gross revenues	176,004	121.9%	178,789	114.1%	(2,785)	-1.6%
2	Revenue adjustments	(31,612)	-21.9%	(22,027)	-14.1%	(9,585)	43.5%
3	Total net revenues	144,392	100.0%	156,762	100.0%	(12,370)	-7.9%
4	Purchase of goods for resale	(93,326)	-64.6%	(102,627)	-65.5%	9,301	-9.1%
5	Purchase of services for resale	(2,710)	-1.9%	(2,764)	-1.8%	54	-2.0%
6	Royalties	(12,671)	-8.8%	(8,130)	-5.2%	(4,541)	55.9%
7	Change in inventories of finished products	2,576	1.8%	513	0.3%	2,064	n.a.
8	Total cost of goods sold	(106,131)	-73.5%	(113,008)	-72.1%	6,877	-6.1%
9	Gross profit (3+8)	38,261	26.5%	43,754	27.9%	(5,493)	-12.6%
10	Other income	141	0.1%	117	0.1%	24	20.2%
11	Cost of services	(22,803)	-15.8%	(16,452)	-10.5%	(6,351)	38.6%
12	Rent and leasing	(684)	-0.5%	(446)	-0.3%	(238)	53.4%
13	Payroll costs	(13,623)	-9.4%	(11,546)	-7.4%	(2,077)	18.0%
14	Other operating expenses	(2,804)	-1.9%	(2,436)	-1.6%	(368)	15.1%
15	Total operating expenses	(39,914)	-27.6%	(30,880)	-19.7%	(9,034)	29.3%
16	EBITDA (9+10+15)	(1,512)	-1.0%	12,991	8.3%	(14,503)	n.a.
17	Depreciation and amortization	(795)	-0.6%	(656)	-0.4%	(139)	21.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	(694)	-0.4%	694	-100%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total deprec./amort., provisions and impairment	(795)	-0.6%	(1,350)	-0.9%	555	-41.1%
22	EBIT (16+21)	(2,307)	-1.6%	11,641	7.4%	(13,948)	n.a.
23	Interest income	200	0.1%	360	0.2%	(160)	-44.5%
24	Interest expense	(4,700)	-3.3%	(3,973)	-2.5%	(727)	18.3%
25	Net interest income (expense)	(4,500)	-3.1%	(3,613)	-2.3%	(887)	24.6%
26	Profit before taxes (22+25)	(6,807)	-4.7%	8,028	5.1%	(14,835)	n.a.
27	Current taxes	(854)	-0.6%	(3,645)	-2.3%	2,791	n.a.
28	Deferred taxes	2,283	1.6%	(635)	-0.4%	2,918	n.a.
29	Total taxes	1,429	1.0%	(4,280)	-2.7%	5,709	n.a.
30	Net profit (26+29)	(5,378)	-3.7%	3,748	2.4%	(9,126)	n.a.
Earnings per share:							
33	Basic earnings per share (in EUR)	(0.39)		0.27		(0.66)	
34	Diluted earnings per share (in EUR)	(0.39)		0.27		(0.66)	

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Notes to the consolidated financial statements at 30 June 2009

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1. FORM, CONTENT, AND OTHER GENERAL INFORMATION

Publication of the consolidated financial statements of the Digital Bros Group for the year ended 30 June 2009 was authorized by resolution of the Board of Directors on 10 September 2009. Digital Bros is a joint-stock company incorporated and domiciled in Italy. It is listed in the STAR segment of the MTAX market operated by Borsa Italiana S.p.A.

Its main operations and those of its subsidiaries are described in the directors' report.

The consolidated financial statements have been prepared on a going concern basis. The Group has determined that the uncertainties and risks to which it is exposed, as described in section 7 of the notes, do not cast doubt on its ability to operate as a going concern.

Accounting standards and compliance with IAS/IFRS

The financial statements for the year ended 30 June 2009, in consolidated form pursuant to Art. 154-ter of Legislative Decree 58 of 24 February 1998 (the Consolidated Finance Act), as amended, was prepared in accordance with the IFRS published by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The term "IFRS" includes the International Accounting Standards (IAS) currently in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts are expressed in thousands of euros, unless otherwise specified.

Reporting formats

The consolidated financial statements at 30 June 2009 have been prepared in accordance with Arts. 77 et seq. of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 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 2008.

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. Pursuant to 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 that precede are comprised of:

- consolidated balance sheet at 30 June 2009 with comparative figures at 30 June 2008 (the previous year-end reporting date);
- consolidated income statement for the period from 1 July 2008 to 30 June 2009, in comparison with the consolidated income statement from 1 July 2007 to 30 June 2008;
- consolidated cash flow statement for the period under review, in comparison with the previous year's consolidated cash flow statement;
- details of cash flows by maturity, compared with movements taking place the previous year;
- statement of changes in consolidated shareholders' equity from 1 July 2007 to 30 June 2009;
- segment reporting: balance sheet and income statement.

The first column of the balance sheet 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 to be used over several years, equity investments, and receivables due in subsequent periods. They also include investment property, and deferred tax assets regardless of when they might be realized.

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 the Group invests in operating activities to help increase its turnover. Its trend in relation to business volumes, and as a function of seasonal patterns in the market, 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 specific types of reserve by the shareholders), as adjusted by treasury shares.

Total net assets are the sum of non-current assets plus net working capital, less non-current liabilities and capital and reserves.

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

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, provisions 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, changes in net working capital, and cash flows 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 years.

Minority interests are not reported because they do not exist.

2. ACCOUNTING STANDARDS

Figures in the financial statements were determined according to the International Accounting Standards and their interpretations in effect as of 30 June 2009.

The consolidated financial statements were prepared on the basis of the accounts at 30 June 2009 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 financial statements at 30 June 2009 are consistent with those used to prepare the consolidated accounts at 30 June 2008. Changes in the standards and interpretations adopted by the European Union have had no significant effect on the preparation of the consolidated financial statements.

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. Any financial charges are not capitalized.

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 “rentals and leasing” in the income statement 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%
- Microsoft Dynamics Navision 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 TFR, 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.

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 cover financial and other payables, 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.

Barter transactions

For barter transactions in which finished products (video games) are traded for advertising services of equal value, the income from the transaction is recognized when the merchandise changes hands, and the cost is recognized when the service is rendered.

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 reviews the determination of recoupment by multiplying the unit royalty by the quantities sold during the period. In the case of partial recoupment, the expense is split between recoupment and impairment, calculated for each licence according to the following formula:

$$\text{total advances} - (\text{quantity forecast} * \text{unit royalty}).$$

Recoupment is determined as:

$$\text{quantity sold} * \text{unit royalty};$$

while impairment is calculated as:

$$(\text{total contractual quantity} - \text{quantity sold} - \text{quantity forecast}) * \text{unit royalty}.$$

Interest income and expense

Interest income and expense are recognized on an accruals basis and are shown separately in the income statement without being offset against each other.

Current taxes

Income taxes include all charges calculated on Group companies' 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 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 likely to be realized or reversed.

They are classified as non-current assets and liabilities, regardless of the estimated year of use.

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 accounting standards

Below is a description of the new standards and interpretations approved by the EU and applied by the Group since 1 July 2008. Their adoption has not affected the accounts at 30 June 2009.

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 on 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 12 - Service concession arrangements

IFRIC 12 explains how companies should account for concession arrangements granted by public to private entities. Service concession arrangements are contracts with which a government or other entity allows a private company to provide public services relating, for example, to roads, prisons or hospitals. Neither Digital Bros nor its subsidiaries operate under this kind of contract, so the interpretation has no effect on the Group.

IFRIC 14 – IAS 19: Defined benefit assets and minimum funding requirements

In July 2007 IFRIC issued interpretation 14, “The limit on a defined benefit asset, minimum funding requirements and their interaction,” which provides general guidance on how to assess the amount of surplus employee benefit provisions that can be recognized as an asset. It also sets the rules for recognizing the entity's right to refunds or to reductions in future contributions to employee benefit plans.

IFRIC 13 - Customer loyalty programs

In June 2007, IASB published IFRIC 13, effective for annual periods beginning on or after 1 July 2008. This interpretation requires that award credits granted to customers be accounted for as a separate component of the sales transaction(s) in which they were earned, and therefore that part of the fair value of the consideration received be allocated to the credits and amortized until the awards are redeemed. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: Recognition and measurement and to IFRS 7 – Financial instruments: disclosures.

On 15 October 2008, with Regulation 1004/2008, the European Commission endorsed the amendments to IAS 39 – Financial instruments: Recognition and measurement and to IFRS 7 – Financial instruments: disclosures. Under rare circumstances, the amendments permit the reclassification of certain financial instruments out of the fair-value-through-profit-or-loss category.

New standards and interpretations not yet effective

As required by IAS 8 (“Accounting policies, changes in accounting estimates and errors”), below is a brief description of the IFRS in effect from the first financial year beginning on 1 January 2009 or later and adopted by the Group as from 1 July 2009. The Group has not applied any IFRS in advance of their effective date.

IFRS 8 - Operating Segments

On 21 November 2007, with Regulation no. 1358/2007, the European Commission ratified IFRS 8 - Operating Segments. The new accounting standard requires an entity to base the information contained in its segment reporting on factors used by management for taking operating decisions, thereby requiring the identification of operating segments based on internal reports that are regularly reviewed by the entity’s management in order to allocate resources to the different segments and to assess their performance. The Group is evaluating the impact this standard will have on the consolidated financial statements.

IAS 1 - Presentation of financial statements

In September 2007 the IASB issued a revised version of IAS 1 - Presentation of financial statements, which among other things introduces the statement of comprehensive income, comprised of the net profit or loss including income and expenses that are disclosed directly in equity as expressly required by IFRS. The Group is evaluating the impact this standard will have on the consolidated financial statements.

IAS 23 - Borrowing costs

In 2007 the IASB issued a revised version of IAS 23 - Borrowing Costs. The revised version has eliminated the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group is evaluating the impact this standard will have on the consolidated financial statements.

Amendments to IAS 32 and IAS 1 - “Puttable” Financial Instruments

The amendment to IAS 32 requires that certain “puttable” financial instruments and obligations arising on liquidation be classified as equity instruments if certain conditions are met. Per the amendment to IAS 1, the notes to the financial statements must provide information on “puttable” options classified as equity. The Group does not expect these changes to affect the financial statements.

Amendments to IFRS 1 and IAS 27 – Cost of an investment in a subsidiary, jointly controlled entity or associate

In May 2008 the IASB published an amendment to IFRS 1 – First-time adoption of International Financial Reporting Standards and IAS 27 – Consolidated and separate financial statements, with instructions on how to determine the cost of an investment in a subsidiary, jointly controlled entity or associate upon first-time adoption of IFRS.

IFRS 2 - Share-based payments

In January 2008 the IASB issued a revised version of IFRS 2 - Share-based payments, which specifies the accounting treatment for cancellation of equity instruments granted to employees and states that vesting conditions shall be limited to the employee's standard of service or the company's performance.

The new version of IFRS 2 is effective from 1 January 2009. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group does not expect these changes to affect the financial statements.

IFRS 3 - Business combinations / IAS 27 - Consolidated and separate financial statements

In January 2008 the IASB issued a revised version of IFRS 3 - Business combinations and of IAS 27 - Consolidated and separate financial statements. IFRS 3 now requires the expensing of ancillary costs associated with business combinations and allows companies to recognize 100% of the goodwill of the acquired entity, including that attributable to minority investors (the "full goodwill method"). The new rules also change the way step acquisitions are disclosed, with the income statement showing the difference between the fair value of net assets previously held on the date control is acquired and their carrying value. Also, the effects of acquiring additional shares of a subsidiary or partially disposing of a subsidiary without losing control are accounted for as equity transactions. If the partial disposal of an investment results in loss of control, the residual holding is remeasured to fair value, and any difference is included in the capital gain or loss on the disposal.

The revised versions of IFRS 3 and IAS 27 are effective from financial periods beginning on or after 1 July 2009. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group does not expect these changes to affect the financial statements.

IFRS 1 – First-time adoption of International Financial Reporting Standards

In November 2008 the IASB issued a new version of IFRS 1 - *First-time adoption of International Financial Reporting Standards*, which includes all previous amendments and a new structure for ease of comprehension.

At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

The Group does not expect these changes to affect the financial statements.

IFRIC 15 – Agreements for the construction of real estate

In July 2008, IFRIC issued IFRIC 15 – Agreements for the construction of real estate, which addresses the method of accounting for the revenues and associated costs of the construction of property. IFRIC 15 provides guidance on how to distinguish between "construction to order," which falls under IAS 11, and other contracts for the construction of real estate, which fall under IAS 18. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group does not expect these changes to affect the financial statements.

IFRIC 16 – Hedges of a net investment in a foreign operation

IFRIC 16, “Hedges of a net investment in a foreign operation,” was issued in July 2008 and eliminates the possibility of using hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent’s consolidated financial statements. It also clarifies that for hedges of an investment in a foreign operation the hedging instrument can be held by any entity within the group, and that if the investment is disposed of, the amount to be reclassified from equity to profit or loss should be determined in accordance with IAS 21, “The effects of changes in foreign exchange rates.” At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRIC 17 – Distributions of non-cash assets to owners

Issued in November 2008, this interpretation offers guidance for the accounting treatment of dividends paid to shareholders through the distribution of non-cash assets. Specifically, it clarifies that such dividends should be measured at the fair value of the net assets to be distributed, and that any difference between that value and the carrying amount should be recognized in profit or loss upon payment of the dividend. The interpretation is effective for financial periods beginning on 1 July 2009 or later. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRIC 18 – Transfers of assets from customers

IFRIC 18, published by the IASB in January 2009, clarifies the accounting treatment of agreements in which a customer transfers assets to an entity which then uses them to provide the customer with a service. The interpretation is effective for financial periods beginning on 1 July 2009 or later. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: recognition and measurement (eligible hedged items)

In July 2008 the IASB published an amendment to IAS 39 – Financial instruments: recognition and measurement, which clarifies the possibility of hedging against inflation and using options as a hedging instrument. The interpretation must be applied from 1 July 2009. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: Recognition and measurement - Reclassification of financial assets - Effective date and transition

In November 2008 the IASB published an amendment to IAS 39 – Financial instruments: Recognition and measurement – Reclassification of financial assets, specifying the effective date and transition of the amendment approved in October, which allows the reclassification of these instruments. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IFRS 7 – Improving disclosures about financial instruments

In March 2009, the IASB published an amendment to IFRS 7 – *Financial instruments – Disclosures*, which introduces new mandatory disclosures regarding the method of calculating the fair value of financial instruments and clarifies what information needs to be reported on liquidity risk. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IFRIC 9 and IAS 39 – Embedded derivatives

In March 2009, the IASB published amendments to IFRIC 9 - *Reassessment of embedded derivatives* and IAS 39 - *Financial instruments: Recognition and measurement*, which clarify the accounting treatment of embedded derivatives for entities that choose to reclassify particular financial instruments held for trading to other categories in accordance with the amendments to IAS 39 approved in October 2008. The changes are effective from 1 January 2010. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRS improvement

On 23 January 2009 the European Commission accepted the IFRS improvement published by the IASB in May 2008. Information is provided below on the improvements that according to the IASB entail changes for presentation, recognition or measurement purposes, while no mention is made of those involving only terminology or editorial changes with minimal effect on accounting.

- IFRS 5 – Non-current assets held for sale and discontinued operations: the change, effective for financial periods beginning on or after 1 January 2010, states that where there is a sale plan in place involving loss of control of a subsidiary, all of the subsidiary's assets and liabilities should be classified as held for sale, even if the parent entity will retain a minority interest;
- IAS 1 - Presentation of financial statements (revised in 2007): the amendment, effective for financial periods beginning on or after 1 January 2009, requires assets and liabilities arising from derivative financial instruments not held for trading purposes to be classified in the financial statements as current or non-current, as appropriate;
- IAS 16 - Property, plant and equipment: according to the amendment, effective for annual periods beginning on or after 1 January 2009, entities that routinely rent out items of property, plant and equipment must transfer such assets to inventories when they cease to be rented and are held for sale; the proceeds from their sale should be recognized as revenues. In the cash flow statement, payments to manufacture or acquire assets that are rented to others, and cash receipts from the subsequent sale of such assets, constitute cash flows from operating activities and not from investing activities;
- IAS 19 – Employee benefits: effective for annual periods beginning on or after 1 January 2009 to changes in benefits occurring on or after that date, this amendment clarifies the definition of cost/income for past service and states that if a benefit plan is reduced, the only impact to be

recognized immediately in the financial statements is the reduction in benefits for future periods, while the effect of any reduction for past service should be treated as a negative past service cost. It also clarifies the definition of “short-term employee benefits” and “long-term employee benefits” and revises the definition of “return on plan assets” to require the deduction of plan administration costs that are not reflected in the value of the obligation;

- IAS 20 – Accounting for government grants and disclosure of government assistance: to be applied prospectively for annual periods beginning on or after 1 January 2009, this amendment requires that government loans granted at a significantly below-market rate of interest be accounted for as government grants according to the rules of IAS 20;
- IAS 23 - Borrowing costs: effective for annual periods beginning on or after 1 January 2009, this amendment revises the definition of borrowing costs;
- IAS 28 - Investments in associates: Effective for annual periods beginning on or after 1 January 2009 (retroactively or prospectively), this amendment states that for investments valued using the equity method, an impairment loss should not be allocated against the individual assets (goodwill in particular) included in the equity-accounted investment balance, but against the value of the investment as a whole. Therefore, should the conditions be met for reversing the impairment loss, the reversal should be recognized in full;
- IAS 28 – Investments in associates and IAS 31 – Interests in joint ventures: these amendments are effective from annual periods beginning on or after 1 January 2009 and require additional disclosures for investments in associates and interests in joint ventures that are recognized at fair value in accordance with IAS 39. IFRS 7 – Financial instruments: disclosures and IAS 32 – Financial instruments: presentation have been amended accordingly;
- IAS 29 – Financial reporting in hyperinflationary economies: the previous version of this standard did not reflect the fact that some assets and liabilities may be measured at current values rather than historical cost. The amendment taking account of that fact is effective for annual periods beginning on or after 1 January 2009;
- IAS 36 – Impairment of assets: effective for annual periods beginning on or after 1 January 2009, the amendment requires additional disclosures when an entity determines the recoverable amount of cash-generating units using the discounted cash flow method;
- IAS 38 - Intangible assets: this amendment is effective for annual periods beginning on or after 1 January 2009 and clarifies the recognition of advertising and promotional expenditure. It also states that if the entity makes prepayments without recognizing intangible assets, these should be recognized when the entity has the right to access the purchased goods or has received the contracted service. Finally, it allows use of the unit of production method to determine the amortization of intangible assets of finite useful life;

- IAS 39 - Financial instruments: recognition and measurement: effective for annual periods beginning on or after 1 January 2009, the amendment clarifies how to calculate the revised effective interest rate of a financial instrument on cessation of fair value hedge accounting. It also clarifies that the prohibition on classifying financial instruments into or out of the fair value through profit or loss category does not apply to derivatives that no longer qualify as hedging instruments or that newly qualify as hedging instruments. To avoid conflict with the new IFRS 8 – Operating segments, it removes references to the designation of hedging instruments at the segment level;
- IAS 40 - Investment property: effective prospectively for annual periods beginning on or after 1 January 2009, this amendment clarifies that property under construction is within the scope of IAS 40 rather than IAS 16.

In April 2009 the IASB issued new improvements to IFRS. These pertain to the 12 accounting standards listed below.

- IFRS 2 - Share-based *payments*: the amendment, effective for annual periods beginning on or after 1 January 2010, states that business combinations amongst entities under common control and the contribution of a business upon the formation of a joint venture are outside the scope of IFRS 2 - Share-based payments;
- IFRS 5 – *Non-current assets held for sale and discontinued operations*: IFRS 5 is amended (effective from annual periods beginning on 1 January 2010) to state that the required disclosures for non-current assets classified as held for sale or discontinued operations are specified in that standard. Therefore, the disclosure requirements of other IFRSs are not applicable unless:
 - those standards specifically require disclosures in respect of non-current assets held for sale or discontinued operations; or
 - the disclosures concern the measurement of assets or liabilities of a disposal group held for sale and the measurement is outside the scope of IFRS 5;
- IFRS 8 - *Operating segments*: effective from annual periods beginning on 1 January 2010, the amendment clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker;
- IAS 1 - *Presentation of financial statements (revised in 2007)*: IAS 1 is amended with effect from annual periods beginning on 1 January 2010 to state that the classification of a liability as current or non-current is not affected by terms that could result in settlement of the liability by the issue of equity instruments. By modifying the concept of current liability it is possible to classify a liability as non-current even though the entity could be asked at any time to settle the liability with shares, provided that the entity has the unconditional right to defer that settlement for at least 12 months after the close of the year by paying cash or transferring other assets;

- IAS 7 – *Statement of cash flows*: the amendment (applicable from annual periods beginning on 1 January 2010) clarifies that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities;
- IAS 17 - *Leases*: this amendment is also effective for annual periods beginning on or after 1 January 2010 and cancels any particular treatment for the lease of land and buildings. Thus, land and building leases must also be classified as operating or finance leases on the same basis as those involving other assets;
- IAS 18 – *Revenue*: the amendment introduces a new example to clarify whether an entity is acting as a principal or as an agent in a transaction;
- IAS 36 – *Impairment of assets*: : IAS 36 is amended with effect from annual periods beginning on 1 January 2010, to state that the largest cash generating unit to which goodwill should be allocated for the purpose of impairment testing is the operating segment as defined in paragraph 5 of IFRS 8, before any aggregation of operating segments with similar economic characteristics;
- IAS 38 - *Intangible assets*: effective for financial periods beginning on or after 1 January 2010, the amendment clarifies the requirements of the new IFRS 3 on accounting for intangible assets acquired in a business combination and adds a description of the most commonly used techniques to measure the fair value of intangible assets for which no active market exists;
- IAS 39 - *Financial instruments: recognition and measurement*: the amendments must be applied to financial periods beginning on 1 January 2010 or later, and clarify:
 - that prepayment options for a debt must be considered as closely related to the host contract if the exercise price of such options reimburses the lender for lost interest;
 - the scope of exemption from IAS 39 in the case of business combinations;
 - when to reclassify from equity to profit or loss the gains or losses on a cash flow hedge arising from future transactions that will later give rise to the recognition of financial instruments;
- IFRIC 9 – *Reassessment of embedded derivatives*: The scope of IFRIC 9 is amended with effect from annual periods beginning on 1 January 2010 to clarify that embedded derivatives in contracts acquired in joint venture formations and common control transactions are outside the scope of IFRIC 9.
- IFRIC 16 – *Hedges of a net investment in a foreign operation*: the amendment is effective for financial periods beginning on 1 January 2010 or later and clarifies that a hedging instrument may be held by any entity within a group, including the foreign operations being hedged.

3. USE OF ESTIMATES

Use of estimates

The preparation of the consolidated financial statements and notes for the year ended 30 June 2009 required Group companies to make certain discretionary valuations. These were 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 future 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 concerned doubtful accounts, inventory impairment, employee benefits, revenue adjustments, and deferred taxes.

Doubtful accounts

To assess the risk of credit default from Italian customers, the Group periodically obtains an opinion from 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.

As for trade receivables outside Italy, the policy is never to exceed the insurance limit for individual customers, so there are no particular issues of risk assessment.

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 by the sales managers of each segment. 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. The six-quarter forecasts are the foundation for drawing up budgets.

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 ended 30 June 2006. Estimating the liability is still complex, due to a small portion of benefits that have remained with Group companies. To arrive at this estimate, the Group has engaged 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 at the end of the contractual period (known as year-end credits), 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 if not necessarily 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 potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to the Group's customers with the volumes they have sold to end consumers. The availability of these sales figures makes the estimate reliable.

Deferred taxes

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty the Group mitigates by comparing the deferred tax assets generated by individual companies with their budgets. The second is the tax rate, which is assumed to be constant over time.

4. 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 accounts of subsidiaries are included in the consolidated financial statements from the date control is assumed until the date control ceases to exist.

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

Joint ventures are equity accounted.

Translation of foreign currency accounts

The Group's presentation currency is the euro, which is also the functional currency of Digital Bros S.p.A. At the close of the period, the financial statements of foreign companies with a functional currency other than the euro were translated into the presentation currency as follows:

- assets and liabilities were translated using the exchange rate in force at the close of the financial period;
- income statement items were translated using the average exchange rate for the period;
- capital and reserves were translated at historical exchange rates.

The exchange differences arising from this process are recognized directly to capital and reserves, in a separate translation reserve under the heading "other reserves."

Transactions eliminated in the consolidation process

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

Scope of consolidation

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 Fueps S.p.A., which is held 49% by the subsidiary Game Media Networks S.r.l.

The tables below show the details of companies consolidated on a line-by-line basis and according to the equity method.

Companies consolidated on a line-by-line basis:

Name	Head office	Share capital	% held directly	% held indirectly
Digital Bros S.p.A.	Milan	EUR 5,644,334.80	Parent company	
Game Entertainment S.r.l.	Milan	100,000 EUR	100%	
Game Media Networks S.r.l.	Milan	EUR 100,000	100%	
Game Service S.r.l.	Milan	EUR 50,000	100%	
505 Games S.r.l.	Milan	EUR 100,000	100%	
Digital Bros France S.a.s.	Lyons	EUR 100,000	100%	
505 Games Ltd. (1)	London	GBP 100,000		100%
Game Media Networks Ltd. (2)	Northampton	GBP 50,000		100%
Game Media Networks France S.a.r.l. (2)	Lyons	EUR 50,000		100%
Digital Bros Iberia S.I.	Madrid	EUR 100,000	100%	
505 Games US Inc. (1)	Los Angeles	USD 100,000		100%

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

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

Companies carried at equity:

Name	Head office	Share capital	% held directly
D3DB S.r.l.	Milan	EUR 10,000	50%
Fueps S.p.A. (2)	Milan	EUR 1,500,000	49%

5. BUSINESS COMBINATIONS

No new companies were set up and no acquisitions were made in the year ended 30 June 2009.

Details of companies formed during the previous year are provided below:

Name	Date formed	Head office	Share capital	% held directly	% held indirectly	Profit/loss for the year to 30 June 2009
Digital Bros Iberia S.I.	29 February 2008	Madrid	EUR 100,000	100%	-	(866)
505 Games US Inc. (1)	20 November 2007	Los Angeles	USD 100,000		100%	(1,309)

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

6. JOINT VENTURES

At 30 June 2009, the Group was involved in two joint ventures: a 50% interest in D3DB S.r.l., held jointly with Japan's D3 Publisher Inc. (€ thousand), and an interest of €1,013 thousand in Fueps S.p.A., a joint venture with RCS MediaGroup.

Below are the key data for D3DB S.r.l. (held 50%) at 31 March 2009, the closing date of its latest financial year.

EUR/000	
Assets	1,220
Capital and reserves	(82)
Liabilities	1,302
Revenues	0
Costs	(6)
Net profit (loss) for the year	(6)

Below are key figures for Fueps S.p.A. (held 49%), at its latest closing date of 31 December 2008:

EUR/000	
Assets	1,405
Capital and reserves	(932)
Liabilities	(473)
Revenues	635
Costs	(1,221)
Net profit (loss) for the year	(586)

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The main financial instruments used by the Group are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts.

The purpose of these instruments is to finance the Group's operating activities.

The parent company Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008, the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth.

The Group maintains a balance between short-term and long-term financial instruments. The Group's core business, the marketing of video games, entails investments primarily in net working capital which are funded through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Group's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk.

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- business with an extensive number of banks and financial institutions, giving the company a competitive edge in the negotiation of interest rates;
- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Given the absolute value of the Group's unhedged, variable-rate borrowings, it is estimated that a 0.5-point change in annual interest rates would affect the pre-tax profit by around €300 thousand.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business. The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Group has reduced this risk by:

- setting up the centralized management of treasury procedures and therefore of credit lines;
- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned.

Exchange rate risk

The Group is not heavily influenced by exchange rate fluctuations, with the exception of the British pound. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds and U.S. dollars due to the manufacturing and structural costs of 505 Games US Inc.

Royalties on international video game exploitation rights are paid partly in Japanese yen. Payments are made in advance, so the Group knows the actual cost of royalties ahead of time and is able to transfer any higher charges due to exchange rates onto its prices.

The Group's exposure in USD due to the opening of the United States subsidiary is mitigated by the fact that it has many game development contracts in that currency, so any negative changes in the EUR/USD exchange rate would cause license costs to go up but would also produce exchange gains on payments received (the reverse also holds true).

The Group's main source of exchange rate risk is the U.K. subsidiary 505 Games Ltd. It is estimated that a 5% change in the EUR/GBP exchange rate would affect the pre-tax profit by around €640 thousand.

To monitor the risk level of the EUR/GBP exchange rate, the Group now closely monitors exchange rate forecasts from accredited analysts and other sources, and requests frequent quotes on derivative instruments that could be used to hedge this risk.

Credit risk

In Italy the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, the Group has insurance covering the buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

All foreign subsidiaries have taken out credit insurance with the same global insurance group. The policy is never to exceed the limits of coverage for each individual customer.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

8. ANALYSIS OF THE BALANCE SHEET

The consolidated balance sheet at 30 June 2009 is reported below, with comparative figures at 30 June 2008:

	EUR/000	30 June 2009	30 June 2008	Change	
Non-current assets					
1	Property, plant and equipment	3,705	3,753	(48)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	700	680	20	3.0%
4	Equity investments	1,018	740	278	37.6%
5	Non-current receivables and other assets	783	132	651	n.a.
6	Deferred tax assets	4,386	2,103	2,283	n.a.
	Total non-current assets	11,047	7,863	3,184	40.5%
Non-current liabilities					
7	Employee benefits	(501)	(555)	54	-9.8%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(785)	(804)	19	-2.4%
Net working capital					
10	Inventories	42,129	39,553	2,576	6.5%
11	Trade receivables	36,227	42,110	(5,883)	-14.0%
12	Tax credits	2,267	1,440	827	57.4%
13	Other current assets	13,086	14,682	(1,596)	-10.9%
14	Trade payables	(13,539)	(14,436)	897	-6.2%
15	Taxes payable	(1,462)	(5,202)	3,740	-71.9%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(1,818)	(2,477)	659	-26.6%
	Total net working capital	76,890	75,670	1,220	1.6%
Capital and reserves					
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,498)	(19,462)	(36)	0.2%
20	Treasury shares	1,489	717	772	n.a.
21	(Profits) losses carried forward	(3,486)	(10,113)	6,627	n.a.
	Total capital and reserves	(27,139)	(34,502)	7,363	-21.3%
	Total net assets	60,013	48,227	11,786	24.4%
Current net debt					
22	Cash and cash equivalents	6,369	11,279	(4,910)	-43.5%
23	Short-term payables to banks	(59,059)	(49,730)	(9,329)	18.8%
24	Other current financial liabilities	(1,953)	(3,309)	1,356	-41.0%
	Current net debt	(54,643)	(41,760)	(12,883)	30.9%
Non-current net debt					
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(3,809)	(4,679)	870	-18.6%
27	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(5,370)	(6,467)	1,097	-17.0%
	Total net debt	(60,013)	(48,227)	(11,786)	24.4%

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 year came to €767 thousand, consisting of €339 thousand for the ERP system (particularly in support of the launch of Spanish and U.S. operations), €3 thousand for the registration of Community trademarks, €245 thousand for the purchase of industrial and office automation equipment, €81 thousand for improvements to the leased warehouse in Trezzano sul Naviglio, €93 thousand for other fixed assets, and €6 thousand for improvements to the building at Via Bisceglie 76 where the Group's Italian companies are based.

Non-current receivables and other assets, which include security deposits against contractual obligations, increased due to a deposit of €335 thousand with Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37/41 which will become the Italian companies' new head office starting in the second half of next year.

Deferred tax assets are calculated on prior fiscal losses and other temporary differences between values applicable for tax purposes and those recognized in the financial statements, and are estimated using the tax rate expected to be in force at the time of use. The increase reflects the negative earnings trend by foreign subsidiaries during the period.

1. Property, plant and equipment

This item went from €3,753 thousand to €3,705 thousand. Changes during the year were as follows:

EUR/000	30 June 2008	Additions	Disposals	Depreciation	Use of accum. deprec.	30 June 2009
Industrial buildings	2,079	81	0	(71)	0	2,089
Land	600	0	0	0	0	600
Industrial and commercial equipment	635	245	0	(264)	0	616
Other	402	96	0	(111)	0	384
Leasehold improvements	37	3	0	(27)	0	16
Total	3,753	425	0	(473)	0	3,705

Property, plant and equipment, with the exception of land, are depreciated over their individual useful lives.

The heading "Industrial buildings" refers to the warehouse in Trezzano sul Naviglio, which also accounts for the €600 thousand in land. These assets were acquired by the Group under a finance lease and are recognized in the balance sheet in accordance with IAS 17. The financial expenses relating to the lease have not been capitalized.

The increase shown for industrial and commercial equipment refers primarily to the purchase of industrial and office automation equipment (€245 thousand).

Most of the increase in “other assets” is explained by the purchase of furniture and fittings (€18 thousand) and motor vehicles (€75 thousand).

Leasehold improvements concern renovation work on the rented building at Via Bisceglie 76, which is being depreciated over the residual term of the lease.

Movements in the balance of property, plant and equipment and in accumulated depreciation are as follows:

EUR/000	30 June 2008	Additions	Disposals	30 June 2009
Industrial buildings	2,328	81	0	2,409
Land	600	0	0	600
Plant and machinery	24	0	0	24
Industrial and commercial equipment	2,011	245	0	2,256
Other	959	93	0	1,052
Leasehold improvements	372	6	0	378
Total	6,294	425	0	6,719

EUR/000	30 June 2008	Depreciation	Utilizations	30 June 2009
Industrial buildings	(249)	(71)	0	(320)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(1,376)	(264)	0	(1,640)
Other	(557)	(111)	0	(668)
Leasehold improvements	(335)	(27)	0	(362)
Total	(2,541)	(473)	0	(3,014)

2. Investment property

There were no changes in this item during the year.

Investment property consists of one building owned in Milan for office and manufacturing use, which at the moment the Group is not using. It is held with a view to appreciation of the invested capital. The Group has opted to carry this building at cost.

The fair value of the investment property, based on figures in the real estate market review (“Osservatorio sul Mercato Immobiliare”) published by the Milan Chamber of Commerce in the first half of 2008, is higher than its carrying value and amounts to €1,026 thousand.

3. Intangible assets

All of the intangible assets recognized by the Group have finite useful lives. No intangible assets have been recorded in connection with internal development costs and business combinations.

The following table presents movements during the year:

EUR/000	30 June 2008	Additions	Disposals	Amortization	30 June 2009
Concessions and licenses	675	339	0	(317)	697
Trademarks and similar rights	5	3	0	(5)	3
Other	0	0	0	0	0
Total	680	342	0	(322)	700

The additions for concessions and licenses (+€339 thousand) pertain to deferred charges for the development of the Group's new ERP system based on Microsoft Dynamics Navision.

The following tables show movements in intangible assets and accumulated amortization:

EUR/000	30 June 2008	Additions	Disposals	30 June 2009
Concessions and licenses	2,616	339	0	2,955
Trademarks and similar rights	1,497	3	0	1,500
Other	34	0	0	34
Total	4,147	0	0	4,489

EUR/000	30 June 2008	Amortization	Utilizations	30 June 2009
Concessions and licenses	(1,941)	(317)	0	(2,258)
Trademarks and similar rights	(1,492)	(5)	0	(1,497)
Other	(34)	0	0	(34)
Total	(3,467)	(322)	0	(3,789)

4. Equity investments

The Group's holdings consist of its interest in Fueps S.p.A., the joint venture with RCS MediaGroup (€1,013 thousand), and 50% of D3DB S.r.l., held jointly with Japan's D3 Publisher Inc.

The Group is negotiating the sale of its interest in Fueps and has increased the investment's value by €278 thousand, within the limit of the amount paid in to cover its share of the loss shown in the financial statements for the year ended 31 December 2008.

Management believes that the carrying value of the investment will be fully recovered as a result of the negotiations in course.

5. Non-current receivables and other assets

This item is made up exclusively of security deposits against contractual obligations. The most significant change is the deposit of €635 thousand with Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37/41, which will become the new head office of the Group's Italian companies starting in the second half of next year. The deposit produces interest at the three-month Euribor plus 1.75%.

6. Deferred tax assets

Deferred tax assets are calculated on prior fiscal losses and other temporary differences between values applicable for tax purposes and those recognized in the financial statements, and are estimated assuming stable tax rates between now and the time of use.

The following movements took place during the year:

EUR/000	
Deferred tax assets at 1 July 2008	2,103
Net movements in deferred tax assets held at 30 June 2008	184
Non-deductible interest expense of Digital Bros S.p.A.	388
Non-deductible interest expense of 505 Games S.r.l.	212
Tax loss of Digital Bros France S.a.s. for the year to 30 June 2009	249
Tax loss of 505 Games Ltd. for the year to 30 June 2009	370
Tax loss of Digital Bros Iberia S.I. for the year to 30 June 2009	371
Tax loss of Games US Inc. for the year to 30 June 2009	509
Deferred tax assets at 30 June 2009	4,386

Deferred tax assets are broken down in the following table:

EUR/000	30 June 2009	30 June 2008	Change
Taxed provision for doubtful accounts	1,279	1,098	181
Prior fiscal losses	2,550	2,776	(226)
Non-deductible interest expense	2,188	0	2,188
Other liabilities	311	496	(185)
Actuarial differences	(145)	(134)	(11)
Costs not deducted in previous years	477	842	(623)
Total differences	6,660	5,078	1,324
Tax rate	27.5%	27.5%	
Deferred tax assets (IRES)	1,832	1,396	435
Deferred tax assets (IRAP)	20	32	(12)
Deferred tax assets for losses by foreign subsidiaries	1,627	128	1,499
Deferred tax assets from consolidation adjustments	907	547	360
Total deferred tax assets	4,386	2,103	2,283

Deferred tax assets relating to foreign subsidiaries were recognized because:

- 505 Games Ltd. and Digital Bros France S.a.s. suffered from the difficult international economy and will probably generate taxable income again starting next year;
- Digital Bros Iberia S.I. began commercial operations on 1 July 2008 and the loss for the year is expected to be recovered starting in 2009-2010;
- 505 Games US Inc. began commercial operations on 1 January 2009 and will likely generate taxable income as from next year.

There are no prior fiscal losses on which the Group has not calculated deferred tax assets.

NON-CURRENT LIABILITIES

7. Employee benefits

This item amounts to €501 thousand, a decrease of €54 thousand for the year. It represents the actuarial value of the Group's effective liability to employees, calculated by an independent actuary in accordance with IAS 19.

The estimate is based on the number of employees at the Group's Italian companies at year end (107), who had an average age of 36 years and two months.

The economic and financial parameters used in the actuarial calculation are as follows:

- annual interest rate 4.5%;
- real annual increase in compensation 3%;
- annual inflation 2%.

The table below shows movements in the provision for employee termination indemnities, in comparison with the previous year.

EUR/000	2008-2009	2007-2008
Provision for employee termination indemnities at 1 July	555	663
Benefits paid for termination of service	(93)	(169)
Accrual for the year	291	262
Adjustment for complementary pension funds	(287)	(223)
Actuarial adjustment	35	22
Provision for employee termination indemnities at 30 June	501	555

The Group has no supplementary pension plans in course.

8. Non-current provisions

These consist entirely of the provision for agents' indemnities. The balance at 30 June 2009 was €284 thousand, an increase of €35 thousand with respect to the previous year. Movements were comprised of an allocation for the year of €51 thousand, net of €16 thousand in indemnities paid.

9. Other non-current payables and liabilities

At 30 June 2009, as in previous periods, there were no other non-current payables or liabilities.

NET WORKING CAPITAL

Net working capital increased by €26 thousand with respect to 30 June 2008.

The most significant changes were an increase of €2,576 thousand in inventories, and a decrease of €9,940 thousand in trade receivables, of €1,596 thousand in other current assets and of €3,740 thousand in taxes payable.

An analysis of net working capital in comparison with figures at 30 June 2008 is provided below:

	EUR/000	30 June 2009	30 June 2008	Change	
10	Inventories	42,129	39,553	2,576	6.5%
11	Trade receivables	36,227	42,110	(5,883)	-14.0%
12	Tax credits	2,267	1,440	827	57.4%
13	Other current assets	13,086	14,682	(1,596)	-10.9%
14	Trade payables	(13,539)	(14,436)	897	-6.2%
15	Taxes payable	(1,462)	(5,202)	3,740	-71.9%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(1,818)	(2,477)	659	-26.6%
	Total net working capital	76,890	75,670	1,220	1.6%

10. Inventories

Inventories are comprised of finished products for resale. Below is the breakdown of inventories by distribution channel:

EUR/000	30 June 2009	30 June 2008	Change	
Halifax inventories	30,685	29,854	831	2.8%
Game Service inventories	1,319	871	448	51.4%
Returns to be received	1,617	2,037	(420)	-20.6%
Italian Distribution inventories (A)	33,621	32,762	859	2.6%
Newsstands inventories (B)	1,288	1,188	100	8.4%
505 Games S.r.l. inventories	245	352	(107)	-30.4%
Foreign subsidiary inventories	6,975	5,251	1,724	32.8%
International Publishing inventories (C)	7,220	5,603	1,617	28.9%
Total inventories (A+B+C)	42,129	39,553	2,576	6.5%

Inventories rose from €39,553 thousand at 30 June 2008 to €42,129 thousand at the close of the year, an increase of €2,576 thousand.

The most significant increase (+€1,724 thousand) concerns the inventories of foreign subsidiaries, due to the inventory investment required of the most recently formed companies.

Inventories at Halifax also increased due to an estimate of potential returns to be received, in the amount of €1,617 thousand, which is €420 thousand lower than the amount reported the previous year.

The writedown of inventories, reflecting potential losses due to a decrease in the market value of the goods, came to €4,500 thousand (€4,974 thousand in 2007-2008). Inventories are shown net of the writedown, which is charged directly to profit and loss.

11. Trade receivables

Amounts due from customers and for video game licenses showed the following movements for the year:

EUR/000	30 June 2009	30 June 2008	Change
Due from customers: Italy	19,016	29,368	(10,352)
Due from customers: rest of EU	4,086	3,916	170
Due from customers: rest of the world	1,927	219	1,708
Provision for doubtful accounts	(1,576)	(1,524)	(52)
Total trade receivables	23,453	31,979	(8,526)
Receivables for video game licenses	12,184	9,718	2,466
Receivables for Disney products	590	413	177
Total trade receivables	36,227	42,110	(5,883)

Receivables due from customers in Italy include advances on receivables factored with and without recourse, amounting to €1,780 thousand (€3,110 thousand at 30 June 2008). Other current financial liabilities include the liability for the advances received.

Total trade receivables at 30 June 2009 (€23,453 thousand) were €8,526 thousand lower than at the close of the previous year (€31,979 thousand).

Receivables are shown net of revenue adjustments for the credit notes the Group will have to issue as a result of repositioning or returns. The credit notes amount to 6,518 thousand for repositioning and €1,050 thousand for returned merchandise.

The following table breaks down trade receivables by due date at 30 June 2009 and 30 June 2008:

EUR/000	30 June 2009	% of total	30 June 2008	% of total
Not yet due	15,756	67%	27,872	87%
0 < 30 days	4,404	19%	2,298	7%
30 < 60 days	967	4%	120	1%
60 < 90 days	298	1%	92	0%
> 90 days	2,028	9%	1,597	5%
Total	23,453	100%	31,979	100%

The provision for doubtful accounts reflects potential losses on receivables due to customer default. It increased by €2 thousand with respect to 30 June 2008. The estimated losses are based on an analysis of each customer's degree of solvency. No payment problems of particular importance emerged during the year.

Receivables for video game licenses and for Disney products are advances paid for the acquisition of video game licenses, the exploitation of which had not yet begun or been completed at the close of the year. The increase of €2,466 thousand in receivables for video game licenses with respect to 30 June 2008 stems from the acquisition of several licenses during the year, exceeding their actual use during that time.

Receivables for video game licenses are broken down below at 30 June 2009 and the previous year:

in EUR	30 June 2009	30 June 2008	Change
Advances to developers for licenses to be used in the future	6,875	8,411	(1,536)
Advances to developers for licenses partially used	5,309	1,307	4,002
Total receivables for video game licenses	12,184	9,718	2,466

The significant increase in advances for licenses partially used was caused by the different timing of product launches in the U.S. and European markets and by changes in the license acquisition policy during the year; the Group now favors investments in proprietary licenses, without contractual expiration dates, which therefore have a more extensive useful life.

12. Tax credits

Tax credits consist mainly of VAT credits owed to the parent company and to subsidiaries (€1,059 thousand), and advances paid net of the tax charge for the year (€1,094 thousand). They increased from €1,440 thousand at 30 June 2008 to €2,324 thousand at the close of the year.

In detail:

EUR/000	30 June 2009	30 June 2008	Change
Tax receivables	2,260	1,431	829
Other credits	7	9	(2)
Total tax credits	2,267	1,440	827

13. Other current assets

Other current assets are comprised of advances paid to suppliers, employees and sales representatives. They totaled €3,086 thousand at the close of the year, compared with €14,682 thousand at 30 June 2008.

Movements during the period were as follows:

EUR/000	30 June 2009	30 June 2008	Change
Insurance refunds to be received	0	14	(14)
Advances paid to suppliers	12,851	13,091	(240)
Advances paid to employees	9	96	(87)

Advances paid to sales representatives	156	1,467	(1,311)
Other receivables	70	14	56
Total other current assets	13,086	14,682	(1,596)

Other current assets decreased by €1,596 thousand, mainly because fewer advances were paid to sales representatives due to faster calculation of their commissions.

Advances to suppliers include €7,869 thousand paid by 505 Games S.r.l., to developers for the right to use video game licenses and to suppliers for programming, localization and quality assurance services. They also include €2,418 thousand advanced by Digital Bros S.p.A. for future advertising campaigns.

14. Trade payables

Trade payables went from €14,436 thousand at 30 June 2008 to €13,539 thousand, a decrease of €897 thousand, and consist mainly of amounts due to developers and bills issued by publishers for the purchase of finished products. They can be broken down as follows:

EUR/000	30 June 2009	30 June 2008	Change
Trade payables: Italy	(3,195)	(4,368)	1,173
Trade payables: rest of EU	(6,057)	(7,091)	1,033
Trade payables: rest of the world	(4,287)	(2,978)	(1,309)
Total trade payables	(13,539)	(14,436)	898

Trade payables in Italy decreased by €1,173 thousand since the previous year, due mainly to the reduction in purchases from DTI suppliers in line with the trend in finished product procurement. Trade payables in the rest of the European Union went from €7,091 thousand at 30 June 2008 to €6,057 thousand.

Trade payables in the rest of the world rose from €2,978 thousand to €4,287 thousand, due to the start of commercial operations by the U.S. subsidiary.

15. Taxes payable

These went from €5,202 thousand at 30 June 2008 to €1,462 thousand at the end of June 2009, a decrease of €3,740 thousand. In detail:

EUR/000	30 June 2009	30 June 2008	Change
Income taxes	(1)	(2,226)	2,225
VAT due	(1,113)	(2,694)	1,581
Other taxes due	(349)	(282)	(67)
Total taxes payable	(1,462)	(5,202)	3,740

The decrease is consistent with the Group's lower taxable income this year.

16. Current provisions

As in previous periods, there were no current provisions at 30 June 2009.

17. Other current liabilities

Totaling €1,818 thousand, as detailed below, this item decreased by €659 thousand with respect to 30 June 2008. Nearly all of the decrease concerns sales rep commissions:

EUR/000	30 June 2009	30 June 2008	Change
Due to social security institutions	(451)	(402)	(49)
Due to employees	(932)	(993)	61
Due to contract workers	(38)	(56)	18
Commissions due to sales representatives	(377)	(1,007)	630
Other	(21)	(19)	(2)
Total other current liabilities	(1,818)	(2,477)	659

Payables to employees include the standard contractual bonus (13th monthly salary) and pay in lieu of holiday and personal leave not taken by the end of the year.

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	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 2008	5,644	16,954	1,129	1,367	12	19,462	(717)	6,365	3,748	10,113	34,502
Allocation of net profit						0		3,748	(3,748)	0	0
Dividend payments						0		(1,103)		(1,103)	(1,103)
Purchase of treasury shares						0	(772)			0	(772)
Other changes					36	36		(146)		(146)	(110)
Profit for the period						0			(5,378)	(5,378)	(5,378)
Total at 30 June 2009	5,644	16,954	1,129	1,367	48	19,498	(1,489)	8,864	(5,378)	3,486	27,139

The share capital (unchanged since the previous year) is divided into 14,110,838 ordinary shares with par value €0.40 each, for a total of €5,644,334.80. There are no other types of shares outstanding. There are no rights, preferences or restrictions on ordinary shares.

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

In 2008-2009, the company purchased treasury shares in the amount of €722 thousand.

At the close of the year it held 458,774 treasury shares valued at €1,489 thousand.

NET DEBT

Net debt rose by €1,786 thousand with respect to 30 June 2008. The trend is explained primarily by a rise in current payables to banks (+€9,329 thousand) and by a decrease in cash and cash equivalents, from €1,279 thousand at 30 June 2008 to €6,369 thousand at the close of the fiscal year.

Debt increased as a result of start-up investments in Spain (Digital Bros Iberia S.I.) and the United States (505 Games US Inc.), and the growth of 505 Games S.r.l. in the International Publishing segment.

For a more in-depth analysis of cash flow, see the consolidated cash flow statement (attached).

The breakdown of consolidated net debt with comparative figures at 30 June 2008 is as follows:

	EUR/000	30 June 2009	30 June 2008	Change
22	Cash and cash equivalents	6,369	11,279	(4,910)
23	Short-term payables to banks	(59,059)	(49,730)	(9,329)
24	Other current financial liabilities	(1,953)	(3,309)	1,356
	Current net debt	(54,643)	(41,760)	(12,883)
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(3,809)	(4,679)	870
27	Other non-current financial liabilities	(1,561)	(1,788)	227
	Non-current net debt	(5,370)	(6,467)	1,097
	Total net debt	(60,013)	(48,227)	(11,786)

Below is a comparison between the carrying value and the fair value of the Group's financial instruments at 30 June 2009:

	EUR/000	Non-current		Current	
		Carrying value	Fair value	Carrying value	Fair value
22	Cash and cash equivalents	0	0	6,369	6,369
23	Short-term payables to banks	0	0	(56,664)	(56,664)
24	Other current financial liabilities	0	0	(1,953)	(1,953)
	Current net debt	0	0	(54,643)	(54,643)
25	Non-current financial assets	0	0	0	0
26	Non-current payables to banks	(3,809)	(3,809)	0	0
27	Other non-current financial liabilities	(1,561)	(1,561)	0	0
	Non-current net debt	(5,370)	(5,370)	0	0
	Total	(5,370)	(5,370)	(54,643)	(54,643)

The fair value of financial instruments is determined as follows:

- cash and cash equivalents: carrying value is a reasonable approximation of fair value, since these are highly liquid forms of investment;
- bank loans: carrying value is a reasonable approximation of fair value;
- finance lease liabilities (included with other financial liabilities): carrying value is a reasonable approximation of fair value as the lease contract is backed by an interest rate swap.

The following table shows the Group's financial liabilities at 30 June 2009, grouped by maturity:

EUR/000	Within 1 year	1 - 5 years	beyond 5 years	Total
Bank overdrafts	(8,715)	0	0	(8,715)
Import/export financing	(31,052)	0	0	(31,052)
Advances on invoices and subject to collection	(12,416)	0	0	(12,416)
Bank loans	(6,660)	(3,772)	0	(10,432)
Bank borrowings for fair value recognition of derivatives	(216)	(37)	0	(253)
Total due to banks (A)	(59,059)	(3,809)	0	(62,868)
Other financial liabilities (B)	(1,953)	(1,488)	(73)	(3,514)
Total (A+B)	(61,012)	(5,297)	(73)	(66,382)

Current net debt

Current net debt is made up as follows:

	EUR/000	30 June 2009	30 June 2008	Change
22	Cash and cash equivalents	6,369	11,279	(4,910)
23	Short-term payables to banks	(59,059)	(49,730)	(9,329)
24	Other current financial liabilities	(1,953)	(3,309)	1,356
	Total current net debt	(54,643)	(41,760)	(12,883)

22. Cash and cash equivalents

Cash and cash equivalents at 30 June 2009 are comprised of sight deposits at banks, units of 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.

EUR/000	30 June 2009	30 June 2008	Change
Cash on hand and bank deposits	3,796	8,834	(5,038)
Mutual fund units	2,298	2,178	120
Quadrante policy (Banca Toscana)	275	267	8
Total cash and cash equivalents	6,369	11,279	(4,910)

Cash and cash equivalents at 30 June 2009 amount to €6,369 thousand, a decrease of €4,910 thousand with respect to 30 June 2008 due to a considerable 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 derivative payables and bank loans due within

12 months. The increase in short-term payables to banks with respect to 30 June 2008 is due chiefly to a rise in account overdrafts and import/export financing.

Details are as follows:

EUR/000	30 June 2009	30 June 2008	Change
Account overdrafts	(8,715)	(2,248)	(6,467)
Import-export financing	(31,052)	(25,079)	(5,973)
Advances on invoices and subject to collection	(12,416)	(14,878)	2,462
Loan installments due within 12 months	(6,660)	(7,222)	562
Fair value recognition of derivatives - due within 12 months	(216)	(303)	87
Total short-term payables to banks	(59,059)	(49,730)	(9,329)

Loan installments due within 12 months are shown below:

EUR/000	30 June 2009	30 June 2008	Change
To Banca Intesa San Paolo	(4,281)	(730)	(3,551)
To Unicredit Banca	(667)	(4,867)	4,200
To Barclays Bank	(1,712)	(1,625)	(87)
Total short-term loans and borrowings	(6,660)	(7,222)	562

The installments due within 12 months to Banca Intesa San Paolo consist of:

- €178 thousand for the remainder of a €1 million, 56-month loan granted to the parent company on 14 March 2005 and due in November 2009;
- €115 thousand for the current portion of a €2 million loan taken out by 505 Games S.r.l. on 2 February 2007, due in February 2012;
- €3,688 thousand for the current portion of a €4 million loan taken out by 505 Games S.r.l. on 10 February 2009, due in February 2012. The loan has three covenants:
 1. consolidated net debt cannot be more than four times consolidated EBITDA;
 2. consolidated net debt cannot be more than twice the Group's tangible equity;
 3. consolidated capital and reserves cannot be less than €30 million.

Failure to respect these conditions would entitle the bank to demand reimbursement of the remaining principal, as of the date the broken covenant is reported following approval of the financial statements. In June the Group informed the bank that it would be unable to respect the covenants. Although the bank is unlikely to call in the loan, the full liability has been classified to short-term loans and borrowings in accordance with IAS 1. Assuming early repayment does not occur, the short-term debt for this facility would have been €1,293 thousand. The loan charges adjustable interest at the three-month Euribor plus 275 basis points. Interest is paid and the principal reimbursed in 12 quarterly installments.

Payments due within 12 months to Unicredit Banca consist of €267 thousand for the short-term portion of a €1 million loan taken out by Digital Bros S.p.A., and a total of €400 thousand for two short-term loans granted to 505 Games S.r.l., which are detailed below:

- a loan of €300 thousand taken out on 26 February 2008 and due on 26 August 2009;
- a loan of €100 thousand taken out on 3 June 2008 and due on 3 December 2009.

Payments due within 12 months to Barclays Bank, totaling €1,712 thousand, refer exclusively to the short-term portion of a €5 million loan taken out by Digital Bros S.p.A.

24. Other current financial liabilities

Other current financial liabilities consist of finance leases held with Intesa Leasing and SanPaolo Leasing that are payable within 12 months, for a total of €173 thousand. The leases currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars. This item also includes advances on trade receivables factored with and without recourse, in the amount of €1,780K.

Non-current net debt

Non-current net debt is made up as follows:

	EUR/000	30 June 2009	30 June 2008	Change
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(3,809)	(4,679)	870
27	Other non-current financial liabilities	(1,561)	(1,788)	227
	Total non-current net debt	(5,370)	(6,467)	1,097

25. Non-current financial assets

No non-current financial assets were recognized at either 30 June 2009 or 30 June 2008.

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 €3,772 thousand, as well as €37 thousand in liabilities for derivative instruments due beyond 12 months.

At 30 June 2009 the relevant bank loans outstanding were as follows:

- a €1 million installment loan taken out by the parent company from UniCredit Banca d'Impresa on 15 June 2005, with a long-term remaining balance of €67 thousand, maturing on 30 September 2010. Interest is charged at an annual rate of the three-month Euribor plus 150 basis points. In March 2007 the Group began to make equal payments against the principal at the end

of every quarter. This loan is also secured by an interest rate swap taken out from the same bank on 15 June 2005, with a term of five years and notional principal of €1 million. Under the terms of the IRS, for the first year the Group collected the three-month Euribor while paying fixed interest of 2.30%; for the second year it collected the three-month Euribor and paid 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 loan of €5 million granted by Barclays Bank to the parent company on 19 December 2007, with a long-term remaining balance of €894 thousand. The interest rate is variable, amounting to the three-month Euribor plus a spread of 0.75%. The loan is being repaid in 12 quarterly installments, from 21 March 2008 until 21 December 2010;
- a five-year loan taken out on 2 February 2007 by 505 Games S.r.l. from Banca Intesa San Paolo, with a long-term remaining balance of €761 thousand. The €2 million borrowed is being used to finance the purchase of new video game exploitation licenses. The loan charges floating annual interest at the three-month Euribor plus 2%. Interest and principal is being paid in 20 installments, at the end of every quarter, on a constant amortization basis;
- a €2.05 million loan granted on 11 February 2009 by Gruppo Bancario UniCredit Banca di Roma to 505 Games S.r.l., all of which is due beyond 12 months. This facility is valid for 18 months less one day and charges annual interest at the three-month Euribor plus 200 basis points.

Non-current payables to banks include the amount deriving from the fair value recognition of derivative instruments maturing beyond 12 months, for a total of €37 thousand.

Non-hedge derivatives are recognized at fair value. The Group uses derivatives to minimize interest rate risk. 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 following table summarizes the interest rate swaps in effect at 30 June 2009, with prior year figures for comparison (in EUR/000):

Bank	Inception date	Expiry date	Nominal value at 30 June 2009	Fair value at 30 June 2009	Fair value at 30 June 2008
Intesa San Paolo	23 December 2004	28 December 2009	20,000	(201)	(481)
Intesa San Paolo	7 October 2005	28 November 2014	1,547	(47)	111
Unicredit Banca d'Impresa	15 June 2005	30 September 2010	333	(5)	13
Total			n.a.	(253)	(357)

27. Other non-current financial liabilities

Other non-current financial liabilities refer to the non-current portion of finance leases.

EUR/000	30 June 2009	30 June 2008	Change
Lease installments falling due beyond 12 months	(1,561)	(1,729)	168
Total non-current financial liabilities	(1,561)	(1,729)	168

All finance lease payments falling due beyond 12 months pertain to the lease for the purchase of the Trezzano sul Naviglio warehouse taken out on 25 November 2004.

The contract calls for 120 monthly payments of €6 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. Payments falling due within 12 months total €173 thousand; those with a maturity of one to five years amount to €1,488 thousand, and those due beyond five years total €73 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 San Paolo 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.

The following table shows finance lease payments by maturity:

EUR/000	Nominal value of payments
Within 1 year	173
1 - 5 years	1,488
Beyond 5 years	73
Total	1,734

The nominal value of lease payments is a good approximation of their fair value, since the leases are backed by an interest rate swap measured at fair value.

COMMITMENTS AND RISKS

The Group's commitments are restricted to the following bank guarantees:

EUR/000	Guarantor	30 June 2009	30 June 2008	Change
Konami of Europe GmbH	San Paolo IMI	(1,000)	(1,000)	0
Vivendi Universal Games	UniCredit Banca	0	(1,000)	1,000
Buena Vista Games	San Paolo IMI	(144)	(144)	0
Buena Vista Games	San Paolo IMI	(1,000)	(1,000)	0
Parallelo 90 and Bisceglie 91	San Paolo IMI	(142)	(142)	0
Total commitments		(2,286)	(3,286)	1,000

The guarantee in favor of Konami of Europe GmbH was issued on 13 September 2002 and is renewed each year. An annual fee of 0.18% is paid for each renewal. In exchange for this guarantee with Intesa San Paolo, the supplier agreed to extend its payment terms from advance payment to payment 30 days from the invoice date. This is a surety arrangement, since payment by the bank occurs at the supplier's request and does not depend on the receipt of additional documentation. The next expiration date is 30 August 2010.

The €1 million guarantee in favor of Vivendi Universal Games S.p.A. has been canceled as it is no longer needed. This is the only change with respect to the previous year.

The two guarantees from Intesa San Paolo in favor of Buena Vista Games, totaling €144 thousand, cover distribution agreements between the parent company and this supplier. On both of the guarantees, the company pays an annual fee of 0.18%.

The guarantees contracted with San Paolo IMI S.p.A. on 1 July 2004 in favor of Parallelo 90 S.r.l. and Bisceglie 91 S.r.l. will expire on 1 August 2016 and ensure punctual lease payments for the Group's office building at Via Bisceglie 76 in Milan. The company pays a charge on these guarantees amounting to 0.18% per year.

9. ANALYSIS OF THE INCOME STATEMENT

3. Net revenues

Total net revenues went from €156,762 thousand to €144,392 thousand, a decrease of about 8%.

The total is broken down below by segment, excluding the Holding segment, which does not produce revenues:

	EUR/000	Distribution	Newsstands	New Media	Publishing	Total
1	Gross revenues	109,979	1,877	637	63,511	176,004
2	Revenue adjustments	(13,006)	(19)	0	(18,587)	(31,612)
3	Total net revenues	96,973	1,858	637	44,924	144,392

8. Cost of sales

The cost of sales is detailed below:

EUR/000	2008-2009	2007-2008	Change	%
Purchase of goods for resale	(93,326)	(102,627)	9,301	-9.1%
Purchase of services for resale	(2,710)	(2,764)	54	-2.0%
Royalties	(12,671)	(8,130)	(4,541)	55.9%
Change in inventories of finished products	2,576	513	2,063	n.a.
Total cost of goods sold	(106,131)	(113,008)	6,878	-6.1%

For more detailed information on the individual components of revenues and the cost of sales, see the directors' report and section 11 of these notes, where the data are analyzed by business segment.

10. Other income

Other income is comprised chiefly of insurance reimbursements and contributions for expenses incurred for third parties, totaling €141 thousand (€17 thousand the previous year).

11. Cost of services

The following table provides details of the cost of services:

EUR/000	2008-2009	2007-2008	Change	%
Advertising, marketing and tradeshows	(16,506)	(11,350)	(5,156)	45.4%
Transport and freight	(2,185)	(1,666)	(519)	31.2%
Other costs related to sales	(84)	(75)	(9)	11.8%
Subtotal: services related to sales	(18,775)	(13,091)	(5,684)	43.4%
Miscellaneous insurance	(397)	(285)	(112)	39.2%
Legal and notary fees	(2,275)	(1,933)	(342)	17.7%
Post & telegraph	(169)	(108)	(61)	56.7%
Travel & accommodation	(801)	(710)	(91)	12.8%
Utilities	(217)	(164)	(53)	32.6%
Maintenance	(97)	(91)	(6)	6.4%
Statutory auditors' fees	(72)	(69)	(3)	4.3%
Subtotal: general services	(4,028)	(3,360)	(668)	19.9%
Total service expenses	(22,803)	(16,451)	(6,352)	38.6%

The cost of services rose from €16,451 thousand to €22,803 thousand (+€6,352 thousand), due mainly to an increase in advertising costs to support video game sales in Italy and the international market (+€5,156 thousand) and in transport and freight expenses (+€519 thousand).

The increase in legal and notary fees relates to the Group's ongoing internationalization, with the founding of its Spanish and U.S. subsidiaries.

12. Rent and leasing

Rent and leasing costs rose from €446 thousand to €684 thousand, an increase of €238 thousand attributable mainly to the Spanish and U.S. subsidiaries. These charges include rent on the administrative offices at Via Bisceglie 76 (€251 thousand) and rent on office space in the United Kingdom (€76 thousand), France (€38 thousand), Spain (€41 thousand), and the United States (€66 thousand). The balance consists of warehouse equipment and the leasing of motor vehicles not assigned to employees (€12 thousand).

13. Payroll costs

Payroll costs, including commissions paid to sales representatives, directors' fees approved by the shareholders, amounts paid to temporary workers and contract workers, and the cost of cars assigned to employees, came to €13,623 thousand and increased by €2,077 thousand on the previous year:

EUR/000	2008-2009	2007-2008	Change	%
Wages and salaries	(8,571)	(6,393)	(2,178)	34.1%
Social security charges	(1,896)	(1,473)	(423)	28.7%
Employee termination indemnities	(329)	(316)	(13)	4.2%
Directors' fees	(865)	(1,000)	135	-13.5%
Temps and contract workers	(371)	(507)	135	-26.6%
Sales rep commissions	(1,521)	(1,754)	233	-13.3%
Other costs	(69)	(103)	34	-32.9%
Total payroll costs	(13,623)	(11,546)	(2,077)	18.0%

Employee payroll costs in the strict sense of the term consist of employee wages and salaries, social security charges and provisions for employee termination indemnities. They increased by €2,615 thousand, or 32%, with a rise in average cost per employee of 3.4%:

EUR/000	2008-2009	2007-2008	Change	%
Wages and salaries	(8,571)	(6,393)	(2,178)	34.1%
Social security charges	(1,896)	(1,473)	(423)	28.7%
Employee termination indemnities	(329)	(316)	(13)	4.2%
Total payroll costs	(10,797)	(8,182)	(2,615)	32.0%
Average headcount	162	127	35	27.6%
Average cost per employee	(66.6)	(64.4)	(2.2)	3.4%

The increase stems largely from the Group's greater headcount (an average of 162 for the year, up from 127 for the year ended 30 June 2008).

Directors' fees decreased by €135 thousand, as the variable portion contingent on results was not awarded.

14. Other operating expenses

The details of operating expenses by type are presented below, with the previous year's figures for comparison:

EUR/000	2008-2009	2007-2008	Change	%
Miscellaneous materials purchased	(887)	(557)	(330)	59.3%
General and administrative expenses	(1,306)	(1,302)	(4)	0.3%
Entertainment costs	(165)	(142)	(23)	16.3%
Miscellaneous bank charges	(445)	(435)	(10)	2.4%
Total other operating expenses	(2,804)	(2,436)	(369)	15.2%

Operating expenses rose by 15.2% with respect to the previous year, from €2,436 thousand to €2,804 thousand. Specifically, "miscellaneous materials purchased" increased by 59.3%, from €557 thousand to €887 thousand, due chiefly to the purchase of advertising materials.

21. Depreciation, amortization, provisions and impairment

These are made up as follows:

EUR/000	2008-2009	2007-2008	Change	%
Depreciation and amortization	(795)	(656)	(139)	21.1%
Provisions	0	0	0	0.0%
Impairment losses	0	(694)	694	-100.0%
Impairment reversal	0	0	0	0.0%
Total depreciation, amortization, provisions and impairment	(795)	(1,350)	555	-41.1%

Depreciation and amortization are comprised of €473 thousand for the depreciation of property, plant and equipment and €22 thousand for the amortization of intangible assets. Depreciation mostly concerns industrial and commercial equipment and company cars, while amortization relates to ERP software and other intangible assets.

25. Net interest income

As follows:

	EUR/000	2008-2009	2007-2008	Change	%
23	Interest income	200	360	(160)	-44.4%
24	Interest expense	(4,700)	(3,973)	(727)	-18.3%
25	Net interest income (expense)	(4,500)	(3,613)	(887)	-24.5%

Interest income came to €200 thousand, a decrease of €160 thousand with respect to the previous year.

Below are the details of interest expense:

EUR/000	2008-2009	2007-2008	Change	%
Interest on account overdrafts and commercial transactions	(3,373)	(2,937)	(436)	14.8%
Other interest expense	(49)	(7)	(42)	n.a.
Interest on derivatives	(318)	(84)	(234)	n.a.
Interest on loans and leasing agreements	(740)	(667)	(73)	10.9%
Factoring interest	(220)	(278)	58	-20.8%
Total interest expense	(4,700)	(3,973)	(726)	18.3%

Interest expense rose by 18.3% with respect to the previous year (+€726 thousand), due mainly to the financing of international expansion.

The implied cost of debt—net interest expense as a percentage of average debt—decreased by 0.37 points for the year. Average debt was calculated as the average of net indebtedness at the end of each quarter. Gross interest expense is shown net of interest expense on derivative products.

EUR/000	2008-2009	2007-2008	Change
Average debt	62,326	52,575	9,751
Gross interest expense	4,382	3,889	887
Cost of debt	7.03%	7.4%	-0.37%

29. Taxes

The breakdown of current and deferred taxes is as follows:

EUR/000	2008-2009	2007-2008	Change
Current taxes	(854)	(3,645)	2,791
Deferred taxes	2,283	(635)	2,918
Total taxes	1,429	(4,280)	5,709

Below is the breakdown of current taxes:

EUR/000	2008-2009	2007-2008	Change
IRES (corporate income tax)	323	2,619	(2,296)
IRAP (regional business tax)	541	848	(307)
Substitute tax	0	26	(26)
Current taxes: Digital Bros S.a.r.l.	(10)	115	(125)
Current taxes: 505 Games Ltd.	0	37	(37)
Total taxes	854	3,645	(2,791)

Current taxes for the Group's foreign companies were determined using the local tax rates in force at year end.

The negative balance of current taxes for Digital Bros France S.a.s. is due to the difference between the amount provided for in the consolidated financial statements at 30 June 2008 and the actual amount calculated upon submission of the tax return.

IRES was determined as follows:

EUR/000	2008-2009	2007-2008
Taxable income for IRES purposes	1,327	8,494
IRES rate	27.5%	33%
IRES for the period	365	2,803
Release of deferred taxes	(61)	(262)
Effect of group tax election	(21)	0
Prior year taxes	40	78
Total IRES for the period	323	2,619

Below is a reconciliation between the IRES provision for the year and the profit shown in the financial statements:

EUR/000	2008-2009		2007-2008	
Parent company pre-tax profit	2,085		4,154	
IRES rate (33%)	27.5%		33%	
Theoretical charge	573	27.5%	1,371	33%
Tax effect of non-deductible costs	685	33%	719	17%
Net tax effect of the release of deferred tax assets not included in the above	(126)	-6%	(388)	-9%
Effect of group tax election	(21)	-1%	0	0%
Tax effect of the Group's share of subsidiaries' profits/losses	(828)	-40%	839	20%
Prior year taxes	40	2%	78	2%
Tax charge for the year and effective tax rate	323	15%	2,619	63%

IRAP was determined as follows:

EUR/000	2008-2009	2007-2008
Taxable income for IRAP purposes	11,904	20,565
IRAP rate	3.90%	4.25%
IRAP (regional business tax) for the year	464	874
Prior year IRAP	77	0
IRAP for the period	541	874

Below is a reconciliation between the IRAP provision for the year and the profit shown in the financial statements:

EUR/000	2008-2009		2007-2008	
Parent company's taxable income for IRAP purposes	11,652		12,848	
IRAP rate	3.9%		4.25%	
Theoretical charge	454	3.90%	546	4.69%
Tax effect of non-deductible costs	1	0%	6	0%
Tax effect of the Group's share of subsidiaries' profits/losses	9	0%	296	3%
Tax charge for the year and effective tax rate	464	4%	848	7%

32. Basic earnings per share

In detail:

EUR/000	2008-2009	2007-2008
Net profit for the year (1)	(5,378)	3,748
Average number of shares outstanding (2)	14,110,838	14,110,838
Average number of treasury shares held during the year (3)	(313,978)	(72,446)
Total average number of shares (4) = (2) - (3)	13,796,860	14,038,392
Net earnings (loss) per share (1)/(4) (in EUR)	(0.39)	0.27

Basic earnings per share is calculated by dividing the net profit for the period by the number of shares outstanding, net of treasury shares.

Earnings per share fell from €0.27 last year to a negative €0.39 for the year ended 30 June 2009.

33. Diluted earnings per share

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.

10. REVENUES BY GEOGRAPHICAL SEGMENT

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

Gross consolidated revenues decreased by €2,785 thousand with respect to 2007-2008, from €178,789 thousand to €176,004 thousand (-1.6%):

EUR/000	2008-2009	2007-2008	Change	
Italy	111,994	121,033	(9,039)	-7.5%
Rest of Europe	55,225	57,079	(1,854)	-3.2%
Americas	7,737	0	7,737	n.a.
Rest of the world	1,048	677	371	54.8%
Total consolidated revenues	176,004	178,789	(2,785)	-1.6%

As a percentage of total sales, foreign revenues rose from 32.3% last year to 36.4%.

In the Americas, sales during the period came from both direct marketing (since 7 January 2009) and sublicenses with local publishers.

Sales in the rest of the world were made by the subsidiary 505 Games S.r.l., mainly in Australia, the Middle East and South Africa.

Most sales outside Italy were generated by the International Publishing segment, which publishes, distributes and markets video games on an international scale:

EUR/000	2008-2009	2007-2008	Change	
New Media	499	212	287	n.a.
International Publishing	63,511	57,544	5,967	10.4%
Total gross foreign revenues	64,010	57,756	6,254	10.8%

The New Media segment continues to make a marginal contribution to foreign sales.

11. PERFORMANCE OF BUSINESS SEGMENTS

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 year ended 30 June 2009, with comparative figures for the previous year (the Holding segment does not produce revenues):

EUR/000	Gross revenues				Net revenues			
	2008-2009	2007-2008	Change		2008-2009	2007-2008	Change	
Italian distribution	109,979	119,440	(9,461)	-7.9%	96,973	107,360	(10,387)	-9.7%
Newsstands	1,877	1,319	558	42.3%	1,858	1,240	618	49.8%
New media	637	486	151	31.1%	637	486	151	31.1%
International publishing	63,511	57,544	5,967	10.4%	44,924	47,676	(2,752)	-5.7%
Total revenues	176,004	178,789	(2,785)	-1.6%	144,392	156,762	(12,370)	-7.9%

Transactions between business segments, consisting mostly of sales by 505 Games S.r.l. to Digital Bros S.p.A., are shown in section 14 of the notes.

Profit margins for the segments in 2008-2009 were as follows:

	EUR/000	Italian distribution	Newsstands	New media	International publishing	Holding	Total
1	Revenues	109,979	1,877	637	63,511	0	176,004
2	Revenue adjustments	(13,006)	(19)	0	(18,587)	0	(31,612)
3	Total revenues	96,973	1,858	637	44,924	0	144,392
4	Purchase of goods for resale	(69,859)	(836)	(23)	(22,608)	0	(93,326)
5	Purchase of services for resale	0	(160)	(1,040)	(1,510)	0	(2,710)
6	Royalties	(354)	(333)	(561)	(11,423)	0	(12,671)
7	Change in inventories of finished products	860	100	0	1,616	0	2,576
8	Total cost of goods sold	(69,353)	(1,229)	(1,624)	(33,925)	0	(106,131)
9	Gross profit (3+8)	27,620	629	(987)	10,999	0	38,261
10	Other income	42	0	87	12	0	141
11	Cost of services	(10,606)	(357)	(1,084)	(10,594)	(162)	(22,803)
12	Rent and leasing	(295)	0	(63)	(325)	(1)	(684)
13	Payroll costs	(6,611)	0	(522)	(5,350)	(1,140)	(13,623)
14	Other operating expenses	(1,783)	(9)	(29)	(623)	(360)	(2,804)
15	Total operating expenses	(19,295)	(366)	(1,698)	(16,892)	(1,663)	(39,914)
16	EBITDA (9+10+15)	8,367	263	(2,598)	(5,881)	(1,663)	(1,512)
17	Depreciation and amortization	(512)	(2)	(35)	(152)	(94)	(795)
18	Provisions	0	0	0	0	0	0
19	Impairment losses	0	0	0	0	0	0
20	Impairment reversal	0	0	0	0	0	0
21	Total depreciation, amortization, provisions and impairment	(512)	(2)	(35)	(152)	(94)	(795)
22	EBIT (16+21)	7,855	261	(2,633)	(6,033)	(1,757)	(2,307)

Italian distribution

Distribution in Italy is the Group's core business. 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, Disney Interactive Studios Inc., Sega, Square Enix and Capcom. The products are sold through all distribution channels, using sales representatives for retail shops and key account managers (company employees) for major chains;
- DTI (Distribuzione Trade Italia), using the small retail channel only, distributes games produced by publishers with their own organization in Italy. Following the decision to downsize DTI as a result of lower margins, the only publisher now represented is Activision 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	Italian distribution					
		2008-2009		2007-2008		Change	
1	Revenues	109,979	113.4%	119,439	111.3%	(9,460)	-7.9%
2	Revenue adjustments	(13,006)	-13.4%	(12,079)	-11.3%	(927)	7.7%
3	Total revenues	96,973	100.0%	107,360	100.0%	(10,387)	-9.7%
4	Purchase of goods for resale	(69,859)	-72.0%	(75,455)	-70.3%	5,596	-7.4%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(354)	-0.4%	(358)	-0.3%	4	-1.1%
7	Change in inventories of finished products	860	0.9%	(2,855)	-2.7%	3,715	n.a.
8	Total cost of goods sold	(69,353)	-71.5%	(78,668)	-73.3%	9,315	-11.8%
9	Gross profit (3+8)	27,620	28.5%	28,692	26.7%	(1,072)	-3.7%
10	Other income	42	0.0%	33	0.0%	9	27.9%
11	Cost of services	(10,606)	-10.9%	(8,389)	-7.8%	(2,217)	26.4%
12	Rent and leasing	(295)	-0.3%	(295)	-0.3%	0	-0.1%
13	Payroll costs	(6,611)	-6.8%	(6,862)	-6.4%	251	-3.7%
14	Other operating expenses	(1,783)	-1.8%	(1,706)	-1.6%	(77)	4.5%
15	Total operating expenses	(19,295)	-19.9%	(17,252)	-16.1%	(2,043)	11.8%
16	EBITDA (9+10+15)	8,367	8.6%	11,473	10.7%	(3,106)	-27.1%
17	Depreciation and amortization	(512)	-0.5%	(375)	-0.3%	(137)	36.6%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	(400)	-0.4%	400	- n.a
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization, provisions and impairment	(512)	-0.5%	(775)	-0.7%	263	-33.9%
22	EBIT (16+21)	7,855	8.1%	10,698	10.0%	(2,843)	-26.6%

Gross revenues in this segment came to €109,979 thousand, a decrease of €9,460 thousand with respect to last year.

Net revenues fell by €10,387 thousand, from €107,360 thousand to €96,973 thousand (-9.7%).

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

EUR/000	2008-2009	2007-2008	Change	
Distribution of video games for consoles	102,174	111,036	(8,862)	-8.0%
Distribution of video games for PC/CD-ROM	6,653	7,783	(1,130)	-14.5%
Distribution of trading cards	1,466	0	n.a.	n.a.
Distribution of other products and services	3	984	n.a.	n.a.
Financial discounts	(317)	(364)	47	-12.9%
Total gross Italian distribution revenues	109,979	119,439	(9,460)	-7.9%

Gross revenues from video game distribution decreased by €9,460 thousand, from €119,439 thousand last year to €109,979 thousand. The decline, which was planned for in the budget, is explained by the parent company's nearly complete move away from DTI.

Specifically, the decrease in sales of console games (which amount to 93% of gross revenues for the segment and 58% of consolidated gross turnover) came to €8,862 thousand, while sales of games for PCs/CD-ROMs were down by 14.5%, from €7,783 thousand in 2007-2008 to €6,653 thousand this year.

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	2008-2009		2007-2008		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Sony Playstation 2	950,823	17,657	1,442,001	35,199	-34.1%	-49.8%
Sony Playstation 3	615,779	28,908	482,253	23,204	27.7%	24.6%
Nintendo Wii	374,733	12,255	148,223	5,747	152.8%	113.2%
Microsoft Xbox 360	275,960	11,803	204,881	8,628	34.7%	36.8%
Nintendo DS	1,014,454	25,383	1,066,965	28,089	-4.9%	-9.6%
Sony PSP	286,970	6,012	289,430	7,590	-0.8%	-20.8%
Other consoles	50,458	155	280,270	2,579	-82.0%	-94.0%
Total console revenues	3,569,177	102,174	3,914,023	111,036	-8.8%	-8.0%

Sales of games for Nintendo Wii continued to climb during the period, showing an increase of 113.2%. This is explained by the type of games produced for this console, which are perfect for mass consumption. The games include Brain Trainer, a sort of digital puzzle book; various animal training games involving dogs, cats and even dolphins; cooking simulation games; and more. Because they are simple and user-friendly, this kind of game has strongly influenced the growth of the Italian video game market in the last several months, and the effect persisted throughout the period.

Games for the Sony Playstation 3 sold well during the period. The console failed to enjoy the immediate success of its predecessor, the PS2, but is now the largest generator of sales.

Volumes were as expected for the mature consoles Nintendo DS, Sony Playstation 2 and Sony PSP.

Special mention goes to Microsoft Xbox 360, which despite its four years on the market saw game sales rise by 36.8% for the year. Since the manufacturer also reduced the price of the console, to around 180 euros, many homes installed it during the period and this had an immediate impact on sales of games.

The trend in average video game prices is shown below:

EUR/000	2008-2009	2007-2008	Change
Sony Playstation 2	18.6	24.4	-23.9%
Sony Playstation 3	46.9	48.1	-2.4%
Nintendo Wii	32.7	38.8	-15.7%
Microsoft Xbox 360	42.8	42.1	1.6%
Nintendo DS	25.0	26.3	-5.0%
Sony PSP	21.0	26.2	-20.1%
Average price	28.6	28.4	0.9%

Price trends are typical of the video games market. Games for new-generation consoles (Sony Playstation 3, Nintendo Wii and Microsoft Xbox 360) 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. Generally speaking, games for portable consoles (Nintendo DS and Sony PSP) cost less than games for other consoles.

The average retail price of €28.60 is essentially the same as last year, and is influenced by the fact that more games are being sold for new-generation consoles. As shown in the table below, Sony Playstation 3, whose games are the most expensive at an average of €46.90 each, now accounts for 28.3% of sales as opposed to 20.9% in 2007-2008. The same applies to games for Nintendo Wii, which grew from 5.2% to 12% of total sales:

EUR/000	2008-2009	2007-2008	Change
Sony Playstation 2	17.3%	31.7%	-45%
Sony Playstation 3	28.3%	20.9%	35%
Nintendo Wii	12.0%	5.2%	132%
Microsoft Xbox 360	11.6%	7.8%	49%
Nintendo DS	24.8%	25.3%	-2%
Sony PSP	5.9%	6.8%	-14%
Other consoles	0.2%	2.3%	n.a.
Total console revenues	100%	100%	

The gross profit for the segment decreased by €1,072 thousand (-3.7%), from €28,692 thousand to €27,620 thousand, falling at a slower pace than net revenues.

Operating expenses were up by €2,043 thousand, due essentially to the rise in advertising investments (+€2,217 thousand).

The increase in advertising costs is explained by the launch of video games for a mass audience. This requires a greater emphasis on advertising, as opposed to the traditional forms of public relations employed for classic video games.

Payroll costs decreased by €251 thousand.

EBIT went from €10,698 thousand last year to €7,855 thousand (-€2,843 thousand).

The balance sheet structure is typical of commercial businesses, with fairly negligible non-current assets and liabilities and significant investment in net working capital to support the distribution business. The following chart, which presents assets and liabilities allocable to the distribution segment and their weight as a percentage of sales, shows that non-current assets and non-current liabilities amount respectively to 1% and 0.6% of the segment's gross revenues. These figures are in line with the previous year's.

	EUR/000	30 June 2009	%	30 June 2008	%
	Total non-current assets	1,809	1.6%	1,159	1.0%
	Total non-current liabilities	(763)	0.6%	(783)	0.6%
	Net working capital				
10	Inventories	33,621		32,762	
11	Trade receivables	19,934		28,833	
13	Other current assets	3,506		6,474	
14	Trade payables	(3,902)		(5,087)	
17	Other current liabilities	(1,524)		(1,959)	
	Total net working capital	51,635	46.9%	61,024	51.1%
	Gross Italian distribution revenues	109,979		119,439	

The particularities of the video game distribution market are reflected in an analysis of net working capital, whose weight (46.9% of gross sales for the segment) represents the investment the company has to make especially at times of revenue growth. Another typical feature is the insignificance of trade payables (3.5% of revenues), reflecting the terms of payment required by video game publishers.

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.

The new multiplayer gaming portal, www.gametribe.com, has been online since September 2007. At the moment, players can access four games: the multiplayer soccer game Kicks Online, the fantasy role-play game Dream of Mirror Online, the Korean role-play game Dekaron, and the combat simulator Infinity.

Unlike previous offerings, these games do not require subscription fees, but charge only for the virtual items that players can buy from the online store to enhance their characters during play. To date, more than 500,000 users have registered.

In May 2007 the Group had incorporated Game Media Networks Ltd. in the United Kingdom, and in July 2007 it had founded Game Media Networks S.a.r.l. in France. The purpose of the two companies was to provide sales, promotional, marketing, communications and PR support in those countries to benefit the Group's European online gaming portal, www.gametribe.com.

Due to unsatisfactory results, the Group has decided to liquidate the two companies, and as from 31 October 2009 will discontinue [gametribe.com](http://www.gametribe.com)'s operations.

Key results

	EUR/000	New Media					
		2008-2009		2007-2008		Change	
1	Revenues	637	100.0%	486	100.0%	151	31.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	n.a.
3	Total revenues	637	100.0%	486	100.0%	151	31.0%
4	Purchase of goods for resale	(23)	-3.7%	(30)	-6.2%	7	-22.1%
5	Purchase of services for resale	(1,040)	-163.2%	(973)	-200.2%	(67)	0.0%
6	Royalties	(561)	-88.1%	(102)	-21.0%	(459)	n.a.
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	n.a.
8	Total cost of goods sold	(1,624)	-255.0%	(1,105)	-227.4%	(519)	47.0%
9	Gross profit (3+8)	(987)	-155.0%	(619)	-127.4%	(368)	59.5%
10	Other income	87	13.6%	0	0.0%	87	n.a.
11	Cost of services	(1,084)	-170.2%	(747)	-153.7%	(337)	45.1%
12	Rent and leasing	(63)	-9.9%	(11)	-2.3%	(52)	n.a.
13	Payroll costs	(522)	-82.0%	(1,054)	-216.9%	532	-50.4%
14	Other operating expenses	(29)	-4.6%	(47)	-9.7%	18	-38.2%
15	Total operating expenses	(1,698)	-266.6%	(1,859)	-382.5%	161	-8.7%
16	EBITDA (9+10+15)	(2,598)	-408.0%	(2,478)	-509.9%	(120)	4.9%
17	Depreciation and amortization	(35)	-5.5%	(54)	-11.1%	19	-35.3%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	(294)	-60.5%	294	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization, provisions and impairment	(35)	-5.5%	(348)	-71.6%	313	-90.0%
22	EBIT (16+21)	(2,633)	-413.5%	(2,825)	-581.3%	192	-6.8%

Most revenues were earned through subscriptions to online games (€18 thousand) and the sale of digital entertainment content (€19 thousand).

At €1,624 thousand, the cost of sales increased by €19 thousand, and was 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 most substantial increase in the cost of goods sold pertains to royalties, which grew from €102 thousand to €561 thousand (+€459 thousand), due to the completion of the catalog of games available on the portal starting in November 2008.

Operating expenses (€1,698 thousand) decreased by €161 thousand on the previous year, and stem mainly from advertising for the launch of the European portal.

The loss at the EBIT level was reduced by 6.8%, from €2,825 thousand in 2007-2008 to €2,633 thousand.

The improvement relates to some cost-cutting measures that produced significant rewards in the second half of the year. In particular, at 30 June 2009 there were four fewer employees than in June 2008, as the reorganization of responsibilities made it possible not to replace outgoing personnel.

The operating loss should be much smaller next year due to the closure of the European portal www.gametribe.com, and is unlikely to exceed €500 thousand.

The assets and liabilities allocable to the New Media segment are as follows:

	EUR/000	30 June 2009	%	30 June 2008	%
	Total non-current assets	1,062	166.7%	820	n.a.
	Total non-current liabilities	(22)	30.4%	(22)	4.5%
	Net working capital				
11	Trade receivables	451		796	
13	Other current assets	501		1,001	
14	Trade payables	(348)		(315)	
17	Other current liabilities	(68)		(59)	
	Total net working capital	536	84.1%	1,423	n.a.
	New Media revenues	637		486	

Most of the difference between this and the previous year refers to other current assets, which decreased due to the use of royalties paid in advance to license holders and to the company that manages the technological infrastructure.

Non-current assets consist solely of the equity investment in Fueps S.p.A. The increase is due to the addition of €278 thousand to the investment's cost.

International publishing

In the international publishing business, video game rights are acquired from developers, and the products are subsequently marketed 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.s. 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. In January 2008 the Group set up two new subsidiaries: Digital Bros Iberia S.I., operational since July 2008, and 505 Games US Inc., which opened in January 2009. These two companies support the process undertaken in the last two years to enter the Spanish and the American markets.

505 Games GmbH and 505 Games Nordic AB were set up in July 2009 to market products in Germany and Scandinavia, respectively.

Key results

	EUR/000	International publishing					
		2008-2009		2007-2008		Change	
1	Revenues	63,511	141.4%	57,544	120.7%	5,967	10.4%
2	Revenue adjustments	(18,587)	-41.4%	(9,868)	-20.7%	(8,719)	88.4%
3	Total revenues	44,924	100.0%	47,676	100.0%	(2,752)	-5.8%
4	Purchase of goods for resale	(22,608)	-50.3%	(26,098)	-54.7%	3,490	-13.4%
5	Purchase of services for resale	(1,510)	-3.4%	(1,598)	-3.4%	88	0.0%
6	Royalties	(11,423)	-25.4%	(7,247)	-15.2%	(4,176)	57.6%
7	Change in inventories of finished products	1,616	3.6%	2,502	5.2%	(886)	-35.4%
8	Total cost of goods sold	(33,925)	-75.5%	(32,441)	-68.0%	(1,484)	4.6%
9	Gross profit (3+8)	10,999	24.5%	15,235	32.0%	(4,236)	-27.8%
10	Other income	12	0.0%	83	0.2%	(71)	-86.1%
11	Cost of services	(10,594)	-23.6%	(6,786)	-14.2%	(3,808)	56.1%
12	Rent and leasing	(325)	-0.7%	(139)	-0.3%	(186)	n.a.
13	Payroll costs	(5,350)	-11.9%	(2,418)	-5.1%	(2,932)	n.a.
14	Other operating expenses	(623)	-1.4%	(352)	-0.7%	(271)	76.9%
15	Total operating expenses	(16,892)	-37.6%	(9,695)	-20.3%	(7,197)	74.2%
16	EBITDA (9+10+15)	(5,881)	-13.1%	5,623	11.8%	(11,504)	n.a.
17	Depreciation and amortization	(152)	-0.3%	(80)	-0.2%	(72)	89.7%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization, provisions and impairment	(152)	-0.3%	(80)	-0.2%	(72)	89.7%
22	EBIT (16+21)	(6,033)	-13.4%	5,543	11.6%	(11,576)	n.a.

Totalling €63,511 thousand for the period, gross revenues increased by €5,967 thousand with respect to the previous year's €57,544 thousand. Net revenues fell by €2,752 thousand, from €47,676 thousand to €44,924 thousand, due to an increase in revenue adjustments that outpaced the rise in gross sales.

In their first year of operations, Digital Bros Iberia S.I. and 505 Games US Inc. made a positive contribution to sales (with respective gross revenues of €6,376 thousand and €7,737 thousand), although the impact was smaller than initially expected due mainly to the international crisis and the drop in consumption.

Revenue adjustments include discounts granted to customers at the end of the contractual period (known as year-end discounts), and an estimate of potential credit notes that the Group will have to issue as a result of returned merchandise and/or price differentials granted to customers to make up for product obsolescence. In the French market, the former are quite substantial, as only marginal discounts are granted upon invoicing and price breaks consist almost entirely of year-end discounts. Also, unlike Italian customers, international retailers are allowed by contract to return unsold goods and/or to ask for price

reductions so they can sell the merchandise remaining on their shelves. These two factors explain the sizeable increase in revenue adjustments, especially since a large portion of sales was generated by the U.S. subsidiary, where price reductions are even swifter than they are in Europe.

As in the Italian distribution segment, the Group is strongly oriented toward games for consoles. The breakdown of gross revenues by type of video game is presented in the table below:

EUR/000	2008-2009	2007-2008	Change	
Publishing of video games for consoles	58,921	54,998	3,923	7.1%
Publishing of video games for PC/CD-ROM	4,590	2,530	2,060	81.4%
Publishing of other products and services	0	16	n.a	n.a
Gross revenues	63,511	57,544	5,967	10.4%

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

EUR/000	2008-2009		2007-2008		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Sony Playstation 2	36,835	558	104,871	1,465	-64.9%	-61.9%
Sony Playstation 3	145,926	7,767	23,984	1,056	508.4%	635.5%
Nintendo Wii	719,421	15,046	401,706	11,326	79.1%	32.8%
Microsoft Xbox 360	111,461	5,003	35,483	1,360	214.1%	267.9%
Nintendo DS	1,521,235	28,760	1,844,247	39,128	-17.5%	-26.5%
Sony PSP	62,850	1,787	37,260	662	68.7%	169.9%
Total console revenues	2,597,728	58,921	2,447,551	54,997	6.1%	7.1%

The unexpected course of the global economy dealt a serious blow not only to volumes, which were expected to be higher, but also to average selling prices. In light of last year's good results, the Group had set its sights on casual gaming products for Nintendo Wii and Nintendo DS, which unfortunately suffered steep price drops as a result of the poor economy: from an average of €28 to €21 for Wii games and from €21 to €18 for games played on the DS console.

The cost of services for resale consists of localization, rating, and quality assurance expenses, which totaled €1,510 thousand as a result of investments in the quality of published games.

The change in finished product inventories increased due mainly to the international expansion of the retail network, especially in Spain and the United States.

The significant increase in royalties (by €4,176 thousand) is due in part to the shift in sales mix by type of product. The unit royalty rose from an average of about €3.00 in 2007-2008 to €4.30 this year. The increase is explained by the fact that fixed license costs were spread over a smaller than expected volume sold, requiring the recognition of unused royalty advances to a greater extent than last year.

The total cost of goods sold rose by €1,484 thousand (from €2,441 thousand to €3,925 thousand), rising from 68% to 75.9% of the segment's total net revenues for the year. Note that the cost of materials includes €641 thousand in exchange losses by the U.K. subsidiary 505 Games Ltd.

The combined effect of the reduction in average selling prices and the increase in unit royalties caused the gross profit to drop by €10,999 thousand with respect to the previous year.

Operating expenses were up by €7,197 thousand, from €9,695 thousand to €16,892 thousand. Most of the difference stems from higher international structural costs; the two new companies reported an increase in operating costs of €6,589 thousand (€3,774 thousand for 505 Games US Inc. and €2,815 thousand for Digital Bros Iberia S.I.).

The cost of services rose by €3,808 thousand (+56.1%), due mainly to advertising investments in support of international sales.

Payroll costs were up by €2,932 thousand with respect to the previous year. During the period, the headcount increased both at established subsidiaries (particularly in the U.K. for international coordination staff) and at the newly opened Digital Bros Iberia S.I. and 505 Games US Inc.

The decrease in gross profit, as explained above, in conjunction with the rise in operating expenses led to a reduction of €11,576 thousand in EBIT, from €5,543 thousand in 2007-2008 to a negative €6,033 thousand this year.

The assets and liabilities pertaining to this segment are as follows:

	EUR/000	30 June 2008	%	30 June 2008	%
	Total non-current assets	619	1.4%	592	1.2%
	Total non-current liabilities	0	n.a.	0	n.a.
	Net working capital				
10	Inventories	7,220		5,602	
11	Trade receivables	15,373		11,972	
13	Other current assets	9,034		7,118	
14	Trade payables	(8,811)		(8,659)	
17	Other current liabilities	(226)		(459)	
	Total net working capital	22,589	500.3%	15,574	32.7%
	International Publishing revenues	44,924		47,676	

The dynamics of the International Publishing segment are similar to those described for the Italian Distribution segment. Non-current assets and liabilities are marginal, while net working capital is quite high, including as a percentage of sales (50% of total revenues for the segment).

Unlike the Italian Distribution segment, it should be noted that trade receivables refer both to sales concluded but not yet settled with third parties, for €3,776 thousand, and receivables for video game user licenses for €1,597 thousand. The latter represent down payments to video game developers for licenses not yet exploited in full or in part.

Other current assets increased to reflect advances paid to developers, producers and other suppliers. These receivables will be used within one year.

In detail:

EUR/000	30 June 2009	30 June 2008
Advances for production	201	776
Advances to developers for licenses partially used	4,143	4,501
Advances to other suppliers for licenses to be used in the future	4,690	1,841
Other receivables	9,034	7,118

Advances to developers for licenses to be used in the future are amounts paid for licenses that will be used as from 2009-2010.

Advances to other suppliers for licenses to be used in the future also include localization costs, rating costs and quality assurance costs relating to licenses that will be used starting next year.

Advances to developers for licenses partially used refer to licenses for products already on the market.

The significant increase in advances for licenses partially used was caused by the different timing of product launches in the U.S. and European markets and by changes in the license acquisition policy during the year; the Group now favors investments in proprietary licenses, without definitive expiration dates, which therefore have a more extensive useful life.

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 multimedia 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					
		2008-2009		2007-2008		Change	
1	Revenues	1,877	101.0%	1,319	106.3%	558	42.3%
2	Revenue adjustments	(19)	-1.0%	(78)	-6.3%	59	-76.2%
3	Total revenues	1,858	100.0%	1,241	100.0%	617	49.7%
4	Purchase of goods for resale	(836)	-45.0%	(1,044)	-84.1%	208	-19.9%
5	Purchase of services for resale	(160)	-8.6%	(193)	-15.6%	33	0.0%
6	Royalties	(333)	-17.9%	(423)	-34.1%	90	-21.4%
7	Change in inventories of finished products	100	5.4%	866	69.8%	(766)	-88.5%
8	Total cost of goods sold	(1,229)	-66.1%	(794)	-64.0%	(435)	54.8%
9	Gross profit (3+8)	629	33.9%	447	36.0%	182	40.8%
10	Other income	0	0.0%	0	0.0%	0	n.a.
11	Cost of services	(357)	-19.2%	(402)	-32.4%	45	-11.1%
12	Rent and leasing	0	0.0%	0	0.0%	0	n.a.
13	Payroll costs	0	0.0%	0	0.0%	0	n.a.
14	Other operating expenses	(9)	-0.5%	(2)	-0.2%	(7)	n.a.
15	Total operating expenses	(366)	-19.7%	(404)	-32.6%	38	-9.5%
16	EBITDA (9+10+15)	263	14.1%	43	3.5%	220	n.a.
17	Depreciation and amortization	(2)	-0.1%	(7)	-0.6%	5	-77.7%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	0	0.0%	0	0.0%	0	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization, provisions and impairment	(2)	-0.1%	(7)	-0.6%	5	-77.7%
22	EBIT (16+21)	261	14.1%	36	2.9%	225	n.a.

In line with the downturn in the sale of “ancillary” products at newsstands, the Group decided to limit its newsstand operations to just 23 releases for the year. These were in addition to the cover-mounts distributed in early October with RCS Mediagroup publications. During the final quarter the Group began to distribute Yu-Gi-Oh! trading cards, whose main sales channel in Italy is newsstands.

The cost of goods sold increased by €435 thousand, in line with the trend in revenues, while operating expenses fell by €38 thousand. The Newsstands segment contributed €61 thousand, an increase of €20 thousand with respect to the previous year.

The distribution of Yu-Gi-Oh! trading cards will continue to produce rewards, leading to further margin growth in 2009-2010.

The details of assets and liabilities directly allocable to the Newsstands segment are as follows:

	EUR/000	30 June 2009	%	30 June 2008	%
	Total non-current assets	4	0.2%	5	0.4%
	Total non-current liabilities	0	0.0%	0	0.0%
	Net working capital				
10	Inventories	1,288		1,188	
11	Trade receivables	469		509	
13	Other current assets	45		89	
14	Trade payables	(478)		(375)	
17	Other current liabilities	0		(1)	
	Total net working capital	1,324	70.5%	1,410	n.a.
	Segment revenues	1,877		1,319	

Since this is a distribution-only business, there are practically no non-current assets and liabilities, but net working capital is especially high at €1,324 thousand. The most notable changes are an increase of €100 thousand in inventories and a rise of €103 thousand in trade payables.

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					
		2008-2009		2007-2008		Change	
1	Revenues	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Total revenues	0	0.0%	0	0.0%	0	0.0%
4	Purchase of goods for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of goods sold	0	0.0%	0	0.0%	0	0.0%
9	Gross profit (3+8)	0	0.0%	0	0.0%	0	0.0%
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(162)	0.0%	(128)	0.0%	(34)	26.5%
12	Rent and leasing	(1)	0.0%	0	0.0%	(1)	0.0%
13	Payroll costs	(1,140)	0.0%	(1,213)	0.0%	73	-6.0%
14	Other operating expenses	(360)	0.0%	(329)	0.0%	(31)	9.5%
15	Total operating expenses	(1,663)	0.0%	(1,670)	0.0%	7	-0.4%
16	EBITDA (9+10+15)	(1,663)	0.0%	(1,670)	0.0%	7	-0.4%
17	Depreciation and amortization	(94)	0.0%	(141)	0.0%	47	-33.5%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	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, provisions and impairment	(94)	0.0%	(141)	0.0%	47	33.5%
22	EBIT (16+21)	(1,757)	0.0%	(1,811)	0.0%	54	-3.0%

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. The only significant change is the decrease in payroll costs, as performance bonuses were not paid this year.

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

In keeping with the above, the Holding segment's main balance sheet component is non-current assets:

	EUR/000	30 June 2009	30 June 2008
	Non-current assets		
1	Property, plant and equipment	2,701	2,714
2	Investment property	455	455
3	Intangible assets	12	13
4	Equity investments	0	0
5	Non-current receivables and other assets	0	1
	Total non-current assets	3,168	3,183
	Non-current liabilities	0	0
	Net working capital	0	0

Because of the Group's property holdings, non-current assets make up practically all of the assets in this segment.

12. SUBSEQUENT EVENTS

The following significant events have occurred since 30 June 2009:

- 505 Games GmbH, a wholly-owned subsidiary of 505 Games S.r.l., has been formed in Germany to market the products of 505 Games in German-speaking countries.
- 505 Games Nordic AB, a wholly-owned subsidiary of 505 Games S.r.l., has been set up to market the products of 505 Games in Scandinavia.
- The activities of the online gaming portal www.gametribe.com will be suspended as from 31 October 2009.
- The Group is negotiating the sale of its interest in the joint venture Fueps S.p. A., held 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of the parent company Digital Bros S.p.A.).

13. 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 no tax liability is expected to arise. The Company, together with its tax advisors, has taken the appropriate steps to appeal the assessment.

There were no other contingent assets or liabilities at 30 June 2009.

14. 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.

Joint ventures

Below are the key data for D3DB S.r.l. (held 50%) at 31 March 2009, the closing date of its latest financial year.

EUR/000	
Assets	1,220
Capital and reserves	(82)
Liabilities	1,302
Revenues	0
Costs	(6)
Net profit (loss) for the year	(6)

Below are key figures for Fueps S.p.A. (held 49%), at its latest closing date of 31 December 2008:

EUR/000	
Assets	1,405
Capital and reserves	(932)
Liabilities	(473)
Revenues	635
Costs	(1,221)
Net profit (loss) for the year	(586)

Subsidiaries

Commercial and financial transactions between the parent company Digital Bros S.p.A. and other Group companies in 2008-2009 were settled under arm's-length conditions and are not necessarily reported in the consolidated financial statements. Such transactions are summarized below:

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	123	12,165	0	0	918	(10,341)
Game Media Networks S.r.l.	0	3,468	0	0	204	0
Game Service S.r.l.	0	2,046	(211)	0	1,167	0
Game Entertainment S.r.l.	0	180	0	0	700	0
Digital Bros France S.a.r.l.	0	0	(120)	0	57	(120)
505 Games Ltd.	0	1,090	0	0	4	0
DB Iberia S.l.	0	1,646	(30)	0	181	(30)
505 Games US Inc.	0	1,950	0	0	0	0
Total	123	22,545	(361)	0	3,231	(10,491)

Commercial and financial transactions between 505 Games S.r.l. and other Group companies in 2008-2009 were settled under arm's-length conditions and are not necessarily reported in the consolidated financial statements. Such transactions are summarized below:

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
Game Media Networks S.r.l.	60	0	0	0	0	(27)
Digital Bros France S.a.r.l.	1,687	0	0	0	7,468	(721)
505 Games Ltd.	6,725	74	0	0	11,185	(2,909)
DB Iberia S.l.	3,461	0	0	0	5,214	(705)
505 Games US Inc.	775	1,595	0	0	775	0
Total	12,708	1,669	0	0	24,642	(4,362)

Other intercompany transactions of a more modest size are the charge-back of costs from the subsidiaries Game Media Networks France S.a.s. and Game Media Networks Ltd. to Game Media Networks S.r.l. for €237 thousand and €220 thousand, respectively, due to the two subsidiaries' complete liquidation.

Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, who received €185 thousand for the period, and the property leasing arrangement between Matov Immobiliare S.r.l. (owned by the Galante family) and Digital Bros France S.a.s., for which €38 thousand was paid. The parent company has paid a deposit of €635 thousand to Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37/41, which will become the new head office of the Group's Italian companies starting in the second half of next year.

Group tax election

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the “group tax election” 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.

15. ATYPICAL AND UNUSUAL TRANSACTIONS

There were no atypical or unusual transactions in this or the previous year.

16. OTHER INFORMATION

EMPLOYEES

Below are the details of the year-end workforce with comparative figures at 30 June 2008:

Category	30 June 2009	30 June 2008	Change
Executives	10	10	0
White collar	145	121	24
Blue collar and trainees	13	10	3
Total employees	168	141	27

The same details for employees at the Group's foreign companies are as follows:

Category	30 June 2009	30 June 2008	Change
Executives	4	4	0
White collar	58	39	19
Total employees abroad	62	43	19

The most significant increase occurred at 505 Games US Inc. and Digital Bros Iberia S.I.

The average headcount, calculated as the average number of employees in service at the end of every month, is shown below:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	10	9	1
White collar	139	108	31
Blue collar and trainees	13	10	3
Total employees	162	127	35

The average headcount at foreign companies is as follows:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	4	3	1
White collar	51	21	30
Total employees abroad	55	24	31

The Group's Italian companies use the national collective employment contract for the commercial sector.

ENVIRONMENT

At 30 June 2009 there were no issues of an environmental nature, and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise.

17. COMPENSATION OF DIRECTORS AND STATUTORY AUDITORS

Pursuant to CONSOB Regulation 11971/99 (as amended), which implemented Legislative Decree 58 of 24 February 1998, below are the details of fees paid or due to members of the Board of Directors and Board of Statutory Auditors, to the general managers and to executives with strategic responsibilities. At the close of the year, there were no general managers per Article 2396 of the Italian Civil Code.

Name	Position	Term of office	End of term	Emoluments	Bonuses and other incentives	Benefits in kind	Other remuneration
Board of Directors							
Abramo Galante	Chairman and managing director (1)	01/07/08 to 30/06/09	30/06/11	370,000	0	3,968	52,850
Raffaele Galante	Managing director (1)	01/07/08 to 30/06/09	30/06/11	370,000	0	3,968	52,850
Davide Galante	Director (2)	01/07/08 to 30/06/09	30/06/11	72,000	0	0	0
Stefano Salbe	Director (1) (4)	01/07/08 to 30/06/09	30/06/11	0	61,386	3,247	204,619
Bruno Soresina	Director (2)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Dario Treves	Director (2)	01/07/08 to 30/06/09	30/06/11	6,600	0	0	185,439
Umberto Virri	Director (3)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Alberto Pianta	Director (3)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Board of Statutory Auditors							
Michele Rutigliano	Chairman	28/10/08 to 30/06/09	30/06/11	25,009	0	0	0
Nicolino Cavalluzzo	Chairman	01/07/08 to 12/09/08	12/09/08	1,198	0	0	0
Franco Gaslini	Auditor	01/07/08 to 30/06/09	30/06/11	22,797	0	0	0
Paolo Villa	Auditor	01/07/08 to 30/06/09	30/06/11	25,448	0	0	0
Marcello Priori	Standing Auditor	13/09/08 to 27/10/08	27/10/08	0	0	0	0
Enrico Muscato	Alternate auditor	01/07/08 to 30/06/09	30/06/11	0	0	0	0
Marcello Priori	Alternate auditor	01/07/08 to 12/09/09 28/10/08 to 30/06/09	30/06/11	0	0	0	0

(1) Executive directors

(2) Non-executive directors

(3) Independent directors

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

No fees were paid to members of the Board of Directors or Board of Statutory Auditors by other companies in the Group. There are no stock option plans in course.

18. SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS

Pursuant to CONSOB Resolution 11971/99 (as amended), below is a list of equity investments held by directors (the statutory auditors have no such holdings):

Name	Shares of	No. of shares held at 30 June 2008	No. of shares purchased	No. of shares sold	No. of shares held at 30 June 2009
Abramo Galante	Digital Bros S.p.A.	4,651,955	0	0	4,651,955
Raffaele Galante	Digital Bros S.p.A.	4,678,736	0	0	4,678,736
Davide Galante	Digital Bros S.p.A.	253,728	0	0	253,728

19. INFORMATION ON ASSETS SUBJECT TO REVALUATION IN ACCORDANCE WITH SPECIAL LAWS

No revaluations have been carried out on the Company's assets pursuant to Art. 10 of Law 72/83.

20. LOANS GRANTED TO MEMBERS OF ADMINISTRATIVE, MANAGERIAL AND SUPERVISORY BODIES

Pursuant to Art. 43 (1) of the Fourth Council Directive 78/660/EEC, no loans have been granted to members of the Company's administrative, managerial and supervisory bodies.

21. RESEARCH AND DEVELOPMENT COSTS

Digital Bros did not engage in research and development during the year.

22. EXTERNAL AUDITING FEES

Pursuant to Article 149-duodecies of the Issuers' Regulations, the following table shows amounts paid for 2008-2009 to the external auditors, Reconta Ernst & Young:

Type of service	Fees for 2008-2009, paid to:						Total
	Parent company auditor			Associates of parent company auditor			
	At the parent company	At other companies	Total	At the parent company	At other companies	Total	
Auditing	142,721	56,937	199,658		20,000	20,000	219,658
Certification							
Tax advisory							
Other services (specify)							
- Review of pro-forma financial statements and prospectuses							
- Due diligence (accounting, fiscal, legal, administrative)							
- Agreed upon procedures							
- Consulting for the financial reporting officer (Art. 154- <i>bis</i> of the Consolidated Finance Act)							
- Opinions on application of new accounting standards							
- Accounting advice							
- Other services							
- Income tax return	5,000	7,000	12,000				12,000
Total	147,721	69,937	211,658		20,000	20,000	231,658

STATEMENT PURSUANT TO ART. 154-BIS (5) OF THE CONSOLIDATED FINANCE ACT

We, the undersigned, Abramo Galante as chairman of the board of directors and Stefano Salbe as financial reporting officer of the Digital Bros Group, hereby declare, including in accordance with Art. 154-bis (3) and (4) of Legislative Decree 58 of 24 February 1998:

- the adequacy of in relation to the characteristics of the business; and
- due compliance with

the administrative and accounting procedures for the preparation of the consolidated financial statements for the year ended 30 June 2009.

We also confirm that:

1. the consolidated financial statements of the Digital Bros Group at 30 June 2009:
 - a) have been prepared in accordance with the applicable International Accounting Standards recognized by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
 - b) correspond to the ledgers and accounting entries;
 - c) provide fair and truthful disclosure of the financial status and performance of Digital Bros S.p.A. and of the companies included in the consolidation;
2. the consolidated financial statements at 30 June 2009 contain information on the key events that took place during the year and their impact on the financial statements themselves, and describe the main risks and uncertainties. They also include information on significant related party transactions.

Milan, 10 September 2009

Signed

Abramo Galante

Chairman of the board of directors

Stefano Salbe

Financial reporting officer

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Digital Bros S.p.A.

**Annual Report
for the year ended 30 June 2009**

(Fiscal year 2008-2009)

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.

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DIRECTORS' REPORT

For information on revenues by geographical area, please see the directors' report attached to the consolidated financial statements of the Digital Bros Group.

1. THE VIDEO GAMES MARKET

Since the first video games came out about 25 years ago, the market has been growing non-stop. It has become a major segment of the entertainment market around the world, and is now estimated to have outgrown the movie industry.

The gaming industry owes its rapid 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, and the increasing number of players. The average age is constantly rising 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. Growing just as fast is the market of video games for female players, who in recent years have become avid leisure time fans.

Over the past two years, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS and Nintendo Wii consoles. The games include Brain Trainer, a sort of digital puzzle book; various animal training games involving dogs, cats and even dolphins; and simulation games for cooking, gardening, and more. Because they are simple and user-friendly, this kind of game boosted the growth rates for the video game market in 2007-2008. This year, however, the fact that they behave more like mass merchandise and do not have the immunity from cyclical patterns that classic games have always enjoyed caused sales to decrease in line with the international crisis.

The market 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 hardware 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 macroeconomic trends that affected various sectors of the global economy in the last six months had a pronounced impact in certain areas, like Spain, Great Britain and the United States, and a less visible impact in countries like Italy and France. The U.K. market was sharply penalized not only by the poor economy, but by the weakness of the pound during the winter months, which reduced profit margins.

In Spain, there was an across-the-board drop in consumption that did not spare the national video games market. Especially in light of the global crisis, performance was good in Italy and France, where at least through June 2009 the poor economy had less of an impact on the video games sector. The American

market was hit extremely hard during the spring quarter, with sales down by 50% on the same period the previous year.

The value chain for the sector is fairly elaborate, consisting 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, but can also take the form of simulation games that mimic sports, racecar driving, etc. 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 completing the game and giving it a global reputation and clientele.

For developers, publishers are the links of the chain that allow the game to reach the consumer, as most of them are equipped with direct and indirect sales networks in various countries. They are also the ones who finance the phases of development and implement communication strategies to maximize international sales. The publisher decides on a game's release schedule, price, international sales policy, positioning, and package design, while taking on all of the risks and rewards that the game may generate.

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, Sony Playstation 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 also physically produces the games, using its own printing equipment. The game must be approved in advance by the manufacturer, through a process known as submission. Only publishers selected in advance will be allowed to publish games by the console manufacturer, according to a licensing publishing agreement. The console manufacturer and the video game publisher are often one and the same.

The role of the distributor varies from market to market. The more a 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 communication policies for a local audience and organizes PR activities, marketing policy implementation, etc. In other markets, like the U.K., dealers are highly concentrated so publishers usually have a direct commercial presence. The situation in France and Spain is somewhere between the British and the Italian markets.

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.

In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores often grouped into chains. 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. For back-catalog sales, i.e. the sale of games that no longer qualify as current releases, dealers can access a reserved area of the website to check availability and directly place an order.

2. SEASONAL TRENDS

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 times other than the traditional Christmas period. This causes sales to build up just before the official release date (known as "day one"), as occurred, for example, with the launch of "Resident Evil 5" in March.

3. SIGNIFICANT EVENTS DURING THE PERIOD

The main events occurring from July 2008 to June 2009 were as follows.

- July 2008: the Group's Spanish subsidiary, Digital Bros Iberia S.I., opens for business on 1 July.
- October 2008: on 30 October the annual general meeting of Digital Bros S.p.A. resolves to:
 - approve the financial statements for the year ended 30 June 2008, along with the directors' and statutory auditors' reports;
 - allocate the net profit for the year, €1,320,074.36, as follows:
 - a dividend of €0.08 per share for a maximum payout of €1,128,867;
 - the remaining €191,207.36 to be carried forward.

At the meeting, the shareholders also:

- elect an eight-member board of directors to serve for the period 2008-2011, i.e. until approval of the financial statements for the year ending 30 June 2011;
 - set directors' fees for the year ending 30 June 2009;
 - elect a board of statutory auditors to serve for a three-year term, until approval of the financial statements for the year ending 30 June 2011;
 - authorize the purchase and sale of treasury shares. Specifically, until the date on which the financial statements at 30 June 2009 are approved, the board of directors is authorized to buy a maximum of one million treasury shares representing no more than 10% of the currently existing share capital, at a price that cannot be lower than €0.40 per share or higher than €10.00 per share. The board is simultaneously authorized, with no timing restrictions, to dispose of treasury shares previously acquired at a price equal to or higher than their average carrying value.
- October 2008: the French subsidiary is converted from a limited-liability company (S.a.r.l.) to a simplified joint-stock company (S.a.s.), resulting in a name change to Digital Bros France S.a.s.
 - November 2008: Digital Bros S.p.A. rolls out the seventh edition of the soccer simulation game PES 2009, which sells 675,000 units in Italy, topping the first-month record for the sixth edition by 65,000 units and grossing €25.5 million. This confirms its position as the best-selling soccer title in the Italian video games market.
 - December 2008: PES 2009 is soccer team Lazio's main sponsor for Serie A day 15 in Lazio's home game against Inter.

4. ECONOMIC PERFORMANCE IN THE YEAR ENDED 30 JUNE 2009

Below is the consolidated income statement for the year ended 30 June 2009, with comparative figures for the previous year:

	EUR/000	2008-2009		2007-2008		Change	
1	Gross revenues	110,380	113.0%	125,767	110.6%	(15,387)	-12.2%
2	Revenue adjustments	(12,719)	-13.0%	(12,013)	-10.6%	(706)	5.9%
3	Net revenues	97,661	100.0%	113,754	100.0%	(16,093)	-14.1%
4	Purchase of goods for resale	(70,526)	-72.2%	(82,817)	-72.8%	12,291	-14.8%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(363)	-0.4%	(701)	-0.6%	338	-48.2%
7	Change in inventories of finished products	717	0.7%	(2,896)	-2.5%	3,613	n.a.%
8	Total cost of goods sold	(70,172)	-71.9%	(86,414)	-76.0%	16,242	-18.8%
9	Gross profit (3+8)	27,489	28.1%	27,340	24.0%	149	0.5%
10	Other income	1,421	1.5%	1,957	1.7%	(536)	-27.4%
11	Cost of services	(11,451)	-11.7%	(8,703)	-7.7%	(2,748)	31.6%
12	Rent and leasing	(296)	-0.3%	(295)	-0.3%	(1)	0.3%
13	Payroll costs	(8,030)	-8.2%	(8,673)	-7.6%	643	-7.4%
14	Other operating expenses	(2,135)	-2.2%	(2,013)	-1.8%	(122)	6.1%
15	Total operating expenses	(21,912)	-22.4%	(19,684)	-17.3%	(2,228)	11.3%
16	EBITDA (9+10+15)	6,998	7.2%	9,613	8.5%	(2,615)	-27.2%
17	Depreciation and amortization	(594)	-0.6%	(503)	-0.4%	(91)	18.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	(1,719)	-1.8%	(2,631)	-2.3%	912	-34.6%
20	Impairment reversal	1,100	1.1%	600	0.5%	500	0.0%
21	Total deprec./amort., provisions and impairment	(1,213)	-1.2%	(2,534)	-2.2%	1,321	-52.1%
22	EBIT (16+21)	5,785	5.9%	7,079	6.2%	(1,294)	-18.3%
23	Interest income	195	0.2%	350	0.3%	(155)	-44.3%
24	Interest expense	(3,895)	-4.0%	(3,275)	-2.9%	(620)	18.9%
25	Net interest income (expense)	(3,700)	-3.8%	(2,925)	-2.6%	(775)	26.5%
26	Profit before taxes (22+25)	2,085	2.1%	4,154	3.7%	(2,069)	-49.8%
27	Current taxes	(1,730)	-1.8%	(2,332)	-2.1%	602	-25.8%
28	Deferred taxes	292	0.3%	(502)	-0.4%	794	n.a.
29	Total taxes	(1,438)	-1.5%	(2,834)	-2.5%	1,396	-49.3%
30	Net profit (26+29)	648	0.7%	1,320	1.2%	(672)	-50.9%

During the year the Company earned gross revenues of €10,380 thousand and net revenues of €7,661 thousand, for a decrease of €5,387 thousand in gross revenues and €6,093 thousand in net revenues compared with 2007-2008.

Most of the decrease in gross and net revenues, which was fully expected, is due to the decision to downsize the activities of DTI, i.e. the non-exclusive distribution of the products of video game publishers present in Italy.

The cost of goods sold decreased by €6,242 thousand, which was more than proportional to the drop in net sales, leading to a slight increase in gross profit (+€49 thousand).

Operating expenses rose by €2,228 thousand (+11.3%). The most significant increase in operating expenses pertained to the cost of services, which rose from €8,703 thousand to €11,451 thousand (+€2,748 thousand), due mainly to the advertising costs incurred to support video game sales.

Payroll costs decreased by €643 thousand, from €8,673 thousand in 2007-2008 to €8,030 thousand for the year. Most of the difference is explained by the drop in commissions paid to sales representatives, the lesser use of temps, and the exclusion from directors' compensation of the bonus contingent on the Company's results.

As a result of these trends, EBITDA fell from €9,613 thousand to €6,998 thousand, a decrease of €2,615 thousand.

Depreciation, amortization, provisions and impairment, totaling €1,213 thousand, consist of €94 thousand in amortization and depreciation, €1,719 thousand in provisions to cover the year's losses by the subsidiary Game Media Networks S.r.l., and €800 thousand and €300 thousand, respectively, for the reversal of impairment losses on dividends from 505 Games S.r.l. and Game Entertainment S.r.l.

EBITDA fell from €7,079 thousand to €5,785 thousand, a decrease of €1,294 thousand.

Due also to a rise of €620 thousand in interest expense, the year closed with a net profit of €648 thousand, compared with €1,320 thousand in 2007-2008.

5. INTERCOMPANY AND RELATED PARTY TRANSACTIONS

All intercompany and related party transactions within the Digital Bros Group are conducted under arm's-length conditions.

The main intercompany transactions are the sale of video games by 505 Games S.r.l. to the local distributors. As is typical for the sector, another significant item is the portion of advertising costs incurred by distributors that are charged to the Group's publisher, 505 Games S.r.l.

More minor transactions consist of administrative, financial, legal/advisory and general services performed by Digital Bros S.p.A. for the rest of the Group.

Group companies in Italy also transfer tax receivables and payables to the parent company in the context of the group tax election.

Related party transactions are discussed in the notes to the financial statements.

6. TREASURY SHARES

Pursuant to Art. 2428 (2.3) of the Italian Civil Code, at 30 June 2009 Digital Bros S.p.A. owned 458,774 treasury shares.

Pursuant to paragraph 2.4 of that article, we report that in 2008-2009 the Company purchased 309,835 treasury shares and disposed of 5,324.

The purchase, approved on 28 October 2008 by the general meeting of shareholders, will support any transactions such as the sale, transfer or swap of Digital Bros S.p.A. shares for the acquisition of equity investments and/or the conclusion of strategic agreements that further the Company's goals of expansion.

On 28 October 2008, the shareholders granted further authorization to purchase treasury shares, valid until the AGM held to approve the financial statements at 30 June 2009.

7. RESEARCH AND DEVELOPMENT

Digital Bros did not engage in research and development during the year.

8. FINANCIAL RISK MANAGEMENT

The main financial instruments used by Digital Bros are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts.

The purpose of these instruments is to finance the Company's operating activities.

Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008, the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth.

Digital Bros maintains a balance between short-term and long-term financial instruments. The Company's core business, the marketing of video games, entails investments in net working capital which are funded primarily through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Company's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk.

Interest rate risk

The Company's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Company cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- business with an extensive number of banks and financial institutions, giving the company a competitive edge in the negotiation of interest rates;
- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Given the absolute value of the Group's unhedged, variable-rate borrowings, it is estimated that a 0.5-point change in annual interest rates would affect the pre-tax profit by around €300 thousand.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business. The factors that influence the Company's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Company has reduced this risk by:

- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Currently available funds, along with those to be generated by operating activities, should allow the Company to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned.

Exchange rate risk

The Company is not influenced by exchange rate fluctuations.

Credit risk

In Italy the Company sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, the Company has insurance covering the buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

9. USE OF ESTIMATES

The preparation of the financial statements and notes for the year ended 30 June 2009 required the Company to make certain discretionary valuations. These were 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 future 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 concerned doubtful accounts, inventory impairment, employee benefits, revenue adjustments, and deferred taxes.

Doubtful accounts

To assess the risk of credit default from Italian customers, the Company periodically obtains an opinion from the external legal advisor in charge of customer disputes. According to the 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.

As for trade receivables outside Italy, the policy is never to exceed the insurance limit for individual customers, so there are no particular issues of risk assessment.

Inventory writedowns

The Company 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 Company uses revenue forecasts for the six following quarters, produced by the sales managers of each segment. 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. The six-quarter forecasts are the foundation for drawing up budgets.

Employee benefits

The Company 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 ended 30 June 2006. Estimating the liability is still complex, however, due to a small portion of benefits that have remained with the Company. To arrive at this estimate, the Company has engaged a registered actuary to define the necessary parameters.

Revenue adjustments

A significant cost element defined as "revenue adjustments" involves analytical computations for which the Company has adopted suitable procedures.

Revenue adjustments are made up of two kinds of cost. The first, discounts granted to customers at the end of the contractual period (known as year-end credits), are easy to determine. The second are difficult to estimate and consist of potential credit notes that the Company will have to issue for returns of unsold products and/or price reductions to be granted even if not necessarily 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 potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to dealers with the volumes they have sold to end consumers. The availability of these sales figures makes the estimate reliable.

Deferred taxes

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty that is mitigated by comparing the deferred tax assets generated by the individual companies with their budgets. The second is the tax rate, which is assumed to be constant over time.

10. CONTINGENT ASSETS AND LIABILITIES

In May 2006, the 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 and has been appealed. The provincial tax commission of Milan (level one for tax disputes) has partially ruled in the Company's favor, which reinforces the expectation that no liability will arise. Together with its tax advisors, the Company is considering how to proceed with this dispute.

There were no other contingent assets or liabilities at 30 June 2009.

11. SECURITY PLAN

Digital Bros S.p.A. is compliant with Legislative Decree 196 of 30 June 2003 (Italy's data protection code), and expressly confirms that it has taken appropriate security measures including with reference to knowledge acquired through technical advancement, the nature of the data obtained and the specific ways in which it is used, thus reducing to a minimum the risks of deliberate or accidental destruction or loss of the data, unauthorized access to the data, and use of the data that is unauthorized or inconsistent with stated ends.

It has drawn up a Security Plan in accordance with Annex B of that decree.

11. SUBSEQUENT EVENTS

No significant events have occurred since 30 June 2009.

12. OUTLOOK

The factors that hurt the video games market in the spring of 2009, with a drop in consumption by casual gamers and depressed profit margins in the International Publishing segment, seem to be easing thanks to an expected improvement in the general economy and to price reductions for the Sony Playstation 3 and Microsoft Xbox 360 consoles. In addition, there should be less pressure on selling prices as video game publishers will probably take a more prudent attitude to the upcoming Christmas season, by trying to optimize the ratio of quantities produced to quantities sold and avoid the gluts experienced last year.

Concerning the International Publishing subsidiary, corrective measures were taken this year that will start to pay off in the coming quarters. These consist of:

- a more balanced mix between casual products and those for expert gamers. The latter are performing in contrast to current macroeconomic trends and will benefit more substantially from reductions in the price of the hardware;
- the selection of a German distributor with the formation of a local company to take care of marketing activities in the region, which will allow access to this important market without the risk of setting up local commercial entities.

As a result, we expect the coming year to produce steady revenues and a return to operating profit.

The Italian Distribution business, after this year's predictable drop in revenues due to the downsizing of DTI's operations (the non-exclusive distribution of games in the small retail channel only), should see a modest increase in sales thanks in part to the exclusive distribution of Yu-Gi-Oh! trading cards (although the greatest benefit will go to the Newsstands segment, which is expected to earn more than half of the revenues from this particular form of distribution).

Losses by the New Media segment will be significantly reduced due to the suspension of activities of the European game portal www.gametribe.com starting on 31 October 2009. The operating loss should not exceed €500 thousand, compared with €2,600 thousand in 2008-2009.

Costs in the Holding segment are expected to be stable.

Given the above, results for 2009-2010 should include a slight increase in revenues and a definite improvement in operating margins. A decrease in net debt due to reduced investments in finished product inventory (a policy implemented in the first quarter of the new financial year) will bring down financial charges on a like-for-like interest rate basis. An improvement in net profit is therefore the most likely scenario.

13. OTHER INFORMATION

EMPLOYEES

Below are the details of the year-end workforce with comparative figures at 30 June 2008:

Category	30 June 2009	30 June 2008	Change
Executives	6	6	0
White collar	79	74	5
Blue collar and trainees	13	10	3
Total employees	98	90	8

The average headcount, calculated as the average number of employees in service at the end of every month, is shown below:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	6	7	(1)
White collar	79	75	4
Blue collar and trainees	13	10	3
Total employees	98	92	6

Digital Bros and its Italian subsidiaries use the national collective employment contract for the commercial sector.

ENVIRONMENT

At 30 June 2009 there were no issues of an environmental nature, and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise.

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**Digital Bros S.p.A. financial statements
for the year ended 30 June 2009**

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FINANCIAL STATEMENTS

Digital Bros S.p.A.

Balance Sheet

	EUR/000	30 June 2009	30 June 2008	Change	
Non-current assets					
1	Property, plant and equipment	3,218	3,261	(43)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	646	595	51	8.5%
4	Equity investments	2,240	2,204	36	1.6%
5	Non-current receivables and other assets	641	4	637	n.a. %
6	Deferred tax assets	817	525	292	55.5%
	Total non-current assets	8,017	7,044	973	13.8%
Non-current liabilities					
7	Employee benefits	(475)	(531)	56	-10.6%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(759)	(780)	21	-2.7%
Net working capital					
10	Inventories	32,118	31,401	717	2.3%
11	Trade receivables	18,715	26,888	(8,173)	-30.4%
12	Due from subsidiaries	22,458	13,131	9,327	71.0%
13	Tax credits	987	77	910	n.a.
14	Other current assets	3,496	6,441	(2,945)	-45.7%
15	Trade payables	(3,833)	(6,129)	2,296	-37.5%
16	Due to subsidiaries	(150)	(1,451)	1,301	-89.7%
17	Taxes payable	(1,138)	(4,190)	3,052	-72.8%
18	Current provisions	(1,719)	(2,230)	511	0.0%
19	Other current liabilities	(1,516)	(2,280)	764	-33.5%
	Total net working capital	69,418	61,658	7,760	12.6%
Capital and reserves					
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,962)	(17,965)	3	0.0%
22	Treasury shares	1,489	717	772	n.a.
23	(Profits) losses carried forward	(5,440)	(5,895)	455	-7.7%
	Total capital and reserves	(27,557)	(28,787)	1,230	-4.3%
	Total net assets	49,119	39,135	9,984	25.5%
24	Cash and cash equivalents	3,491	8,014	(4,523)	-56.4%
25	Short-term payables to banks	(48,098)	(40,451)	(7,647)	18.9%
26	Other current financial liabilities	(1,953)	(1,803)	(150)	8.3%
	Current net debt	(46,560)	(34,240)	(12,320)	36.0%
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(998)	(3,107)	2,109	-67.9%
29	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(2,559)	(4,895)	2,336	-47.7%
	Total net debt	(49,119)	(39,135)	(9,984)	25.5%

Digital Bros S.p.A.
Income statement for the year ended 30 June 2009 (fiscal year 2008-2009)

	EUR/000	2008-2009		2007-2008		Change	
1	Gross revenues	110,380	113.0%	125,767	110.6%	(15,387)	-12.2%
2	Revenue adjustments	(12,719)	-13.0%	(12,013)	-10.6%	(706)	5.9%
3	Net revenues	97,661	100.0%	113,754	100.0%	(16,093)	-14.1%
4	Purchase of goods for resale	(70,526)	-72.2%	(82,817)	-72.8%	12,291	-14.8%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(363)	-0.4%	(701)	-0.6%	338	-48.2%
7	Change in inventories of finished products	717	0.7%	(2,896)	-2.5%	3,613	n.a.
8	Total cost of goods sold	(70,172)	-71.9%	(86,414)	-76.0%	16,242	-18.8%
9	Gross profit (3+8)	27,489	28.1%	27,340	24.0%	149	0.5%
10	Other income	1,421	1.5%	1,957	1.7%	(536)	-27.4%
11	Cost of services	(11,451)	-11.7%	(8,703)	-7.7%	(2,748)	31.6%
12	Rent and leasing	(296)	-0.3%	(295)	-0.3%	(1)	0.3%
13	Payroll costs	(8,030)	-8.2%	(8,673)	-7.6%	643	-7.4%
14	Other operating expenses	(2,135)	-2.2%	(2,013)	-1.8%	(122)	6.1%
15	Total operating expenses	(21,912)	-22.4%	(19,684)	-17.3%	(2,228)	11.3%
16	EBITDA (9+10+15)	6,998	7.2%	9,613	8.5%	(2,615)	-27.2%
17	Depreciation and amortization	(594)	-0.6%	(503)	-0.4%	(91)	18.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses	(1,719)	-1.8%	(2,631)	-2.3%	912	-34.6%
20	Impairment reversal	1,100	1.1%	600	0.5%	500	0.0%
21	Total deprec./amort., provisions and impairment	(1,213)	-1.2%	(2,534)	-2.2%	1,321	-52.1%
22	EBIT (16+21)	5,785	5.9%	7,079	6.2%	(1,294)	-18.3%
23	Interest income	195	0.2%	350	0.3%	(155)	-44.3%
24	Interest expense	(3,895)	-4.0%	(3,275)	-2.9%	(620)	18.9%
25	Net interest income (expense)	(3,700)	-3.8%	(2,925)	-2.6%	(775)	26.5%
26	Profit before taxes (22+25)	2,085	2.1%	4,154	3.7%	(2,069)	-49.8%
27	Current taxes	(1,730)	-1.8%	(2,332)	-2.1%	602	-25.8%
28	Deferred taxes	292	0.3%	(502)	-0.4%	794	n.a.
29	Total taxes	(1,438)	-1.5%	(2,834)	-2.5%	1,396	-49.3%
30	Net profit (26+29)	648	0.7%	1,320	1.2%	(672)	-50.9%

Digital Bros S.p.A.

Cash flow statement for the year 2008-2009

	EUR/000	2008-2009	2007-2008
A. Opening net debt		(39,135)	(31,061)
B. Cash flow from operating activities			
Net profit (loss) for the year		648	1,320
<i>Depreciation, amortization and provisions</i>			
Amortization		274	208
Depreciation		320	295
Net change in other provisions		35	44
Net change in employee benefit provisions		(56)	(123)
SUBTOTAL B.		1,221	1,744
C. Change in net working capital			
Inventories		(717)	2,897
Trade receivables		8,173	(8,130)
Due from subsidiaries		(9,327)	(2,505)
Tax credits		(910)	784
Other current assets		2,945	(2,883)
Trade payables		(2,296)	(2,610)
Due to subsidiaries		(1,301)	(350)
Taxes payable		(3,052)	3,277
Current provisions		(511)	2,230
Other current liabilities		(764)	100
SUBTOTAL C.		(7,760)	(7,190)
D. Cash flow from investing activities			
Net investments in intangible assets		(325)	(337)
Net investments in property, plant and equipment		(277)	(303)
Net investments in financial fixed assets		(965)	(347)
SUBTOTAL D.		(1,567)	(987)
E. Cash flow from financing activities			
Capital increases		0	0
SUBTOTAL E.		(0)	0
F. Movements in capital and reserves			
Dividends paid		(1,103)	(1,128)
Change in treasury shares held		(772)	(513)
Increases (decreases) in other components of capital and reserves		(3)	0
SUBTOTAL F.		(1,878)	(1,641)
G. Cash flow for the period (B+C+D+E+F)		(9,984)	(8,074)
H. Closing net debt (A+G)		(49,119)	(39,135)

Additional information on the cash flow statement:

	2008-2009	2007-2008	Change
Income tax paid	(3,860)	(972)	(2,888)
Interest paid	(3,895)	(3,275)	(620)
Interest received	195	350	(155)
Dividends paid	(1,103)	(1,128)	25
Dividends received	1,100	600	500
Total	(7,563)	(4,425)	(3,138)

Digital Bros S.p.A.

Statement of changes in 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)	Capital and reserves (A+B+C+D)
Total at 1 July 2007	5,644	16,954	1,129	(142)	24	17,965	(204)	3,659	2,045	5,704	29,109
Allocation of net profit						0		2,045	(2,045)	0	0
Dividend payments						0		(1,129)		(1,129)	(1,129)
Purchase of treasury shares						0	(513)			0	(513)
Other changes						0				0	0
Profit for the period						0			1,320	1,320	1,320
Total at 1 July 2008	5,644	16,954	1,129	(142)	24	17,965	(717)	4,575	1,320	5,895	28,787
Allocation of net profit						0		1,320	(1,320)	0	0
Dividend payments						0		(1,103)		(1,103)	(1,103)
Purchase of treasury shares						0	(772)			0	(772)
Other changes					(3)	(3)				0	(3)
Profit for the period						0			648	648	648
Total at 30 June 2009	5,644	16,954	1,129	(142)	21	17,962	(1,489)	4,792	648	5,440	27,557

A) undistributable;

B) available for loss coverage but undistributable;

D) available for loss coverage, capital increase and distribution as dividends.

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Notes to the financial statements at 30 June 2009

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1. FORM, CONTENT, AND OTHER GENERAL INFORMATION

Publication of the separate financial statements of Digital Bros S.p.A. for the year ended 30 June 2009 was authorized by resolution of the Board of Directors on 10 September 2009. Digital Bros S.p.A. is a joint-stock company incorporated and domiciled in Italy. It is listed in the STAR segment of the MTAX market operated by Borsa Italiana S.p.A.

The financial statements have been prepared on a going concern basis. The Company has determined that the uncertainties and risks to which it is exposed, as described in section 6 of the notes, do not cast doubt on its ability to operate as a going concern.

Accounting standards and compliance with IAS/IFRS

The financial statements for the year ended 30 June 2009 have been prepared in accordance with the IFRS published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The term "IFRS" includes the International Accounting Standards (IAS) currently in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts are expressed in thousands of euros, unless otherwise specified.

Reporting formats

The separate financial statements at 30 June 2009 have been prepared in accordance with Arts. 77 *et seq.* of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 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 separate financial statements at 30 June 2008.

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 Company's financial position, performance and cash flows. Pursuant to 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:

- the balance sheet at 30 June 2009 with comparative figures at 30 June 2008 (the previous year-end reporting date);

- the income statement for the period from 1 July 2008 to 30 June 2009, in comparison with the income statement from 1 July 2007 to 30 June 2008;
- the cash flow statement for the period under review, in comparison with the previous year's cash flow statement;
- movements in capital and reserves from 1 July 2007 to 30 June 2009.

The first column of the balance sheet 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 regardless of when they might be realized.

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.

Net working capital encompasses current assets and liabilities. Because of the commercial nature of operations, net working capital is especially significant, as it represents the amount invested in operating activities in support of the Company'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 specific types of reserve by the shareholders), as adjusted by treasury shares.

Net assets are the sum of non-current assets plus net working capital, less non-current liabilities and capital and reserves.

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

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 goods sold
- EBITDA, the difference between the gross profit and total operating costs
- EBIT, the difference between EBITDA and total depreciation, amortization, provisions and impairment
- pre-tax profit, the difference between EBIT and net interest income or expense.

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, changes in net working capital, and cash flows 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 years. Minority interests are not reported because they do not exist.

2. ACCOUNTING STANDARDS

Accounting policies

Figures were determined according to the interpretations of the International Accounting Standards in force as of 30 June 2009. The financial statements are based on the on the historical cost principle, with the sole exception of derivative financial instruments and trading securities (recognized at fair value).

The accounting policies used for the financial statements at 30 June 2009 are consistent with those used to prepare the Company's accounts at 30 June 2008. Changes in the standards and interpretations adopted by the European Union have had no significant effect on the preparation of the financial statements.

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. Any financial charges are not capitalized.

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 Company, 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 "rentals and

leasing" in the income statement 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 fair 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%
- Microsoft Dynamics Navision licenses: 20%.

The amortization charge is shown in the income statement.

Equity investments in subsidiaries, associates and joint ventures

Equity investments in subsidiaries and associates are recognized at cost less impairment, in accordance with IAS 36. Impairment losses are charged to profit or loss; the original value is reinstated in future accounting periods should the reasons for the writedown cease to apply.

Investments in joint ventures are carried at equity.

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 Company'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.

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 Company 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 Company 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 TFR,

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 Company 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 financial statements.

Current and non-current provisions

The Company 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 Company'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 cover financial and other payables, 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. 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 Company 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 and returns. 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 principles of accrual and matching, when they do not produce future economic benefits, or when those benefits do not qualify for recognition as assets.

Barter transactions

For barter transactions in which finished products (video games) are traded for advertising services of equal value, the income from the transaction is recognized when the merchandise changes hands, and the cost is recognized when the service is rendered.

Cost of goods sold

The cost of goods sold 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.

Interest income and expense

Interest income and expense are recognized on an accruals basis and are shown separately in the income statement without being offset against each other.

Current taxes

Income taxes include all charges calculated on the Company'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 participants in the system.

Deferred taxes

Deferred taxes are provided for according to the balance sheet liability method. They are calculated on all timing 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 Company operates when the temporary differences are likely to be realized or reversed.

They are classified as non-current assets and liabilities, regardless of the estimated year of use.

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 accounting standards

Below is a description of the new standards and interpretations approved by the EU and applied by the Company since 1 July 2008. Their adoption has not affected the financial statements at 30 June 2009.

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 on 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 12 - Service concession arrangements

IFRIC 12 explains how companies should account for concession arrangements granted by public to private entities. Service concession arrangements are contracts with which a government or other entity allows a private company to provide public services relating, for example, to roads, prisons or hospitals. Neither Digital Bros S.p.A. nor its subsidiaries operate under this kind of contract, so the interpretation has no effect on the Company.

IFRIC 14 – IAS 19: Defined benefit assets and minimum funding requirements

In July 2007 IFRIC issued interpretation 14, "The limit on a defined benefit asset, minimum funding requirements and their interaction," which provides general guidance on how to assess the amount of surplus employee benefit provisions that can be recognized as an asset. It also sets the rules for recognizing the entity's right to refunds or to reductions in future contributions to employee benefit plans.

IFRIC 13 - Customer loyalty programs

In June 2007, IASB published IFRIC 13, effective for annual periods beginning on or after 1 July 2008. This interpretation requires that award credits granted to customers be accounted for as a separate component of the sales transaction(s) in which they were earned, and therefore that part of the fair value of the consideration received be allocated to the credits and amortized until the awards are redeemed. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: Recognition and measurement and to IFRS 7 – Financial instruments: disclosures.

On 15 October 2008, with Regulation 1004/2008, the European Commission endorsed the amendments to IAS 39 – Financial instruments: Recognition and measurement and to IFRS 7 – Financial instruments: disclosures. Under rare circumstances, the amendments permit the reclassification of certain financial instruments out of the fair-value-through-profit-or-loss category.

New standards and interpretations not yet effective

As required by IAS 8 (“Accounting policies, changes in accounting estimates and errors”), below is a brief description of the IFRS in effect from the first financial year beginning on 1 January 2009 or later and adopted by the Company as from 1 July 2009. The Company has not applied any IFRS in advance of their effective date.

IFRS 8 - Operating Segments

On 21 November 2007, with Regulation no. 1358/2007, the European Commission ratified IFRS 8 - Operating Segments. The new accounting standard requires an entity to base the information contained in its segment reporting on factors used by management for taking operating decisions, thereby requiring the identification of operating segments based on internal reports that are regularly reviewed by the entity’s management in order to allocate resources to the different segments and to assess their performance. The Company is evaluating the impact this standard will have on its financial statements.

IAS 1 - Presentation of financial statements

In September 2007 the IASB issued a revised version of IAS 1 - Presentation of financial statements, which among other things introduces the statement of comprehensive income, comprised of the net profit or loss including income and expenses that are disclosed directly in equity as expressly required by IFRS. The Company is evaluating the impact this standard will have on its financial statements.

IAS 23 - Borrowing costs

In 2007 the IASB issued a revised version of IAS 23 - Borrowing Costs. The revised version has eliminated the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Company is evaluating the impact this standard will have on its financial statements.

Amendments to IAS 32 and IAS 1 - "Puttable" Financial Instruments

The amendment to IAS 32 requires that certain "puttable" financial instruments and obligations arising on liquidation be classified as equity instruments if certain conditions are met. Per the amendment to IAS 1, the notes to the financial statements must provide information on "puttable" options classified as equity. The Company does not expect these changes to affect its financial statements.

Amendments to IFRS 1 and IAS 27 – Cost of an investment in a subsidiary, jointly controlled entity or associate

In May 2008 the IASB published an amendment to IFRS 1 – First-time adoption of International Financial Reporting Standards and IAS 27 – Consolidated and separate financial statements, with instructions on how to determine the cost of an investment in a subsidiary, jointly controlled entity or associate upon first-time adoption of IFRS.

IFRS 2 - Share-based payments

In January 2008 the IASB issued a revised version of IFRS 2 - Share-based payments, which specifies the accounting treatment for cancellation of equity instruments granted to employees and states that vesting conditions shall be limited to the employee's standard of service or the company's performance. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Company does not expect these changes to affect its financial statements.

IFRS 3 - Business combinations / IAS 27 - Consolidated and separate financial statements

In January 2008 the IASB issued a revised version of IFRS 3 - Business combinations and of IAS 27 - Consolidated and separate financial statements. IFRS 3 now requires the expensing of ancillary costs associated with business combinations and allows companies to recognize 100% of the goodwill of the acquired entity, including that attributable to minority investors (the "full goodwill method"). The new rules also change the way step acquisitions are disclosed, with the income statement showing the difference between the fair value of net assets previously held on the date control is acquired and their carrying value. Also, the effects of acquiring additional shares of a subsidiary or partially disposing of a subsidiary without losing control are accounted for as equity transactions. If the partial disposal of an investment results in loss of control, the residual holding is remeasured to fair value, and any difference is included in the capital gain or loss on the disposal.

The revised versions of IFRS 3 and IAS 27 are effective from financial periods beginning on or after 1 July 2009. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Company does not expect these changes to affect its financial statements.

IFRS 1 – First-time adoption of International Financial Reporting Standards

In November 2008 the IASB issued a new version of IFRS 1 - *First-time adoption of International Financial Reporting Standards*, which includes all previous amendments and a new structure for ease of comprehension. At the balance sheet date, the EU authorities had not yet finished the endorsement

process necessary for applying this standard. The Company does not expect these changes to affect its financial statements.

IFRIC 15 – Agreements for the construction of real estate

In July 2008, IFRIC issued IFRIC 15 – Agreements for the construction of real estate, which addresses the method of accounting for the revenues and associated costs of the construction of property. IFRIC 15 provides guidance on how to distinguish between "construction to order," which falls under IAS 11, and other contracts for the construction of real estate, which fall under IAS 18. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Company does not expect these changes to affect its financial statements.

IFRIC 16 – Hedges of a net investment in a foreign operation

IFRIC 16, "Hedges of a net investment in a foreign operation," was issued in July 2008 and eliminates the possibility of using hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent's consolidated financial statements. It also clarifies that for hedges of an investment in a foreign operation the hedging instrument can be held by any entity within the group, and that if the investment is disposed of, the amount to be reclassified from equity to profit or loss should be determined in accordance with IAS 21, "The effects of changes in foreign exchange rates." At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRIC 17 – Distributions of non-cash assets to owners

Issued in November 2008, this interpretation offers guidance for the accounting treatment of dividends paid to shareholders through the distribution of non-cash assets. Specifically, it clarifies that such dividends should be measured at the fair value of the net assets to be distributed, and that any difference between that value and the carrying amount should be recognized in profit or loss upon payment of the dividend. The interpretation is effective for financial periods beginning on 1 July 2009 or later. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRIC 18 – Transfers of assets from customers

IFRIC 18, published by the IASB in January 2009, clarifies the accounting treatment of agreements in which a customer transfers assets to an entity which then uses them to provide the customer with a service. The interpretation is effective for financial periods beginning on 1 July 2009 or later. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: recognition and measurement (eligible hedged items)

In July 2008 the IASB published an amendment to IAS 39 – Financial instruments: recognition and measurement, which clarifies the possibility of hedging against inflation and using options as a hedging instrument. The interpretation must be applied from 1 July 2009. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IAS 39 – Financial instruments: Recognition and measurement - Reclassification of financial assets - Effective date and transition

In November 2008 the IASB published an amendment to IAS 39 – *Financial instruments: Recognition and measurement – Reclassification of financial assets*, specifying the effective date and transition of the amendment approved in October, which allows the reclassification of these instruments. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IFRS 7 – Improving disclosures about financial instruments

In March 2009, the IASB published an amendment to IFRS 7 – *Financial instruments – Disclosures*, which introduces new mandatory disclosures regarding the method of calculating the fair value of financial instruments and clarifies what information needs to be reported on liquidity risk. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

Amendments to IFRIC 9 and IAS 39 – Embedded derivatives

In March 2009, the IASB published amendments to IFRIC 9 - *Reassessment of embedded derivatives* and IAS 39 - *Financial instruments: Recognition and measurement*, which clarify the accounting treatment of embedded derivatives for entities that choose to reclassify particular financial instruments held for trading to other categories in accordance with the amendments to IAS 39 approved in October 2008. The changes are effective from 1 January 2010. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard.

IFRS improvement

On 23 January 2009 the European Commission accepted the IFRS improvement published by the IASB in May 2008. Information is provided below on the improvements that according to the IASB entail changes for presentation, recognition or measurement purposes, while no mention is made of those involving only terminology or editorial changes with minimal effect on accounting.

- IFRS 5 – Non-current assets held for sale and discontinued operations: the change, effective for financial periods beginning on or after 1 January 2010, states that where there is a sale plan in place involving loss of control of a subsidiary, all of the subsidiary's assets and liabilities should be classified as held for sale, even if the parent entity will retain a minority interest;
- IAS 1 - Presentation of financial statements (revised in 2007): the amendment, effective for financial periods beginning on or after 1 January 2009, requires assets and liabilities arising from derivative financial instruments not held for trading purposes to be classified in the financial statements as current or non-current, as appropriate;
- IAS 16 - Property, plant and equipment: according to the amendment, effective for annual periods beginning on or after 1 January 2009, entities that routinely rent out items of property, plant and equipment must transfer such assets to inventories when they cease to be rented and

are held for sale; the proceeds from their sale should be recognized as revenues. In the cash flow statement, payments to manufacture or acquire assets that are rented to others, and cash receipts from the subsequent sale of such assets, constitute cash flows from operating activities and not from investing activities;

- IAS 19 – Employee benefits: effective for annual periods beginning on or after 1 January 2009 to changes in benefits occurring on or after that date, this amendment clarifies the definition of cost/income for past service and states that if a benefit plan is reduced, the only impact to be recognized immediately in the financial statements is the reduction in benefits for future periods, while the effect of any reduction for past service should be treated as a negative past service cost. It also clarifies the definition of "short-term employee benefits" and "long-term employee benefits" and revises the definition of "return on plan assets" to require the deduction of plan administration costs that are not reflected in the value of the obligation;
- IAS 20 – Accounting for government grants and disclosure of government assistance: to be applied prospectively for annual periods beginning on or after 1 January 2009, this amendment requires that government loans granted at a significantly below-market rate of interest be accounted for as government grants according to the rules of IAS 20;
- IAS 23 - Borrowing costs: effective for annual periods beginning on or after 1 January 2009, this amendment revises the definition of borrowing costs;
- IAS 28 - Investments in associates: Effective for annual periods beginning on or after 1 January 2009 (retroactively or prospectively), this amendment states that for investments valued using the equity method, an impairment loss should not be allocated against the individual assets (goodwill in particular) included in the equity-accounted investment balance, but against the value of the investment as a whole. Therefore, should the conditions be met for reversing the impairment loss, the reversal should be recognized in full;
- IAS 28 – Investments in associates and IAS 31 – Interests in joint ventures: these amendments are effective from annual periods beginning on or after 1 January 2009 and require additional disclosures for investments in associates and interests in joint ventures that are recognized at fair value in accordance with IAS 39. IFRS 7 – Financial instruments: disclosures and IAS 32 – Financial instruments: presentation have been amended accordingly;
- IAS 29 – Financial reporting in hyperinflationary economies: the previous version of this standard did not reflect the fact that some assets and liabilities may be measured at current values rather than historical cost. The amendment taking account of that fact is effective for annual periods beginning on or after 1 January 2009;

- IAS 36 – Impairment of assets: effective for annual periods beginning on or after 1 January 2009, the amendment requires additional disclosures when an entity determines the recoverable amount of cash-generating units using the discounted cash flow method;
- IAS 38 - Intangible assets: this amendment is effective for annual periods beginning on or after 1 January 2009 and clarifies the recognition of advertising and promotional expenditure. It also states that if the entity makes prepayments without recognizing intangible assets, these should be recognized when the entity has the right to access the purchased goods or has received the contracted service. Finally, it allows use of the unit of production method to determine the amortization of intangible assets of finite useful life;
- IAS 39 - Financial instruments: recognition and measurement: effective for annual periods beginning on or after 1 January 2009, the amendment clarifies how to calculate the revised effective interest rate of a financial instrument on cessation of fair value hedge accounting. It also clarifies that the prohibition on classifying financial instruments into or out of the fair value through profit or loss category does not apply to derivatives that no longer qualify as hedging instruments or that newly qualify as hedging instruments. To avoid conflict with the new IFRS 8 – Operating segments, it removes references to the designation of hedging instruments at the segment level;
- IAS 40 - Investment property: effective prospectively for annual periods beginning on or after 1 January 2009, this amendment clarifies that property under construction is within the scope of IAS 40 rather than IAS 16.

In April 2009 the IASB issued new improvements to IFRS. These pertain to the 12 accounting standards listed below.

- IFRS 2 - Share-based *payments*: the amendment, effective for annual periods beginning on or after 1 January 2010, states that business combinations among entities under common control and the contribution of a business upon the formation of a joint venture are outside the scope of IFRS 2 - Share-based payments;
- IFRS 5 – *Non-current assets held for sale and discontinued operations*: IFRS 5 is amended (effective from annual periods beginning on 1 January 2010) to state that the required disclosures for non-current assets classified as held for sale or discontinued operations are specified in that standard. Therefore, the disclosure requirements of other IFRSs are not applicable unless:
 - those standards specifically require disclosures in respect of non-current assets held for sale or discontinued operations; or
 - the disclosures concern the measurement of assets or liabilities of a disposal group held for sale and the measurement is outside the scope of IFRS 5;

- IFRS 8 - *Operating segments*: effective from annual periods beginning on 1 January 2010, the amendment clarifies that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker;
- IAS 1 - *Presentation of financial statements (revised in 2007)*: IAS 1 is amended with effect from annual periods beginning on 1 January 2010 to state that the classification of a liability as current or non-current is not affected by terms that could result in settlement of the liability by the issue of equity instruments. By modifying the concept of current liability it is possible to classify a liability as non-current even though the entity could be asked at any time to settle the liability with shares, provided that the entity has the unconditional right to defer that settlement for at least 12 months after the close of the year by paying cash or transferring other assets;
- IAS 7 – *Statement of cash flows*: the amendment (applicable from annual periods beginning on 1 January 2010) clarifies that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities;
- IAS 17 - *Leases*: this amendment is also effective for annual periods beginning on or after 1 January 2010 and cancels any particular treatment for the lease of land and buildings. Thus, land and building leases must also be classified as operating or finance leases on the same basis as those involving other assets;
- IAS 18 – *Revenue*: the amendment introduces a new example to clarify whether an entity is acting as a principal or as an agent in a transaction;
- IAS 36 – *Impairment of assets*: : IAS 36 is amended with effect from annual periods beginning on 1 January 2010, to state that the largest cash generating unit to which goodwill should be allocated for the purpose of impairment testing is the operating segment as defined in paragraph 5 of IFRS 8, before any aggregation of operating segments with similar economic characteristics;
- IAS 38 - *Intangible assets*: effective for financial periods beginning on or after 1 January 2010, the amendment clarifies the requirements of the new IFRS 3 on accounting for intangible assets acquired in a business combination and adds a description of the most commonly used techniques to measure the fair value of intangible assets for which no active market exists;
- IAS 39 - *Financial instruments: recognition and measurement*: the amendments must be applied to financial periods beginning on 1 January 2010 or later, and clarify:
 - that prepayment options for a debt must be considered as closely related to the host contract if the exercise price of such options reimburses the lender for lost interest;
 - the scope of exemption from IAS 39 in the case of business combinations;

- when to reclassify from equity to profit or loss the gains or losses on a cash flow hedge arising from future transactions that will later give rise to the recognition of financial instruments;
- IFRIC 9 – *Reassessment of embedded derivatives*: The scope of IFRIC 9 is amended with effect from annual periods beginning on 1 January 2010 to clarify that embedded derivatives in contracts acquired in joint venture formations and common control transactions are outside the scope of IFRIC 9.
- IFRIC 16 – *Hedges of a net investment in a foreign operation*: the amendment is effective for financial periods beginning on 1 January 2010 or later and clarifies that a hedging instrument may be held by any entity within a group, including the foreign operations being hedged.

3. USE OF ESTIMATES

The preparation of the financial statements and notes for the year ended 30 June 2009 required the Company to make certain discretionary valuations. These were 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 future 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 concerned doubtful accounts, inventory impairment, employee benefits, revenue adjustments, and deferred taxes.

Doubtful accounts

To assess the risk of credit default from Italian customers, the Company periodically obtains an opinion from the external legal advisor in charge of customer disputes. According to the 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.

As for trade receivables outside Italy, the policy is never to exceed the insurance limit for individual customers, so there are no particular issues of risk assessment.

Inventory writedowns

The Company 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 Company uses revenue forecasts for the six following quarters, produced by the sales managers of each segment. 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. The six-quarter forecasts are the foundation for drawing up budgets.

Employee benefits

The Company 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 ended 30 June 2006. Estimating the liability is still complex, however, due to a small portion of benefits that have remained with the Company. To arrive at this estimate, the Company has engaged a registered actuary to define the necessary parameters.

Revenue adjustments

A significant cost element defined as "revenue adjustments" involves analytical computations for which the Company has adopted suitable procedures.

Revenue adjustments are made up of two kinds of cost. The first, discounts granted to customers at the end of the contractual period (known as year-end credits), are easy to determine. The second are difficult to estimate and consist of potential credit notes that the Company will have to issue for returns of unsold products and/or price reductions to be granted even if not necessarily 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 potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to dealers with the volumes they have sold to end consumers. The availability of these sales figures makes the estimate reliable.

Deferred taxes

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty that is mitigated by comparing the deferred tax assets generated by the individual companies with their budgets. The second is the tax rate, which is assumed to be constant over time.

4. BUSINESS COMBINATIONS

No new companies were set up and no acquisitions were made in the year ended 30 June 2009.

Details of companies formed during the previous year are provided below.

Name	Date formed	Head office	Share capital	% held directly	% held indirectly	Profit/loss for the year to 30 June 2009
Digital Bros Iberia S.I.	29 February 2008	Madrid	EUR 100,000	100%	-	(866)

5. JOINT VENTURES

At 30 June 2009 the Company was involved in one joint venture. It has a 50% stake (€5,000) in D3DB S.r.l., owned jointly with the Japanese company D3 Publisher Inc.

Below are the key data for D3DB S.r.l. (held 50%) at 31 March 2009, the closing date of its latest financial year.

EUR/000	
Assets	1,220
Capital and reserves	(82)
Liabilities	1,302
Revenues	0
Costs	(6)
Net profit (loss) for the year	(6)

At 30 June 2009 there were no contingent liabilities associated with joint ventures.

6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The main financial instruments used by Digital Bros are as follows:

- Bank account overdrafts
- Sight- and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Long-term mortgage loans
- Finance leases
- Derivative contracts.

The purpose of these instruments is to finance the Company's operating activities.

Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries, with the exception of other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which the financial risk is the responsibility of the individual company.

Since 2007-2008, the subsidiary 505 Games S.r.l. has enjoyed its own independent credit facilities to finance its international growth.

Digital Bros maintains a balance between short-term and long-term financial instruments. The Company's core business, the marketing of video games, entails investments in net working capital which are funded primarily through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment.

Given the above, medium- and long-term financial payables have a well-distributed range of maturities.

The main risks generated by the Company's financial instruments are:

- interest rate risk
- liquidity risk
- exchange rate risk
- credit risk.

Interest rate risk

The Company's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Company cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- business with an extensive number of banks and financial institutions, giving the company a competitive edge in the negotiation of interest rates;
- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions. Specifically, the company has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market;
- the implementation of short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Given the absolute value of the Group's unhedged, variable-rate borrowings, it is estimated that a 0.5-point change in annual interest rates would affect the pre-tax profit by around €300 thousand.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business. The factors that influence the Company's financial needs are the resources generated or absorbed by operating and investing activities; the maturity and renewal terms of debt and the liquidity of investments; and current conditions and available funds in the credit market.

The Company has reduced this risk by:

- obtaining credit that allows the creation of a sustainable liability structure, through the use of irrevocable credit lines and medium- or long-term loans;
- monitoring prospective liquidity conditions.

Currently available funds, along with those to be generated by operating activities, should allow the Company to satisfy its requirements as far as investment, working capital management, and debt repayment at natural maturity are concerned.

Exchange rate risk

The Company is not influenced by exchange rate fluctuations.

Credit risk

In Italy the Company sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold cash on delivery to limit credit risk to negligible amounts.

In the highly fragmented Italian distribution market, risks are not concentrated on any individual debtors.

Customer credit facilities are granted by a credit committee which includes the managing directors, the sales department, the finance department and the head of credit management. The credit manager reviews the credit facilities and customer balances on a daily basis, before any shipments are made. Despite these precautions, the Company has insurance covering the buyers that the credit committee deems less solvent and/or those with credit facilities of €250 thousand to €1500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

Derivative contracts

The policy for using derivative contracts is explained in the notes.

7. ANALYSIS OF THE BALANCE SHEET

The balance sheet at 30 June 2009 is reported below with comparative figures from the previous year:

	EUR/000	30 June 2009	30 June 2008	Change	
Non-current assets					
1	Property, plant and equipment	3,218	3,261	(43)	-1.3%
2	Investment property	455	455	0	0.1%
3	Intangible assets	646	595	51	8.5%
4	Equity investments	2,240	2,204	36	1.6%
5	Non-current receivables and other assets	641	4	637	n.a.
6	Deferred tax assets	817	525	292	55.5%
	Total non-current assets	8,017	7,044	973	13.8%
Non-current liabilities					
7	Employee benefits	(475)	(531)	56	-10.6%
8	Non-current provisions	(284)	(249)	(35)	14.1%
9	Other non-current payables and liabilities	0	0	0	0.0%
	Total non-current liabilities	(759)	(780)	21	-2.7%
Net working capital					
10	Inventories	32,118	31,401	717	2.3%
11	Trade receivables	18,715	26,888	(8,173)	-30.4%
12	Due from subsidiaries	22,458	13,131	9,327	71.0%
13	Tax credits	987	77	910	n.a.
14	Other current assets	3,496	6,441	(2,945)	-45.7%
15	Trade payables	(3,833)	(6,129)	2,296	-37.5%
16	Due to subsidiaries	(150)	(1,451)	1,301	-89.7%
17	Taxes payable	(1,138)	(4,190)	3,052	-72.8%
18	Current provisions	(1,719)	(2,230)	511	0.0%
19	Other current liabilities	(1,516)	(2,280)	764	-33.5%
	Total net working capital	69,418	61,658	7,760	12.6%
Capital and reserves					
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,962)	(17,965)	3	0.0%
22	Treasury shares	1,489	717	772	n.a.
23	(Profits) losses carried forward	(5,440)	(5,895)	455	-7.7%
	Total capital and reserves	(27,557)	(28,787)	1,230	-4.3%
	Total net assets	49,119	39,135	9,984	25.5%
Current net debt					
24	Cash and cash equivalents	3,491	8,014	(4,523)	-56.4%
25	Short-term payables to banks	(48,098)	(40,451)	(7,647)	18.9%
26	Other current financial liabilities	(1,953)	(1,803)	(150)	8.3%
	Current net debt	(46,560)	(34,240)	(12,320)	36.0%
Non-current net debt					
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(998)	(3,107)	2,109	-67.9%
29	Other non-current financial liabilities	(1,561)	(1,788)	227	-12.7%
	Non-current net debt	(2,559)	(4,895)	2,336	-47.7%
	Total net debt	(49,119)	(39,135)	(9,984)	25.5%

NON-CURRENT ASSETS

The investment policy during the period was geared mainly towards implementation of the ERP system based on Microsoft Dynamics Navision. Total investments for the year came to €602 thousand, consisting chiefly of €321 thousand for the ERP system, €111 thousand for the purchase of office automation machines, €79 thousand for other fixed assets (mainly company cars for employees), and €81 thousand for improvements to the leased warehouse in Trezzano sul Naviglio.

Non-current receivables and other assets, which include security deposits against contractual obligations, increased due to a deposit of €35 thousand with Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37/41 which will become the Italian companies' new head office starting in the second half of next year.

Deferred tax assets are calculated on temporary differences between values applicable for tax purposes and those recognized in the financial statements, and are estimated using the tax rate expected to be in force at the time of use.

No interest or other financial charges have been capitalized to non-current assets.

1. Property, plant and equipment

This item went from €3,261 thousand to €3,218 thousand. Changes during the year were as follows:

EUR/000	30 June 2008	Additions	Disposals	Depreciation	Use of accum. deprec.	30 June 2009
Industrial buildings	2,078	81	0	(71)	0	2,088
Land	600	0	0	0	0	600
Plant and machinery	249	111	0	(107)	0	253
Other assets	298	79	0	(112)	0	265
Leasehold improvements	36	6	0	(30)	0	12
Total	3,261	277	0	(320)	0	3,218

Property, plant and equipment, with the exception of land, are depreciated over their individual useful lives.

The heading "Industrial buildings" refers to the warehouse in Trezzano sul Naviglio, which also accounts for the €600 thousand in land. These assets were acquired under a finance lease and are recognized in the balance sheet in accordance with IAS 17. The financial expenses relating to the lease have not been capitalized. The increase for the year concerns the new gas heating plant for the building.

The increase shown for industrial and commercial equipment refers primarily to the purchase of office automation equipment (€64 thousand) and other industrial and commercial equipment (€17 thousand).

"Other assets" increased due to the purchase of motor vehicles for €75 thousand and furniture and fittings for €4 thousand.

Leasehold improvements concern renovation work on the rented building at Via Bisceglie 76, which is being depreciated over the residual term of the lease.

The following tables show movements in gross property, plant and equipment and in accumulated depreciation:

EUR/000	30 June 2008	Additions	Disposals	30 June 2009
Industrial buildings	2,328	81	0	2,409
Land	600	0	0	600
Plant and machinery	1,161	111	0	1,272
Other assets	799	79	0	878
Leasehold improvements	306	6	0	312
Total	5,194	277	0	5,471

EUR/000	30 June 2008	Depreciation	Utilizations	30 June 2009
Industrial buildings	(250)	(71)	0	(321)
Land	0	0	0	0
Plant and machinery	(912)	(107)	0	(1,019)
Other assets	(501)	(112)	0	(613)
Leasehold improvements	(270)	(30)	0	(300)
Total	(1,933)	(320)	0	(2,253)

2. Investment property

There were no changes in this item during the year.

Investment property consists of one building owned in Milan for office and manufacturing use, which at the moment the Group is not using. It is held with a view to appreciation of the invested capital. The Group has opted to carry this building at cost.

The fair value of the investment property, based on figures in the real estate market review ("Osservatorio sul Mercato Immobiliare") published by the Milan Chamber of Commerce in the first half of 2008, is higher than its carrying value and amounts to €1,026 thousand.

3. Intangible assets

All of the intangible assets recognized by the Company have finite useful lives. No intangible assets have been recorded in connection with internal development costs and business combinations.

The following table presents movements during the year:

EUR/000	30 June 2008	Additions	Disposals	Amortization	30 June 2009
Concessions and licenses	582	321	0	(269)	634
Trademarks and similar rights	13	4	0	(5)	12
Total	595	325	0	(274)	646

Concessions and licenses, worth €634 thousand, pertain to deferred charges for the second development phase of the group's new ERP system based on Microsoft Dynamics Navision. Movements during the period refer to software development.

Trademarks, for €12 thousand, consist of the brands owned by Digital Bros S.p.A.

The following tables show movements in gross intangible assets and in accumulated amortization:

EUR/000	30 June 2008	Additions	Disposals	30 June 2009
Concessions and licenses	1,447	321	0	1,768
Trademarks and similar rights	1,498	4	0	1,502
Total	2,945	325	0	3,270

EUR/000	30 June 2008	Amortization	Utilizations	30 June 2009
Concessions and licenses	(865)	(269)	0	(1,134)
Trademarks and similar rights	(1,485)	(5)	0	(1,490)
Total	(2,350)	(274)	0	(2,624)

The Company has not recognized any start-up and expansion costs or research, development and advertising costs.

At the balance sheet date there were no intangible assets of indefinite duration.

4. Equity investments

At 30 June 2009, equity investments were comprised of:

EUR/000	30 June 2009	30 June 2008	Change
505 Games S.r.l.	100	100	0
Game Entertainment S.r.l.	1,000	1,000	0
Digital Bros France S.a.s.	100	100	0
Digital Bros Iberia S.I.	100	100	0
Game Service S.r.l.	85	50	35
Game Media Networks S.r.l.	850	849	1
D3DB S.r.l.	5	5	0
Total equity investments	2,240	2,204	36

The item "equity investments" refers to direct, wholly-owned subsidiaries of Digital Bros S.p.A., with the exception of D3DB S.r.l., which is held 50%. In total they are worth €2,240 thousand. Changes during the year refer to the coverage of losses and reconstruction of the share capital of Game Service S.r.l. and Game Media Networks S.r.l.

At the close of the year, the carrying value of the equity investments in comparison with the Company's portion of their capital and reserves was as follows:

Name	Head office	Carrying value a	Share capital b	Pro-quota cap. & reserves c	Net profit (loss) for the year	Change d=c-a
505 Games S.r.l.	Milan	100	100	4,451	1,001	4,351
Game Entertainment S.r.l.	Milan	1,000	100	2,207	183	1,207
DB France S.a.r.l.	Lyons	100	100	(112)	(495)	(212)
DB Iberia S.I.	Madrid	100	100	(911)	(866)	(1,011)
Game Service S.r.l.	Milan	85	50	27	(23)	(58)
Game Media Networks S.r.l.	Milan	850	100	(1,619)	(1,719)	(2,469)
D3DB S.r.l.	Milan	5	10	(41)	(6)	(46)
Total		2,240				

Digital Bros France S.a.s. was affected by the market crisis this year but its value was not written down to the Company's share of its capital and reserves, as it is expected to earn a profit again in 2009-2010.

Digital Bros Iberia S.I. began to operate commercially on 1 July 2008, and its value has not been adjusted to the Company's share of capital and reserves because the loss for the year is expected to be recovered in the near future.

Digital Bros S.p.A. has added €1,719K to "current provisions," corresponding to the loss reported for the year by Game Media Networks S.r.l., which will be recapitalized for the same amount.

5. Non-current receivables and other assets

This item is made up exclusively of security deposits against contractual obligations. The most significant change is the deposit of €635 thousand with Matov Imm. S.r.l. to secure rent on the premises at Via Tortona 37/41, which will become the new head office of the Group's Italian companies starting in the second half of next year. The deposit produces interest at the three-month Euribor plus 1.75%.

6. Deferred tax assets

Deferred tax assets are calculated on temporary differences between values applicable for tax purposes and those recognized in the financial statements, and are estimated according to the tax rates expected to be applicable at the time of use (presumably within one year). Those rates are 27.5% for IRES (corporate income tax) and 3.9% for IRAP (regional business tax).

EUR/000	30 June 2009	30 June 2008	Change
Deferred tax assets	817	525	292
Total	817	525	292

The following table reports the details of temporary differences existing at 30 June 2009 and 30 June 2008:

EUR/000	Balance of temporary differences at 30 June 2008	Movements in temporary differences during the year	Balance of temporary differences at 30 June 2009
Taxed provision for doubtful accounts	1,098	181	1,279
Non-deductible interest expense	0	1,412	1,412
Derivative risk provision	362	(108)	254
Entertainment costs	96	(55)	41
Agents' indemnity provision	134	(77)	57
Directors' fees not pert.	188	(135)	53
External auditing fees not pert.	112	(112)	0
Other	2	2	4
Severance benefits	(134)	(11)	(145)
Total	1,858	1,097	2,955

The greatest difference on the previous year is the provision for deferred tax assets on non-deductible interest expense.

The table below shows the calculation of deferred tax assets relating to IRES (corporate income tax) at 30 June 2009:

EUR/000	Balance of temporary differences at 30 June 2009	IRES rate	IRES deferred tax assets at 30 June 2009
Taxed provision for doubtful accounts	1,279	27.5%	352
Non-deductible interest expense	1,412	27.5%	388
Derivative risk provision	254	27.5%	70
Entertainment costs	41	27.5%	11
Agents' indemnity provision	57	27.5%	16
Directors' fees not pert.	53	27.5%	15
External auditing fees not pert.	0	27.5%	0
Other	4	27.5%	1
Severance benefits	(145)	27.5%	(40)
Total	2,955		813

The table below shows the calculation of deferred tax assets relating to IRAP (regional business tax) at 30 June 2009:

EUR/000	Balance of temporary differences at 30 June 2009	IRAP rate	IRAP deferred tax assets at 30 June 2009
Taxed provision for doubtful accounts	1,279	n.a.	0
Non-deductible interest expense	1,412	n.a.	0
Derivative risk provision	254	n.a.	0
Entertainment costs	41	3.9%	2
Agents' indemnity provision	57	3.9%	2
Directors' fees not pert.	53	n.a.	0
External auditing fees not pert.	0	3.9%	0
Other	4	3.9%	0
Severance benefits	(145)	n.a.	0
Total	2,955		4

The following table shows total deferred tax assets at 30 June 2009:

EUR/000	IRES deferred tax assets at 30 June 2009	IRAP deferred tax assets at 30 June 2009	Total deferred tax assets at 30 June 2009
Taxed provision for doubtful accounts	352	0	352
Non-deductible interest expense	388	0	388
Derivative risk provision	70	0	70
Entertainment costs	11	2	13
Agents' indemnity provision	16	2	18
Directors' fees not pert.	15	0	15
External auditing fees not pert.	0	0	0
Other	1	0	1
Severance benefits	(40)	0	(40)
Total	813	4	817

NON-CURRENT LIABILITIES

7. Employee benefits

This item amounts to €475 thousand, a decrease of €56 thousand for the year. It represents the actuarial value of the Group's effective liability to employees, calculated by an independent actuary in accordance with IAS 19.

The calculation is based on a demographic base known as IPS55, prepared on data from the Italian Institute of Statistics (ISTAT) regarding mortality projections in Italy for the period 2001-2051. The annual probability figures for leaving service due to disability are those published by INPS in 2000, while the probability of leaving service for other reasons and of requesting advances on severance indemnities has been estimated by the actuary at 5% and 2% per year, respectively.

The estimate is based on a year-end headcount of 99, with an average age of 36 years and 6 months.

The economic and financial parameters used in the actuarial calculation are as follows:

- annual interest rate 4.5%;
- real annual increase in compensation 3%;
- annual inflation 2%.

The table below shows movements in the provision for employee termination indemnities, in comparison with the previous year:

EUR/000	2008-2009	2007-2008
Provision for employee termination indemnities at 1 July	531	653
Benefits paid for termination of service	(88)	(168)
Accrual for the year	272	244
Adjustment for complementary pension funds	(272)	(223)
Actuarial adjustment	32	25
Provision for employee termination indemnities at 30 June	475	531

The Company has no supplementary pension plans in course.

8. Non-current provisions

These consist entirely of the provision for agents' indemnities. The balance at 30 June 2009 was €284 thousand, an increase of €5 thousand with respect to the previous year. Movements were comprised of an allocation for the year of €51 thousand, net of €16 thousand in benefits paid.

9. Other non-current payables and liabilities

At 30 June 2009, as in previous periods, there were no other non-current payables or liabilities.

NET WORKING CAPITAL

Net working capital increased by €7,760 thousand with respect to 30 June 2008 (+12.6%).

An analysis of net working capital in comparison with the previous year is provided below:

	EUR/000	30 June 2009	30 June 2008	Change	
10	Inventories	32,118	31,401	717	2.3%
11	Trade receivables	18,715	26,888	(8,173)	-30.4%
12	Due from subsidiaries	22,458	13,131	9,327	71.0%
13	Tax credits	987	77	909	n.a.
14	Other current assets	3,496	6,441	(2,945)	-45.7%
15	Trade payables	(3,833)	(6,129)	2,296	-37.5%
16	Due to subsidiaries	(150)	(1,451)	1,301	-89.7%
17	Taxes payable	(1,138)	(4,190)	3,052	n.a.
18	Current provisions	(1,719)	(2,230)	511	0.0%
19	Other current liabilities	(1,516)	(2,280)	764	-33.5%
	Total net working capital	69,418	61,658	7,760	12.6%

At 30 June 2009 there were no receivables or payables with a residual duration of more than five years and no payables secured by collateral on the company's assets. There has been no significant impact from fluctuations in foreign exchange rates occurring since the close of the year. In addition, there are no receivables or payables concerning transactions that involve a reconveyance obligation for the buyer.

The following table reports the geographical breakdown of all working capital items at 30 June 2009:

	EUR/000	Italy	Rest of EU	Non-EU	Total
10	Inventories	32,118	0	0	32,118
11	Trade receivables	17,082	986	647	18,715
12	Due from subsidiaries	17,715	2,736	1,950	22,401
13	Tax credits	1,044	0	0	1,044
14	Other current assets	3,212	284	0	3,496
15	Trade payables	(2,852)	(884)	(97)	(3,833)
16	Due to subsidiaries	0	(150)	0	(150)
17	Taxes payable	(1,138)	0	0	(1,138)
18	Current provisions	(1,719)	0	0	(1,719)
19	Other current liabilities	(1,516)	0	0	(1,516)
	Total net working capital	63,946	2,972	2,500	69,418

10. Inventories

Inventories are comprised solely of finished products for resale. Below is the breakdown of inventories by distribution channel:

EUR/000	30 June 2009	30 June 2008	Change	
Inventories	30,685	29,854	831	2.8%
Returns to be received	1,433	1,547	(114)	-7.4%
Total inventories	32,118	31,401	717	2.3%

Inventories rose from €1,401 thousand at 30 June 2008 to €2,118 thousand at 30 June 2009, an increase of €717 thousand.

Inventories also increased due to an estimate of potential returns to be received, in the amount of €1,433 thousand, which is €114 thousand lower than the amount reported the previous year.

Impairment losses on inventories, reflecting a decrease in the market value of the goods, came to €4,500 thousand (€4,974 thousand in 2007-2008). Inventories are shown net of impairment, which is charged directly to profit and loss.

11. Trade receivables

Amounts due from customers and for video game licenses showed the following movements for the year:

EUR/000	30 June 2009	30 June 2008	Change
Due from customers: Italy	18,671	26,874	(8,203)
Due from customers: rest of EU	695	486	209
Due from customers: rest of the world	57	218	(161)
Provision for doubtful accounts	(1,576)	(1,524)	(52)
Total trade receivables	17,847	26,054	(8,207)
Receivables for video game licenses	590	421	169
Receivables for Disney products	279	413	(134)
Total trade receivables	18,715	26,888	(8,173)

Trade receivables include advances on receivables factored without recourse, amounting to €1,780 thousand at 30 June 2009, compared with €1,605 thousand a year earlier. Other current financial liabilities include the liability for the advances received.

Total trade receivables at 30 June 2009 (€17,847 thousand) are €8,207 thousand lower than the figure at the close of the previous year (€26,054 thousand).

Receivables are shown net of revenue adjustments for the credit notes the Company will have to issue as a result of repositioning. These amount to €2,766 thousand.

The following table breaks down trade receivables by due date at 30 June 2009 and 30 June 2008:

EUR/000	30 June 2009	% of total	30 June 2008	% of total
Not yet due	11,651	65%	22,236	85%
0 < 30 days	3,578	20%	2,166	9%
30 < 60 days	682	4%	9	0%
60 < 90 days	203	1%	90	0%
> 90 days	1,733	10%	1,553	6%
Total	17,847	100%	26,054	100%

The provision for doubtful accounts reflects potential losses on receivables due to customer default. It increased by €2 thousand with respect to 30 June 2008. The estimated losses are based on an analysis of each customer's degree of solvency. No payment problems emerged during the period.

Receivables for video game licenses and for Disney products are advances paid for the acquisition of video game licenses, the exploitation of which had not yet begun or been completed at the close of the year. The degree of use of the licenses is calculated according to the ratio of the number of units produced to the total number of units expected to be sold during the life of the contract.

12. Due from subsidiaries

Receivables from subsidiaries amount to €2,458 thousand, an increase of €327K due primarily to the significant investments made to support the growth of Group companies, with the expansion during the year of the direct sales network in Spain and United States.

For further details, see the section on related party transactions, which specifies the nature and amount of receivables due to Digital Bros S.p.A. by its subsidiaries.

13. Tax credits

Tax credits increased from €7 thousand to €87 thousand at 30 June 2009. Of the total, €30 thousand consists of advances paid net of the actual tax charge for the year. Once again this year, Digital Bros S.p.A. continued to take the group tax election for all Italian subsidiaries. The effects of that system are reflected in the recognized amount of tax credits.

14. Other current assets

Other current assets are comprised of advances paid to suppliers, employees and sales representatives, as well as insurance refunds to be received. They totaled €3,496 thousand at the close of the year, compared with €6,441 thousand at 30 June 2008.

Movements during the year were as follows:

EUR/000	30 June 2009	30 June 2008	Change
Insurance refunds to be received	0	14	(14)
Due from suppliers	361	252	109
Advances paid to suppliers	2,957	4,598	(1,641)
Advances paid to employees	0	96	(96)
Advances paid to sales representatives	156	1,467	(1,311)
Other receivables	22	14	8
Total other current assets	3,496	6,441	(2,945)

Advances to suppliers decreased from €4,598 thousand to €2,957 thousand (-€1,641 thousand), due mainly to the use of advertising space purchased in advance through a barter transaction to take advantage of better contract terms.

The decrease of €1,311 thousand in advances paid to sales representatives is explained primarily by the more rapid calculation of commissions due.

15. Trade payables

Trade payables due within 12 months decreased from €6,129 thousand at 30 June 2008 to €3,833 thousand (-€2,296 thousand), and consist mainly of amounts due to publishers for the purchase of finished products.

EUR/000	30 June 2009	30 June 2008	Change
Trade payables: Italy	(2,852)	(3,546)	694
Trade payables: rest of EU	(884)	(2,470)	1,586
Trade payables: rest of the world	(97)	(112)	16
Total trade payables	(3,833)	(6,129)	2,296

16. Due to subsidiaries

Payables to subsidiaries amount to €150 thousand, a decrease of €1,301 thousand with respect to the previous year.

For further details, see the section on related party transactions, which specifies the nature and amount of payables due by Digital Bros S.p.A. to its subsidiaries.

17. Taxes payable

These rose from €863 thousand to €1,138 thousand, an increase of €275 thousand. In detail:

EUR/000	30 June 2009	30 June 2008	Change
Income taxes - IRAP/IRES	0	(386)	386
Due to the Treasury	(949)	(283)	(666)
Other taxes due	(190)	(194)	4
Total taxes payable	(1,138)	(863)	(275)

The decrease in income taxes (IRAP/IRES) is consistent with the Group's lower taxable income this year. Taxes due refer to the VAT liability at 30 June 2009.

18. Current provisions

These refer to the impairment of the subsidiary Game Media Networks S.r.l. as a result of its losses for the year. Movements during the year were as follows:

EUR/000	30 June 2008	Utilization	Accrual	30 June 2009
Impairment provision for Game Media Networks S.r.l.	(2,230)	2,230	(1,719)	(1,719)

19. Other current liabilities

These went from €2,280 thousand at 30 June 2008 to €1,516 thousand, a decrease of €764 thousand as detailed below:

EUR/000	30 June 2009	30 June 2008	Change
Due to social security institutions	(281)	(277)	(4)
Due to employees	(856)	(942)	86
Due to contract workers	0	(47)	47
Commissions due to sales representatives	(377)	(1,007)	630
Other	(2)	(7)	5
Total other current liabilities	(1,516)	(2,280)	764

Other current liabilities are made up chiefly of commissions due to sales representatives, which include commissions accrued but not yet paid at the end of the year, and those on sales already closed even if the commissions have not officially accrued.

Payables to employees refer to standard contractual bonuses and pay in lieu of holiday and personal leave, along with the social security charges accrued on those amounts.

CAPITAL AND RESERVES

Details of capital and reserves are reported in the statement of changes in shareholders' equity. They can be summarized as follows:

EUR/000	30 June 2009	30 June 2008	Change
Share capital	5,644	5,644	0
Treasury shares	(1,489)	(717)	(772)
Legal reserve	1,129	1,129	0
Share premium reserve	16,954	16,954	0
IFRS reserve	(142)	(142)	0
Other reserves	21	24	(3)
Retained earnings	4,792	4,575	217
Net profit (loss) for the year	648	1,320	(672)
Total capital and reserves	27,557	28,787	(1,230)

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

EUR/000	2008-2009	2007-2008
Opening capital and reserves	28,787	29,109
Dividend payments	(1,103)	(1,128)
Movements in treasury shares	(772)	(513)
Profit for the period	648	1,320
Other changes	(3)	0
Closing capital and reserves	27,557	28,787

Share capital, unchanged since the previous year, is made up exclusively of 14,110,837 ordinary shares issued and fully paid-in, with a par value of €0.40 each. There are no rights, preferences or restrictions on ordinary shares.

The growth of €17 thousand in retained earnings is explained by the shareholders' resolution of 28 October 2008 to carry forward the previous year's profit, net of dividends paid. In accordance with that resolution, on 11 December 2008 the Company paid a dividend of €0.08 per share excluding treasury shares, for a total of €1,103 thousand.

Treasury shares held at year-end, 458,774 ordinary Digital Bros S.p.A. shares, amounted to €1.489 thousand or 3.25% of the share capital. The increase of 304,511 shares (€772 thousand) with respect to the previous year stems from purchases authorized by the AGM of 28 October 2008. The purchases will support any transactions such as the sale, transfer or swap of Digital Bros S.p.A. shares for the acquisition of equity investments and/or the conclusion of strategic agreements that further the Company's goals of expansion.

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

As of the approval date of this annual report, no dividends had been authorized but not yet paid.

The Company has issued no dividend-bearing shares, convertible bonds, or securities of a similar nature.

NET DEBT

Net debt rose by €984 thousand with respect to 30 June 2008. The trend is explained primarily by a rise in current payables to banks (+€7,647 thousand) and by a decrease in cash and cash equivalents, from €8,014 thousand at 30 June 2008 to €3,491 thousand at the close of the fiscal year.

Debt increased as a result of start-up investments in Spain (Digital Bros Iberia S.I.) and the United States (505 Games US Inc.), and the growth of 505 Games S.r.l. in the International Publishing segment. The amount of financial receivables from subsidiaries, in fact, increased by €327 thousand for the year.

For a more in-depth analysis of cash flow, see the cash flow statement (attached).

The breakdown of net debt with comparative figures at 30 June 2008 is as follows:

	EUR/000	30 June 2009	30 June 2008	Change
22	Cash and cash equivalents	3,491	8,014	(4,523)
23	Short-term payables to banks	(48,098)	(40,451)	(7,647)
24	Other current financial liabilities	(1,953)	(1,803)	(150)
	Current net debt	(46,560)	(34,240)	(12,320)
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(998)	(3,107)	2,109
27	Other non-current financial liabilities	(1,561)	(1,788)	227
	Non-current net debt	(2,559)	(4,895)	2,336
	Total net debt	(49,119)	(39,135)	(9,984)

Below is a comparison between the carrying value and the fair value of financial instruments held at 30 June 2009:

	EUR/000	Non-current		Current	
		Carrying value	Fair value	Carrying value	Fair value
22	Cash and cash equivalents	0	0	3,491	3,491
23	Short-term payables to banks	0	0	(48,098)	(48,098)
24	Other current financial liabilities	0	0	(1,953)	(1,953)
	Current net debt	0	0	(46,560)	(46,560)
25	Non-current financial assets	0	0	0	0
26	Non-current payables to banks	(998)	(998)	0	0
27	Other non-current financial liabilities	(1,561)	(1,561)	0	0
	Non-current net debt	(2,559)	(2,559)	0	0
	Total	(2,559)	(2,559)	(46,560)	(46,560)

The fair value of financial instruments is determined as follows:

- cash and cash equivalents: carrying value is a reasonable approximation of fair value, since these are highly liquid forms of investment;
- bank loans: carrying value is a reasonable approximation of fair value;

- finance lease liabilities (included with other financial liabilities): carrying value is a reasonable approximation of fair value as the lease contract is backed by an interest rate swap.

The following table shows financial liabilities at 30 June 2009, grouped by maturity:

EUR/000	Within 1 year	1 - 5 years	Beyond 5 years	Total
Bank overdrafts	(5,784)	0	0	(5,784)
Import/export financing	(28,925)	0	0	(28,925)
Advances on invoices and subject to collection	(11,015)	0	0	(11,015)
Bank loans	(2,158)	(961)	0	(2,159)
Bank borrowings for fair value recognition of derivatives	(216)	(37)	0	(253)
Total due to banks (A)	(48,098)	(998)	0	(49,096)
Other financial liabilities (B)	(1,953)	(1,488)	(73)	(3,514)
Total (A+B)	(50,051)	(2,486)	(73)	(52,610)

Current net debt

Current net debt is made up as follows:

	EUR/000	30 June 2009	30 June 2008	Change
22	Cash and cash equivalents	3,491	8,014	(4,523)
23	Short-term payables to banks	(48,098)	(40,451)	(7,647)
24	Other current financial liabilities	(1,953)	(1,803)	(150)
	Total current net debt	(46,560)	(34,240)	(12,320)

22. Cash and cash equivalents

Cash and cash equivalents at 30 June 2009 are comprised of sight deposits at banks, units of 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 (€75 thousand).

In detail:

EUR/000	30 June 2009	30 June 2008	Change
Cash on hand and bank deposits	918	5,569	(4,651)
Mutual fund units	2,298	2,178	120
Quadrante policy (Banca Toscana)	275	267	8
Total cash and cash equivalents	3,491	8,014	(4,523)

Cash and cash equivalents at 30 June 2009 amount to €3,491 thousand, a decrease of €4,523 thousand with respect to 30 June 2008 due to a considerable 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 increase in short-term payables to banks with respect to 30 June 2008 is due chiefly to a rise in account overdrafts and import/export financing.

They can be broken down as follows:

EUR/000	30 June 2009	30 June 2008	Change
Account overdrafts	(5,784)	(1,212)	(4,572)
Import-export financing	(28,925)	(23,117)	(5,808)
Advances on invoices and subject to collection	(11,015)	(13,581)	2,566
Loan installments due within 12 months	(2,158)	(2,238)	80
Fair value recognition of derivatives - due within 12 months	(216)	(303)	87
Total short-term payables to banks	(48,098)	(40,451)	(7,647)

Loan installments due within 12 months are shown below:

EUR/000	30 June 2009	30 June 2008	Change
To Banca Intesa San Paolo	(178)	(342)	(164)
To Unicredit Banca	(267)	(267)	0
To Barclays Bank	(1,629)	(1,629)	(0)
Total short-term loans and borrowings	(2,158)	(2,238)	(80)

The installments due within 12 months to Banca Intesa San Paolo consist of the remainder of a €1 million loan granted to Digital Bros S.p.A., due on 30 November 2009. This is the only loan outstanding at 30 June 2009 that is due back within 12 months.

Payments due within 12 months to Unicredit Banca consist of the short-term portion of a €1 million loan. Payments due within 12 months to Barclays Bank, totaling €1,712 thousand, refer to the short-term portion of a €5 million loan.

24. Other current financial liabilities

Other current financial liabilities consist of finance leases held with Intesa Leasing and SanPaolo Leasing that are payable within 12 months, for a total of €173 thousand. The leases currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars. This item also includes advances on trade receivables factored with and without recourse, in the amount of €1,780 thousand.

Non-current net debt

Non-current net debt is made up as follows:

	EUR/000	30 June 2009	30 June 2008	Change
25	Non-current financial assets	(0)	0	0
26	Non-current payables to banks	(998)	(3,107)	2,109
27	Other non-current financial liabilities	(1,561)	(1,788)	227
	Total non-current net debt	(2,559)	(4,895)	2,336

25. Non-current financial assets

No non-current financial assets were recognized at either 30 June 2009 or 30 June 2008.

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 €61 thousand, as well as €37 thousand in liabilities for derivative instruments due beyond 12 months.

At 30 June 2009 the relevant bank loans outstanding were as follows:

- a € million loan granted by Unicredit Banca d'Impresa on 15 June 2005, maturing on 30 September 2010, with a long-term remaining balance of €67 thousand. Interest is charged at an annual rate of the three-month Euribor plus 150 basis points. In March 2007 the Group began to make equal payments against the principal at the end of every quarter. This loan is also secured by an interest rate swap taken out from the same bank on 15 June 2005, with a term of five years and notional principal of €1 million. Under the terms of the IRS, for the first year the Group collected the three-month Euribor while paying fixed interest of 2.30%; for the second year it collected the three-month Euribor and paid 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 loan of €5 million granted by Barclays Bank to the parent company on 19 December 2007, with a long-term remaining balance of €894 thousand. The interest rate is variable, amounting to the three-month Euribor plus a spread of 0.75%. The loan is being repaid in 12 quarterly installments, from 21 March 2008 until 21 December 2010;

Non-current payables to banks include the amount deriving from the fair value recognition of derivative instruments maturing beyond 12 months, for a total of €37 thousand.

Non-hedge derivatives are recognized at fair value. The Company 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 following table summarizes the interest rate swaps in effect at 30 June 2009, with prior year figures for comparison (in EUR/000):

Bank	Inception date	Expiry date	Nominal value at 30 June 2009	Fair value at 30 June 2009	Fair value at 30 June 2008
Intesa San Paolo	23 December 2004	28 December 2009	20,000	(201)	(481)
Intesa San Paolo	7 October 2005	28 November 2014	1,547	(47)	111
Unicredit Banca d'Impresa	15 June 2005	30 September 2010	333	(5)	13
Total			n.a.	(253)	(357)

27. Other non-current financial liabilities

Other non-current financial liabilities refer solely to the non-current portion of the finance lease for the purchase of the warehouse in Trezzano sul Naviglio.

EUR/000	30 June 2009	30 June 2008	Change
Lease installments falling due beyond 12 months	(1,561)	(1,729)	168
Total non-current financial liabilities	(1,561)	(1,729)	168

All finance lease payments falling due beyond 12 months pertain to the lease for the purchase of the Trezzano sul Naviglio warehouse taken out on 25 November 2004.

The contract calls for 120 monthly payments of €6 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. Payments falling due within 12 months total €173 thousand; those with a maturity of one to five years amount to €1,488 thousand, and those due beyond five years total €73 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 San Paolo 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.

The following table shows finance lease payments by maturity:

EUR/000	Nominal value of payments
Within 1 year	173
1 - 5 years	1,488
Beyond 5 years	73
Total	1,734

The nominal value of lease payments is a good approximation of their fair value, since the leases are backed by an interest rate swap measured at fair value.

COMMITMENTS AND RISKS

The Company's commitments are restricted to the following bank guarantees:

EUR/000	Guarantor	30 June 2009	30 June 2008	Change
Konami of Europe GmbH	San Paolo IMI	(1,000)	(1,000)	0
Vivendi Universal Games	UniCredit Banca	0	(1,000)	1,000
Buena Vista Games	San Paolo IMI	(144)	(144)	0
Buena Vista Games	San Paolo IMI	(1,000)	(1,000)	0
Parallelo 90 and Bisceglie 91	San Paolo IMI	(142)	(142)	0
Total commitments		(2,286)	(3,286)	1,000

The guarantee in favor of Konami of Europe GmbH was issued on 13 September 2002 and is renewed each year. An annual fee of 0.18% is paid for each renewal. In exchange for this guarantee with Intesa San Paolo, the supplier agreed to extend its payment terms from advance payment to payment 30 days from the invoice date. This is a surety arrangement, since payment by the bank occurs at the supplier's request and does not depend on the receipt of additional documentation. The next expiration date is 30 August 2010.

The €1 million guarantee in favor of Vivendi Universal Games S.p.A. has been canceled as it is no longer needed. This is the only change with respect to the previous year.

The two guarantees from Intesa San Paolo in favor of Buena Vista Games, totaling €144 thousand, cover distribution agreements between the parent company and this supplier. On both of the guarantees, the company pays an annual fee of 0.18%.

The guarantees contracted with San Paolo IMI S.p.A. on 1 July 2004 in favor of Parallelo 90 S.r.l. and Bisceglie 91 S.r.l. will expire on 1 August 2016 and ensure punctual lease payments for the Group's office building at Via Bisceglie 76 in Milan. The company pays a charge on these guarantees amounting to 0.18% per year.

8. ANALYSIS OF THE INCOME STATEMENT

3. Net revenues

Total net revenues decreased from €13,754 thousand to €9,661 thousand (-14.1%).

	EUR/000	2008-2009	2007-2008	Change	
	Gross sales: Italy	107,182	122,778	(15,596)	-12.7%
	Gross sales: elsewhere	3,198	2,989	209	7.0%
1	Total gross revenues	110,380	125,767	(15,387)	-12.2%
2	Total adjustments	(12,719)	(12,013)	(706)	5.9%
3	Net revenues	97,661	113,754	(16,093)	-14.1%

Gross revenues are broken down by geographical segment in the following table:

EUR/000	2008-2009	2007-2008	Change	
Gross revenues: Italy	107,182	122,778	(15,596)	-12.7%
Gross revenues: rest of EU	3,198	2,989	209	7.0%
Total gross revenues	110,380	125,767	(15,387)	-12.2%

8. Cost of goods sold

The cost of goods sold is detailed below:

EUR/000	2008-2009	2007-2008	Change	%
Purchase of goods for resale	(70,526)	(82,817)	12,291	-14.8%
Royalties	(363)	(701)	338	-48.2%
Change in inventories of finished products	717	(2,896)	3,613	n.a.
Total cost of goods sold	(70,172)	(86,414)	16,242	-18.8%

10. Other income

Other income stems mainly from activities performed on behalf of subsidiaries (with the fees charged to "cost of services"), and also includes insurance reimbursements and contributions for expenses incurred for third parties.

11. Cost of services

The following table provides details of the cost of services:

EUR/000	2008-2009	2007-2008	Change	%
Advertising, marketing and tradeshows	(6,295)	(3,869)	(2,426)	62.7%
Transport and freight	(987)	(1,055)	67	-6.4%
Other costs related to sales	(2,001)	(1,189)	(812)	68.3%
Subtotal: services related to sales	(9,284)	(6,113)	(3,171)	51.9%
Miscellaneous insurance	(240)	(260)	20	-7.6%
Legal and notary fees	(895)	(1,036)	142	-13.7%
Post & telegraph	(101)	(108)	7	-6.6%
Travel & accommodation	(225)	(382)	157	-41.0%
Utilities	(144)	(87)	(57)	65.3%
Maintenance	(76)	(72)	(4)	5.6%
Directors' and statutory auditors' fees	(72)	(69)	(3)	4.0%
Subtotal: general services	(1,752)	(2,014)	262	-13.0%
Intercompany charge-backs	(415)	(576)	161	-27.9%
Subtotal	(2,168)	(2,590)	422	-16.3%
Total cost of services	(11,451)	(8,703)	(2,749)	31.6%

This item increased by a total of €2,749 thousand (+31.6%). More specifically, the cost of services related to sales rose by €3.171 thousand for the year. The most significant increase was in advertising costs to support video game sales in Italy and the international market. The cost of general services fell by 13% to €262 thousand.

12. Rent and leasing

Rent and leasing were essentially unchanged on the previous year and consist of rent on the administrative offices at Via Bisceglie 76 (€251 thousand) and the leasing of cars not assigned to employees.

13. Payroll costs

Payroll costs, including commissions paid to sales representatives, directors' fees approved by the shareholders, amounts paid to temporary workers and contract workers, and the cost of company cars assigned to employees, came to €8,030 thousand and decreased by €643 thousand on the previous year:

EUR/000	2008-2009	2007-2008	Change	%
Wages and salaries	(3,861)	(3,774)	(87)	2.3%
Social security charges	(1,319)	(1,367)	48	-3.5%
Employee termination indemnities	(304)	(298)	(6)	2.2%
Directors' fees	(865)	(1,000)	135	-13.5%
Temps and contract workers	(200)	(376)	176	-46.9%
Sales rep commissions	(1,394)	(1,754)	360	-20.5%
Other costs	(88)	(105)	16	-15.7%
Total payroll costs	(8,030)	(8,673)	643	-7.4%

Payroll costs in the strict sense of the term consist of employee wages and salaries, social security charges and provisions for employee termination indemnities. They rose by €45 thousand, while the average cost per employee decreased by 4.4%:

EUR/000	2008-2009	2007-2008	Change	%
Wages and salaries	(3,861)	(3,774)	(87)	2.3%
Social security charges	(1,319)	(1,367)	48	-3.5%
Employee termination indemnities	(304)	(298)	(6)	2.2%
Total payroll costs	(5,484)	(5,439)	(45)	0.8%
Average headcount	97	92	5	5.4%
Average cost per employee	(57)	(59)	3	-4.4%

Directors' fees decreased by €135 thousand, as the variable portion contingent on results was not awarded.

14. Other operating expenses

The details of operating expenses by type are presented below, with the previous year's figures for comparison:

EUR/000	2008-2009	2007-2008	Change	%
Miscellaneous materials purchased	(603)	(387)	(216)	55.9%
General and administrative expenses	(1,078)	(1,136)	58	-5.1%
Entertainment costs	(143)	(139)	(4)	3.1%
Miscellaneous bank charges	(310)	(351)	41	-11.8%
Total other operating expenses	(2,134)	(2,013)	(121)	6.0%

Operating expenses rose by 6% with respect to the previous year, from €2,013 thousand to €2,134 thousand.

The most significant increase was in miscellaneous materials purchased, especially advertising materials.

21. Depreciation, amortization, provisions and impairment

EUR/000	2008-2009	2007-2008	Change	%
Depreciation and amortization	(594)	(503)	(91)	18.1%
Provisions	(1,719)	(2,631)	912	0.0%
Impairment reversal	1,100	600	500	0.0%
Total deprec./amort., provisions and impairment	(1,213)	(2,534)	1,321	-52.1%

Depreciation and amortization are discussed in the notes concerning non-current assets and investments.

Provisions refers to the investment in Game Media Networks S.r.l., as mentioned above.

The impairment reversal concerns dividends received from the subsidiaries 505 Games S.r.l. and Game Entertainment S.r.l., respectively amounting to €800 thousand and €300 thousand.

25. Net interest income

Interest income is broken down below:

EUR/000	2008-2009	2007-2008	Change	%
Interest on bank accounts	18	31	(12)	-40.1%
Interest on derivatives	145	259	(114)	-44.0%
Financial income	32	61	(29)	-48.0%
Total interest income	195	350	(155)	-44.4%

Below are the details of interest expense:

EUR/000	2008-2009	2007-2008	Change	%
Interest on account overdrafts and commercial transactions	(2,998)	(2,590)	(408)	15.8%
Other interest expense	(44)	(5)	(39)	747.0%
Interest on derivatives	(318)	(84)	(234)	277.2%
Interest on loans and leasing agreements	(330)	(355)	25	-7.1%
Factoring interest	(204)	(240)	36	-15.1%
Total interest expense	(3,894)	(3,275)	(620)	18.9%

Interest expense increased by 18.9%, due mostly to the Company's need to finance the growth of its subsidiaries operations during the year.

Average debt, calculated as the average of net indebtedness at the end of each quarter, went from 6.89% in 2007-2008 to 6.83% this year:

EUR/000	2008-2009	2007-2008	Change
Average debt	52,325	46,319	6,006
Net interest expense	(3,576)	(3,191)	(385)
Cost of debt	-6.83%	-6.89%	0.05%

29. Taxes

The breakdown of current and deferred taxes is as follows:

EUR/000	2008-2009	2007-2008	Change	%
Current taxes	(1,730)	(2,332)	602	-25.8%
Deferred taxes	292	(502)	794	-158.2%
Total taxes	(1,438)	(2,834)	1,396	-49.3%

Below is the breakdown of current taxes between corporate income tax (IRES) and the regional business tax (IRAP):

EUR/000	2008-2009	2007-2008	Change	%
IRES (corporate income tax)	1,202	1,780	(578)	-32.5%
IRAP (regional business tax)	528	552	(24)	-4.3%
Total current taxes	1,730	2,332	(601)	-25.8%

IRES was determined as follows:

<i>EUR/000</i>	2008-2009	2007-2008	Change
Taxable income for IRES purposes	4,120	5,394	(1,274)
IRES rate	27.5%	33%	(0)
IRES for the period	1,133	1,780	(647)
Effect of group tax election	(21)	0	(21)
Prior year taxes	90	0	90
Total IRES for the period	1,202	1,780	(578)

Below is a reconciliation between the IRES provision for the year and the profit shown in the financial statements:

<i>EUR/000</i>	2008-2009		2007-2008	
Digital Bros S.p.A. pre-tax profit	2,085		4,154	
IRES rate (33%)	27.5%		33%	
Theoretical charge	573	27.5%	1,371	33%
Tax effect of non-deductible costs	685	33%	1,240	10%
Net tax effect of the release of deferred tax assets not included in the above	(125)		0	
Effect of group tax election	(21)		0	
Prior year taxes	90		0	
Tax charge for the year and effective tax rate	1,202	57.7%	1,780	7.4%

IRAP was determined as follows:

<i>EUR/000</i>	2008-2009	2007-2008	Change
Taxable income for IRAP purposes	11,668	12,988	(1,320)
IRAP rate	3.90%	4.25%	
IRAP pertaining to the year	455	0	455
Prior year taxes	73	0	73
IRAP for the period	528	552	(24)

Below is a reconciliation between the IRAP provision for the year and the profit shown in the financial statements:

<i>EUR/000</i>	2008-2009		2007-2008	
Digital Bros S.p.A. operating profit	11,652		9,613	
IRAP rate	3.90%		4.25%	
Theoretical charge	454	3.9%	409	4.3%
Tax effect of non-deductible costs	1	0.0%	3,381	35.2%
Tax charge for the year and effective tax rate	455	3.9%	552	5.7%

9. SUBSEQUENT EVENTS

No significant events have occurred since 30 June 2009.

10. CONTINGENT ASSETS AND LIABILITIES

In May 2006, the 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 and has been appealed. The provincial tax commission of Milan (level one for tax disputes) has partially ruled in the company's favor, which reinforces the expectation that no liability will arise. Together with its tax advisors, the Company is considering how to proceed with this dispute.

There were no other contingent assets or liabilities at 30 June 2009.

11. 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.

Subsidiaries

EUR/000	Receivables		Payables		Revenues	Costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	123	12,165	0	0	918	(10,341)
Game Media Networks S.r.l.	0	3,469	0	0	204	0
Game Service S.r.l.	0	1,835	0	0	1,167	0
Game Entertainment S.r.l.	0	180	0	0	700	0
Digital Bros France S.a.r.l.	0	0	(120)	0	57	(120)
505 Games Ltd.	0	1,090	0	0	4	0
DB Iberia S.l.	0	1,646	(30)	0	181	(30)
505 Games US Inc.	0	1,950	0	0	0	0
Total	123	22,335	(150)	0	3,231	(10,491)

Joint ventures

At 30 June 2009 the Company was involved in one joint venture. It has a 50% stake (€5,000) in D3DB S.r.l., owned jointly with the Japanese company D3 Publisher Inc.

Below are the key data for D3DB S.r.l. (held 50%) at 31 March 2009, the closing date of its latest financial year.

EUR/000	
Assets	1,220
Capital and reserves	(82)
Liabilities	1,302
Revenues	0
Costs	(6)
Net profit (loss) for the year	(6)

At 30 June 2009 there were no contingent liabilities associated with the joint venture.

Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, who received €185 thousand for the period, and the leasing of property by Matov Imm. S.r.l. (owned by the Galante family), to which the Company paid a deposit of €635 thousand to secure rent on the premises at Via Tortona 37/41, which will become Digital Bros S.p.A.'s new head office in the second half of next year.

Group tax election

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for the group tax election 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.

12. ATYPICAL AND UNUSUAL TRANSACTIONS

There were no atypical or unusual transactions in this or the previous year.

13. OTHER INFORMATION

INCOME FROM EQUITY INVESTMENTS OTHER THAN DIVIDENDS

Pursuant to Art. 2425 (15) of the Italian Civil Code, the Company did not receive any income from equity investments other than dividends.

FINANCIAL INSTRUMENTS ISSUED

The Company has issued no financial instruments.

LOANS FROM SHAREHOLDERS WITH SUBORDINATION CLAUSES

The Company has not taken out loans with subordination clauses from its shareholders.

CAPITAL EARMARKED FOR A SPECIFIC USE

The Company has not earmarked any capital for a specific use.

LOANS EARMARKED FOR A SPECIFIC USE

The Company has not taken out any loans earmarked for a specific use.

EMPLOYEES

Below are the details of the year-end workforce with comparative figures at 30 June 2008:

Category	30 June 2009	30 June 2008	Change
Executives	6	6	0
White collar	79	74	5
Blue collar and trainees	13	10	3
Total employees	98	90	8

The average headcount, calculated as the average number of employees in service at the end of every month, is shown below:

Category	Average in 2008-2009	Average in 2007-2008	Change
Executives	6	7	(1)
White collar	79	75	4
Blue collar and trainees	13	10	3
Total employees	98	92	6

ENVIRONMENT

At 30 June 2009 there were no issues of an environmental nature, and as the Company's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise.

14. COMPENSATION OF DIRECTORS AND STATUTORY AUDITORS

Pursuant to CONSOB Regulation 11971/99 (as amended), which implemented Legislative Decree 58 of 24 February 1998, below are the details of fees paid or due to members of the Board of Directors and Board of Statutory Auditors, to the general managers and to executives with strategic responsibilities. At the close of the year, there were no general managers per Article 2396 of the Italian Civil Code.

Name	Position	Term of office	End of term	Emoluments	Bonuses and other incentives	Benefits in kind	Other remuneration
Board of Directors							
Abramo Galante	Chairman and managing director (1)	01/07/08 to 30/06/09	30/06/11	370,000	0	3,968	52,850
Raffaele Galante	Managing director (1)	01/07/08 to 30/06/09	30/06/11	370,000	0	3,968	52,850
Davide Galante	Director (2)	01/07/08 to 30/06/09	30/06/11	72,000	0	0	0
Stefano Salbe	Director (1) (4)	01/07/08 to 30/06/09	30/06/11	0	61,386	3,247	204,619
Bruno Soresina	Director (2)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Dario Treves	Director (2)	01/07/08 to 30/06/09	30/06/11	6,600	0	0	185,439
Umberto Virri	Director (3)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Alberto Pianta	Director (3)	01/07/08 to 30/06/09	30/06/11	15,500	0	0	0
Board of Statutory Auditors							
Michele Rutigliano	Chairman	28/10/08 to 30/06/09	30/06/11	25,009	0	0	0
Nicolino Cavalluzzo	Chairman	01/07/08 to 12/09/08	12/09/08	1,198	0	0	0
Franco Gaslini	Standing auditor	01/07/08 to 30/06/09	30/06/11	22,797	0	0	0
Paolo Villa	Standing auditor	01/07/08 to 30/06/09	30/06/11	25,448	0	0	0
Marcello Priori	Standing auditor	13/09/08 to 27/10/08	27/10/08	0	0	0	0
Enrico Muscato	Alternate auditor	01/07/08 to 30/06/09	30/06/11	0	0	0	0
Marcello Priori	Alternate auditor	01/07/08 to 12/09/09 28/10/08 to 30/06/09	30/06/11	0	0	0	0

(1) Executive directors

(2) Non-executive directors

(3) Independent directors

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

15. INFORMATION ON SHARE OWNERSHIP (pursuant to Art. 123 bis of the Consolidated Finance Act)

Structure of share capital

At 30 June 2009 the share capital was comprised of 14,110,837 ordinary shares issued and fully paid in of par value €0.40 each.

The Company has not issued shares in different categories or other financial instruments entitling the holder to subscribe to newly issued shares. There are no share-based incentive plans in course that entail increasing the share capital against payment or free of charge.

Restrictions on the transfer of securities

There are no statutory restrictions on the transfer of securities, such as limits on the possession of shares or the need to obtain permission from the issuer or from other shareholders.

Significant shareholdings

The following shareholders directly or indirectly own significant interests in the share capital of Digital Bros S.p.A., according to the communications received at 10 September 2009 pursuant to Art. 120 of the Consolidated Finance Act:

Reporting party	Direct shareholder	% of ordinary capital held	% of voting capital held
Raffaele Galante	Raffaele Galante	33.16%	33.16%
Abramo Galante	Abramo Galante	32.97%	32.97%

Securities conferring special rights

No securities have been issued that confer special rights of control.

Stock sharing: means of exercise of voting rights

The Company offers no employee stock sharing plans.

Voting restrictions

There are no restrictions on the right to vote.

Shareholder agreements

There are no agreements in existence among the shareholders.

Election and replacement of directors; by-law amendments

Please see the Corporate Governance section of the consolidated annual report, available in the Investor Relations section at www.digital-bros.net.

Authorization to increase the share capital and/or purchase treasury shares

The board of directors has no authorization to increase the share capital pursuant to Civil Code Art. 2443 or to issue quotas or shares.

The board has been authorized to purchase treasury shares as described in the Corporate Governance section of the consolidated annual report, available in the Investor Relations section at www.digital-bros.net.

Change of control provisions

There are no change of control provisions.

Directors' indemnities in case of resignation, dismissal or departure as a result of a takeover bid

No agreements are in place that provide for indemnities in the event of dismissal, resignation and/or departure from office, even if a takeover bid is the cause of termination.

16. SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS

Pursuant to CONSOB Resolution 11971/99 (as amended), below is a list of equity investments held by directors (the statutory auditors have no such holdings).

Name	Shares of	No. of shares held at 30 June 2008	No. of shares purchased	No. of shares sold	No. of shares held at 30 June 2009
Abramo Galante	Digital Bros S.p.A.	4,651,955	0	0	4,651,955
Raffaele Galante	Digital Bros S.p.A.	4,678,736	0	0	4,678,736
Davide Galante	Digital Bros S.p.A.	253,728	0	0	253,728

17. INFORMATION ON ASSETS SUBJECT TO REVALUATION IN ACCORDANCE WITH SPECIAL LAWS

No revaluations have been carried out on the Company's assets pursuant to Art. 10 of Law 72/83.

18. LOANS GRANTED TO MEMBERS OF ADMINISTRATIVE, MANAGERIAL AND SUPERVISORY BODIES

Pursuant to Art. 43 (1) of the Fourth Council Directive 78/660/EEC, no loans have been granted to members of the Company's administrative, managerial and supervisory bodies.

19. RESEARCH AND DEVELOPMENT COSTS

Digital Bros did not engage in research and development during the year.

20. EXTERNAL AUDITING FEES

Pursuant to Art. 149-duodecies of the Issuers' Regulations, the external auditing company, Reconta Ernst & Young, received €43 thousand in 2008-2009 for auditing the year-end financial statements and € thousand for signing the tax return.

STATEMENT PURSUANT TO ART. 154-BIS (5) OF THE CONSOLIDATED FINANCE ACT

We, the undersigned, Abramo Galante as chairman of the board of directors and Stefano Salbe as financial reporting officer of the Digital Bros Group, hereby declare, including in accordance with Art. 154-*bis* (3) and (4) of Legislative Decree 58 of 24 February 1998:

- the adequacy of in relation to the characteristics of the business; and
- due compliance with

the administrative and accounting procedures for preparation of the financial statements for the year ended 30 June 2009.

We also confirm that:

1. the financial statements of Digital Bros S.p.A. for the year ended 30 June 2009:
 - a) have been prepared in accordance with the applicable International Accounting Standards recognized by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
 - b) correspond to the ledgers and accounting entries;
 - c) provide fair and truthful disclosure of the financial status and performance of Digital Bros S.p.A.;

2. the financial statements at 30 June 2009 contain information on the key events that took place during the year and their impact on the financial statements themselves, and describe the main risks and uncertainties. They also include information on significant related party transactions.

Milan, 10 September 2009

Signed

Abramo Galante

Chairman of the board of directors

Stefano Salbe

Financial reporting officer