



**Digital Bros S.p.A.**

**Annual report**

**for the year ended  
30 June 2008**

**Digital Bros S.p.A.**

Via Bisceglie, 76 – 20152 Milan, Italy

VAT and tax identification no. 09554160151

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

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

This report can be downloaded from the Investor Relations section  
at [www.digital-bros.net](http://www.digital-bros.net).

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## OFFICERS AND CONTROL

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### Board of Directors

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

Umberto Virri (Chairman)  
Alberto Pianta  
Bruno Soresina

### Compensation Committee

Alberto Pianta (Chairman)  
Bruno Soresina  
Umberto Virri

### Board of Statutory Auditors

Franco Gaslini	Chairman
Enrico Muscato	Standing auditor
Paolo Villa	Standing 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 2008.

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

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

### External auditors

Reconta Ernst & Young S.p.A.

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

# **DIRECTORS' REPORT**

## **1. GROUP STRUCTURE**

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The Digital Bros Group publishes, distributes and markets video games. In recent years it has diversified into operations complementary to video games themselves, with a wide range of digital entertainment products, using all 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 (Distribution segment), in recent years the Group has expanded into video game publishing and distribution on an international scale (International Publishing segment), and into the new media industry through 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.

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

Group operations are divided into the five segments described below:

***Distribution:*** the distribution in Italy of video games acquired from international publishers, either directly through key accounts or through 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 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 the newly incorporated Digital Bros France S.a.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint venture with Japan's D3 Publisher Inc. set up for the exclusive distribution of games in the lower price range in PAL system countries (Europe, Australia and South Africa). In January 2008 the Group formed two additional subsidiaries, Digital Bros Iberia S.I. and

505 Games U.S. Inc., which will become fully operational in fiscal year 2008-2009. These two companies will support 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.

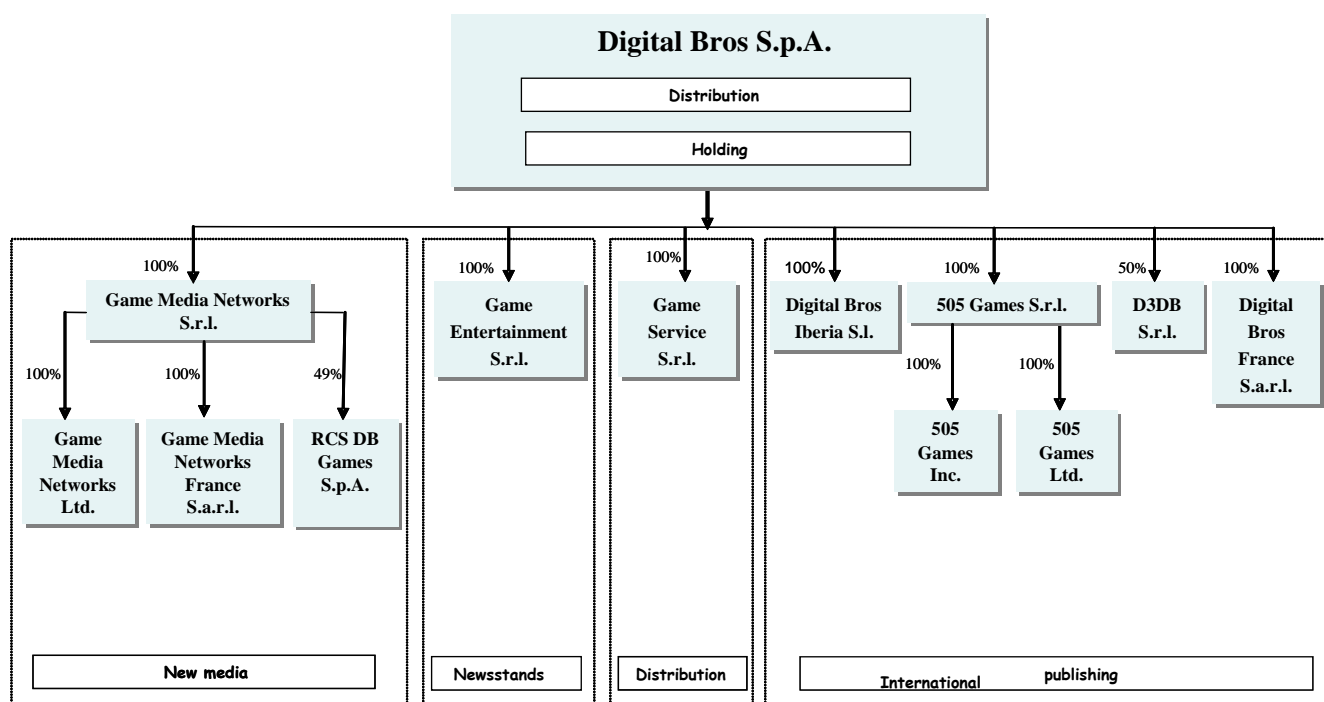
In 2006-2007, the Digital Bros Group and RCS Mediagroup formed the joint venture RCS DB Games S.p.A. to develop an online gaming portal called [www.fueps.com](http://www.fueps.com) and e-commerce/d-commerce operations for the Italian market. Through its subsidiary Game Media Networks S.r.l., Digital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

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

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

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

The following chart presents the Group's structure by business segment in 2007-2008.



During the period the Group operated from the following locations:

Company	Address	Type
Digital Bros S.p.A.	Via Bisceglie 76, Milan	Offices
Digital Bros S.p.A.	Via Petrella, Trezzano sul Naviglio (MI)	Warehouse
Digital Bros France S.a.r.l.	2, Chemin de la Chauderaie, Francheville, Lyons, France	Offices
Digital Bros Iberia S.I.	Calle Londres 138, Las Rozas de Madrid, Spain	Offices
Game Service S.r.l.	Via Bisceglie 76, Milan	Offices
Game Entertainment S.r.l.	Via Bisceglie 76, Milan	Offices
Game Media Networks S.r.l.	Via Bisceglie 76, Milan	Offices
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, Lyons, France	Offices
505 Games S.r.l.	Via Bisceglie 76, Milan	Offices
505 Games Ltd.	Court Silbury Boulevard, Milton Keynes, U. K.	Offices
505 Games U.S. Inc.	Chesebro Rd., Suite 102, Agoura Hills, CA, U.S.A.	Offices

## **2. CORPORATE GOVERNANCE**

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### **Annual report by the board of directors on compliance with the corporate governance code**

The Board of Directors of Digital Bros S.p.A. (the “Company”) hereby presents its annual report on the corporate governance system adopted by the Company and on compliance with the new code issued by the Committee for Corporate Governance, set up by Borsa Italiana S.p.A. in March 2006 (the “**Corporate Governance Code**”).

During the year ended 30 June 2008, the Company continued to adapt its corporate governance system to the standards and rules of the new Corporate Governance Code.

At a meeting of 25 June 2007 the shareholders amended the by-laws to reflect the provisions introduced by Law 262 of 28 December 2005 (“*Measures for the protection of investors and governance of the financial markets*”). In accordance with these changes, directors are now elected on the basis of preference lists, the chairman of the board of statutory auditors is the candidate elected by minority investors, and the company now appoints a financial reporting officer.

This report, written taking account of Borsa Italiana S.p.A.'s *Linee guida per la redazione della relazione annuale in materia di corporate governance* (February 2003) and Assosime ed Emittenti Titoli S.p.A.'s *Guida alla compilazione della relazione sulla corporate governance* (February 2004), reflects and describes the corporate governance structure that the Company has adopted in accordance with the Corporate Governance Code. Any provisions that have not been adopted in whole or in part are mentioned and the reasons given.

The Company's corporate governance structure follows the traditional system, calling for a board of directors and a board of statutory auditors.

### **Role of the board of directors**

The board of directors of Digital Bros S.p.A. is invested with all powers of ordinary and extraordinary administration and is expressly authorized to take all action deemed appropriate in pursuit of the corporate purpose, as established in Art. 20 of the by-laws, excluding only those reserved by law and by the articles of association to the shareholders. The by-laws give the board of directors exclusive authority for the following:

1. appointment of the executive committee, if any, and establishment of the members' terms, powers and compensation;
2. allocation of the total fees due to the board of directors among individual members and managing directors, after consulting the board of statutory auditors;
3. institution of advisory committees and commissions, if any, determining their sphere of competence, powers and procedures;
4. reporting to the shareholders at general meetings;
5. reporting to the board of statutory auditors, on at least a quarterly basis, concerning the board's activities and significant actions.

With the amendment of the by-laws to reflect the provisions of Legislative Decree 6/2003, the board of directors may also resolve on the following matters:

1. mergers, in the cases presented in Articles 2505 and 2505 *bis* of the Italian Civil Code;
2. the reduction of share capital, upon shareholders' exercise of the right of rescission;
3. the adaptation of the by-laws to inviolable provisions of law;
4. transfer of the head office within Italy.

By custom, the board of directors is solely responsible for:

- examining and approving the Company's strategic, industrial and financial plans and corporate governance system, and the structure of the Group it heads;
- judging the adequacy of the organizational, administrative, and accounting structure of the Company and other members of the Group, with particular reference to the internal control system and the management of conflicts of interest;
- granting and revoking powers to the managing directors, defining their limits and means of exercise; establishing the frequency—no less than quarterly—with which the managing directors must report on their activities to the board of directors;
- supervising business in general, with a particular focus on conflicts of interest, bearing in mind the information received from the managing directors and the internal control committee, and periodically comparing the results achieved with those set out in plans;
- examining and approving the Company's and its subsidiaries' operations of strategic, industrial or financial significance, paying special attention to potential conflicts of interest and any business with related parties;
- writing and implementing the Company's rules of corporate governance and defining the Group's corporate governance guidelines;
- evaluating, at least once a year, the size, composition and functioning of the board of directors and its committees;
- approving commitments of any kind with a duration of more than five years;
- approving commitments regarding the rental or purchase of properties;
- approving commitments regarding derivative instruments and/or hedging contracts with banks.

In addition, in accordance with the procedure for significant or related party transactions and transactions in which a director holds an interest, approved by the board of directors on 7 February 2008, transactions to be concluded by the Company or one of its subsidiaries (including through binding preliminary agreements or framework agreements) that fall into the following categories are in any case treated as significant transactions and require prior approval by the board of directors:

- a) mergers, demergers, disposals or acquisitions, in any form, of equity interests, businesses, business units, fixed and other assets, including real estate;
- b) investments in fixed assets for an amount exceeding €1,000,000 per transaction;
- c) the let (or sub-let) of property and the lease (or sub-lease) of businesses or business units exceeding nine years or an amount greater than €1,000,000 per transaction;
- d) the settlement of disputes, in or out of court, in excess of €1,000,000 per transaction;

- e) the disposal of capital goods of a value exceeding €1,000,000 per transaction;
- f) the granting of loans or guarantees for amounts exceeding €3,000,000 per transaction, if these are on behalf or in favor of companies (or associations, foundations, consortiums, or other entities) that are directly or indirectly controlled by the Company, or for amounts exceeding €500,000 if they are on behalf of or in favor of third parties;
- g) sale and purchase commitments or purchase or supply agreements, in any form, for movable assets or the performance of work or services not relating to investments in fixed assets, as well as the contracting of loans. In all cases, the joint signature of the two managing directors is required.

Art. 20 of the by-laws allows the board of directors to appoint an executive committee, establishing the number of members and rules of operation. As of this writing the board has not exercised that right.

The chairman of the board of directors ensures that the information and documents relevant to decisions pertaining to the board are made available to the board members and the statutory auditors in an effective and timely fashion. It is company practice for the Company's and the Group's executives to attend board meetings so that they can enrich the discussion of items on the agenda.

#### **Composition of the board of directors**

According to Art. 16 of the by-laws, the board of directors has a minimum of five and a maximum of eleven members. The directors stay in office for three business years, or for a shorter term approved by the general meeting at the time of the vote, and are eligible for re-election. The current board of directors has eight members, of whom four are executive and four non-executive; three of the latter are independent. At the extraordinary meeting of 25 June 2007, the shareholders voted to amend the by-law provisions for the election of company officers, in accordance with Law 262/2005 (“*Measures for the protection of investors and governance of the financial markets*”). The change, reflecting the new Art. 147-ter of the Consolidated Finance Act, governs the election and composition of the board of directors and introduces the preference list voting system. In this way, minority investors are given the opportunity for representation on the board of directors. The preference list system also ensures that candidates for directorship are adequately publicized, sufficiently in advance of the election. The lists, along with each candidates' curriculum vitae, are filed at the company's head office during the 15 days preceding the first-call date of the general meeting, as recommended by the Corporate Governance Code.

The percent ownership required for submitting candidate lists for election of the board of directors is established by CONSOB, pursuant to Art. 147 ter, paragraph 1 of Legislative Decree 58/98 and in accordance with the Issuers' Regulations adopted with Resolution 11971 of 14 May 1999 (as amended). As of this writing, the percent ownership set by CONSOB with Resolution 16564 of 23 July 2008 is 4.5%.

At 30 June 2008 (and as of the date of approval of this report), the board of directors was made up as follows: Abramo Galante (chairman and managing director), Raffaele Galante (managing director), Davide Galante (executive director), Alberto Pianta (independent non-executive director), Bruno Soresina

(independent non-executive director), Stefano Salbe (executive director), Dario Treves (non-executive director), and Umberto Virri (independent non-executive director).

Director Sergio Treves left office during the year and was replaced by Alberto Pianta, who was co-opted by the board meeting of 27 March 2008.

The board of directors in office as of this writing was elected by the general meeting of 7 November 2005, for a three-year term ending with approval of the financial statements at 30 June 2008, and may be re-elected for a further term not exceeding three years.

Each member of the board of directors must act with full cognizance and autonomy, in pursuit of the creation of value for the shareholders, and must notify the board of any positions assumed as director or statutory auditor at listed Italian and foreign companies, at financial institutions, banks and insurance companies, or at other companies of significant size.

The directors have no positions at other listed companies or at unlisted financial institutions, banks, insurance companies or other large enterprises.

The executive directors work at the company on a stable, ongoing basis, thus ensuring their constant attention to managerial issues. The non-executive directors contribute their specific expertise to board discussions, and help make decisions in the company's interests. In this respect, the attribution of emergency powers only to directors without managerial duties does not qualify them as executive directors.

As there are two managing directors with well defined, non-overlapping duties and because the chairman's position is not filled by a person who controls the Company, the board of directors has not designated a "lead independent director."

The non-executive directors include three independent directors (Alberto Pianta, Bruno Soresina and Umberto Virri). The board of directors ensures that independent status is maintained over time in accordance with the Corporate Governance Code and, in this regard, specifies that none of the cases envisaged by Arts. 3.C.1 and 3.C.2 of the Code apply to the independent directors and that there are no other circumstances that would normally prejudice their status as independent. The board of statutory auditors, in the context of the duties assigned to it by law, has confirmed the proper application of the verification criteria and procedures used by the board of directors to assess the independence of its members. The independent directors meet at least once a year without the other directors.

The participation of the independent directors assures the board that potential conflicts of interest regarding the Company and/or its controlling shareholders are evaluated with appropriate independence of judgment.

The board of directors, with a view to having operations managed efficiently and flexibly, has granted the managing directors all powers of ordinary and extraordinary administration, except those reserved to the board of directors as a whole in accordance with the law or the company's by-laws or by express resolution of the board.

All powers and decisions of ordinary and extraordinary administration involving amounts in excess of €5,000,000.00 must be exercised by joint signature of both of the managing directors.

The board of directors meets at least quarterly, or more frequently depending on the Company's needs. During the year ended 30 June 2008, the board met eight times to discuss performance in the various

sectors, quarterly results, strategic plans, and the significant operations presented by the executive directors. Five meetings are planned for the year in course. Despite the breadth of their powers, the chairman and managing director constantly (and at least on a quarterly basis) submit transactions of economic and financial significance for the approval of the board of directors.

Article 18 of the by-laws states that meetings of the board of directors are to be called by the chairman of the board. The notice of call must be sent at least five days in advance of the meeting. In urgent cases they may be called as little as two days in advance.

For 2007-2008, the Company published a calendar of events specifying the dates of the board meetings held to approve the results of each period. The calendar was also published on the Company's website.

The work of the board of directors is coordinated by the chairman. The chairman runs board meetings, with the assistance of the secretary of the board. Board meetings are held at the location specified in the notice of call, at the Company's registered office or elsewhere in Italy or the European Union, whenever the chairman deems fit or when requested in writing by at least two directors or one statutory auditor. Meetings may also be called, after informing the chairman of the board of directors, by the board of statutory auditors as a whole or by any of its members.

### **Compensation committee**

The board of directors has formed a compensation committee whose current members are the three non-executive, independent directors (Alberto Pianta, Bruno Soresina and Umberto Virri).

The committee met as planned prior to the board of directors resolution on directors' fees. In accordance with Art. 7.C.4 of the Corporate Governance Code, no director attends the meetings of the compensation committee at which proposals for his or her own compensation are made.

The compensation received by executive directors and top executives is significantly correlated with the company's results, in the form of incentives and/or bonuses bound to the achievement of specified goals. For the managing directors as well, compensation includes a variable portion linked to the achievement of specific business results. Fees for non-executive directors have no relation to the Company's performance. A table in the notes to the financial statements at 30 June 2008 specifies the compensation received by directors during the course of the year.

The compensation committee has no specific powers on the subject of stock option plans.

All members of the compensation committee, in their capacity as directors, will remain in office until approval of the financial statements for the year ended 30 June 2008.

In 2007-2008 the committee held two meetings, duly attended by all of its members.

The Company has no agreements in place with directors that provide for indemnities in the event of resignation, dismissal, and/or revocation without just cause or in the event of termination due to a public takeover bid.

## **Internal control**

The internal control system is the set of processes serving to monitor the efficiency of business operations, the reliability of financial data, the observance of laws and regulations, and the safeguarding of the Company's assets. In accordance with the standards and principles laid down in the Corporate Governance Code, the following parties participate in the internal control system:

- a. the board of directors, which defines the orientation of the internal control system (so that the main risks affecting the Company and its subsidiaries are properly identified and suitably measured, managed and monitored) and periodically ensures that it is adequate and properly working, through the appointment of and regular reporting by the internal control committee;
- b. the managing director, who follows the orientation determined by the board of directors and, in particular, identifies the main corporate risks with assistance from the internal control officers appointed thereby;
- c. the executive director called for by Art. 8.C.1.b) of the Corporate Governance Code, who, given the lack of complexity of the business, also serves as internal control officer. The executive director verifies that the control system is always adequate, fully operational and in good working order, by suggesting to the internal control committee and the board of directors, where necessary, the adoption of any measures designed to eliminate financial risks or improve the efficiency and effectiveness of business processes;
- d. the internal control committee, which advises and makes recommendations including with regard to the proper use of accounting principles and their uniformity for purposes of drafting the consolidated financial statements.

## **Internal control committee**

The board of directors has set up an advisory body known as the internal control committee, which at 30 June 2008 was made up of the three non-executive, independent directors (Alberto Pianta, Bruno Soresina and Umberto Virri).

The internal control committee is responsible for:

1. assisting the board of directors in setting the guidelines of the internal control system and verifying that it is adequate and effective;
2. evaluating the plan of work drawn up by the internal control officer and receiving regular reports from that person;
3. verifying, together with the company's administrators and external auditors, the appropriateness of the accounting principles and their uniformity for purposes of drafting the consolidated financial statements;
4. judging the adequacy of the organizational structure and internal control environment, together with the board of statutory auditors;

5. evaluating accounting firms' bids for the role of external auditor, along with the auditing plan and the results expressed in the report and the letter of recommendations;
6. reporting to the board of directors on the work performed and the adequacy of the internal control system; this report should be made at least every six months upon approval of the annual and half-year reports;
7. performing any additional duties assigned to it by the board of directors, especially as regards relations with the external auditors.

The committee meets at least twice a year.

The executive director and internal control officer, Stefano Salbe: *(i)* has been given suitable means for fulfilling his duties; *(ii)* has direct access to all information relevant to his role; and *(iii)* reports on his work to the internal control committee and the board of statutory auditors.

All members of the internal control committee, as directors of the Company, will remain in office until approval of the financial statements for the year ended 30 June 2008.

In 2007-2008 the committee held four meetings, attended by its members and the internal control officer, and also by certain representatives of the units affected by control operations and by a member of the board of statutory auditors.

#### **Organizational model pursuant to Legislative Decree 231/2001**

The Company has adopted an organizational, management and control model (with its associated ethical code) in accordance with Legislative Decree 231/2001 on the “liability of legal entities, corporations and associations with or without recognized legal status.” In light of the Company's organizational characteristics and the guidelines issued by its trade association, Confindustria, the board of directors has established a compliance committee made up of three members: one from the internal control committee, one from the board of statutory auditors, and the director of legal and/or corporate affairs. This composition satisfies the requirements of autonomy, independence, expertise, and continuity of action necessary for the compliance committee to work effectively. On 27 March 2008 the board of directors adapted its organizational model to include the new offenses covered by the law.

#### **Nominations committee**

At the moment, the board of directors has decided not to institute a committee for the nomination of directors. The shareholders have had no difficulty choosing candidates whose election ensures that the board of directors includes the proper number of independent and non-executive directors, in accordance with the Corporate Governance Code.

## **Related party transactions**

Transactions with related parties must respect substantial and procedural fairness, in accordance with applicable laws and regulations and with Article 9 of the Corporate Governance Code. The board of directors determines the criteria for identifying transactions with related parties, taking account of the definitions provided by the international accounting standards and the supervisory authorities.

The new Civil Code provisions regarding the interests of directors and transactions with related parties (Arts. 2391 and 2391 bis) have instituted the precise, mandatory governance of this matter.

In any case, transactions with related parties are subject to the examination and approval of the board of directors. In all instances requiring prior approval by the board of directors, the board must receive sufficient information on the nature of the relationship, the economic conditions of the transaction, how and when it will be carried out, the evaluation procedure followed, the rationale for the transaction (including in light of established strategic guidelines), any present or future risks for the Company and its subsidiaries, and any general implications for their business. Consequently, the chairman of the board of directors (or the person acting in the chairman's stead) shall promptly provide the individual directors and statutory auditors with all information relevant to forming opinions and reaching decisions on the matter at hand.

Specifically, in transactions with related parties, directors who have even a potential or indirect interest in the transaction must notify the other directors and the board of statutory auditors of that fact, specifying the nature, terms, origin and scope of any interest they have on their own or third parties' behalf.

Said notification may be given at board meetings in any form, including verbal, or through a written note to the chairman of the board of statutory auditors in which case an announcement must be made at the first subsequent meeting of the board.

With a board resolution of 7 February 2008, the Company established a procedure to ensure that related party transactions are handled appropriately.

On the basis of that procedure all transactions of economic or financial significance and those with related parties (including intercompany transactions), and all transactions in which a director has an interest, are approved in advance by the board of directors, except in the case of typical or usual transactions or those settled under market conditions, which in any case must be notified to the board of directors by the designated bodies.

If the board of directors notes a correlation with one of its members or with a related party through one of its members, it promptly investigates whether there is an interest, even potential or indirect, and when the board is ready to deliberate any director with a direct or indirect interest must leave the meeting.

The Board of Directors must evaluate the nature, amount and other characteristics of the transaction if it deems this necessary to ensure that the transaction is conducted under market conditions. To prevent the transaction from being conducted under conditions other than those that would likely be negotiated between unrelated parties, the board asks a congruous number of experts of acknowledged skill and experience in such matters for their opinion of the economic conditions, legality, and/or technical aspects of the transaction, as appropriate.

## Management of inside information

The chairman and managing director, as well as the investor relations manager, oversee communications with the public regarding events that occur within the Company's and its subsidiaries' sphere of business. The external disclosure of documents and information, with particular regard to price-sensitive information, is handled by designated persons. Employees, directors, statutory auditors and consultants must maintain the confidentiality of documents and information acquired in the course of their duties.

The Company informs the supervisory authorities, the market regulator and the public, in the most appropriate forms and in accordance with all regulations, of events occurring within its sphere that are not in the public domain and that may, if made public, significantly affect the price of the Company's listed financial instruments.

On 9 November 2006, the board of directors also adopted:

- a. a procedure for the market disclosure of price sensitive information and documents concerning Digital Bros S.p.A. and the financial instruments it has issued;
- b. a procedure for the identification of relevant persons and the disclosure of transactions they have carried out, including through third parties, regarding the shares issued by Digital Bros S.p.A. or other related financial instruments (*insider dealing procedure*);
- c. a procedure for keeping and updating a register of persons with access to price sensitive information on Digital Bros S.p.A..

The procedure for market disclosure takes account of the *Guida per l'informazione al mercato* published by the "Forum sull'informativa societaria," containing the principles of fair disclosure, and of the Corporate Governance Code. It defines rules and procedures for disclosing price sensitive information on the Company and its subsidiaries to the public. Any price sensitive information is made public in the form of a press release containing the information needed for investors to form a complete and accurate assessment of the events and circumstances discussed. All of the Company's directors, statutory auditors, employees and consultants must maintain the confidentiality of price sensitive information they acquire in the course of their duties and disclose that information to the investor relations manager, who then informs the managing director so the necessary measures can be taken and follows the procedures established for the external disclosure of such documents and information.

The insider dealing procedure was arranged in accordance with Art. 114, paragraph 7 of the Consolidated Finance Act. It identifies relevant persons and parties closely related to same, requiring the disclosure of every purchase, sale, subscription or exchange of the Company's shares (or related financial instruments) carried out by such persons whose total amount—i.e. the sum of amounts paid and received, alone or in combination with previous transactions—is greater than or equal to €5,000. For each relevant person, this amount is calculated by adding the amount of the transactions carried out by or on behalf of that person and those carried out by or on behalf of parties closely related to that person. The Company reports the information thus received by the end of the subsequent open-market day, using the online "Network

Information System” or, if that system is unavailable, according to the procedures defined in Art. 66, paragraphs 2 and 3 of the regulations issued by CONSOB with Resolution 11971/99. In accordance with the insider dealing procedure, relevant persons and those closely related thereto may not carry out transactions during the 15 days prior to publication of the outcomes of the Company's meetings in which periodic statutory reports, proposals for interim dividend payments, budgets and the year-end dividend distribution proposal to be submitted to the shareholders, if not published at the meeting itself, are examined. The prohibition does not apply to the purchase of shares under stock option and stock grant plans; nevertheless, such shares may not be sold during the term indicated above.

## **Investor relations**

Relations with institutional investors and other shareholders are handled by the investor relations manager, Stefano Salbe, who is also the contact person for queries in accordance with Art. 2.6.1., paragraph 4 of the Italian Stock Exchange regulations.

Investors are also informed through the prompt and ongoing publication on the company's website ([www.digital-bros.net](http://www.digital-bros.net)) of the most significant documentation. Specifically, the website contains all press releases presented to the market, and the Company's periodic accounts (statutory and consolidated financial statements, half-year report and quarterly reports) as soon as they are approved by the relevant boards.

In this regard, the Company has set up an Investor Relations section on its website which is easily found and accessible by all. The section contains the information of significance to the Company's shareholders and institutional investors.

With particular reference to the preparation and disclosure of information on the Company's accounts, the amendment of the by-laws to reflect Law 262/2005 (“Measures for the protection of investors and governance of the financial markets”) pursuant to the extraordinary general meeting resolution of 25 June 2007 has given rise to a new figure known as the financial reporting officer. As revised, Article 24 of the by-laws concerning the financial reporting officer fully incorporates the provisions of the new Art. 154 bis of the Consolidated Finance Act (CFA).

Exercising the Company's right to independent by-law provisions on this matter in accordance with CFA Art. 154 bis, Art. 24 names the board of directors as the body responsible for appointing and dismissing the financial reporting officer, states that the officer must be given adequate means and powers, and defines the requisites he or she must satisfy.

With a board resolution of 7 August 2007, Stefano Salbe was appointed to the position of financial reporting officer and granted the necessary powers.

## **General meetings**

The general meeting is the body that represents all shareholders. It is held at least once a year to approve the annual financial statements. The ordinary and extraordinary general meeting attains a quorum and makes valid resolutions according to the attendance specifications and majorities set by law.

The meeting must be called, in accordance with and pursuant to the law, by way of notice published in the daily newspaper *Finanza & Mercati*. Should that publication cease to exist, notice will be published in the *Gazzetta Ufficiale*.

The meeting is open to all shareholders who at least two days in advance of the meeting have deposited their shares, or the certificates issued by authorized intermediaries that attest to their voting rights in accordance with applicable law, at the head office or with any authorized bodies specified in the notice of meeting. The shares cannot be withdrawn before the meeting has taken place or before it has failed to reach a quorum even on the last call specified in the notice.

The meeting is chaired by the chairman of the board of directors or, if that person is absent or unavailable, by the vice chairman or a managing director (if appointed), or by any other director designated by the board; if those persons are also absent it is chaired by any individual, not necessarily a shareholder, who is appointed by the general meeting.

On 6 September 2000, the shareholders approved a set of regulations governing the conduct of ordinary and extraordinary general meetings, which are on file at the head office and at Borsa Italiana S.p.A.

During the year ended 30 June 2008, the general meeting was held on 31 October 2007 to approve the 2006-2007 financial statements.

## **Board of statutory auditors**

Pursuant to Article 25 of the by-laws, the board of statutory auditors is made up of three standing auditors and two alternates, who hold office for three years and may be re-elected.

At the extraordinary part of the general meeting of 25 June 2007, with reference to the amendment of the by-laws to reflect Law 262/2005 (“Measures for the protection of investors and governance of the financial markets”), the shareholders also amended the provisions for electing the board of statutory auditors. The purposes of these changes were (i) to bring general election procedures into line with the Corporate Governance Code and (ii) to bring the procedure for election of the chairman of the board of statutory auditors into line with the new Art. 148, paragraph 2 bis of the Consolidated Finance Act as amended by Law 262/2005, i.e. to require that the chairman be appointed from among the auditors elected by the minority shareholders.

In this way, minority investors are given the opportunity for representation on the board of statutory auditors. The preference list system ensures that candidates for auditing positions are adequately publicized, sufficiently in advance of the election. The lists, along with each candidate's curriculum vitae, are filed at the company's head office during the 15 days preceding the first-call date of the general meeting.

The percent ownership required for submitting candidate lists for election of the board of statutory auditors, an independent decision recognized to the company by law, has been set at 2.5% of the share capital; should any laws or regulations intervene to change that percentage, reference will be made to such provisions of law without the need for further amendments to the by-laws.

The shareholders' meeting elects the board of statutory auditors, made up of three standing auditors and two alternates, and determines the compensation for their entire term in office.

Those to whom Article 2399 of the Italian Civil Code applies are ineligible, and must resign if already elected.

The current board of statutory auditors was elected by the annual general meeting of 7 November 2005 for three years (thus, until the AGM called to approve the financial statements for the year ending 30 June 2008).

On 12 September 2008, Nicolino Cavalluzzo resigned from his position as chairman of the board of statutory auditors. The board is currently made up of Franco Gaslini (chairman), Enrico Muscato and Paolo Villa (standing auditors). Marcello Priori serves as alternate. Article 25 of the by-laws refers to the applicable legislation for determination of their powers, emoluments and term of office.

Four meetings were held in the year ended 30 June 2008.

The statutory auditors accept office knowing the duties and responsibilities required of this position and believing themselves able to dedicate the necessary time for fulfilling these duties. For this purpose they must consider the offices they hold at other listed companies, financial institutions, banks, insurance companies or other large enterprises.

The offices thus held are as follows:

- Franco Gaslini: chairman of the board of statutory auditors at Reali e Associati S.p.A. and Gestire SGR S.p.A.
- Nicolino Cavalluzzo: chairman of the board of statutory auditors at Turbocare S.p.A., Grey Worldwide Italia S.p.A., B.P. Italia S.p.A., Heinz Italia S.p.A.; standing auditor at Heineken Italia S.p.A., Motorola S.p.A., Siemens S.p.A., Techint Compagnia Tecnica Internazionale S.p.A.

### **External auditing**

External auditing is performed in accordance with the law by a company registered for that purpose with CONSOB. On 30 October 2007, the general meeting extended the assignment granted to Reconta Ernst & Young S.p.A. until approval of the 2012 financial statements, in accordance with Legislative Decree 303/2006 which extended the duration of auditing assignments from six years to nine.

### **3. THE VIDEO GAMES MARKET**

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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 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; the increasing number of players; and the fact that players are older, as those who start to play when young continue to do so at a later age allowing the market to release games for an ever more mature audience. Growing just as fast is the market of video games for female players, who in recent years have become avid leisure time fans. In Europe, thanks to these trends, the video game sector now accounts for 34% of the total entertainment market.

Over the past year or so, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS console. 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 rates for the video game market in the past 12 months.

Meanwhile, technological development allows hardware manufacturers to launch more powerful consoles than ever that can also improve the quality of games. In fiscal year 2006-2007, the Nintendo Wii reached stores just before Christmas, and was joined by the Sony Playstation 3 in March.

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

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

Developers are those who create and program the game, which is usually based on an original idea, a hot brand, a film, a book and/or a cartoon. The developers retain the intellectual property rights, but they transfer the exploitation rights—for a limited amount of time agreed by contract—to international video game publishers, who are therefore crucial for 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 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 is also the member of the value chain that physically prints the game, using its own equipment, on behalf of the international publishers. 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 media relations events. In other markets, like the U.K.'s, 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.

In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores. The Group has therefore set up an internal key account network to serve the former and a team of sales representatives to serve the latter. 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.

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.

#### **4. SEASONAL TRENDS IN THE MARKET**

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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 “Metal Gear Solid 4” in June 2008.

## **5. SIGNIFICANT EVENTS DURING THE YEAR**

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The main events occurring from July 2007 to June 2008 were as follows.

- August 2007: On the basis of results at 30 June 2007, the Board of Directors approves forecasts for fiscal year 2007-2008. Board member Stefano Salbe is named financial reporting officer, pursuant to Art. 154 bis of Legislative Decree 58/98, and given the appropriate powers. In the International Publishing segment, through its subsidiary 505 Games S.r.l. the Group signs an agreement with Cooking Mama Ltd. for the publication of “Cooking Mama 2,” the sequel to the game for Nintendo DS and Wii. “Cooking Mama 2” is then released in March 2008;
  
- September 2007: launch of www.fueps.com, the vertical gaming portal created by RCS DB Games S.r.l.: the Group's online entertainment joint venture. The JV is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.).  
Fueps, an acronym for “Faccio l'Ultima e Poi Smetto” (“one more game, then I'll stop”) offers a wide range of high-quality games and an innovative community and ranking system. Users can also shop from the site, choosing from around 3,000 titles for all consoles and PCs; download games directly to their computers; or browse a broad selection of cell phone games.
  
- October 2007: 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 2007, along with the directors' and statutory auditors' reports;
  - allocate the net profit for the year, €2,045,555.30, as follows:
    - a dividend of €0.08 per share for a maximum payout of €1,128,867;
    - the remaining €16,688.30 to be carried forward.

At the meeting, the shareholders also

- extend Reconta Ernst & Young S.p.A.'s assignment to audit the separate and consolidated financial statements for the years ending 30 June 2010, 2011 and 2012;
- determine directors' fees for the year ending 30 June 2008;
- authorize the purchase and sale of treasury shares. Specifically, until the date on which the financial statements at 30 June 2008 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;

- November 2007: Digital Bros S.p.A. rolls out the seventh edition of the soccer simulation game PES 2008, which sells 610,000 units during its first month on Italian shelves, topping the first-month record for the sixth edition by 60,000 units and grossing €24.4 million. This confirms its position as the best-selling soccer title in the Italian video games market;
- December 2007: the Nintendo DS and Nintendo Wii game “Cooking Mama,” published and distributed in Europe through the subsidiary 505 Games S.r.l., tops one million units sold in Europe in just over a year since its release and proves to be the revelation of 2007;
- December 2007: Digital Bros S.p.A. strikes a deal with Russia's 1C Company, which leads the Central and Eastern European market in the development, publishing and distribution of video games for personal computers. Under the agreement, worth €15 million for calendar year 2008, the new brand 1C Games will be launched in Western Europe;
- March 2008: management announces the Group's debut in the U.S. market with the new subsidiary 505 Games U.S. Inc., and simultaneously in the Spanish market with the subsidiary Digital Bros Iberia S.I.; the latter will become operational in July 2008. These two companies will further the internationalization process undertaken in the last two years, with the formation of the U.K. subsidiary 505 Games Ltd. and the French subsidiary Digital Bros France S.a.r.l. In addition to direct operations in four countries (Italy, the United Kingdom, France and Spain) that together account for more than 70% of the European video games market, the Group now has a foothold in the American market as well. Through its indirect sales network, the Group's products are sold in 20 different countries;
- March 2008: the Nintendo DS game Cooking Mama 2, published and distributed in Europe through the subsidiary 505 Games S.r.l., records its eleventh week in a row at the very top of Italy's Nintendo DS charts with more than 70,000 units sold. Cooking Mama 2 is also one of the ten best-selling games in Europe and fourth on the U.K. chart, confirming its status as the most popular game in Europe for the Nintendo DS console among those not published directly by Nintendo;
- March 2008: management announces the European release of two new games for Nintendo DS: Kira Kira Pop Princess and Princess on Ice, both published by the subsidiary 505 Games S.r.l..

## 6. ECONOMIC PERFORMANCE IN THE YEAR ENDED 30 JUNE 2008

Below is the consolidated income statement for the year ended 30 June 2008, with comparative figures for the previous year:

	EUR/000	2007-2008		2006-2007		Change	
1	Revenues	178,789	114.1%	133,926	110.7%	44,863	33.5%
2	Revenue adjustments	(22,027)	-14.1%	(12,994)	-10.7%	(9,033)	69.5%
<b>3</b>	<b>Total revenues</b>	<b>156,762</b>	<b>100.0%</b>	<b>120,932</b>	<b>100.0%</b>	<b>35,830</b>	<b>29.6%</b>
4	Purchase of goods for resale	(102,627)	-65.5%	(91,693)	-75.8%	(10,934)	11.9%
5	Purchase of services for resale	(2,764)	-1.8%	(1,124)	-0.9%	(1,640)	n.a.
6	Royalties	(8,130)	-5.2%	(7,686)	-6.4%	(444)	5.8%
7	Change in inventories of finished products	513	0.3%	12,591	10.4%	(12,078)	-95.9%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(113,008)</b>	<b>-72.1%</b>	<b>(87,912)</b>	<b>-72.7%</b>	<b>(25,096)</b>	<b>28.5%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>43,754</b>	<b>27.9%</b>	<b>33,020</b>	<b>27.3%</b>	<b>10,734</b>	<b>32.5%</b>
10	Other income	117	0.1%	113	0.1%	4	3.5%
11	Cost of services	(16,452)	-10.5%	(10,997)	-9.1%	(5,455)	49.6%
12	Rent and leasing	(446)	-0.3%	(427)	-0.4%	(19)	4.4%
13	Payroll costs	(11,546)	-7.4%	(9,491)	-7.8%	(2,055)	21.7%
14	Other operating expenses	(2,436)	-1.6%	(2,160)	-1.8%	(276)	12.8%
<b>15</b>	<b>Total operating expenses</b>	<b>(30,880)</b>	<b>-19.7%</b>	<b>(23,075)</b>	<b>-19.1%</b>	<b>(7,805)</b>	<b>33.8%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>12,991</b>	<b>8.3%</b>	<b>10,058</b>	<b>8.3%</b>	<b>2,933</b>	<b>29.2%</b>
17	Depreciation and amortization	(656)	-0.4%	(818)	-0.7%	162	-19.8%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(694)	-0.4%	(96)	-0.1%	(598)	n.a.
20	Impairment reversal	0	0.0%	234	0.2%	(234)	-100.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(1,350)</b>	<b>-0.9%</b>	<b>(680)</b>	<b>-0.6%</b>	<b>(670)</b>	<b>98.5%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>11,641</b>	<b>7.4%</b>	<b>9,378</b>	<b>7.8%</b>	<b>2,263</b>	<b>24.1%</b>
23	Interest income	360	0.2%	74	0.1%	286	n.a.
24	Interest expense	(3,973)	-2.5%	(2,670)	-2.2%	(1,303)	48.8%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(3,613)</b>	<b>-2.3%</b>	<b>(2,596)</b>	<b>-2.1%</b>	<b>(1,017)</b>	<b>39.2%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>8,028</b>	<b>5.1%</b>	<b>6,782</b>	<b>5.6%</b>	<b>1,246</b>	<b>18.4%</b>
27	Current taxes	(3,645)	-2.3%	(1,473)	-1.2%	(2,172)	n.a.
28	Deferred taxes	(635)	-0.4%	(1,479)	-1.2%	844	-57.1%
<b>29</b>	<b>Total taxes</b>	<b>(4,280)</b>	<b>-2.7%</b>	<b>(2,952)</b>	<b>-2.4%</b>	<b>(1,328)</b>	<b>45.0%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>3,748</b>	<b>2.4%</b>	<b>3,830</b>	<b>3.2%</b>	<b>(82)</b>	<b>-2.1%</b>
	<b>Earnings per share:</b>						
<b>31</b>	<b>Basic earnings per share (in EUR)</b>	<b>0.27</b>		<b>0.27</b>		<b>(0.00)</b>	<b>0.0%</b>
<b>32</b>	<b>Diluted earnings per share (in EUR)</b>	<b>0.27</b>		<b>0.27</b>		<b>(0.00)</b>	<b>0.0%</b>

In 2007-2008 the Group earned gross revenues of €178,789 thousand and net revenues of €156,762 thousand, for respective increases on the previous year's figures of €44,863 thousand and €35,830 thousand. Below is the breakdown of revenues by business segment for this and the previous year:

EUR/000	Gross revenues				Net revenues			
	2007-2008	2006-2007	Change		2007-2008	2006-2007	Change	
Distribution	119,440	111,107	8,332	7.5%	107,360	102,059	5,301	5.2%
Newsstands	1,319	2,338	(1,019)	-43.6%	1,240	2,338	(1,098)	-47.0%
New Media	486	514	(28)	-5.4%	486	514	(28)	-5.4%
International Publishing	57,544	19,967	37,577	188.2%	47,676	16,021	31,655	197.6%
<b>Total gross revenues</b>	<b>178,789</b>	<b>133,926</b>	<b>44,863</b>	<b>33.5%</b>	<b>156,762</b>	<b>120,932</b>	<b>35,830</b>	<b>29.6%</b>

Revenue growth in 2007-2008 results from ongoing expansion in the International Publishing division, where sales soared from €19,967 thousand in 2006-2007 to €57,544 thousand this year. Growth was also swift (although less spectacular) in the Distribution segment, coming to +7.5% for gross revenues and +5.2% on a net-revenue basis.

The cost of sales decreased as a percentage of revenues, from 72.7% to 72.1%, permitting a gross profit of €43,754 thousand for the year compared with €33,020 thousand in 2006-2007 (+€10,734 thousand).

Operating expenses rose by €7,805 thousand or 33.8%, growing slightly faster than gross sales because of the higher costs incurred by the International Publishing and New Media segments. The most significant increase in operating expenses pertained to the cost of services, which rose from €10,997 thousand to €16,452 thousand (+€5,455 thousand), due mainly to the advertising costs incurred to support video game sales in the local and international market and the amount spent by the International Publishing segment for the localization of games. Payroll costs were up by €2,055 thousand, due to constant hiring in the New Media and International Publishing segments.

EBITDA rose from €10,058 thousand to €12,991 thousand, an increase of €2,933 thousand or 29.2%.

Depreciation, amortization and writedowns of €1,350 thousand mainly reflect a provision of €400 thousand for doubtful accounts, €94 thousand for the impairment of RCS DB Games S.p.A. as a result of its losses, and €656 thousand in depreciation and amortization.

EBIT increased by €2,263 thousand, from €9,378 thousand to €11,641 thousand (+24.1%).

With the performance of the Distribution and International Publishing segments buoying all of the Group's profit indicators, results have surpassed not only management's initial projections (EBITDA of €10,396 thousand and EBIT of €10,086 thousand), but also the revised forecast of April 2008, which called for EBITDA and EBIT of respectively €11,396 thousand and €11,086 thousand.

The net profit of €3,748 thousand dipped by €2 thousand with respect to the previous year. This trend is a result of taxation, aggravated by the non-deductibility of certain costs and the change in IRES and IRAP rates, which for the Group led to a reduction in deferred tax assets. All told, the final tax charge was approximately €500 thousand greater than normal.

Basic and diluted earnings per share, both totaling €0.27, were in line with the previous year.

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

## **7. INTERCOMPANY AND RELATED PARTY TRANSACTIONS**

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

Such transactions generally concern goods and services of an administrative, financial, or advisory nature, as well as general services.

Group companies in Italy also transfer tax receivables and payables to the parent company, Digital Bros S.p.A., in the context of the group tax election.

In the consolidated financial statements at 30 June 2008, the effects of intercompany transactions on the balance sheet and income statement have been eliminated; related party transactions are discussed in a separate note to the consolidated financial statements.

## **8. TREASURY SHARES**

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Pursuant to paragraph 2.3 of Civil Code Art. 2428, we report that at 30 June 2008 Digital Bros S.p.A. owned 154,263 treasury shares.

Pursuant to paragraph 2.4 of that article, we report that in 2007-2008 the Company purchased 116,763 treasury shares and disposed of none.

The purchase, approved on 30 October 2007 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.

## **9. RESEARCH AND DEVELOPMENT**

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

## **10. FINANCIAL RISK MANAGEMENT**

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Financial risks and financial instruments are discussed in Section 7 of the notes to the consolidated financial statements.

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

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	Profit for the period		Capital and reserves	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<b>Capital &amp; reserves and profit of Digital Bros S.p.A.</b>	<b>1,320</b>	<b>2,045</b>	<b>28,787</b>	<b>29,109</b>
Capital & reserves and profit of subsidiaries	1,405	2,300	7,263	5,291
Carrying value of equity investments			(2,700)	(1,495)
<b>Consolidation adjustments</b>				
Elimination of intercompany profits	(607)	(515)	(1,078)	(515)
Other adjustments	1,630	0	2,230	0
<b>Capital &amp; reserves and profit of the Group</b>	<b>3,748</b>	<b>3,830</b>	<b>34,502</b>	<b>32,390</b>

The elimination of intercompany profits refers to profits in inventory at 30 June 2008. "Other adjustments" concern the reversal of the parent company's provision of €2,230 thousand against losses by its subsidiary Game Media Networks S.r.l., and the elimination of dividends received by Digital Bros S.p.A. from 505 Games S.r.l..

## **12. SECURITY PLAN**

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The Group's Italian companies are compliant with Legislative Decree 196 of 30 June 2003 (the data protection code), and expressly confirm 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. SIGNIFICANT SUBSEQUENT EVENTS**

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No significant events have occurred since 30 June 2008, except for the commencement of business by the subsidiary Digital Bros Iberia S.l..

## **14. OUTLOOK**

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The market has grown substantially over the past 12 months, especially for female players and casual gamers. Another vibrant slice of the market is social gaming, e.g. when friends gather around the console after a dinner party. Examples of social games are foosball (table soccer), Olympic games, etc..

The publishing lineup of 505 Games S.r.l. for 2008-2009 is well structured, with a line of Nintendo DS games for a female audience to be marketed under their own distinctive logo, a set of social gaming products for Nintendo Wii, including foosball, the sequel to Cooking Mama, and other music simulation games. The range is filled out with more classically designed titles for true gaming connoisseurs. These include the 1C line with its war simulation games, flight simulators, and strategic games for PC/ROM, Microsoft Xbox 360 and Sony Playstation 3.

In short, the Group is investing constantly in the female gaming market given its powerful impact on the International Publishing segment, and has offered its own innovative ideas to the social gaming market, but is also willing to remain a force in traditional video games.

This balanced strategy, along with the development of the international distribution market—the Spanish subsidiary has been operational since July 2008 and the publishing and distribution company in the United States will function as from the third quarter of next year—will keep growth swift in 2008-2009.

The distribution business in Italy is likely to shrink somewhat, without appreciably reducing margins. This is due to management's decision to downsize DTI's operations, which are less profitable than those of Halifax. As a result, financial debt should improve thanks to a reduction in the segment's net working capital.

The New Media division, which took a substantial bite out of earnings this year, will see improved margins in 2008-2009 although it will probably still operate at a loss.

No major change is expected for the Newsstands segment; after acknowledging waning interest in wrestling entertainment products this year, it will be able to develop its standard business of distributing video games to a mass audience and slightly improve its profit margins.

The costs of the Holding segment will be essentially unchanged.

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

## **DIVIDEND PROPOSAL**

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The directors propose a dividend of €0.08 per share, for a maximum payout of €1,128,867. The payment date will be set by the AGM, which will meet on first call on 28 October 2008 and on second call, if necessary, on 6 November 2008.

In accordance with IAS 10, the dividend liability will be recognized at the time of payment, so it does not appear in the financial statements at 30 June 2008.



**Consolidated financial statements  
at 30 June 2008**

## FINANCIAL STATEMENTS

### Digital Bros Group

#### Consolidated balance sheet at 30 June 2008

	EUR/000	30 June 2008	30 June 2007	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,753	3,378	375	11.1%
2	Investment property	455	455	0	0.0%
3	Intangible assets	680	517	163	31.5%
4	Equity investments	740	740	0	0.0%
5	Non-current receivables and other assets	132	61	71	n.a.
6	Deferred tax assets	2,103	2,695	(592)	-22.0%
	<b>Total non-current assets</b>	<b>7,863</b>	<b>7,846</b>	<b>17</b>	<b>0.2%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(555)	(663)	108	-16.3%
8	Non-current provisions	(249)	(206)	(43)	20.9%
9	Other non-current payables and liabilities	0	0	0	0.0%
	<b>Total non-current liabilities</b>	<b>(804)</b>	<b>(869)</b>	<b>65</b>	<b>-7.5%</b>
	<b>Net working capital</b>				
10	Inventories	39,553	39,040	513	1.3%
11	Trade receivables	42,110	31,157	10,953	35.2%
12	Tax credits	1,440	1,653	(213)	-12.9%
13	Other current assets	14,682	8,412	6,270	74.5%
14	Trade payables	(14,436)	(15,570)	1,134	-7.3%
15	Taxes payable	(5,202)	(2,648)	(2,554)	96.5%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(2,477)	(2,689)	212	-7.9%
	<b>Total net working capital</b>	<b>75,670</b>	<b>59,355</b>	<b>16,315</b>	<b>27.5%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,462)	(19,457)	(5)	0.0%
20	Treasury shares	717	204	513	n.a.
21	(Profits) losses carried forward	(10,113)	(7,493)	(2,620)	35.0%
	<b>Total capital and reserves</b>	<b>(34,502)</b>	<b>(32,390)</b>	<b>(2,112)</b>	<b>6.5%</b>
	<b>Total net assets</b>	<b>48,227</b>	<b>33,942</b>	<b>14,285</b>	<b>42.1%</b>
	<b>Current net debt</b>				
22	Cash and cash equivalents	11,279	7,080	4,199	59.3%
23	Short-term payables to banks	(49,730)	(32,676)	(17,054)	52.2%
24	Other current financial liabilities	(3,309)	(3,250)	(59)	1.8%
	<b>Current net debt</b>	<b>(41,760)</b>	<b>(28,846)</b>	<b>(12,914)</b>	<b>44.8%</b>
	<b>Non-current net debt</b>				
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(4,679)	(2,673)	(2,006)	75.0%
27	Other non-current financial liabilities	(1,788)	(2,423)	635	-26.2%
	<b>Non-current net debt</b>	<b>(6,467)</b>	<b>(5,096)</b>	<b>(1,371)</b>	<b>26.9%</b>
	<b>Total net debt</b>	<b>(48,227)</b>	<b>(33,942)</b>	<b>(14,285)</b>	<b>42.1%</b>

Digital Bros Group

Consolidated income statement for the year ended 30 June 2008 (fiscal year 2007-2008)

	EUR/000	2007-2008		2006-2007		Change	
1	Revenues	178,789	114.1%	133,926	110.7%	44,863	33.5%
2	Revenue adjustments	(22,027)	-14.1%	(12,994)	-10.7%	(9,033)	69.5%
<b>3</b>	<b>Total revenues</b>	<b>156,762</b>	<b>100.0%</b>	<b>120,932</b>	<b>100.0%</b>	<b>35,830</b>	<b>29.6%</b>
4	Purchase of goods for resale	(102,627)	-65.5%	(91,693)	-75.8%	(10,934)	11.9%
5	Purchase of services for resale	(2,764)	-1.8%	(1,124)	-0.9%	(1,640)	n.a.
6	Royalties	(8,130)	-5.2%	(7,686)	-6.4%	(444)	5.8%
7	Change in inventories of finished products	513	0.3%	12,591	10.4%	(12,078)	-95.9%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(113,008)</b>	<b>-72.1%</b>	<b>(87,912)</b>	<b>-72.7%</b>	<b>(25,096)</b>	<b>28.5%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>43,754</b>	<b>27.9%</b>	<b>33,020</b>	<b>27.3%</b>	<b>10,734</b>	<b>32.5%</b>
10	Other income	117	0.1%	113	0.1%	4	3.5%
11	Cost of services	(16,452)	-10.5%	(10,997)	-9.1%	(5,455)	49.6%
12	Rent and leasing	(446)	-0.3%	(427)	-0.4%	(19)	4.4%
13	Payroll costs	(11,546)	-7.4%	(9,491)	-7.8%	(2,055)	21.7%
14	Other operating expenses	(2,436)	-1.6%	(2,160)	-1.8%	(276)	12.8%
<b>15</b>	<b>Total operating expenses</b>	<b>(30,880)</b>	<b>-19.7%</b>	<b>(23,075)</b>	<b>-19.1%</b>	<b>(7,805)</b>	<b>33.8%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>12,991</b>	<b>8.3%</b>	<b>10,058</b>	<b>8.3%</b>	<b>2,933</b>	<b>29.2%</b>
17	Depreciation and amortization	(656)	-0.4%	(818)	-0.7%	162	-19.8%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(694)	-0.4%	(96)	-0.1%	(598)	n.a.
20	Impairment reversal	0	0.0%	234	0.2%	(234)	-100.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(1,350)</b>	<b>-0.9%</b>	<b>(680)</b>	<b>-0.6%</b>	<b>(670)</b>	<b>98.5%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>11,641</b>	<b>7.4%</b>	<b>9,378</b>	<b>7.8%</b>	<b>2,263</b>	<b>24.1%</b>
23	Interest income	360	0.2%	74	0.1%	286	n.a.
24	Interest expense	(3,973)	-2.5%	(2,670)	-2.2%	(1,303)	48.8%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(3,613)</b>	<b>-2.3%</b>	<b>(2,596)</b>	<b>-2.1%</b>	<b>(1,017)</b>	<b>39.2%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>8,028</b>	<b>5.1%</b>	<b>6,782</b>	<b>5.6%</b>	<b>1,246</b>	<b>18.4%</b>
27	Current taxes	(3,645)	-2.3%	(1,473)	-1.2%	(2,172)	n.a.
28	Deferred taxes	(635)	-0.4%	(1,479)	-1.2%	844	-57.1%
<b>29</b>	<b>Total taxes</b>	<b>(4,280)</b>	<b>-2.7%</b>	<b>(2,952)</b>	<b>-2.4%</b>	<b>(1,328)</b>	<b>45.0%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>3,748</b>	<b>2.4%</b>	<b>3,830</b>	<b>3.2%</b>	<b>(82)</b>	<b>-2.1%</b>
	<b>Earnings per share:</b>						
<b>31</b>	<b>Basic earnings per share (in EUR)</b>	<b>0.27</b>		<b>0.27</b>		<b>(0.00)</b>	<b>0.0%</b>
<b>32</b>	<b>Diluted earnings per share (in EUR)</b>	<b>0.27</b>		<b>0.27</b>		<b>(0.00)</b>	<b>0.0%</b>

**Digital Bros Group**

**Consolidated cash flow statement for the year 2007-2008**

	EUR/000	2007-2008	2006-2007
<b>A. Opening net debt</b>		<b>(33,942)</b>	<b>(20,741)</b>
<b>B. Cash flow from operating activities</b>			
Group's share of net profit (loss) for the year		3,748	3,830
<i>Depreciation, amortization and provisions:</i>			
Amortization		312	557
Depreciation		344	260
Net change in other provisions		43	51
Net change in provision for employee termination indemnities		(108)	(17)
<b>SUBTOTAL B.</b>		<b>4,339</b>	<b>4,681</b>
<b>C. Change in net working capital</b>			
Inventories		(513)	(12,590)
Trade receivables		(10,953)	(8,485)
Tax credits		213	(2,101)
Other current assets		(6,270)	(7,417)
Trade payables		(1,134)	10,157
Taxes payable		2,554	2,375
Current provisions		0	0
Other current liabilities		(212)	451
<b>SUBTOTAL C.</b>		<b>(16,315)</b>	<b>(17,610)</b>
<b>D. Cash flow from investing activities</b>			
Net investments in intangible assets		(474)	(390)
Net investments in property, plant and equipment		(719)	(340)
Net investments in financial fixed assets		520	1,099
<b>SUBTOTAL D.</b>		<b>(673)</b>	<b>369</b>
<b>E. Cash flow from financing activities</b>			
Capital increases		0	0
<b>SUBTOTAL E.</b>		<b>0</b>	<b>0</b>
<b>F. Movements in consolidated capital and reserves</b>			
Dividends paid		(1,128)	(1,117)
Change in treasury shares held		(513)	467
Increases (decreases) in other components of capital and reserves		5	8
<b>SUBTOTAL F.</b>		<b>(1,636)</b>	<b>(641)</b>
<b>G. Cash flow for the period (B+C+D+E+F)</b>		<b>(14,285)</b>	<b>(13,201)</b>
<b>H. Closing net debt (A+G)</b>		<b>(48,227)</b>	<b>(33,942)</b>

**Details of cash flow movements by maturity**

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>
Increase (decrease) in securities and cash & cash equivalents	4,199	3,086
Decrease (increase) in short-term payables to banks	(17,054)	(13,189)
Decrease (increase) in other current financial liabilities	(59)	(1,899)
Short-term cash flow for the period	(12,914)	(12,002)
Medium-term cash flow for the period	(1,371)	(1,199)
<b>Cash flow for the period</b>	<b>(14,285)</b>	<b>(13,201)</b>

**Digital Bros Group**

**Statement of changes in consolidated shareholders' equity**

<b>EUR/000</b>	<b>Share capital (A)</b>	<b>Share premium reserve</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Profit (losses) carried forward</b>	<b>Net profit (loss) for the year</b>	<b>Total unallocated income (D)</b>	<b>Consolidated capital and reserves: Group's share (A+B+C+D)</b>
<b>Total at 1 July 2006</b>	<b>5,644</b>	16,954	1,129	1,367	(9)	<b>19,441</b>	<b>(671)</b>	965	3,823	<b>4,788</b>	<b>29,202</b>
Allocation of net profit						<b>0</b>		3,823	(3,823)	<b>0</b>	<b>0</b>
Dividend payments						<b>0</b>		(1,117)		<b>(1,117)</b>	<b>(1,117)</b>
Purchase of treasury shares						<b>0</b>	<b>467</b>			<b>0</b>	<b>467</b>
Other changes					16	<b>16</b>		(8)		<b>(8)</b>	<b>8</b>
Net profit for the period						<b>0</b>			3,830	<b>3,830</b>	<b>3,830</b>
<b>Total at 1 July 2007</b>	<b>5,644</b>	16,954	1,129	1,367	7	<b>19,457</b>	<b>(204)</b>	3,663	3,830	<b>7,493</b>	<b>32,390</b>
Allocation of net profit						<b>0</b>		3,830	(3,830)	<b>0</b>	<b>0</b>
Dividend payments						<b>0</b>		(1,128)		<b>(1,128)</b>	<b>(1,128)</b>
Purchase of treasury shares						<b>0</b>	<b>(513)</b>			<b>0</b>	<b>(513)</b>
Other changes					5	<b>5</b>				<b>0</b>	<b>5</b>
Net profit for the period						<b>0</b>			3,748	<b>3,748</b>	<b>3,748</b>
<b>Total at 30 June 2008</b>	<b>5,644</b>	16,954	1,129	1,367	12	<b>19,462</b>	<b>(717)</b>	6,365	3,748	<b>10,113</b>	<b>34,502</b>

Segment reporting  
Consolidated balance sheet

	Consolidated figures in EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Unallocated items	Consolidated
	<b>Non-current assets</b>							
1	Property, plant and equipment	546	2	29	461	2,714		3,753
2	Investment property	0	0	0	0	455		455
3	Intangible assets	609	0	55	2	13		680
4	Equity investments	0	0	735	5	0		740
5	Non-current receivables and other assets	3	3	0	125	1		132
6	Deferred tax assets	0	0	0	0	0	2,103	2,103
	<b>Total non-current assets</b>	<b>1,159</b>	<b>5</b>	<b>820</b>	<b>592</b>	<b>3,184</b>	<b>2,103</b>	<b>7,863</b>
	<b>Non-current liabilities</b>							
7	Employee benefits	(533)	0	(22)	0	0		(555)
8	Non-current provisions	(249)	0	0	0	0		(249)
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>0</b>	<b>(22)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(804)</b>
	<b>Net working capital</b>							
10	Inventories	32,762	1,188	0	5,602	0		39,553
11	Trade receivables	28,833	509	796	11,972	0		42,110
12	Tax credits	0	0	0	0	0	1,440	1,440
13	Other current assets	6,474	89	1,001	7,118	0		14,682
14	Trade payables	(5,087)	(375)	(315)	(8,659)	0		(14,436)
16	Current provisions	0	0	0	0	0		0
17	Other current liabilities	(1,959)	(1)	(59)	(459)	0		(2,477)
18	Taxes payable	0	0	0	0	0	(5,202)	(5,202)
	<b>Total net working capital</b>	<b>61,024</b>	<b>1,410</b>	<b>1,423</b>	<b>15,574</b>	<b>0</b>	<b>(3,762)</b>	<b>75,670</b>
	<b>Total</b>	<b>61,400</b>	<b>1,416</b>	<b>2,220</b>	<b>16,166</b>	<b>3,184</b>	<b>(1,659)</b>	<b>82,729</b>

Segment reporting

Consolidated income statement

	Consolidated figures in EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Revenues	119,439	1,319	486	57,544	0	178,789
2	Revenue adjustments	(12,080)	(78)	0	(9,869)	0	(22,027)
<b>3</b>	<b>Total revenues</b>	<b>107,360</b>	<b>1,241</b>	<b>486</b>	<b>47,676</b>	<b>0</b>	<b>156,762</b>
4	Purchase of goods for resale	(75,455)	(1,044)	(30)	(26,098)	0	(102,627)
5	Purchase of services for resale	0	(193)	(973)	(1,598)	0	(2,764)
6	Royalties	(357)	(423)	(102)	(7,247)	0	(8,130)
7	Change in inventories of finished products	(2,855)	866	0	2,502	0	513
<b>8</b>	<b>Total cost of goods sold</b>	<b>(78,668)</b>	<b>(794)</b>	<b>(1,105)</b>	<b>(32,441)</b>	<b>0</b>	<b>(113,008)</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>28,692</b>	<b>447</b>	<b>(619)</b>	<b>15,235</b>	<b>0</b>	<b>43,754</b>
10	Other income	34	(0)	0	83	0	117
11	Cost of services	(8,389)	(402)	(747)	(6,786)	(128)	(16,452)
12	Rent and leasing	(295)	0	(11)	(139)	0	(446)
13	Payroll costs	(6,862)	0	(1,054)	(2,418)	(1,213)	(11,546)
14	Other operating expenses	(1,706)	(2)	(47)	(352)	(329)	(2,436)
<b>15</b>	<b>Total operating expenses</b>	<b>(17,252)</b>	<b>(404)</b>	<b>(1,859)</b>	<b>(9,695)</b>	<b>(1,670)</b>	<b>(30,880)</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>11,473</b>	<b>43</b>	<b>(2,478)</b>	<b>5,623</b>	<b>(1,670)</b>	<b>12,991</b>
17	Depreciation and amortization	(375)	(7)	(54)	(80)	(140)	(656)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	(400)	0	(294)	0	0	(694)
20	Impairment reversal	0	0	0	0	0	0
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(775)</b>	<b>(7)</b>	<b>(348)</b>	<b>(80)</b>	<b>(140)</b>	<b>(1,350)</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>10,698</b>	<b>36</b>	<b>(2,825)</b>	<b>5,543</b>	<b>(1,811)</b>	<b>11,641</b>



## **Notes to the consolidated financial statements at 30 June 2008**

## **1. FORM, CONTENT, AND OTHER GENERAL INFORMATION**

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Publication of the consolidated financial statements of the Digital Bros Group for the year ended 30 June 2008 was authorized by resolution of the Board of Directors on 26 September 2008. 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.

### ***Accounting standards and compliance with IAS/IFRS***

These financial statements were prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) at 30 June 2008, as approved by the European Union. The term "IFRS" encompasses all of the International Accounting Standards (IAS) and all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC). All amounts are expressed in thousands of euros, unless otherwise specified.

### ***Reporting formats***

The consolidated financial statements at 30 June 2008 have been prepared in accordance with Art. 77 et seq. of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 and with CONSOB announcement DEM/6064293 of 28 July 2006.

No changes have been made to the reporting format with respect to previous years, and the financial statement schedules are consistent with those used for the half-year report at 31 December 2007 and the quarterly reports at 30 September 2007 and 31 March 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 are made up of:

- consolidated balance sheet at 30 June 2008 with comparative figures at 30 June 2007 (the previous year-end reporting date);
- consolidated income statement for the period from 1 July 2007 to 30 June 2008, in comparison with the consolidated income statement from 1 July 2006 to 30 June 2007;
- 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 2006 to 30 June 2008;
- segment reporting: balance sheet and income statement.

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

The balance sheet format divides items into five categories:

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

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

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 PRINCIPLES

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Figures in the consolidated financial statements were determined according to the International Accounting Standards and their interpretations in effect as of 30 June 2008.

The consolidated financial statements were prepared on the basis of the accounts at 30 June 2008 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 2008 are consistent with those used to prepare the consolidated accounts at 30 June 2007. 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 profit or loss account 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 the taxable income of Group companies. 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 2007. Their adoption, while not affecting the financial statements at 30 June 2008, entails the disclosure of additional information.

#### *IFRS 7 – Financial instruments: disclosures*

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

#### *Amendments to IAS 1- Presentation of financial statements - capital disclosures*

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

The new disclosures are provided in the notes to the financial statements.

#### *IFRIC 7 - Applying the restatement approach under IAS 29 - Financial reporting in hyperinflationary economies.*

On 8 May 2006, the European Commission (Regulation EC No. 708-2006) adopted IFRIC Interpretation 7 - *Applying the restatement approach under IAS 29 - Financial reporting in hyperinflationary economies*. IFRIC 7 clarifies the provisions of IAS 29 with respect to how an entity should restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency. It has had no impact on the consolidated financial statements at 30 June 2008.

#### *IFRIC 8 - Scope of IFRS 2*

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

has been or will be received. *Compliance with this interpretation has had no effect on the consolidated financial statements at 30 June 2008.*

#### *IFRIC 9 – Reassessment of embedded derivatives*

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC Interpretation 9 - *Reassessment of embedded derivatives*. This interpretation specifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment of the separation is required. This interpretation has had no impact on the consolidated financial statements at 30 June 2008.

#### *IFRIC 10 - Interim financial reporting and impairment*

On 1 June 2007, the European Commission (Regulation EC No. 610-2007) adopted IFRIC Interpretation 10 - *Interim financial reporting and impairment*. IFRIC 10 clarifies that in subsequent interim or annual financial statements, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or certain financial assets (investments in equity instruments classified as available for sale and in unlisted equity instruments carried at cost). This interpretation has had no impact on the consolidated financial statements at 30 June 2008.

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

As required by IAS 8 (“*Accounting policies, changes in accounting estimates and errors*”), below is a brief description of the IFRS in effect as from 1 July 2007 or later. 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*. IFRS 8 replaces IAS 14 – Segment Reporting and sets the requirements for the disclosure of information on the operating segments in which a company works. IFRS 8 is mandatory for financial periods beginning on 1 January 2009 or later. The Group is evaluating the impact this standard will have on the consolidated financial statements.

#### ***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 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. IFRS 11 is mandatory for financial periods beginning on 1 March 2007 or later. The Group is evaluating the impact this standard will have on the consolidated financial statements.

### ***New standards and interpretations issued by the IASB and not yet approved by the European Union.***

#### ***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 new version of IAS 1 will be effective from 1 January 2009.

### *IAS 23 - Borrowing costs*

During the course of 2007 the IASB issued a revised version of IAS 1 - *Borrowing Costs*, effective from 1 January 2009.

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. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group is evaluating the impact this standard will have on the consolidated financial statements.

### *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 will be 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 is evaluating the impact this standard will have on the consolidated 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 will be effective from financial periods beginning on or after 1 July 2009 (for the Group: from the financial statements at 30 June 2010). At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group is evaluating the impact this standard will have on the consolidated financial statements.

### *IFRIC 12 - Service concession arrangements*

IFRIC 12, issued by the IASB in November 2006, 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. Companies have to apply IFRIC 12 in financial statements for years beginning on 1 January 2008 or later. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Group is evaluating the impact this standard will have on the consolidated financial statements.

### *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. The Group is evaluating the impact this standard will have on the consolidated financial statements.

### *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 14 is effective from 1 January 2008. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. 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 changes to IAS 32 and IAS 1 were approved in February and are effective for annual periods beginning on or after 1 January 2009. 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 is evaluating the impact this standard will have on the consolidated financial statements.

### 3. USE OF ESTIMATES

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

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

#### *Sources of uncertainty in making estimates*

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

#### *Doubtful accounts*

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

#### *Inventory writedowns*

The Group estimates inventory writedowns on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment is charged to reflect individual products' lower market value with respect to their historical cost. To arrive at these estimates, the Group uses revenue forecasts for the six following quarters, produced 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 also become 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 previous year. Estimating the liability is still complex, however, due to a small portion of benefits that have remained with Group companies. To arrive at this estimate, the Group 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 agreed in the contract. To estimate this amount, management uses calculations based on an analysis by individual customer as well as an analysis by individual product, in which the risk is shown separately for price cuts and returns. The estimate is made on a quarterly basis.

## 4. CONSOLIDATION METHODS

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### *Subsidiaries*

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

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

Joint ventures are equity accounted.

### *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 year;
- capital and reserves were translated at historical exchange rates.

The exchange differences arising from this process are recognized directly to shareholders' equity, in a separate translation reserve encompassed by 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 are eliminated, as are unrealized profits and losses on intercompany transactions.

### *Basis 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 the company RCS DB Games S.p.A., which is held 49% by the subsidiary Game Media Networks S.r.l. and 51% by RCS Mediagroup.

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:

<b>Name</b>	<b>Head office</b>	<b>Share capital</b>	<b>% held directly</b>	<b>% held indirectly</b>
Digital Bros S.p.A.	Milan	EUR 5,644,334.80	Parent company	
Game Entertainment S.r.l.(3)	Milan	EUR 100,000	100%	
Game Media Networks S.r.l.	Milan	EUR 10,000	100%	
Game Service S.r.l.	Milan	EUR 50,000	100%	
505 Games S.r.l. (2)	Milan	EUR 100,000	100%	
Digital Bros France S.a.r.l.	Lyons	100,000 EUR 100,000	100%	
505 Games Ltd. (1)	London	GBP 100,000		100%
Game Media Networks Ltd. (4)	Northampton	GBP 50,000		100%
Game Media Networks France S.a.r.l. (4)	Lyons	EUR 50,000		100%
Digital Bros Iberia S.l.	Madrid	EUR 100,000	100%	
505 Games U.S. Inc. (1)	Los Angeles	USD 100,000		100%

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

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

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

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

Companies carried at equity:

<b>Name</b>	<b>Head office</b>	<b>Share capital</b>	<b>% held directly</b>
D3DB S.r.l.	Milan	EUR 10,000	50%
RCS DB Games S.p.A. (4)	Milan	EUR 1,500,000	49%

## 5. BUSINESS COMBINATIONS

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Details of companies formed during the year are provided below.

Name	Date formed	Head office	Share capital	% held directly	% held indirectly	Profit/loss for the period to 30 June 2008
Digital Bros Iberia S.I.	29 February 2008	Madrid	EUR 100,000	100%	-	(103)
505 Games U.S. Inc. (1)	20 November 2007	Los Angeles	USD 100,000	-	100%	(145)

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

The new companies were created as a means of expanding the Group's international operations.

Digital Bros Iberia S.I. and 505 Games U.S. Inc. will be operational as from next year. With their addition to the Group, Digital Bros now has its own operations in four countries (Italy, the United Kingdom, France and Spain) which together account for more than 70% of the European video games market, as well as a direct presence in the U.S.

Details of companies formed during the previous year are shown in the following table.

Name	Head office	Share capital	% held directly	% held indirectly
Game Media Networks Ltd. (2)	Northampton	GBP 50,000	-	100%
Game Media Networks France S.a.r.l. (2)	Lyons	EUR 50,000	-	100%

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

## 6. JOINT VENTURES

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At 30 June 2008, the Group was involved in two joint ventures: a 50% interest in D3DB S.r.l., held jointly with Japan's D3 Publisher Inc. (€5 thousand), and an interest of €735 thousand in RCS DB Games S.p.A., a joint venture with RCS MediaGroup.

Below are key figures for the non-consolidated subsidiary D3DB S.r.l. (held 50%) at 31 March 2008, its year-end reporting date:

<b>EUR/000</b>	
Assets	1,219
Capital and reserves	76
Liabilities	(1,295)
Revenues	0
Costs	(76)
Net profit (loss) for the period	(76)

Key figures at 31 December 2007 (the year-end reporting date) for the non-consolidated company RCS DB Games S.p.A. (held 49%) are as follows:

<b>EUR/000</b>	
Assets	1,535
Capital and reserves	(918)
Liabilities	(617)
Revenues	55
Costs	(637)
Net profit (loss) for the period	(582)

During the second half of the year the shareholders recapitalized the joint venture, restoring its share capital to the original €1,500 thousand.

At 30 June 2008 there were no contingent liabilities associated with joint ventures.

## **7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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The main financial instruments used by the company 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.

The purpose of these instruments is to finance the company'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.

Starting this year, the subsidiary 505 Games S.r.l. has had access to its own independent credit facilities to finance its international growth.

Digital Bros maintains a balance between short-term and long-term financial instruments. The Group's core business, the marketing of video games, entails investments 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 (the company purchased a warehouse under a floating-rate finance lease, which was later switched to a fixed-rate lease by means of an interest rate swap).

Given the above, 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 Group a competitive edge in the negotiation of interest rate spreads;
- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favorable conditions; specifically, the Group has access to fiduciary credit whose conditions are less volatile than interest rates;
- the degree of short-term borrowings, which varies 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 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 €240 thousand.

### *Liquidity risk*

The Group's activities present no significant liquidity risk. Due to the seasonal nature of the business, which entails higher debt in the autumn, it usually obtains seasonal "self-liquidating" credit lines from banks and financial institutions on the basis of the needs presented by its budget.

### *Exchange rate risk*

The Group is not heavily influenced by exchange rate fluctuations. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds. Royalties on international video game exploitation rights are paid 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 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 €400 thousand.

#### *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.

Because the Group operates mainly on the highly fragmented Italian distribution market, risks are not concentrated on any individual parties.

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 €500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

For international operations, credit insurance policies are in place for all but the Spanish distributor, whose sales are modest, and for transactions with mass retailers in France, which are not considered to be excessively risky.

## 8. ANALYSIS OF THE BALANCE SHEET

The consolidated balance sheet at 30 June 2008 is reported below, in comparison with the previous year's figures:

	EUR/000	30 June 2008	30 June 2007	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,753	3,378	375	11.1%
2	Investment property	455	455	0	0.0%
3	Intangible assets	680	517	163	31.5%
4	Equity investments	740	740	0	0.0%
5	Non-current receivables and other assets	132	61	71	n.a.
6	Deferred tax assets	2,103	2,695	(592)	-22.0%
	<b>Total non-current assets</b>	<b>7,863</b>	<b>7,846</b>	<b>17</b>	<b>0.2%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(555)	(663)	108	-16.3%
8	Non-current provisions	(249)	(206)	(43)	20.9%
9	Other non-current payables and liabilities	0	0	0	0.0%
	<b>Total non-current liabilities</b>	<b>(804)</b>	<b>(869)</b>	<b>65</b>	<b>-7.5%</b>
	<b>Net working capital</b>				
10	Inventories	39,553	39,040	513	1.3%
11	Trade receivables	42,110	31,157	10,953	35.2%
12	Tax credits	1,440	1,653	(213)	-12.9%
13	Other current assets	14,682	8,412	6,270	74.5%
14	Trade payables	(14,436)	(15,570)	1,134	-7.3%
15	Taxes payable	(5,202)	(2,648)	(2,554)	96.5%
16	Current provisions	0	0	0	0.0%
17	Other current liabilities	(2,477)	(2,689)	212	-7.9%
	<b>Total net working capital</b>	<b>75,670</b>	<b>59,355</b>	<b>16,315</b>	<b>27.5%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,644)	(5,644)	0	0.0%
19	Reserves	(19,462)	(19,457)	(5)	0.0%
20	Treasury shares	717	204	513	n.a.
21	(Profits) losses carried forward	(10,113)	(7,493)	(2,620)	35.0%
	<b>Total capital and reserves</b>	<b>(34,502)</b>	<b>(32,390)</b>	<b>(2,112)</b>	<b>6.5%</b>
	<b>Total net assets</b>	<b>48,227</b>	<b>33,942</b>	<b>14,285</b>	<b>42.1%</b>
	<b>Current net debt</b>				
22	Cash and cash equivalents	11,279	7,080	4,199	59.3%
23	Short-term payables to banks	(49,730)	(32,676)	(17,054)	52.2%
24	Other current financial liabilities	(3,309)	(3,250)	(59)	1.8%
	<b>Current net debt</b>	<b>(41,760)</b>	<b>(28,846)</b>	<b>(12,914)</b>	<b>44.8%</b>
	<b>Non-current net debt</b>				
25	Non-current financial assets	0	0	0	0.0%
26	Non-current payables to banks	(4,679)	(2,673)	(2,006)	75.0%
27	Other non-current financial liabilities	(1,788)	(2,423)	635	-26.2%
	<b>Non-current net debt</b>	<b>(6,467)</b>	<b>(5,096)</b>	<b>(1,371)</b>	<b>26.9%</b>
	<b>Total net debt</b>	<b>(48,227)</b>	<b>(33,942)</b>	<b>(14,285)</b>	<b>42.1%</b>

## 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 period came to €1,194 thousand, consisting of €333 thousand for the ERP system, €98 thousand for the new online gaming platform used by www.gametribe.com, €473 thousand for the purchase of office automation machines and €219 thousand for other fixed assets, mainly company cars for employees.

New initiatives include the joint venture in the online entertainment business launched in March 2007 by the Digital Bros Group and RCS Mediagroup. Called RCS DB Games S.p.A., the new company is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.), and required an initial investment by the Group of €735 thousand.

### 1. Property, plant and equipment

This item went from €3,378 thousand to €3,753 thousand. Changes during the period were as follows:

EUR/000	30 June 2007	Increases	Decreases	Depreciation	Use of accumulated depreciation	30 June 2008
Industrial buildings	2,109	39	0	(69)	0	2,079
Land	600	0	0	0	0	600
Industrial and commercial equipment	309	471	0	(145)	0	635
Other assets	320	219	(4)	(137)	4	402
Leasehold improvements	40	19	0	(22)	0	37
<b>Total</b>	<b>3,378</b>	<b>748</b>	<b>(4)</b>	<b>(373)</b>	<b>4</b>	<b>3,753</b>

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 office automation equipment (€431 thousand).

Most of the increase in “other assets” is explained by the purchase of furniture and fittings (€65 thousand) and motor vehicles (€108 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 gross balance of property, plant and equipment and in accumulated depreciation are as follows:

<b>EUR/000</b>	<b>30 June 2007</b>	<b>Increases</b>	<b>Disposals</b>	<b>30 June 2008</b>
Industrial buildings	2,289	39	0	<b>2,328</b>
Land	600	0	0	<b>600</b>
Plant and machinery	24	0	0	<b>24</b>
Industrial and commercial equipment	1,540	471	0	<b>2,011</b>
Other assets	744	219	(4)	<b>959</b>
Leasehold improvements	353	19	0	<b>372</b>
<b>Total</b>	<b>5,550</b>	<b>748</b>	<b>(4)</b>	<b>6,294</b>

<b>EUR/000</b>	<b>30 June 2007</b>	<b>Depreciation</b>	<b>Utilizations</b>	<b>30 June 2008</b>
Industrial buildings	(180)	(69)	0	<b>(249)</b>
Land	0	0	0	<b>0</b>
Plant and machinery	(24)	0	0	<b>(24)</b>
Industrial and commercial equipment	(1,231)	(145)	0	<b>(1,376)</b>
Other assets	(424)	(137)	4	<b>(557)</b>
Leasehold improvements	(313)	(22)	0	<b>(335)</b>
<b>Total</b>	<b>(2,172)</b>	<b>(373)</b>	<b>4</b>	<b>(2,541)</b>

## 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 second half of 2007, is higher than its carrying value. The building's fair value is €1,045 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 2007	Increases	Decreases	Amortization	30 June 2008
Concessions and licenses	491	443	0	(259)	675
Trademarks and similar rights	15	3	0	(13)	5
Other intangible assets	11	0	0	(11)	0
<b>Total</b>	<b>517</b>	<b>446</b>	<b>0</b>	<b>(283)</b>	<b>680</b>

Concessions and licenses, worth €74 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 gross intangible assets and in accumulated amortization:

EUR/000	30 June 2007	Increases	Disposals	30 June 2008
Concessions and licenses	2,173	443	0	2,616
Trademarks and similar rights	1,494	3	0	1,497
Other intangible assets	34	0	0	34
<b>Total</b>	<b>3,701</b>	<b>446</b>	<b>0</b>	<b>4,147</b>

EUR/000	30 June 2007	Amortization	Utilizations	30 June 2008
Concessions and licenses	(1,682)	(259)	0	(1,941)
Trademarks and similar rights	(1,479)	(13)	0	(1,492)
Other intangible assets	(23)	(11)	0	(34)
<b>Total</b>	<b>(3,184)</b>	<b>(283)</b>	<b>0</b>	<b>(3,467)</b>

#### 4. Equity investments

There were no movements in equity investments during the year. The Group's holdings consist of 50% of D3DB S.r.l., a joint venture with Japan's D3 Publisher Inc. (€5 thousand), and the joint venture RCS DB Games S.p.A. with RCS MediaGroup (€735 thousand).

#### 5. Non-current receivables and other assets

This item is made up exclusively of security deposits against contractual obligations.

#### 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.

EUR/000	30 June 2008	30 June 2007	Change
Deferred tax assets	2,103	2,695	(592)
<b>Total</b>	<b>2,103</b>	<b>2,695</b>	<b>(592)</b>

The decrease of €92 thousand stems from the use of deferred tax assets of €1,267K, net of the addition of €47K in deferred tax assets arising from temporary differences and of €62K and €6K in deferred tax assets arising, respectively, from the losses at 30 June 2008 by the newly formed companies Digital Bros Iberia S.I. and 505 Games U.S. Inc..

Deferred tax assets are broken down in the following table:

EUR/000	30 June 2008	30 June 2007	Change
Taxed provision for doubtful accounts	1,098	1,035	63
Prior fiscal losses	2,776	3,568	(792)
Writedowns of equity investments	0	1,139	(1,139)
Other liabilities	496	774	(278)
Actuarial differences	(134)	(156)	22
Costs not deducted in previous years	842	1,599	(757)
<b>Total differences</b>	<b>5,078</b>	<b>7,959</b>	<b>(2,881)</b>
IRES (corporate income tax) rate	27.5%	33%	
<b>Deferred tax assets (IRES)</b>	<b>1,396</b>	<b>2,626</b>	<b>(1,230)</b>
<b>Deferred tax assets (IRAP)</b>	<b>32</b>	<b>69</b>	<b>(37)</b>
<b>Deferred tax assets for losses by foreign subsidiaries</b>	<b>128</b>	<b>0</b>	<b>128</b>
<b>Deferred tax assets from consolidation adjustments</b>	<b>547</b>	<b>0</b>	<b>547</b>
<b>Total deferred tax assets</b>	<b>2,103</b>	<b>2,695</b>	<b>(592)</b>

Deferred tax assets at 30 June 2008 also include those arising from the fiscal losses of Game Entertainment S.r.l., Digital Bros Iberia S.I. and 505 Games U.S. Inc., amounting respectively to €763K, €62K and €6K.

The company decided to recognize deferred tax assets seeing as:

- Game Entertainment S.r.l. closed the year ended 30 June 2008 with taxable income for IRES purposes of €793 thousand, so it has already used part of the tax assets recognized at 30 June 2007. The bottom line for next year is also expected to be a profit;
- Digital Bros Iberia S.I. will close its first year of business on 31 December 2008. It has been operating commercially since 1 July 2008, and the loss reported at 30 June is expected to be recovered during the second half of the year;
- 505 Games U.S. Inc. closed its first fiscal year on 30 June 2008. It will begin to operate commercially and to generate profits next year.

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

## NON-CURRENT LIABILITIES

### 7. Employee benefits

Employee benefits cover the liability for employee termination indemnities (at the Group's Italian companies only), treated as a defined benefit plan. The balance reflects the legal changes introduced as of 1 January 2007 and 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 97, with an average age of 35.86 years.

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	2007-08	2006-07
<b>Provision for employee termination indemnities at 1 July</b>	<b>663</b>	<b>680</b>
Benefits paid for termination of service	(169)	(171)
Accrual for the year	262	248
Payments to complementary pension funds	(223)	(78)
Actuarial adjustment	22	(16)
<b>Provision for employee termination indemnities at 30 June</b>	<b>555</b>	<b>663</b>

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 2008 was €249 thousand, an increase of €43 thousand with respect to the previous year. Movements were comprised of a provision for the year of €59 thousand, net of €16 thousand in withdrawals for termination.

### 9. Other non-current payables and liabilities

At 30 June 2008, as in previous periods, there were no other non-current payables or liabilities.

## NET WORKING CAPITAL

Net working capital increased by €16,315 thousand with respect to 30 June 2007 (+27.5%). The change is explained by a rise of €10,953 thousand in trade receivables and by an increase of €6,270 thousand in other current assets. This trend, in line with the seasonal pattern described earlier, should also be viewed in light of the Group's marked increase in gross revenues during the fourth quarter (+€7,958 thousand, or 30.2%, on the same period last year).

The rise in inventories of just €13 thousand is the result of contrasting trends: although inventories increased by €2,501 thousand in the International Publishing segment and by €629 thousand in the Newsstands segment, the Distribution segment was able to reduce year-end inventories by around €2,617 thousand.

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

EUR/000	30 June 2008	30 June 2007	Change	
Inventories	39,553	39,040	513	1.3%
Trade receivables	42,110	31,157	10,953	35.2%
Tax credits	1,440	1,653	(213)	-12.9%
Other current assets	14,682	8,412	6,270	74.5%
Trade payables	(14,436)	(15,570)	1,134	-7.3%
Taxes payable	(5,202)	(2,648)	(2,554)	96.5%
Other current liabilities	(2,477)	(2,689)	212	-7.9%
<b>Total net working capital</b>	<b>75,670</b>	<b>59,354</b>	<b>16,316</b>	<b>27.5%</b>

### 10. Inventories

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

EUR	30 June 2008	30 June 2007	Change	
Halifax inventories	23,144	26,016	(2,872)	-11.0%
Returns to be received	1,547	1,103	444	40.3%
<b>Net Halifax inventories</b>	<b>24,691</b>	<b>27,119</b>	<b>(2,428)</b>	<b>-9.0%</b>
DTI inventories	6,710	7,177	(467)	-6.5%
Game Service inventories	1,361	1,083	278	25.7%
<b>Distribution inventories (A)</b>	<b>32,762</b>	<b>35,379</b>	<b>(2,617)</b>	<b>-7.3%</b>
<b>Newsstands inventories (B)</b>	<b>1,188</b>	<b>559</b>	<b>629</b>	<b>n.a.</b>
505 Games inventories	352	397	(45)	-11.3%
Foreign subsidiary inventories	5,251	2,705	2,546	94.1%
<b>International Publishing inventories (C)</b>	<b>5,603</b>	<b>3,102</b>	<b>2,501</b>	<b>80.6%</b>
<b>Total inventories (A+B+C)</b>	<b>39,553</b>	<b>39,040</b>	<b>513</b>	<b>1.3%</b>

Inventories rose from €39,040 thousand at 30 June 2007 to €39,553 thousand at 30 June 2008, an increase of €13 thousand. Halifax revenues have been separated from DTI revenues because the latter have a lower risk of obsolescence, due to agreements in force with the publishers distributed by DTI.

The policy of limiting net working capital made it possible to reduce inventories by €2,617 thousand, despite an increase in sales by the Distribution segment. International expansion through local distribution companies in the International Publishing segment produced a corresponding rise in inventories at foreign subsidiaries. The total increase in International Publishing inventories was €2,501 thousand, corresponding to 4.3% of the segment's revenues.

## 11. Trade receivables

Trade receivables showed the following movements for the year:

EUR/000	30 June 2008	30 June 2007	Change
Due from customers: Italy	29,368	14,252	15,116
Due from customers: rest of EU	3,916	14,446	(10,530)
Due from customers: rest of the world	219	137	82
Provision for doubtful accounts	(1,524)	(1,124)	(400)
<b>Total trade receivables</b>	<b>31,979</b>	<b>27,711</b>	<b>4,268</b>
Receivables for user licenses	9,718	3,303	6,415
Receivables for Disney products	413	143	270
<b>Total trade receivables</b>	<b>42,110</b>	<b>31,157</b>	<b>10,953</b>

Trade receivables include advances on receivables factored without recourse, amounting to €3,110 thousand at 30 June 2008, with respect to €3,074 thousand a year earlier.

The total figure for trade receivables at the close of the year, €31,979 thousand, is in line with the growth in consolidated revenues in the final quarter.

The following table breaks down trade receivables by maturity:

EUR/000	not yet due	0 < 30 days	30 < 60 days	60 - 90 days	> 90 days	Total
Trade receivables	27,872	2,298	120	92	1,597	<b>31,979</b>
	87%	7%	1%	0%	5%	<b>100%</b>

The provision for doubtful accounts had a year-end balance of €1,524 thousand, due to accruals of €400 thousand and no utilizations.

Receivables for user licenses and for Disney licenses 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. These advances will be used by the end of next year.

The increase in receivables for video game licenses (from €3,303 thousand to €9,718 thousand) stems from the acquisition of numerous licenses during the year, in line with the growth reported in the International Publishing segment. This heading consists of both advances for video game licenses still to be exploited in full, and the portion of partially exploited licenses expected to be of further use.

Details of receivables for user licenses at 30 June 2008 are provided below:

In EUR	30 June 2008
Advances to developers for licenses to be used in the future	8,411
Advances to developers for licenses partially used	1,307
<b>Total receivables for user licenses</b>	<b>9,718</b>

## 12. Tax credits

These consist wholly of VAT credits.

Movements during the period were as follows:

EUR/000	30 June 2008	30 June 2007	Change
Tax credits	1,431	1,650	(219)
Other tax credits	9	3	6
<b>Total tax credits</b>	<b>1,440</b>	<b>1,653</b>	<b>(213)</b>

## 13. 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 €14,682 thousand at the close of the year, compared with €8,412 thousand at 30 June 2007.

Movements during the period were as follows:

EUR/000	30 June 2008	30 June 2007	Change
Insurance refunds to be received	14	8	6
Advances paid to suppliers	13,091	7,674	5,417
Advances paid to employees	96	96	0
Advances paid to sales representatives	1,467	568	899
Other receivables	14	66	(52)
<b>Total other current assets</b>	<b>14,682</b>	<b>8,412</b>	<b>6,270</b>

Advances paid to suppliers rose from €7,674 thousand at 30 June 2007 to €13,091 thousand a year later, increasing by €5,417K. The difference is the result of the growing number of relationships with suppliers (requiring advance payment for services rendered), due to the growth of the International Publishing segment. During the year, the Group made advance purchases of advertising space through a barter transaction (amounting to €4,209 thousand at 30 June 2008), to take advantage of better contract terms.

Advances to sales representatives reflect the Group's practice of advancing commissions to the sales force on a monthly basis.

The item "other receivables" refers to costs incurred during the year that pertain to future periods.

#### 14. Trade payables

Trade payables went from €15,570 thousand at 30 June 2007 to €14,436 thousand, a decrease of €1,134 thousand, and consist mainly of amounts due to publishers for the purchase of finished products.

EUR/000	30 June 2008	30 June 2007	Change
Trade payables: Italy	(10,817)	(5,717)	(5,100)
Trade payables: rest of EU	(3,866)	(5,862)	1,996
Trade payables: rest of the world	247	(3,991)	4,238
<b>Total trade payables</b>	<b>(14,436)</b>	<b>(15,570)</b>	<b>1,134</b>

## 15. Taxes payable

These rose from €2,648 thousand to €5,202 thousand, an increase of €2,554 thousand. In detail:

EUR/000	30 June 2008	30 June 2007	Change
Income taxes	(2,226)	(536)	(1,690)
VAT due	(2,694)	(1,829)	(865)
Other taxes due	(282)	(283)	1
<b>Total taxes payable</b>	<b>(5,202)</b>	<b>(2,648)</b>	<b>(2,554)</b>

For the year ended 30 June 2008, the parent company Digital Bros S.p.A. continued to take the group tax election for all Italian subsidiaries. Current taxes and the relative payable have been determined in light of the group tax election.

The difference on the previous year (€2,554 thousand) is due primarily to higher Group taxes as a result of greater earnings and revenues.

## 16. Current provisions

The Group had no current provisions in this or the previous year.

## 17. Other current liabilities

Advances paid to suppliers fell from €2,689 thousand at 30 June 2007 to €2,477 thousand a year later, a decrease of €212 thousand. In detail:

EUR/000	30 June 2008	30 June 2007	Change
Due to social security institutions	(402)	(363)	(39)
Due to employees	(993)	(1,387)	394
Due to contract workers	(56)	(52)	(4)
Commissions due to sales representatives	(1,007)	(845)	(162)
Other payables	(19)	(42)	23
<b>Total other current liabilities</b>	<b>(2,477)</b>	<b>(2,689)</b>	<b>212</b>

Other current liabilities are made up chiefly of amounts due to employees for standard contractual bonuses and pay in lieu of holiday and personal leave, along with the social security charges accrued on those amounts.

Commissions due to sales representatives are those 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.

## CAPITAL AND RESERVES

Consolidated capital and reserves at 30 June 2008 were made up as follows:

EUR/000	30 June 2008	30 June 2007	Change
Share capital	5,644	5,644	0
Share premium reserve	16,954	16,954	0
Legal reserve	1,129	1,129	0
IFRS reserve	1,367	1,367	0
Other reserves	12	7	5
Treasury shares	(717)	(204)	(513)
Retained earnings	6,365	3,663	2,702
Net profit for the year	3,748	3,830	(82)
<b>Total capital and reserves</b>	<b>34,502</b>	<b>32,390</b>	<b>2,112</b>

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	30 June 2008	30 June 2007
<b>Opening capital and reserves</b>	<b>32,390</b>	<b>29,202</b>
Dividend payments	(1,128)	(1,117)
Movements in treasury shares	(513)	467
Profit for the period	3,748	3,830
Other changes	5	8
<b>Closing capital and reserves</b>	<b>34,502</b>	<b>32,390</b>

Share capital, unchanged since the previous year, is made up exclusively of 14,110,838 ordinary shares issued and fully paid-in, of par value €0.40 each. There are no rights, preferences or restrictions on ordinary shares.

The growth of €2,702 thousand in retained earnings is explained by the shareholders' resolution of 30 October 2007 to carry forward the previous year's profit, net of dividends paid. In accordance with that resolution, on 14 December 2007 the company paid a dividend of €0.08 per share excluding treasury shares, for a total of €1,128 thousand.

Treasury shares held at year-end, 154,263 ordinary Digital Bros S.p.A. shares, amounted to €717 thousand or 1.09% of the share capital. The increase of 116,773 shares (€513 thousand) with respect to the previous year stems from purchases authorized by the AGM of 30 October 2007.

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.

## NET DEBT

Less than proportionally to the rise in net working capital (€16,315 thousand), net debt grew by €14,285 thousand with respect to 30 June 2007. The trend is explained by a rise in current and non-current payables to banks. The rise in debt also reflects the Group's fourth quarter results, when net sales increased by €7,661 thousand (+31.2%) compared with the same period last year. A more in-depth analysis is provided in the consolidated cash flow statement.

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

	EUR/000	30 June 2008	30 June 2007	Change
22	Cash and cash equivalents	11,279	7,080	4,199
23	Short-term payables to banks	(49,730)	(32,676)	(17,054)
24	Other current financial liabilities	(3,309)	(3,250)	(59)
	<b>Current net debt</b>	<b>(41,760)</b>	<b>(28,846)</b>	<b>(12,914)</b>
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(4,679)	(2,673)	( 2,006)
27	Other non-current financial liabilities	(1,788)	(2,423)	635
	<b>Non-current net debt</b>	<b>(6,467)</b>	<b>(5,096)</b>	<b>(1,371)</b>
	<b>Total net debt</b>	<b>(48,227)</b>	<b>(33,942)</b>	<b>(14,285)</b>

Below is a comparison between the carrying value and the fair value of the Group's financial instruments at 30 June 2008:

	EUR/000	Non-current		Current	
		Carrying value	Fair value	Carrying value	Fair value
22	Cash and cash equivalents	0	0	11,279	11,279
23	Short-term payables to banks	0	0	(49,730)	(49,730)
24	Other current financial liabilities	0	0	(3,309)	(3,309)
	<b>Current net debt</b>	<b>0</b>	<b>0</b>	<b>(41,760)</b>	<b>(41,760)</b>
25	Non-current financial assets	0	0	0	0
26	Non-current payables to banks	(4,679)	(4,679)	0	0
27	Other non-current financial liabilities	(1,788)	(1,788)	0	0
	<b>Non-current net debt</b>	<b>(6,467)</b>	<b>(6,467)</b>	<b>0</b>	<b>0</b>
	<b>Total</b>	<b>(6,467)</b>	<b>(6,467)</b>	<b>(41,760)</b>	<b>(41,760)</b>

The fair value of financial instruments is determined as follows:

- cash and banks: 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 leasing arrangement is backed by an interest rate swap.

The following table shows the maturity of financial liabilities at 30 June 2008:

<b>EUR/000</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>beyond 5 years</b>	<b>Total</b>
Bank overdrafts	(2,548)	0	0	(2,548)
Import/export financing	(24,780)	0	0	(24,780)
Advances on invoices and subject to collection	(14,877)	0	0	(14,877)
Bank loans	(7,222)	(4,679)	0	(11,901)
Bank borrowings for fair value recognition of derivatives	(303)	(59)	0	(362)
<b>Total due to banks (A)</b>	<b>(49,730)</b>	<b>(4,738)</b>	<b>0</b>	<b>(54,468)</b>
<b>Other financial liabilities (B)</b>	<b>(3,309)</b>	<b>(811)</b>	<b>(918)</b>	<b>(5,038)</b>
<b>Total (A+B)</b>	<b>(53,039)</b>	<b>(5,549)</b>	<b>(918)</b>	<b>(59,506)</b>

### Current net debt

Current net debt is made up as follows:

	<b>EUR/000</b>	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>Change</b>
22	Cash and cash equivalents	11,279	7,080	4,199
23	Short-term payables to banks	(49,730)	(32,676)	(17,054)
24	Other current financial liabilities	(3,309)	(3,250)	(59)
	<b>Total current net debt</b>	<b>(41,760)</b>	<b>(28,846)</b>	<b>(12,914)</b>

### 22. Cash and cash equivalents

Cash and cash equivalents at 30 June 2008 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 (€67 thousand).

<b>EUR/000</b>	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>Change</b>
Cash on hand and bank deposits	8,835	4,689	4,146
Mutual fund units	2,177	2,129	48
Quadrante policy	267	262	5
<b>Total cash and cash equivalents</b>	<b>11,279</b>	<b>7,080</b>	<b>4,199</b>

Cash and cash equivalents amount to €11,279 thousand, an increase of €4,199 thousand attributable mainly to bank deposits.

### 23. Short-term payables to banks

Short-term payables to banks are comprised of account overdrafts, import-export financing, advances on invoices, advances subject to collection, and the portion of derivatives and bank loans due within 12 months. The amount due for short-term derivatives at 30 June 2008 is €303 thousand. The increase in short-term payables to banks with respect to the previous year is explained by a rise in import-export financing, advances on invoices and advances subject to collection to finance the Group's development.

In detail:

EUR/000	30 June 2008	30 June 2007	Change
Account overdrafts	(2,548)	(2,314)	(234)
Import-export financing	(24,780)	(18,709)	(6,071)
Advances on invoices and subject to collection	(14,877)	(10,170)	(4,707)
Loan installments due within 12 months	(7,222)	(1,082)	(6,140)
Fair value recognition of derivatives - due within 12 months	(303)	(401)	98
<b>Total short-term payables to banks</b>	<b>(49,730)</b>	<b>(32,676)</b>	<b>(17,054)</b>

Loan installments due within 12 months are shown below:

EUR/000	30 June 2008	30 June 2007	Change
To Banca Intesa San Paolo	(726)	(816)	90
To UniCredit Banca	(4,867)	(266)	(4,601)
To Barclays Bank	(1,629)	0	(1,629)
<b>Total short-term loans and borrowings</b>	<b>(7,222)</b>	<b>(1,082)</b>	<b>(6,140)</b>

The increase in loan installments due within 12 months refers to (1) the short-term portion of a new €5 million loan taken out from Barclays Bank on 19 December 2007, which matures on 21 December 2010; (2) the short-term portion of a loan contracted with Unicredit Banca by the subsidiary 505 Games S.r.l.; and three new short-term facilities (maturing between March and June 2009) granted by Unicredit Banca to 505 Games S.r.l., which are detailed below:

- a loan of €2.05 million granted by UniCredit Banca to 505 Games S.r.l. on 18 September 2007 to finance the company's development, due on 18 March 2009. The loan charges variable interest starting at 6.80% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 18 September 2007, plus a 2-point spread for the year. Interest is paid quarterly, while the principal will be repaid in a lump sum on 18 March 2009 or before (with no penalties applying);
- a loan of €400 thousand granted by UniCredit Banca to 505 Games S.r.l. on 23 November 2007 to finance the company's development, due on 23 May 2009. The loan charges interest at 6.92% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 23 November 2007. Interest is paid quarterly, while the principal will be repaid in a lump sum on 23 May 2009 or before (with no penalties applying);

- a loan of €2,150 thousand granted by UniCredit Banca to 505 Games S.r.l. on 14 December 2007 to finance the company's development, due on 14 June 2009. The loan charges interest at 7.22% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 14 December 2007. Interest is paid quarterly, while the principal will be repaid in a lump sum, at maturity or before (with no penalties applying).

#### **24. Other current financial liabilities**

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasing falling due within 12 months, for a total of €198 thousand. The leasing agreements currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars.

The item includes advances on trade receivables factored with and without recourse, totaling €3,110 thousand in keeping with IAS 39.

The following table shows finance lease payments by maturity:

<b>EUR/000</b>	<b>Nominal value of payments</b>
Within 1 year	198
1 - 5 years	811
Beyond 5 years	918
<b>Total</b>	<b>1,927</b>

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. The difference between fair value and nominal value is a positive €11 thousand.

#### **Non-current net debt**

Non-current net debt is made up as follows:

	<b>EUR/000</b>	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>Change</b>
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(4,679)	(2,673)	(2,006)
27	Other non-current financial liabilities	(1,788)	(2,423)	635
	<b>Total non-current net debt</b>	<b>(6,467)</b>	<b>(5,096)</b>	<b>(1,371)</b>

## **25. Non-current financial assets**

No non-current financial assets were recognized at either 30 June 2008 or 30 June 2007.

## **26. Non-current payables to banks**

Non-current payables to banks consist of the portion of loans being paid in installments that is due after 30 June 2009, for a total of €4,679 thousand.

At 30 June 2008 the Group had the following bank loans outstanding:

- a € million loan granted by Banca Intesa San Paolo on 14 March 2005, with a term of 56 months from the date of disbursement, with annual interest equal to the three-month Euribor plus a spread of 1.75 points. Installments fall due every quarter, with the last payment scheduled for November 2009;
- a € million loan granted by Unicredit Banca d'Impresa on 15 June 2005, maturing on 30 September 2010. Interest is charged at an annual rate of the three-month Euribor plus 1.5 points. In March 2007 the Group began to make equal payments against the principal at the end of every quarter. 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 five-year loan taken out on 2 February 2007 by 505 Games S.r.l. from Banca Intesa San Paolo. The € million borrowed will 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 loan of €300 thousand granted by UniCredit Banca to 505 Games S.r.l. on 26 February 2008, maturing on 26 August 2009. The loan charges interest at 7.22% per year, calculated as the three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 26 February 2008. Interest is paid quarterly, while the principal will be repaid in a lump sum, at maturity or before (with no penalties applying);
- a loan of €100 thousand granted by Unicredit Banca to 505 Games S.r.l. on 3 June 2008, maturing on 3 December 2009. The loan charges interest at 7.22% per year, calculated as the

three-month Euribor times the coefficient 365/360 (rounded up to the nearest 0.50%) valid on 3 June 2008. Interest is paid quarterly, while the principal will be repaid in a lump sum, at maturity or before (with no penalties applying);

- a loan of €5 million granted by Barclays Bank to Digital Bros S.p.A. on 19 December 2007. 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.

## 27. Other non-current financial liabilities

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

In detail:

EUR/000	30 June 2008	30 June 2007	Change
Lease payments falling due beyond 12 months	(1,729)	(1,875)	146
Fair value recognition of derivatives - beyond 12 months	(59)	(548)	489
<b>Total non-current financial liabilities</b>	<b>(1,788)</b>	<b>(2,423)</b>	<b>635</b>

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 €16 thousand each, plus a payment upon delivery of €28 thousand and an end of lease purchase option of €792 thousand.

The lease charges nominal annual interest of 3.87%. Payments falling due after the building is delivered are indexed to the monthly average of the three-month Euribor. For each installment, the average rate is calculated for the period between the day prior to the due date of the payment to be indexed and the due date of the previous payment. The final installment will be calculated using the same average as for the second-to-last payment. The lease will mature on 30 November 2014. The payments falling due within 12 months total €190 thousand; those with a maturity of one to five years amount to €53 thousand, and those due beyond five years total €805 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 its lease payments the Group will pay interest of 3.35% annually and receive the three-month Euribor. The notional amount of the IRS varies according to the residual principal of the lease.

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

The derivatives outstanding at 30 June 2008 to which hedge accounting does not apply are as follows:

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

The following table summarizes the interest rate swaps in effect at 30 June 2008 (in EUR/000):

Bank	Date of initiation	Maturity	Fair value at 30 June 2008	Nominal value at 30 June 2008
Intesa San Paolo	23 December 2004	28 December 2009	(481)	20,000
Intesa San Paolo	17 July 2003	21 July 2008	(5)	3,000
Intesa San Paolo	7 October 2005	28 November 2014	111	1,975
Unicredit Banca d'Impresa	15 June 2005	30 September 2010	13	600
<b>Total</b>			<b>(362)</b>	<b>n.a.</b>

## COMMITMENTS AND RISKS

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

EUR/000	Guarantor	30 June 2008	30 June 2007	Change
Konami of Europe GmbH	San Paolo IMI	(1,000)	(1,000)	0
Electronics Arts Publishing	Banca Intesa	0	(2,000)	(2,000)
Vivendi Universal Games	UniCredit Banca	(1,000)	(1,000)	0
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
<b>Total commitments</b>		<b>(3,286)</b>	<b>(5,286)</b>	<b>(2,000)</b>

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 2008.

The guarantee of €2 million in favor of Electronic Arts Publishing expired on 30 June 2008. This is the only change with respect to the previous year.

The guarantee in favor of Vivendi Universal Games Italia S.p.A. was taken out with Unicredit Banca d'Impresa on 28 July 2004 for an amount of €1 million, and has been renewed on an annual basis. There is a yearly fee of 0.16%. The guarantee covers a product distribution agreement between Digital Bros S.p.A. and Vivendi Universal Games Italia and will expire on 30 November 2009.

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

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### 3. Net revenues

Total net revenues increased from €120,932 thousand to €156,762 thousand (+29.6%).

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	119,440	1,319	486	57,544	178,789
2	Revenue adjustments	(12,080)	(78)	0	(9,869)	(22,027)
3	<b>Total net revenues</b>	<b>107,360</b>	<b>1,241</b>	<b>486</b>	<b>47,675</b>	<b>156,762</b>

### 8. Cost of sales

The cost of sales is detailed below:

	EUR/000	2007-2008	2006-2007	Change	%
4	Purchase of goods for resale	(102,627)	(91,693)	(10,934)	11.9%
5	Purchase of services for resale	(2,764)	(1,124)	(1,640)	n.a.
6	Royalties	(8,130)	(7,686)	(444)	5.8%
7	Change in inventories of finished products	513	12,591	(12,078)	-95.9%
8	<b>Total cost of goods sold</b>	<b>(113,008)</b>	<b>(87,912)</b>	<b>(25,096)</b>	<b>28.5%</b>

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 €17 thousand (€13 thousand the previous year).

## 11. Cost of services

The following table provides details of the cost of services:

EUR/000	2007-2008	2006-2007	Change	%
Advertising, marketing and tradeshows	(9,950)	(4,864)	(5,086)	104.6%
Transport and freight	(1,666)	(1,380)	(286)	20.7%
Other costs related to sales	(1,475)	(1,910)	435	-22.8%
<b>Subtotal: services related to sales</b>	<b>(13,091)</b>	<b>(8,154)</b>	<b>(4,937)</b>	<b>60.5%</b>
Miscellaneous insurance	(285)	(284)	(1)	0.4%
Legal and notary fees	(1,933)	(1,602)	(331)	20.7%
Post & telegraph	(108)	(111)	3	-2.7%
Travel & accommodation	(710)	(534)	(176)	33.0%
Utilities	(164)	(125)	(39)	31.2%
Maintenance	(91)	(59)	(32)	54.2%
Statutory auditors' fees	(69)	(73)	4	-5.5%
Satellite hook-up	0	(55)	55	-100.0%
<b>Subtotal: general services</b>	<b>(3,360)</b>	<b>(2,843)</b>	<b>(517)</b>	<b>18.2%</b>
<b>Total service expenses</b>	<b>(16,452)</b>	<b>(10,997)</b>	<b>(5,455)</b>	<b>49.6%</b>

The breakdown of the cost of services is representative of changes in the Group's operations during the year. The cost of services rose from €10,997 thousand to €16,452 thousand (+€5,455 thousand), due mainly to advertising costs incurred to support video game sales in Italy and the international market (€5,086 thousand) and an improvement in costs incurred and subsequently charged to commercial partners (€435 thousand), classified as "other costs related to sales."

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 rose slightly, from €427 thousand to €446 thousand. These charges include rent on the administrative offices at Via Bisceglie 76 (€295 thousand) and rent on office space in the United Kingdom (€33 thousand), France (€33 thousand), and Spain (€14 thousand). The balance consists of the leasing of motor vehicles not assigned to employees (€71 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 €1,546 thousand and increased by €2,055 thousand on the previous year:

EUR/000	2007-2008	2006-2007	Change	%
Wages and salaries	(6,393)	(4,725)	(1,668)	35.3%
Social security charges	(1,473)	(1,393)	(80)	5.7%
Employee termination indemnities	(316)	(125)	(191)	152.8%
Directors' fees	(1,000)	(900)	(100)	11.1%
Temps and contract workers	(507)	(391)	(116)	29.7%
Sales rep commissions	(1,754)	(1,804)	50	-2.8%
Other costs	(103)	(153)	50	-32.7%
<b>Total payroll costs</b>	<b>(11,546)</b>	<b>(9,491)</b>	<b>(2,055)</b>	<b>21.6%</b>

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 €1,938 thousand, or 31%, with a rise in average cost per employee of 2.1%:

EUR/000	2007-2008	2006-2007	Change	%
Wages and salaries	(6,393)	(4,725)	(1,668)	35.3%
Social security charges	(1,473)	(1,393)	(80)	5.7%
Employee termination indemnities	(316)	(125)	(191)	152.5%
<b>Total employee payroll costs</b>	<b>(8,182)</b>	<b>(6,243)</b>	<b>(1,939)</b>	<b>31.0%</b>
Average headcount	127	99	28	15.1%
<b>Average cost per employee</b>	<b>(64.4)</b>	<b>(63.1)</b>	<b>(1.3)</b>	<b>20.1%</b>

The increase stems largely from the Group's greater headcount (an average of 127 for the year, up from 99 for the year ended 30 June 2007).

Directors' fees rose by €100 thousand in accordance with the shareholders' resolution of 30 October 2007.

#### 14. Other operating expenses

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

EUR/000	2007-2008	2006-2007	Change	%
Miscellaneous materials purchased	(557)	(481)	(76)	15.8%
General and administrative expenses	(1,302)	(1,121)	(181)	16.2%
Entertainment costs	(142)	(229)	87	-38.0%
Miscellaneous bank charges	(435)	(329)	(106)	32.2%
<b>Total other operating expenses</b>	<b>(2,436)</b>	<b>(2,160)</b>	<b>(276)</b>	<b>12.8%</b>

Operating expenses rose by 12.8% with respect to the previous year, from €2,160 thousand to €2,436 thousand. General and administrative costs were up by 16.2% from €1,121 thousand to €1,303 thousand, due to the Group's greater business volumes, resulting partly from international expansion.

The increase of €106 thousand in bank charges relates to business growth, which requires more intensive dealings with banks.

## 21. Depreciation, amortization, provisions and impairment

These are made up as follows:

	EUR/000	2007-2008	2006-2007	Change	%
17	Depreciation and amortization	(656)	(818)	162	-19.8%
18	Provisions	0	0	0	0.0%
19	Asset impairment charge	(694)	(96)	(598)	n.a.
20	Impairment reversal	0	234	(234)	100.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(1,350)</b>	<b>(680)</b>	<b>(670)</b>	<b>98.5%</b>

Depreciation and amortization is comprised of €373 thousand for the depreciation of property, plant and equipment and €283 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.

Impairment charges increased by €98 thousand and refer to trade receivables (€400 thousand) and the value of the company RCS DB Games S.p.A. (€294 thousand).

## 25. Net interest income

In detail:

	EUR/000	2007-2008	2006-2007	Change	%
23	Interest income	360	74	286	n.a.
24	Interest expense	(3,973)	(2,670)	(1,303)	48.8%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(3,613)</b>	<b>(2,596)</b>	<b>(1,017)</b>	<b>39.2%</b>

Interest income came to €360 thousand, an increase of €286 thousand with respect to the previous year. Of the difference, €259 thousand refers to interest received and to the adjustment to fair value at 30 June 2008 of the derivative contracts held by the parent company.

Below are the details of interest expense:

EUR/000	2007-2008	2006-2007	Change	%
Interest on account overdrafts and commercial transactions	(2,937)	(2,150)	(787)	36.6%
Other interest expense	(7)	(14)	7	-50.0%
Interest on derivatives	(84)	(33)	(51)	154.5%
Interest on loans and leasing agreements	(667)	(231)	(436)	188.7%
Factoring interest	(278)	(242)	(36)	14.9%
<b>Total interest expense</b>	<b>(3,973)</b>	<b>(2,670)</b>	<b>(1,303)</b>	<b>48.8%</b>

Interest expense rose by 48.8% with respect to the previous year (+€1,303 thousand), due mainly to the financing of international expansion.

However, the implied cost of debt—net interest expense as a percentage of average debt—decreased by 1.24 points for the year. Average debt was calculated as the average of net indebtedness at the end of each quarter:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>
Average debt	52,575	31,992	20,583
Net interest expense	3,613	2,596	1,017
Cost of debt	6.87%	8.11%	-1.24%

## 29. Taxes

The breakdown of current and deferred taxes at 30 June 2008 is as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	<b>%</b>
Current taxes	(3,645)	(1,473)	(2,172)	147.5%
Deferred taxes	(635)	(1,479)	844	-57.1%
<b>Total taxes</b>	<b>(4,280)</b>	<b>(2,952)</b>	<b>(1,328)</b>	<b>45.0%</b>

Below is the breakdown of current taxes:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	<b>%</b>
IRES (corporate income tax)	2,619	697	1,922	275.8%
IRAP (regional business tax)	848	744	104	14.0%
Substitute tax	26	0	26	n.a.
Current taxes: Digital Bros S.a.r.l.	115	26	89	342.3%
Current taxes: 505 Games Ltd.	37	6	31	516.7%
<b>Total taxes</b>	<b>3,645</b>	<b>1,473</b>	<b>2,172</b>	<b>147.5%</b>

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

IRES was determined as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>
Taxable income for IRES purposes	8,494	4,355
IRES rate	33%	33%
Total IRES for the period	2,803	1,453
Release of deferred taxes	(262)	(724)
Prior year taxes	78	0
<b>Total IRES for the period</b>	<b>2,619</b>	<b>697</b>

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

<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>	
Parent company pre-tax profit	<b>4,154</b>		<b>4,466</b>	
IRES rate (33%)	<b>33%</b>		<b>33%</b>	
Theoretical charge	<b>1,371</b>	<b>33%</b>	<b>1,474</b>	<b>33%</b>
Tax effect of non-deductible costs	719	17%	447	10%
Tax effect of the use of losses carried forward	0	0%	(1,590)	-36%
Tax effect of the Group's share of subsidiaries' profits/losses	839	20%	1,106	25%
Net tax effect of the release of deferred tax assets not included in the above	(388)	-9%	(740)	-17%
Prior year taxes	78	2%		
Tax charge for the year and effective tax rate	<b>2,619</b>	<b>63%</b>	<b>697</b>	<b>16%</b>

IRAP was determined as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>
Taxable income for IRAP purposes	20,565	17,528
IRAP rate	4.25%	4.25%
<b>IRAP for the period</b>	<b>874</b>	<b>744</b>

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

<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>	
Parent company's taxable income for IRAP purposes	<b>12,848</b>		<b>6,963</b>	
IRAP rate (4.25%)	<b>4.25%</b>		<b>4.25%</b>	
<b>Theoretical charge</b>	<b>546</b>	<b>4.25%</b>	<b>296</b>	<b>4.25%</b>
Tax effect of non-deductible costs	6	0.05%	447	4.07%
Tax effect of the Group's share of subsidiaries' profits/losses	296	2.30%	165	2.37%
<b>Tax charge for the year and effective tax rate</b>	<b>848</b>	<b>6.60%</b>	<b>744</b>	<b>10.69%</b>

### 32. Basic earnings per share

Basic earnings per share was calculated as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>
Net profit for the year (1)	3,748	3,830
Average number of shares outstanding (2)	14,110,838	14,110,838
Average number of treasury shares held during the year (3)	(72,446)	(107,057)
Total average number of shares (4) = (2) - (3)	14,038,392	14,003,781
<b>Net earnings per share (1)/(4) (in EUR)</b>	<b>0.27</b>	<b>0.27</b>

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 held steady from one year to the next at €0.27.

### **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

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

Gross consolidated revenues outside Italy increased by €7,437 thousand, from €20,319 thousand in 2006-2007 to €27,756 thousand for the period under review:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	
Italy	121,033	112,904	8,129	7.2%
Elsewhere	57,756	21,022	36,734	174.7%
<b>Total revenues</b>	<b>178,789</b>	<b>133,926</b>	<b>44,863</b>	<b>33.5%</b>

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

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	
New Media	212	352	(140)	-39.8%
International Publishing	57,544	20,670	36,874	n.a.
<b>Total gross foreign revenues</b>	<b>57,756</b>	<b>21,022</b>	<b>36,734</b>	<b>174.7%</b>

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

The rise in International Publishing revenues is due to the substantial growth in business, especially by 505 Games S.r.l. and the Group's foreign subsidiaries.

The geographical breakdown of assets is insignificant, since the Group's foreign assets are limited to international trade receivables. For further information, see the note to net working capital in the section on trade receivables.

## 11. PERFORMANCE BY BUSINESS SEGMENTS

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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 2008, with comparative figures for the previous year (the Holding segment does not produce revenues):

EUR/000	Gross revenues				Net revenues			
	2007-2008	2006-2007	Change		2007-2008	2006-2007	Change	
Distribution	119,440	111,107	8,333	7.5%	107,360	102,059	5,301	5.2%
Newsstands	1,319	2,338	(1,019)	-43.6%	1,240	2,338	(1,098)	-47.0%
New Media	486	514	(28)	-5.4%	486	514	(28)	-5.4%
International Publishing	57,544	19,967	37,577	188.2%	47,676	16,021	31,655	197.6%
<b>Total gross revenues</b>	<b>178,789</b>	<b>133,926</b>	<b>44,863</b>	<b>33.5%</b>	<b>156,762</b>	<b>120,932</b>	<b>35,830</b>	<b>29.6%</b>

Profit margins for the segments were as follows:

	Consolidated figures in EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Revenues	119,439	1,319	486	57,544	0	178,789
2	Revenue adjustments	(12,080)	(78)	0	(9,869)	0	(22,027)
<b>3</b>	<b>Total revenues</b>	<b>107,360</b>	<b>1,241</b>	<b>486</b>	<b>47,676</b>	<b>0</b>	<b>156,762</b>
4	Purchase of goods for resale	(75,455)	(1,044)	(30)	(26,098)	0	(102,627)
5	Purchase of services for resale	0	(193)	(973)	(1,598)	0	(2,764)
6	Royalties	(357)	(423)	(102)	(7,247)	0	(8,130)
7	Change in inventories of finished products	(2,855)	866	0	2,502	0	513
<b>8</b>	<b>Total cost of goods sold</b>	<b>(78,668)</b>	<b>(794)</b>	<b>(1,105)</b>	<b>(32,441)</b>	<b>0</b>	<b>(113,008)</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>28,692</b>	<b>447</b>	<b>(619)</b>	<b>15,235</b>	<b>0</b>	<b>43,754</b>
10	Other income	34	(0)	0	83	0	117
11	Cost of services	(8,389)	(402)	(747)	(6,786)	(128)	(16,452)
12	Rent and leasing	(295)	0	(11)	(139)	0	(446)
13	Payroll costs	(6,862)	0	(1,054)	(2,418)	(1,213)	(11,546)
14	Other operating expenses	(1,706)	(2)	(47)	(352)	(329)	(2,436)
<b>15</b>	<b>Total operating expenses</b>	<b>(17,252)</b>	<b>(404)</b>	<b>(1,859)</b>	<b>(9,695)</b>	<b>(1,670)</b>	<b>(30,880)</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>11,473</b>	<b>43</b>	<b>(2,478)</b>	<b>5,623</b>	<b>(1,670)</b>	<b>12,991</b>
17	Depreciation and amortization	(375)	(7)	(54)	(80)	(140)	(656)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	(400)	0	(294)	0	0	(694)
20	Impairment reversal	0	0	0	0	0	0
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(775)</b>	<b>(7)</b>	<b>(348)</b>	<b>(80)</b>	<b>(140)</b>	<b>(1,350)</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>10,698</b>	<b>36</b>	<b>(2,825)</b>	<b>5,543</b>	<b>(1,811)</b>	<b>11,641</b>

## **Distribution**

Distribution 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, such as Electronic Arts, Activision Italia, Vivendi Universal Games and THQ Italia.

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

Key results

	Consolidated figures in EUR/000	Distribution					
		2007-2008		2006-2007		Change	
1	Gross revenues	119,439	111.3%	111,107	108.9%	8,332	7.5%
2	Revenue adjustments	(12,080)	-11.3%	(9,048)	-8.9%	(3,032)	33.5%
<b>3</b>	<b>Total net revenues</b>	<b>107,360</b>	<b>100.0%</b>	<b>102,059</b>	<b>100.0%</b>	<b>5,301</b>	<b>5.2%</b>
4	Purchase of goods for resale	(75,455)	-70.3%	(84,560)	-82.9%	9,105	-10.8%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(357)	-0.3%	(1,747)	-1.7%	1,390	-79.6%
7	Change in inventories of finished products	(2,855)	-2.7%	8,430	8.3%	(11,285)	n.a.
<b>8</b>	<b>Total cost of goods sold</b>	<b>(78,668)</b>	<b>-73.3%</b>	<b>(77,877)</b>	<b>-76.3%</b>	<b>(791)</b>	<b>1.0%</b>
<b>9</b>	<b>Gross profit</b>	<b>28,692</b>	<b>26.7%</b>	<b>24,182</b>	<b>23.7%</b>	<b>4,510</b>	<b>18.6%</b>
10	Other income	34	0.0%	46	0.0%	(12)	-26.9%
11	Cost of services	(8,389)	-7.8%	(7,329)	-7.2%	(1,060)	14.5%
12	Rent and leasing	(295)	-0.3%	(317)	-0.3%	22	-6.9%
13	Payroll costs	(6,862)	-6.4%	(6,216)	-6.1%	(646)	10.4%
14	Other operating expenses	(1,706)	-1.6%	(1,809)	-1.8%	103	-5.7%
<b>15</b>	<b>Total operating expenses</b>	<b>(17,252)</b>	<b>-16.1%</b>	<b>(15,671)</b>	<b>-15.4%</b>	<b>(1,581)</b>	<b>10.1%</b>
<b>16</b>	<b>EBITDA</b>	<b>11,473</b>	<b>10.7%</b>	<b>8,557</b>	<b>8.4%</b>	<b>2,916</b>	<b>34.1%</b>
17	Depreciation and amortization	(375)	-0.3%	(440)	-0.4%	65	-14.8%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(400)	-0.4%	(96)	-0.1%	(304)	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(775)</b>	<b>-0.7%</b>	<b>(536)</b>	<b>-0.5%</b>	<b>(239)</b>	<b>44.5%</b>
<b>22</b>	<b>EBIT</b>	<b>10,698</b>	<b>10.0%</b>	<b>8,021</b>	<b>7.9%</b>	<b>2,677</b>	<b>33.4%</b>

The Distribution segment increased its turnover, with gross revenues rising to €19,440 thousand, from €11,107 thousand in 2006-2007 (+7.5%).

Net revenues increased from €102,059 thousand to €107,360 thousand (+5.2%).

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

EUR/000	2007-2008	2006-2007	Change	
Distribution of video games for consoles	111,036	100,395	10,641	10.6%
Distribution of video games for PC/CD-ROM	7,783	10,477	(2,694)	-25.7%
Distribution of other products and services	984	696	288	41.4%
Financial discounts	(364)	(461)	97	-21.3%
<b>Gross revenues</b>	<b>119,439</b>	<b>111,107</b>	<b>8,332</b>	<b>7.5%</b>

Gross revenues from video game distribution rose by €3,332 thousand, from €11,107 thousand in 2006-2007 to €19,439 thousand, due to a rise in video game sales for consoles that offset a decline in the PC/CD-ROM category (which have always been a marginal contributor). Specifically, the increase in sales of console games (which amount to 92.9% of gross revenues for the segment and 62.1% of consolidated gross turnover) came to €10,641 thousand, while sales of games for PCs/CD-ROMs were down by 25.7%, from €10,477 thousand in 2006-2007 to €7,783 thousand this year.

Over the past 12 months several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS console, which increased by 156.6% in terms of units sold and by 148.6% in terms of revenues. 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 rates for the Italian video game market in recent months.

Figures for 2007-2008 reflect two factors: a decline in the average unit prices of games for the mature console (Sony Playstation 2), whose volumes however remained high, and the fact that the new console (Sony Playstation 3)—while gaining fast—is not yet present in enough homes to make up the difference.

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	2007-2008		2006-2007		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Nintendo Gameboy Advance	91,391	1,044	298,171	6,427	-69.3%	-83.8%
Sony Playstation 2	1,442,001	35,199	2,057,128	59,105	-29.9%	-40.4%
Sony Playstation 3	482,253	23,204	74,004	3,635	551.7%	538.4%
Nintendo Wii	148,223	5,747	38,410	1,550	285.9%	270.8%
Microsoft Xbox 360	204,881	8,628	150,979	7,115	35.7%	21.3%
Nintendo DS	1,066,965	28,089	415,759	11,297	156.6%	148.6%
Sony PSP	289,430	7,590	324,917	10,245	-10.9%	-25.9%
Other consoles	188,879	1,536	283,032	1,021	-33.3%	50.5%
<b>Total revenues from distribution for consoles</b>	<b>3,914,023</b>	<b>111,036</b>	<b>3,642,400</b>	<b>100,395</b>	<b>7.5%</b>	<b>10.6%</b>

Revenue growth for the console market was influenced by two contrasting trends:

- a decrease in products sold for consoles long on the market, which was partially offset by an increase of 630,476 units for new-generation consoles such as Sony Playstation 3 and Nintendo Wii;
- a 2.9% rise in average unit selling prices, as shown in the table below, with games for new-generation consoles costing the most (an average of €48.10 for Sony Playstation 3).

Two new consoles have been launched in the last 18 months: the Nintendo Wii (December 2006), with a controller designed for highly interactive play, and the Sony Playstation 3 (March 2007) which will gradually replace Sony's PS2. However, because the PS3 is not fully backward compatible (not all Playstation 2 games can be played on it) and because so many Italian households already have the PS2, the life cycle of the older console and its games has been extended.

The trend in average video game prices is shown below:

	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>
Nintendo Gameboy Advance	11.4	21.6	-47.0%
Sony Playstation 2	24.4	28.7	-15.0%
Sony Playstation 3	48.1	49.1	-2.0%
Nintendo Wii	38.8	40.4	-3.9%
Microsoft Xbox 360	42.1	47.1	-10.6%
Nintendo DS	26.3	27.2	-3.1%
Sony PSP	26.2	31.5	-16.8%
Other consoles	8.1	3.6	125.5%
<b>Average price</b>	<b>28.4</b>	<b>27.6</b>	<b>2.9%</b>

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 (consider the Nintendo Gameboy Advance, successfully replaced by Nintendo DS, and the Microsoft Xbox, now replaced by the Xbox 360). Generally speaking, games for portable consoles (Nintendo DS and Sony PSP) cost less than games for other consoles.

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

	<b>2007-2008</b>	<b>2006-2007</b>
Nintendo Gameboy Advance	0.9%	6.4%
Sony Playstation 2	31.7%	58.8%
Sony Playstation 3	20.9%	3.6%
Nintendo Wii	5.2%	1.5%
Microsoft Xbox 360	7.8%	7.1%
Nintendo DS	25.3%	11.3%
Sony PSP	6.8%	10.2%
Other consoles	1.4%	1%
<b>Total revenues from distribution for consoles</b>	<b>100%</b>	<b>100%</b>

As shown in the table above, Sony Playstation 3 (launched in 2006-07) has advanced significantly, while Playstation 2 has lost ground.

Sales of Nintendo DS games continued their swift upward trend.

Product obsolescence is typical of the media industry in general, with no exception for video games, and during the transition from an old-generation console to a new one it accelerates. The Group thus increased its inventory writedowns for the period, which had only a minor effect on gross profit and other margins. Nevertheless, the gross profit increased from €24,183 thousand to €28,692 thousand, growing by 18.6%.

This helped cover the rise in operating expenses, due essentially to the cost of services as a result of greater advertising investments (€900 thousand), and to payroll costs (€646 thousand).

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

EBIT went from €8,021 thousand in 2006-2007 to €10,698 thousand this year.

There was a rise during the year in depreciation, amortization, provisions and writedowns, due mostly to a provision for doubtful accounts of €400 thousand. EBIT, at €10,698 thousand, rose by 33.4% or €2,677 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.

	<b>EUR/000</b>	<b>30 June 2008</b>	<b>%</b>	<b>30 June 2007</b>	<b>%</b>
	<b>Total non-current assets</b>	<b>1,159</b>	<b>1.0%</b>	<b>997</b>	<b>0.9%</b>
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>0.6%</b>	<b>(812)</b>	<b>0.7%</b>
	<b>Net working capital</b>				
10	Inventories	32,762		34,116	
11	Trade receivables	28,833		19,056	
13	Other current assets	6,474		7,558	
14	Trade payables	(5,087)		(9,868)	
17	Other current liabilities	(1,959)		(769)	
	<b>Total net working capital</b>	<b>61,024</b>	<b>51.1%</b>	<b>50,093</b>	<b>45.0%</b>
	<b>Gross distribution revenues</b>	<b>119,439</b>		<b>111,107</b>	

The particularities of the video game distribution market are reflected in an analysis of net working capital, whose weight (51.1% 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 (8.9% 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](http://www.gametribe.com), has been online since September 2007. At the moment, players can access five Kong Kong go-kart simulation games, the multiplayer soccer game Kicks Online, the fantasy role-play games Dream of Mirror Online and 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.

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

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

Key results

Consolidated figures in EUR/000		New Media					
		2007-2008		2006-2007		Change	
1	Gross revenues	486	100.0%	514	100.0%	(28)	-5.4%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
<b>3</b>	<b>Total net revenues</b>	<b>486</b>	<b>100.0%</b>	<b>514</b>	<b>100.0%</b>	<b>(28)</b>	<b>-5.4%</b>
4	Purchase of goods for resale	(30)	-6.2%	0	0.0%	(30)	100.0%
5	Purchase of services for resale	(973)	n.a.	(796)	-154.9%	(177)	22.2%
6	Royalties	(102)	-21.1%	(68)	-13.2%	(34)	50.6%
7	Change in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(1,105)</b>	<b>n.a.</b>	<b>(864)</b>	<b>-168.1%</b>	<b>(241)</b>	<b>27.9%</b>
<b>9</b>	<b>Gross profit</b>	<b>(619)</b>	<b>n.a.</b>	<b>(350)</b>	<b>-68.1%</b>	<b>(269)</b>	<b>76.9%</b>
10	Other income	0	0.1%	48	9.3%	(48)	-99.2%
		0					
11	Cost of services	(747)	n.a.	(268)	-52.1%	(479)	n.a.
12	Rent and leasing	(11)	-2.3%	(54)	-10.5%	43	-79.6%
13	Payroll costs	(1,054)	n.a.	(697)	n.a.	(357)	51.2%
14	Other operating expenses	(47)	-9.6%	(20)	-3.9%	(27)	n.a.
<b>15</b>	<b>Total operating expenses</b>	<b>(1,859)</b>	<b>n.a.</b>	<b>(1,039)</b>	<b>n.a.</b>	<b>(820)</b>	<b>78.9%</b>
<b>16</b>	<b>EBITDA</b>	<b>(2,478)</b>	<b>n.a.</b>	<b>(1,341)</b>	<b>n.a.</b>	<b>(1,137)</b>	<b>84.8%</b>
17	Depreciation and amortization	(54)	-11.0%	(45)	-8.8%	(9)	19.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(294)	-60.5%	0	0.0%	(294)	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(348)</b>	<b>-71.5%</b>	<b>(45)</b>	<b>-8.8%</b>	<b>(303)</b>	<b>n.a.</b>
<b>22</b>	<b>EBIT</b>	<b>(2,825)</b>	<b>n.a.</b>	<b>(1,386)</b>	<b>n.a.</b>	<b>(1,439)</b>	<b>103.8%</b>

Most revenues were earned through subscriptions to online games (€288 thousand) and the sale of digital entertainment content (€198 thousand).

Revenues from “Legend of Mir” and “Myth of Soma” subscriptions fell from €270 thousand to €105 thousand, while the new generation of games accessed from the portal for the European market, www.gametribe.com, brought in €10 thousand for the period to 30 June 2008.

At €1,105 thousand, the cost of sales increased by €241 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 offer of more content through the portal should attract significant numbers of new players, thereby reducing the influence of this expense on the overall income statement structure. Investments were ongoing during the period with a view to completing the portal.

Operating expenses (€1,859 thousand) increased by €20 thousand with respect to the previous year, mostly as a result of advertising investments for the launch of the European portal and the increase in personnel.

The combination of these factors led to negative EBITDA of €2,478 thousand, compared with a negative €1,341 thousand in 2006-2007.

Depreciation, amortization, provisions and writedowns of €348 thousand showed an increase of €303 thousand, including a provision of €94K for the impairment of RCS DB Games S.p.A. as a result of its losses at 31 December 2007 (its year-end reporting date).

EBIT performed consistently with EBITDA, moving from a negative €1,386 thousand in 2006-2007 to a negative €2,825 thousand this year.

The New Media division, which took a substantial bite out of earnings this year, will see improved margins in 2008-2009 although it will still be operating at a loss.

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

	<b>EUR/000</b>	<b>30 June 2008</b>	<b>%</b>	<b>30 June 2007</b>	<b>%</b>
	<b>Total non-current assets</b>	<b>820</b>	<b>168.7%</b>	<b>774</b>	<b>150.6%</b>
	<b>Total non-current liabilities</b>	<b>(22)</b>	<b>4.5%</b>	<b>(23)</b>	<b>4.5%</b>
	<b>Net working capital</b>				
11	Trade receivables	796		215	
13	Other current assets	1,001		0	
14	Trade payables	(315)		(455)	
17	Other current liabilities	(59)		(406)	
	<b>Total net working capital</b>	<b>1,423</b>	<b>n.a.</b>	<b>(646)</b>	<b>n.a.</b>
	<b>New Media revenues</b>	<b>486</b>		<b>514</b>	

Most of the difference between this and the previous year refers to trade receivables, which increased due to business growth, and other current assets, which include advances paid to suppliers (mostly royalty advances to the developers of online games).

## **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.r.l. and 505 Games Ltd. operating respectively in France and the United Kingdom, and by D3DB S.r.l., a 50-50 joint venture with Japan's D3 Publisher Inc. set up for the exclusive distribution in PAL system countries (Europe, Australia and South Africa) of games in the lower price range. In January 2008 the Group set up two new subsidiaries: Digital Bros Iberia S.L., operational since July 2008, and 505 Games U.S. Inc., to open for business in the third quarter of next year. These two companies support the process undertaken in the last two years to enter the Spanish and the American markets.

Key results

Consolidated figures in EUR/000		International Publishing					
		2007-2008		2006-2007		Change	
1	Gross revenues	57,544	120.7%	19,967	124.6%	37,577	n.a.
2	Revenue adjustments	(9,869)	-20.7%	(3,946)	-24.6%	(5,923)	n.a.
<b>3</b>	<b>Total net revenues</b>	<b>47,676</b>	<b>100.0%</b>	<b>16,021</b>	<b>100.0%</b>	<b>31,655</b>	<b>197.6%</b>
4	Purchase of goods for resale	(26,098)	-54.7%	(6,854)	-42.8%	(19,244)	n.a.
5	Purchase of services for resale	(1,598)	-3.4%	(19)	-0.1%	(1,579)	n.a.
6	Royalties	(7,247)	-15.2%	(5,024)	-31.4%	(2,223)	44.2%
7	Change in inventories of finished products	2,502	5.2%	3,602	22.5%	(1,100)	-30.5%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(32,441)</b>	<b>-68.0%</b>	<b>(8,295)</b>	<b>-51.8%</b>	<b>(24,146)</b>	<b>291.1%</b>
<b>9</b>	<b>Gross profit</b>	<b>15,235</b>	<b>32.0%</b>	<b>7,726</b>	<b>48.2%</b>	<b>7,509</b>	<b>97.2%</b>
10	Other income	83	0.2%	18	0.1%	65	n.a.
11	Cost of services	(6,786)	-14.2%	(2,446)	-15.3%	(4,340)	n.a.
12	Rent and leasing	(139)	-0.3%	(55)	-0.3%	(84)	n.a.
13	Payroll costs	(2,418)	-5.1%	(1,476)	-9.2%	(942)	63.8%
14	Other operating expenses	(352)	-0.7%	(181)	-1.1%	(171)	94.4%
<b>15</b>	<b>Total operating expenses</b>	<b>(9,695)</b>	<b>-20.3%</b>	<b>(4,158)</b>	<b>-26.0%</b>	<b>(5,537)</b>	<b>n.a.</b>
<b>16</b>	<b>EBITDA</b>	<b>5,623</b>	<b>11.8%</b>	<b>3,586</b>	<b>22.4%</b>	<b>2,037</b>	<b>56.8%</b>
17	Depreciation and amortization	(80)	-0.2%	(20)	-0.1%	(60)	n.a.
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	234	1.5%	(234)	n.a.
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(80)</b>	<b>-0.2%</b>	<b>214</b>	<b>1.3%</b>	<b>(294)</b>	<b>n.a.</b>
<b>22</b>	<b>EBIT</b>	<b>5,543</b>	<b>11.6%</b>	<b>3,800</b>	<b>23.7%</b>	<b>1,743</b>	<b>45.9%</b>

The trend in gross revenues is especially vibrant. Totaling €57,544 thousand for the period, they increased by €37,577 thousand with respect to the previous year's €19,967 thousand. The growth in turnover reflects a flurry of international license acquisitions and the healthy development of the foreign distribution network, especially through the subsidiaries 505 Games Ltd. and Digital Bros France S.a.r.l. Net revenues showed a similar pattern, rising by €31,655 thousand or close to 198%.

The policy of content expansion pursued by the Group in the last two years now gives it more than 130 international licenses for video games, of which many are already in stores, including Cooking Mama 2 for Nintendo DS; Cooking Mama for Nintendo DS and Nintendo Wii; ArmA: Armed Assault for PC/CD-ROM; and Armored Core for Sony Playstation 3.

Profitability was especially high during the period, as sales of Cooking Mama 2 and Fashion Designer for Nintendo DS and of Lupin III for Sony Playstation 2 were complemented by the ongoing success of

games launched the previous year, particularly: “Cooking Mama” for Nintendo DS and Wii and “Bust a Move” for Nintendo Wii.

Gross revenues by type of video game distributed are presented in the table below, which shows that the segment's revenue growth is due exclusively to games for consoles:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	
Publishing of video games for consoles	54,998	17,295	37,703	218.0%
Publishing of video games for PC/CD-ROM	2,530	2,609	(79)	-3.0%
Publishing of other products and services	16	63	(47)	-75.0%
<b>Gross revenues</b>	<b>57,544</b>	<b>19,967</b>	<b>37,577</b>	<b>188.2%</b>

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:

<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>		<b>Change</b>	
	<b>Units</b>	<b>Revenues</b>	<b>Units</b>	<b>Revenues</b>	<b>Units</b>	<b>Revenues</b>
Sony Playstation 2	104,871	1,465	203,799	2,848	-48.5%	-48.6%
Sony Playstation 3	23,984	1,056	32,933	923	-27.2%	14.4%
Nintendo Wii	401,706	11,326	121,849	2,937	229.7%	285.6%
Microsoft Xbox 360	35,483	1,360	32,218	877	10.1%	55.1%
Nintendo DS	1,844,247	39,128	542,857	8,561	239.7%	357.1%
Sony PSP	37,260	662	55,080	1,024	-32.4%	-35.3%
Other consoles	451	2	8,809	125	n.a.	n.a.
<b>Total console revenues</b>	<b>2,448,002</b>	<b>54,998</b>	<b>997,545</b>	<b>17,295</b>	<b>145.4%</b>	<b>218.0%</b>

The increase in International Publishing revenues with respect to last year is explained primarily by the strong penetration of games for today's most popular consoles, such as Nintendo DS and Nintendo Wii. These games make up 87% of products sold during the period, and were the focus of the Group's efforts to acquire international licenses. In particular, the success of video games for Nintendo DS stems from the launch of simple, user-friendly games that are perfect for players ranging from teenage girls to young children, i.e. for the market segments known as casual gaming, female gaming and social gaming.

This success offset the decline in game sales for the Sony Playstation 2, caused largely by the lack of games published during the quarter by the joint venture D3DB S.r.l., of which the Group owns 50%.

The trend in average video game prices per console is shown below:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>
Sony Playstation 2	14.0	14.0	-0.1%
Sony Playstation 3	44.0	28.0	57.0%
Nintendo Wii	28.2	24.1	17.0%
Microsoft Xbox 360	38.3	27.2	40.8%
Nintendo DS	21.2	15.8	34.5%
Sony PSP	17.8	18.6	-4.4%
<b>Average price</b>	<b>22.5</b>	<b>17.3</b>	<b>29.6%</b>

The increase average selling prices is closely related to the quality of published games. After a start-up period over the last few years, when the Group used low-cost games to enter the market, it is now building on its success by marketing better and better games that sell for significantly higher prices.

The cost of sales increased by €24,146 thousand, from €8,295 thousand to €32,441 thousand. This is explained by the higher volumes achieved in this segment.

Royalty costs rose by €2,223 thousand (+44.2%), which is less than proportional to revenue growth thanks to the better exploitation of licenses.

Costs for the purchase of services for resale refer to localization, video game rating and quality assurance services. They increased notably with respect to last year, totaling €1,598 thousand, due to greater investments in the quality of games.

Raw material costs grew by €9,444 thousand and increased from 42.8% to 54.7% of net revenues. This relates to the product mix, as games for Nintendo DS and Nintendo Wii (which account for more than 87% of the segment's sales) cost more to produce per unit than games for other consoles or PCs.

The change in finished product inventories increased due mainly to the expansion of the commercial network through DB France S.a.r.l. and 505 Games Ltd. In their two markets, France and the U.K., it is standard practice for retailers to return unsold goods to the supplier. As a result, revenue adjustments increased by €5,923 thousand (totaling 20.7% of net revenues), so inventories rose by €2,502 thousand to reflect the risk of returns by end consumers.

Operating expenses were up by €5,537 thousand, from €4,158 thousand to €9,695 thousand, due to advertising investments in support of international operations (€4,300 thousand) and especially to an increase of €942 thousand in payroll costs as a result of hiring by the foreign subsidiaries.

The two new subsidiaries, Digital Bros Iberia S.I. and 505 Games U.S. Inc., generated operating expenses for the period (respectively €200 thousand and €171 thousand) without contributing revenues.

The hearty growth of the International Publishing segment is clear from its EBITDA figure of €5,623 thousand, a rise of €2,037 thousand on the previous year, which is mirrored by an EBIT increase of €1,743 thousand.

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

	EUR/000	30 June 2008	%	30 June 2007	%
	<b>Total non-current assets</b>	<b>592</b>	<b>1.2%</b>	<b>148</b>	<b>0.7%</b>
	<b>Total non-current liabilities</b>	<b>0</b>	<b>n.a.</b>	<b>(137)</b>	<b>-0.7%</b>
	<b>Net working capital</b>				
10	Inventories	5,602		4,365	
11	Trade receivables	11,972		10,102	
13	Other current assets	7,118		512	
14	Trade payables	(8,659)		(4,659)	
17	Other current liabilities	(459)		(990)	
	<b>Total net working capital</b>	<b>15,574</b>	<b>32.7%</b>	<b>9,330</b>	<b>46.7%</b>
	<b>International Publishing revenues</b>	<b>47,676</b>		<b>19,967</b>	

The dynamics of the International Publishing segment are similar to those described for the Distribution segment. Non-current assets and liabilities are marginal, while net working capital is quite high, including as a percentage of revenues (32.7% of total gross sales for the segment).

Unlike the Distribution segment, it should be noted that trade receivables refer both to sales concluded but not yet settled with third parties, for €3,283 thousand, and receivables for video game user licenses for €8,689 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 2008
Advances for production	776
Advances to developers for licenses to be used in the future	1,324
Advances to developers for licenses partially used	3,177
Advances to other suppliers for licenses to be used in the future	1,841
<b>Other receivables</b>	<b>7,118</b>

Production advances are a custom in the video games industry, as the producers (Nintendo, Sony and Microsoft) require payment at the time of the order.

Advances to developers for licenses to be used in the future are the sum of all amounts paid for licenses that will be used as from 2008-2009.

Advances to developers for licenses partially used refer to licenses for products already on the market. The exploitation of international video game licenses is split between recoupment and impairment, calculated for each licence according to the following formula:

total advances - (quantity forecast\*unit royalty).

Recoupment is determined as:

quantity sold\*unit royalty;

while impairment is calculated as:

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

Thus, the year-end amount receivable for an individual license is:

- the sum of advances if the product has yet to be marketed;
- the forecast quantity sold times the unit royalty, if the product is already being sold.

Advances to other suppliers for licenses to be used in the future consist of localization costs, rating costs and quality assurance costs relating to licenses that will be used as from 2008-2009.

## 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					
		2007-2008		2006-2007		Change	
1	Gross revenues	1,319	106.4%	2,338	100.0%	(1,019)	-43.6%
2	Revenue adjustments	(78)	-6.4%	0	0.0%	(78)	-100.0%
<b>3</b>	<b>Total net revenues</b>	<b>1,241</b>	<b>100.0%</b>	<b>2,338</b>	<b>100.0%</b>	<b>(1,097)</b>	<b>-46.9%</b>
4	Purchase of goods for resale	(1,044)	-84.2%	(279)	-11.9%	(765)	274.2%
5	Purchase of services for resale	(193)	-15.6%	(309)	-13.2%	116	-37.5%
6	Royalties	(423)	-34.1%	(847)	-36.2%	424	-50.1%
7	Change in inventories of finished products	866	69.8%	559	23.9%	307	54.9%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(794)</b>	<b>-64.0%</b>	<b>(876)</b>	<b>-37.5%</b>	<b>82</b>	<b>-9.4%</b>
<b>9</b>	<b>Gross profit</b>	<b>447</b>	<b>36.0%</b>	<b>1,462</b>	<b>62.5%</b>	<b>(1,015)</b>	<b>-69.4%</b>
10	Other income	0	0.0%	1	0.0%	(1)	100.0%
11	Cost of services	(402)	-32.4%	(759)	-32.5%	357	-47.0%
12	Rent and leasing	0	0.0%	0	0.0%	0	0.0%
13	Payroll costs	0	0.0%	0	0.0%	0	0.0%
14	Other operating expenses	(2)	-0.2%	(18)	-0.8%	16	-88.6%
<b>15</b>	<b>Total operating expenses</b>	<b>(404)</b>	<b>-32.6%</b>	<b>(777)</b>	<b>-33.2%</b>	<b>373</b>	<b>-48.0%</b>
<b>16</b>	<b>EBITDA</b>	<b>43</b>	<b>3.4%</b>	<b>686</b>	<b>29.3%</b>	<b>(643)</b>	<b>-93.7%</b>
17	Depreciation and amortization	(7)	-0.6%	0	0.0%	(7)	-100.0%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(7)</b>	<b>-0.6%</b>	<b>0</b>	<b>0.0%</b>	<b>(7)</b>	<b>-100.0%</b>
<b>22</b>	<b>EBIT</b>	<b>36</b>	<b>2.9%</b>	<b>686</b>	<b>29.3%</b>	<b>(650)</b>	<b>-94.7%</b>

Revenues were earned from the distribution of the following products:

- the DVD series “WWE Wrestling Megastars” and “Greatest Hits,” on the lives of popular wrestlers;
- the DVD series “Wanted,” inspired by hit TV shows including Desperate Housewives and E.R.;
- the first issues of “DVD-games,” a series of games played on a DVD player using the remote control, based on popular Dreamworks titles;

- the game series “The Sims,” a real-life simulation game, distributed as an add-on with newspapers published by the RCS Mediagroup;
- the “Maxima 3” series of video games for PC/CD-ROM, also sold as add-ons to RCS Mediagroup newspapers.

Total net revenues amounted to €1,240 thousand, showing a decrease on the previous year due mainly to lower sales of wrestling entertainment products and the series “DVD-games.”

Operating expenses (-€373 thousand) are closely correlated with newsstands' management of the distribution process during the period under review.

As a result, EBITDA and EBIT for 2007-2008 respectively amounted to 3.4% and 2.9% of total net sales.

No major change is expected for the Newsstands segment; after acknowledging waning interest in wrestling entertainment products this year, it will be able to develop its standard business of distributing video games to a mass audience and improve its profit margins.

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

	EUR/000	30 June 2008	%	30 June 2007	%
	<b>Total non-current assets</b>	<b>5</b>	<b>0.4%</b>	<b>13</b>	<b>0.6%</b>
	<b>Total non-current liabilities</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
	<b>Net working capital</b>				
10	Inventories	1,188		559	
11	Trade receivables	509		1,784	
13	Other current assets	89		384	
14	Trade payables	(375)		(588)	
17	Other current liabilities	(1)		(464)	
	<b>Total net working capital</b>	<b>(1,410)</b>	<b>106.9%</b>	<b>1,675</b>	<b>71.6%</b>
	<b>Segment revenues</b>	<b>1,319</b>		<b>2,338</b>	

Since this is a distribution-only business, there are practically no non-current assets and liabilities, but net working capital is especially high at €1,410 thousand.

## 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					
		2007-2008		2006-2007		Change	
<b>3</b>	<b>Total net revenues</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
<b>8</b>	<b>Total cost of goods sold</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>(0)</b>	<b>0.0%</b>
<b>9</b>	<b>Gross profit</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(128)	0.0%	(195)	-1.2%	67	-34.2%
12	Rent and leasing	0	0.0%	(1)	0.0%	1	-100.0%
13	Payroll costs	(1,213)	0.0%	(1,102)	-6.9%	(111)	10.0%
14	Other operating expenses	(329)	0.0%	(132)	-0.8%	(197)	149.6%
<b>15</b>	<b>Total operating expenses</b>	<b>(1,670)</b>	<b>-3.5%</b>	<b>(1,430)</b>	<b>-8.9%</b>	<b>(240)</b>	<b>16.8%</b>
<b>16</b>	<b>EBITDA</b>	<b>(1,670)</b>	<b>-3.5%</b>	<b>(1,430)</b>	<b>-8.9%</b>	<b>(240)</b>	<b>16.8%</b>
17	Depreciation and amortization	(141)	-0.3%	(313)	-2.0%	172	-55.1%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	0	0.0%	0	0.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total depreciation, amortization, provisions and impairment</b>	<b>(141)</b>	<b>-0.3%</b>	<b>(313)</b>	<b>-2.0%</b>	<b>172</b>	<b>-55.1%</b>
<b>22</b>	<b>EBIT</b>	<b>(1,811)</b>	<b>-3.80%</b>	<b>(1,743)</b>	<b>-10.9%</b>	<b>(68)</b>	<b>3.9%</b>

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

Depreciation, amortization, provisions and writedowns refer to the depreciation of the Group's warehouse at Trezzano sul Naviglio and the amortization of brands. The reduction is due essentially to the previous year's writedown of the Game Network brand, previously used for retail operations conducted over the satellite channel.

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

	<b>EUR/000</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>Non-current assets</b>		
1	Property, plant and equipment	2,714	2,753
2	Investment property	455	455
3	Intangible assets	13	11
4	Equity investments	0	0
5	Non-current receivables and other assets	1	0
	<b>Total non-current assets</b>	<b>3,183</b>	<b>3,219</b>
	<b>Non-current liabilities</b>	<b>0</b>	<b>(20)</b>
	<b>Net working capital</b>	<b>0</b>	<b>21</b>

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

## **12. SIGNIFICANT SUBSEQUENT EVENTS**

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No significant events have occurred since the close of the year, except for the commencement of business by the subsidiary Digital Bros Iberia S.I.

## **13. CONTINGENT ASSETS AND LIABILITIES**

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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 2008.

## 14. RELATED PARTY TRANSACTIONS

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

### *Non-consolidated subsidiaries*

Below are key figures for the non-consolidated subsidiary D3DB S.r.l. (held 50%) at 31 March 2008, its year-end reporting date:

<b>EUR/000</b>	
Assets	1,219
Capital and reserves	(76)
Liabilities	1,295
Revenues	0
Costs	(78)
Net profit (loss) for the period	(78)

Key figures at 31 December 2007 (the year-end reporting date) for the non-consolidated company RCS DB Games S.p.A. (held 49%) are as follows:

<b>EUR/000</b>	
Assets	1,535
Capital and reserves	(918)
Liabilities	(617)
Revenues	55
Costs	(637)
Net profit (loss) for the period	(582)

## Subsidiaries

Commercial and financial transactions between the parent company Digital Bros S.p.A. and other Group companies in 2007-2008 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.	500	2,064	0	0	786	(7,739)
Game Media Networks S.r.l.	0	4,833	0	0	891	0
Game Service S.r.l.	0	3,712	(1,451)	0	2,794	0
Game Entertainment S.r.l.	0	215	0	0	1,164	(10)
Digital Bros France S.a.r.l.	0	395	0	0	6	(10)
505 Games Ltd.	0	1,086	0	0	0	0
Digital Bros Iberia S.l.	0	326	0	0	7	0
<b>Total</b>	<b>500</b>	<b>12,631</b>	<b>(1,451)</b>	<b>0</b>	<b>5,648</b>	<b>(7,759)</b>

Commercial and financial transactions between 505 Games S.r.l. and other Group companies in 2007-2008 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.		
Digital Bros France S.a.r.l.	1,255	0	0	0	5,591	(1,100)
505 Games Ltd.	5,385	74	0	0	23,465	(3,113)
Digital Bros Iberia S.l.	230	0	0	0	128	0
<b>Total</b>	<b>6,870</b>	<b>74</b>	<b>0</b>	<b>0</b>	<b>29,184</b>	<b>(4,213)</b>

Other intercompany transactions of a more modest size are the charge-back of costs from Game Service S.r.l. to Game Entertainment S.r.l. for €124 thousand, and the charge-back of costs from Game Media Networks France S.a.r.l. and Game Media Networks Ltd. to Game Media Networks S.r.l. (€146 thousand and €120 thousand, respectively).

## Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, who received €201 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.r.l., for which €22 thousand was paid.

## Group tax election

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

This has made it necessary to prepare a set of rules for intercompany relations to ensure that no prejudice is caused to the individual participants in the system.

## **15. OTHER INFORMATION**

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### **EMPLOYEES**

Below are the details of the year-end workforce with comparative figures for the previous year:

<b>Category</b>	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>Change</b>
Executives	10	8	2
White collar	121	84	37
Blue collar and trainees	10	10	0
<b>Total employees</b>	<b>141</b>	<b>102</b>	<b>39</b>

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

<b>Category</b>	<b>Average in 2007-2008</b>	<b>Average in 2006-2007</b>	<b>Change</b>
Executives	9	8	1
White collar	108	81	27
Blue collar and trainees	10	10	0
<b>Total employees</b>	<b>127</b>	<b>99</b>	<b>28</b>

## 16. 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 compensation 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
<b>Board of Directors</b>							
Abramo Galante	Chairman and managing director (1)	01/07/07 to 30/06/08	30/06/08	370,000	65,000	5,661	50,025
Raffaele Galante	Managing director (1)	01/07/07 to 30/06/08	30/06/08	370,000	65,000	5,588	50,025
Davide Galante	Director (1)	01/07/07 to 30/06/08	30/06/08	72,000	0	0	0
Stefano Salbe	Director (1) (4)	01/07/07 to 30/06/08	30/06/08	0	55,000	3,231	184,008
Bruno Soresina	Director (3)	01/07/07 to 30/06/08	30/06/08	16,500	0	0	0
Dario Treves	Director (2)	01/07/07 to 30/06/08	30/06/08	6,600	0	0	201,000
Sergio Treves	Director (3)	01/07/07 to 27/03/08	30/06/08	12,375	0	0	0
Umberto Virri	Director (3)	01/07/07 to 30/06/08	30/06/08	16,500	0	0	0
Alberto Pianta	Director (3)	27/03/08 to 30/06/08	30/06/08	4,125	0	0	0
<b>Board of Statutory Auditors</b>							
Nicolino Cavalluzzo	Chairman	01/07/07 to 30/06/08	30/06/08	27,602	0	0	0
Franco Gaslini	Standing auditor	01/07/07 to 30/06/08	30/06/08	19,519	0	0	0
Paolo Villa	Standing auditor	01/07/07 to 30/06/08	30/06/08	18,745	0	0	0
Enrico Muscato	Alternate auditor	01/07/07 to 30/06/08	30/06/08	0	0	0	0
Marcello Priori	Alternate auditor	01/07/07 to 30/06/08	30/06/08	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.

## **17. EQUITY INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS**

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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).

<b>Name</b>	<b>Shares of</b>	<b>No. of shares held at 30 June 2007</b>	<b>No. of shares purchased</b>	<b>No. of shares sold</b>	<b>No. of shares held at 30 June 2008</b>
Abramo Galante	Digital Bros S.p.A.	4,651,995	0	0	4,651,995
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

## **18. INFORMATION ON ASSETS SUBJECT TO REVALUATION IN ACCORDANCE WITH SPECIAL LAWS**

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

## **19. LOANS GRANTED TO MEMBERS OF ADMINISTRATIVE, MANAGERIAL AND SUPERVISORY BODIES**

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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.

## **20. RESEARCH AND DEVELOPMENT COSTS**

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

## 21. EXTERNAL AUDITING FEES

Pursuant to Article 149-duodecies of the Issuers' Regulations, the following table shows amounts paid for 2007-2008 to the external auditors, Reconta Ernst & Young.

Type of service	Fees for 2007-2008 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	131,514	64,216	195,730		20,000	20,000	215,730
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-bis of the Consolidated Finance Act)							
- Opinions on application of new accounting standards							
- Accounting advice							
- Other services							
- Income tax return	5,000	4,500	9,500				9,500
<b>Total</b>	<b>136,514</b>	<b>68,716</b>	<b>205,230</b>		<b>20,000</b>	<b>20,000</b>	<b>225,230</b>

## **STATEMENT BY THE FINANCIAL REPORTING OFFICER**

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

I, the undersigned, Stefano Salbe, financial reporting officer of the Digital Bros Group, hereby declare in accordance with the second paragraph of Art. 154-bis, Part IV, Title III, Chapter II, Section V-bis of Legislative Decree 58 of 24 February 1998 that to the best of my knowledge, the consolidated financial statements at 30 June 2008 correspond to the records, books of account and accounting entries.

Signed

Abramo Galante

Chairman of the Board of Directors



**Digital Bros S.p.A.**

## **Annual Report**

**for the year ended  
30 June 2008**

**Digital Bros S.p.A.**

Via Bisceglie, 76 – 20152 Milan, Italy

VAT and tax identification no. 09554160151

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

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

This report can be downloaded from the Investor Relations section  
at [www.digital-bros.net](http://www.digital-bros.net).

## **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**

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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 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; the increasing number of players; and the fact that players are older, as those who start to play when young continue to do so at a later age allowing the market to release games for an ever more mature audience. Growing just as fast is the market of video games for female players, who in recent years have become avid leisure time fans. In Europe, thanks to these trends, the video game sector now accounts for 34% of the total entertainment market.

Over the past year or so, several games have been launched that are perfect for mass consumption, in particular for the Nintendo DS console. 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 rates for the video game market in the past 12 months.

Meanwhile, technological development allows hardware manufacturers to launch more powerful consoles than ever that can also improve the quality of games. In fiscal year 2006-2007, the Nintendo Wii reached stores just before Christmas, and was joined by the Sony Playstation 3 in March.

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

- Developers
- Publishers
- Console manufacturers
- Distributors

- Dealers: specialized chains, mass retailers and shops.

Developers are those who create and program the game, which is usually based on an original idea, a hot brand, a film, a book and/or a cartoon. The developers retain the intellectual property rights, but they transfer the exploitation rights—for a limited amount of time agreed by contract—to international video game publishers, who are therefore crucial for 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 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 is also the member of the value chain that physically prints the game, using its own equipment, on behalf of the international publishers. 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 media relations events. In other markets, like the U.K.'s, 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. In Italy, the market is made up approximately 50% of mass retail outlets and 50% of independent, specialized stores. The Company 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.

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.

## **2. SEASONAL TRENDS IN THE MARKET**

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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 Company'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 "Metal Gear Solid 4" in June 2008.

### 3. SIGNIFICANT EVENTS DURING THE YEAR

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The main events occurring from July 2007 to June 2008 were as follows.

- August 2007: On the basis of results at 30 June 2007, the Board of Directors approves forecasts for fiscal year 2007-2008. Board member Stefano Salbe is named financial reporting officer, pursuant to Art. 154 bis of Legislative Decree 58/98, and given the appropriate powers. In the International Publishing segment, through its subsidiary 505 Games S.r.l. the Group signs an agreement with Cooking Mama Ltd. for the publication of "Cooking Mama 2," the sequel to the game for Nintendo DS and Wii. "Cooking Mama 2" is then released in March 2008;
- September 2007: launch of [www.fueps.com](http://www.fueps.com), the vertical gaming portal created by RCS DB Games S.r.l.: the Group's online entertainment joint venture. The JV is owned 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A. Fueps, an acronym for "Faccio l'Ultima e Poi Smetto" ("one more game, then I'll stop")) offers a wide range of high-quality games and an innovative community and ranking system. Users can also shop from the site, choosing from around 3,000 titles for all consoles and PCs; download games directly to their computers; or browse a broad selection of cell phone games.
- October 2007: 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 2007, along with the directors' and statutory auditors' reports;
  - allocate the net profit for the year, €2,045,555.30, as follows:
    - a dividend of €0.08 per share for a maximum payout of €1,128,867;
    - the remaining €16,688.30 to be carried forward.

At the meeting, the shareholders also

- extend Reconta Ernst & Young S.p.A.'s assignment to audit the separate and consolidated financial statements for the years ending 30 June 2010, 2011 and 2012;
- determine directors' fees for the year ending 30 June 2008;
- authorize the purchase and sale of treasury shares. Specifically, until the date on which the financial statements at 30 June 2008 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;

- November 2007: Digital Bros S.p.A. rolls out the seventh edition of the soccer simulation game PES 2008, which sells 610,000 units during its first month on Italian shelves, topping the first-month record for the sixth edition by 60,000 units and grossing €24.4 million. This confirms its position as the best-selling soccer title in the Italian video games market;
- December 2007: the Nintendo DS and Nintendo Wii game "Cooking Mama," published and distributed in Europe through the wholly-owned subsidiary 505 Games S.r.l., tops one million units sold in Europe in just over a year since its release and proves to be the revelation of 2007;
- December 2007: Digital Bros S.p.A. strikes a deal with Russia's 1C Company, which leads the Central and Eastern European market in the development, publishing and distribution of video games for personal computers. Under the agreement, worth €15 million for calendar year 2008, the new brand 1C Games will be launched in Western Europe;
- March 2008: the Nintendo DS game Cooking Mama 2, published and distributed in Europe through the wholly-owned subsidiary 505 Games S.r.l., records its eleventh week in a row at the very top of Italy's Nintendo DS charts with more than 70,000 units sold. Cooking Mama 2 is also one of the ten best-selling games in Europe and fourth on the U.K. chart, confirming its status as the most popular game in Europe for the Nintendo DS console among those not published directly by Nintendo;
- March 2008: management announces the European release of two new games for Nintendo DS: Kira Kira Pop Princess and Princess on Ice, both published by the 100% subsidiary 505 Games S.r.l..

#### **4. INTERCOMPANY AND RELATED PARTY TRANSACTIONS**

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

Such transactions generally concern goods and services of an administrative, financial, or advisory nature, as well as general services.

Group companies in Italy also transfer tax receivables and payables to Digital Bros S.p.A. in the context of the group tax election.

Related party transactions are discussed in a separate note to the financial statements.

#### **5. TREASURY SHARES**

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Pursuant to paragraph 2.3 of Civil Code Art. 2428, we report that at 30 June 2008 Digital Bros S.p.A. owned 154,263 treasury shares.

Pursuant to paragraph 2.4 of that article, we report that in 2007-2008 the Company purchased 116,763 treasury shares and disposed of none.

The purchase, approved on 30 October 2007 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.

#### **6. RESEARCH AND DEVELOPMENT**

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

#### **7. FINANCIAL RISK MANAGEMENT**

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Financial risks and financial instruments are discussed in Section 6 of the notes to the financial statements.

## **8. SECURITY PLAN**

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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.

## **9. SUBSEQUENT SIGNIFICANT EVENTS**

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No significant events have occurred since 30 June 2008, except for the commencement of business by the subsidiary Digital Bros Iberia S.I.

## **10. OUTLOOK**

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The market has grown substantially over the past 12 months, especially for female players and casual gamers. Another vibrant slice of the market is social gaming, e.g. when friends gather around the console after a dinner party. Examples of social games are foosball (table soccer), Olympic games, etc.

The Distribution business in Italy is likely to shrink somewhat, without appreciably reducing margins. This is due to management's decision to downsize DTI's operations, which are less profitable than those of Halifax. As a result, financial debt should improve thanks to a reduction in net working capital.

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



**Digital Bros S.p.A. financial statements  
at 30 June 2008**

## FINANCIAL STATEMENTS

Digital Bros S.p.A.

### Balance sheet

	EUR/000	30 June 2008	30 June 2007	Change	
<b>Non-current assets</b>					
1	Property, plant and equipment	3,261	3,253	8	0.2%
2	Investment property	455	456	(1)	-0.2%
3	Intangible assets	595	466	129	27.7%
4	Equity investments	2,204	1,355	849	62.7%
5	Non-current receivables and other assets	4	4	0	0.0%
6	Deferred tax assets	525	1,027	(502)	-48.9%
	<b>Total non-current assets</b>	<b>7,044</b>	<b>6,561</b>	<b>483</b>	<b>7.4%</b>
<b>Non-current liabilities</b>					
7	Employee benefits	(531)	(653)	122	-18.7%
8	Non-current provisions	(249)	(206)	(43)	20.9%
9	Other non-current payables and liabilities	0	0	0	0.0%
	<b>Total non-current liabilities</b>	<b>(780)</b>	<b>(859)</b>	<b>79</b>	<b>-9.2%</b>
<b>Net working capital</b>					
10	Inventories	31,401	34,298	(2,897)	-8.4%
11	Trade receivables	26,888	18,758	8,130	43.3%
12	Due from subsidiaries	13,131	10,626	2,505	23.6%
13	Tax credits	77	861	(784)	-91.1%
14	Other current assets	6,441	3,558	2,883	81.0%
15	Trade payables	(6,129)	(8,739)	2,610	-29.9%
16	Due to subsidiaries	(1,451)	(1,801)	350	-19.4%
17	Taxes payable	(4,190)	(913)	(3,277)	n.a.
18	Current provisions	(2,230)	0	(2,230)	0.0%
19	Other current liabilities	(2,280)	(2,180)	(100)	4.6%
	<b>Total net working capital</b>	<b>61,658</b>	<b>54,468</b>	<b>7,190</b>	<b>13.2%</b>
<b>Capital and reserves</b>					
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,965)	(17,965)	0	0.0%
22	Treasury shares	717	204	513	n.a.
23	(Profits) losses carried forward	(5,895)	(5,704)	(191)	3.3%
	<b>Total capital and reserves</b>	<b>(28,787)</b>	<b>(29,109)</b>	<b>322</b>	<b>-1.1%</b>
	<b>Total net assets</b>	<b>39,135</b>	<b>31,061</b>	<b>8,074</b>	<b>26.1%</b>
24	Cash and cash equivalents	8,014	6,739	1,275	18.9%
25	Short-term payables to banks	(40,451)	(31,007)	(9,444)	30.5%
26	Other current financial liabilities	(1,803)	(3,250)	1,447	-44.5%
	<b>Current net debt</b>	<b>(34,240)</b>	<b>(27,518)</b>	<b>(6,722)</b>	<b>24.4%</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(3,107)	(1,120)	(1,987)	n.a.
29	Other non-current financial liabilities	(1,788)	(2,423)	635	-26.2%
	<b>Non-current net debt</b>	<b>(4,895)</b>	<b>(3,543)</b>	<b>(1,352)</b>	<b>38.2%</b>
	<b>Total net debt</b>	<b>(39,135)</b>	<b>(31,061)</b>	<b>(8,074)</b>	<b>26.0%</b>

**Digital Bros S.p.A.**

**Income statement for the year ended 30 June 2008 (fiscal year 2007-2008)**

	<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>		<b>Change</b>	
1	Revenues	125,767	110.6%	113,824	108.3%	11,943	10.5%
2	Revenue adjustments	(12,013)	-10.6%	(8,692)	-8.3%	(3,321)	38.2%
<b>3</b>	<b>Total revenues</b>	<b>113,754</b>	<b>100.0%</b>	<b>105,132</b>	<b>100.0%</b>	<b>8,622</b>	<b>8.2%</b>
4	Purchase of goods for resale	(82,817)	-72.8%	(83,950)	-79.9%	1,133	-1.3%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	(701)	-0.6%	(3,178)	-3.0%	2,477	-77.9%
7	Change in inventories of finished products	(2,896)	-2.5%	8,001	7.6%	(10,897)	n.a.
<b>8</b>	<b>Total cost of goods sold</b>	<b>(86,414)</b>	<b>-76.0%</b>	<b>(79,127)</b>	<b>-75.3%</b>	<b>(7,287)</b>	<b>9.2%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>27,340</b>	<b>24.0%</b>	<b>26,005</b>	<b>24.7%</b>	<b>1,335</b>	<b>5.1%</b>
10	Other income	1,957	1.7%	1,598	1.5%	359	22.5%
11	Cost of services	(8,703)	-7.7%	(9,747)	-9.3%	1,044	-10.7%
12	Rent and leasing	(295)	-0.3%	(316)	-0.3%	21	-6.6%
13	Payroll costs	(8,673)	-7.6%	(7,634)	-7.3%	(1,039)	13.6%
14	Other operating expenses	(2,013)	-1.8%	(1,924)	-1.8%	(89)	4.6%
<b>15</b>	<b>Total operating expenses</b>	<b>(19,684)</b>	<b>-17.3%</b>	<b>(19,621)</b>	<b>-18.7%</b>	<b>(63)</b>	<b>0.3%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>9,613</b>	<b>8.5%</b>	<b>7,982</b>	<b>7.6%</b>	<b>1,631</b>	<b>20.4%</b>
17	Depreciation and amortization	(503)	-0.4%	(741)	-0.7%	238	-32.1%
18	Provisions	(2,231)	-2.0%	0	0.0%	(2,231)	n.a.
19	Asset impairment charge	(400)	-0.3%	(512)	-0.5%	112	-21.9%
20	Impairment reversal	600	0.5%	234	0.2%	366	156.4%
<b>21</b>	<b>Total depreciation, amortization and impairment</b>	<b>(2,534)</b>	<b>-2.2%</b>	<b>(1,019)</b>	<b>-1.0%</b>	<b>(1,515)</b>	<b>148.7%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>7,079</b>	<b>6.2%</b>	<b>6,963</b>	<b>6.6%</b>	<b>116</b>	<b>1.7%</b>
23	Interest income	350	0.3%	72	0.1%	278	n.a.
24	Interest expense	(3,275)	-2.9%	(2,569)	-2.4%	(706)	27.5%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(2,925)</b>	<b>-2.6%</b>	<b>(2,497)</b>	<b>-2.4%</b>	<b>(428)</b>	<b>17.1%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>4,154</b>	<b>3.7%</b>	<b>4,466</b>	<b>4.2%</b>	<b>(312)</b>	<b>-7.0%</b>
27	Current taxes	(2,332)	-2.1%	(911)	-0.9%	(1,421)	n.a.
28	Deferred taxes	(502)	-0.4%	(1,510)	-1.4%	1,008	-66.8%
<b>29</b>	<b>Total taxes</b>	<b>(2,834)</b>	<b>-2.5%</b>	<b>(2,421)</b>	<b>-2.3%</b>	<b>(413)</b>	<b>17.1%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>1,320</b>	<b>1.2%</b>	<b>2,045</b>	<b>1.9%</b>	<b>(725)</b>	<b>-35.5%</b>

**Digital Bros S.p.A.**

**Cash flow statement for the year 2007-2008**

EUR/000	2007-2008	2006-2007
<b>A. Opening net debt</b>	<b>(31,061)</b>	<b>(20,936)</b>
<b>Cash flow from operating activities</b>		
Net profit (loss) for the year	1,320	2,045
<i>Depreciation, amortization and provisions:</i>		
Amortization	208	532
Depreciation	295	209
Net change in other provisions	44	51
Net change in provision for employee termination indemnities	(123)	(140)
<b>B. TOTAL</b>	<b>1,744</b>	<b>2,697</b>
<b>Change in net working capital</b>		
Inventories	2,897	(8,001)
Trade receivables	(8,130)	5,610
Due from subsidiaries	(2,505)	(6,446)
Tax credits	784	(1,643)
Other current assets	(2,883)	(2,606)
Trade payables	(2,610)	4,611
Due to subsidiaries	(350)	(2,144)
Taxes payable	3,277	521
Current provisions	2,230	(3,304)
Other current liabilities	100	182
<b>C. TOTAL</b>	<b>(7,190)</b>	<b>(13,220)</b>
<b>Cash flow from investing activities</b>		
Net investments in intangible assets	(337)	(339)
Net investments in property, plant and equipment	(303)	(262)
Net investments in financial fixed assets	(347)	1,625
<b>D. TOTAL</b>	<b>(987)</b>	<b>(1,024)</b>
<b>Cash flow from financing activities</b>		
Capital increases	0	0
<b>E. TOTAL</b>	<b>0</b>	<b>0</b>
<b>Movements in capital and reserves</b>		
Dividends paid	(1,128)	(1,117)
Change in treasury shares held	(513)	467
Increases (decreases) in other components of capital and reserves	0	24
<b>F. TOTAL</b>	<b>(1,641)</b>	<b>(626)</b>
<b>G. Cash flow for the period (B+C+D+E+F)</b>	<b>(8,074)</b>	<b>(10,125)</b>
<b>H. Closing net debt (A+G)</b>	<b>(39,135)</b>	<b>(31,061)</b>

**Digital Bros S.p.A.**

**Statement of changes in shareholders' equity**

<b>EUR/000</b>	<b>Share capital (A)</b>	<b>Share premium reserve</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares</b>	<b>Profit (losses) carried forward</b>	<b>Net profit (loss) for the year</b>	<b>Total unallocated income (C)</b>	<b>Capital and reserves (A+B+C+D)</b>
<b>Total at 30 June 2006</b>	<b>5,644</b>	16,954	1,129	(142)	0	<b>17,941</b>	<b>(671)</b>	1,706	3,068	<b>4,774</b>	<b>27,688</b>
Allocation of net profit						<b>0</b>		3,068	(3,068)	<b>0</b>	<b>0</b>
Dividend payments						<b>0</b>		(1,117)		<b>(1,117)</b>	<b>(1,117)</b>
Purchase of treasury shares						<b>0</b>	<b>467</b>			<b>0</b>	<b>467</b>
Other changes					24	<b>24</b>		2		<b>2</b>	<b>26</b>
Net profit for the period						<b>0</b>			2,045	<b>2,045</b>	<b>2,045</b>
<b>Total at 30 June 2007</b>	<b>5,644</b>	16,954	1,129	(142)	24	<b>17,965</b>	<b>(204)</b>	3,658	2,045	<b>5,704</b>	<b>29,109</b>
Allocation of net profit						<b>0</b>		2,045	(2,045)		<b>0</b>
Dividend payments						<b>0</b>		(1,128)			<b>(1,128)</b>
Purchase of treasury shares						<b>0</b>	<b>(513)</b>				<b>(513)</b>
Other changes						<b>0</b>					<b>0</b>
Net profit for the period						<b>0</b>			1,320		<b>1,320</b>
<b>Total at 30 June 2008</b>	<b>5,644</b>	16,954	1,129	(142)	24	<b>17,965</b>	<b>(717)</b>	4,575	1,320	<b>5,895</b>	<b>28,787</b>

A) undistributable;

B) available for loss coverage but undistributable;

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

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**Notes to the financial statements  
at 30 June 2008**

## **1. FORM, CONTENT, AND OTHER GENERAL INFORMATION**

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Publication of the financial statements of Digital Bros S.p.A. for the year ended 30 June 2008 was authorized by resolution of the Board of Directors on 26 September 2008. 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.

Its main operations and those of its subsidiaries are described in the notes to the financial statements.

### ***Accounting standards and compliance with IAS/IFRS***

These financial statements were prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) at 30 June 2008, as approved by the European Union. The term “IFRS” encompasses all of the International Accounting Standards (IAS) and all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC). All amounts are expressed in thousands of euros, unless otherwise specified.

### ***Reporting formats***

The financial statements at 30 June 2008 have been prepared in accordance with Art. 77 et seq. of CONSOB Regulation 11971/99 for issuers (as amended), with CONSOB Resolution 15519 of 27 July 2006 and with CONSOB announcement DEM/6064293 of 28 July 2006.

In accordance with CONSOB Resolution 15519 of 27 July 2006, the balance sheet format is different from that used in the consolidated financial statements as it includes sub-headings for positions and/or transactions with subsidiaries, in order to express the financial position more clearly. Pursuant to CONSOB announcement DEM/6064293 of 28 July 2006, the information on related parties is included in the notes.

The income statement does not show sub-headings for costs and income arising from related party and non-recurring events and/or transactions, as these are deemed to be immaterial.

The financial statements are made up of:

- the balance sheet at 30 June 2008 with comparative figures at 30 June 2007 (the previous year-end reporting date);
- the income statement for the period from 1 July 2007 to 30 June 2008, in comparison with the income statement from 1 July 2006 to 30 June 2007;

- 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 2006 to 30 June 2008.

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

The balance sheet format divides items into five categories:

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

Non-current assets are those whose duration is long-term by nature, such as fixed assets used in the business, equity investments, and receivables due in subsequent years. They also include investment property, and deferred tax assets 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 sales
- EBITDA, the difference between the gross profit and total operating costs
- EBIT, the difference between EBITDA and total depreciation, amortization and impairment
- pre-tax profit, the difference between EBIT and net interest income or expense.

The 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 POLICIES

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Figures were determined according to the interpretations of the International Accounting Standards in force as of 30 June 2008. 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 2008 are consistent with those used to prepare the Company's accounts at 30 June 2007. Changes in the standards and interpretations adopted by the European Union have had no significant effect on the preparation of the year-end 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 profit or loss account 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 the TFR fund, in accordance with IAS 19, retain their status as defined benefit plans. Legislative changes

have also led to the redetermination of actuarial assumptions and the consequent calculations used to quantify TFR.

#### *Inventories*

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

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

#### *Receivables and payables*

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

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

Payables are shown at face value.

#### *Factoring of trade receivables*

The 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 conveyance 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 financial statements even though they have been legally transferred. 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.

"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 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.

### *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 Group since 1 July 2007. Their adoption, while not affecting the financial statements at 30 June 2008, entails the disclosure of additional information.

#### *IFRS 7 – Financial instruments: disclosures*

This standard, adopted by the EU in January 2006 (Regulation EC No. 108-2006), supersedes IAS 30 (Disclosures in the financial statements of banks and similar financial institutions) and incorporates the disclosure requirements of IAS 32 (Financial instruments: presentation and disclosure), with certain changes and additions. As a result, IAS 32 is now entitled "Financial instruments: presentation." The new disclosures are provided in the notes to the financial statements, with comparative figures where necessary.

#### *Amendments to IAS 1- Presentation of financial statements - capital disclosures*

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

*IFRIC 7 - Applying the restatement approach under IAS 29 - Financial reporting in hyperinflationary economies.*

On 8 May 2006, the European Commission (Regulation EC No. 708-2006) adopted IFRIC Interpretation 7 - Applying the restatement approach under IAS 29 - Financial reporting in hyperinflationary economies. IFRIC 7 clarifies the provisions of IAS 29 with respect to how an entity should restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency. It has had no impact on the Company's financial statements at 30 June 2008.

*IFRIC 8 - Scope of IFRS 2*

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC interpretation 8 - Scope of IFRS 2. IFRIC 8 specifies that IFRS 2 (Share-based payment) applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. Compliance with this interpretation has had no effect on the financial statements at 30 June 2008.

*IFRIC 9 – Reassessment of embedded derivatives*

On 8 September 2006, the European Commission (Regulation EC No. 1329-2006) adopted IFRIC Interpretation 9 - Reassessment of embedded derivatives. This interpretation specifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment of the separation is required. This interpretation has had no impact on the Company's financial statements at 30 June 2008.

*IFRIC 10 - Interim financial reporting and impairment*

On 1 June 2007, the European Commission (Regulation EC No. 610-2007) adopted IFRIC Interpretation 10 - Interim financial reporting and impairment. IFRIC 10 clarifies that in subsequent interim or annual financial statements, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or certain financial assets (investments in equity instruments classified as available for sale and in unlisted equity instruments carried at cost). It has had no impact on the Company's financial statements at 30 June 2008.

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

As required by IAS 8 (“Accounting policies, changes in accounting estimates and errors”), below is a brief description of the IFRS in effect as from 1 July 2007 or later. 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. IFRS 8 replaces IAS 14 – Segment Reporting and sets the requirements for the disclosure of information on the operating segments in which a company works. IFRS 8 is mandatory for financial periods beginning on 1 January 2009 or later. The Company is evaluating the impact this standard will have on its financial statements.

#### ***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 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. IFRS 11 is mandatory for financial periods beginning on 1 March 2007 or later. The Company is evaluating the impact this standard will have on its financial statements.

### ***New standards and interpretations issued by the IASB and not yet approved by the European Union.***

#### ***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 new version of IAS 1 will be effective from 1 January 2009.

#### ***IAS 23 - Borrowing costs***

During the course of 2007 the IASB issued a revised version of IAS 1 - Borrowing Costs, effective from 1 January 2009. 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. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Company is evaluating the impact this standard will have on the financial statements.

#### *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 will be 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 Company is evaluating the impact this standard will have on 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 will be effective from financial periods beginning on or after 1 July 2009 (for Digital Bros: from the financial statements at 30 June 2010). At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. The Company is evaluating the impact this standard will have on its financial statements.

#### *IFRIC 12 - Service concession arrangements*

IFRIC 12, issued by the IASB in November 2006, 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. Companies have to apply IFRIC 12 in financial statements for years beginning on 1 January 2008 or later. At the balance sheet date, the EU authorities had not yet

finished the endorsement process necessary for applying this standard. The Company is evaluating the impact it will have on the financial statements.

#### *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. The Company is evaluating the impact it will have on the financial statements.

#### *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 14 is effective from 1 January 2008. At the balance sheet date, the EU authorities had not yet finished the endorsement process necessary for applying this standard. 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 changes to IAS 32 and IAS 1 were approved in February and are effective for annual periods beginning on or after 1 January 2009. 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 is evaluating the impact this standard will have on its financial statements.

### 3. USE OF ESTIMATES

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

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

#### *Sources of uncertainty in making estimates*

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

#### *Doubtful accounts*

To assess the risk of credit default, the Company relies on the opinion of 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.

#### *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 every quarter 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 also become 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 previous year. 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 agreed in the contract. To estimate this amount, management uses calculations based on an analysis by individual customer as well as an analysis by individual product, in which the risk is shown separately for price cuts and returns. The estimate is made on a quarterly basis.

#### 4. BUSINESS COMBINATIONS

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Details of the only company formed during the year are presented in the table below.

Name	Date formed	Registered office	Share capital	% held directly	% held indirectly	Profit/loss for the period to 30 June 2008
Digital Bros Iberia S.I.	29 February 2008	Madrid	EUR 100,000	100%	-	(103)

Digital Bros Iberia S.I. was created as a means of expanding the Group's international operations. It has been active since 1 July 2008.

With its addition to the Group, Digital Bros now has its own operations in four countries (Italy, the United Kingdom, France and Spain) which together account for more than 70% of the European video games market, as well as a direct presence in the U.S.

#### 5. JOINT VENTURES

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At 30 June 2008 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. at 31 March 2008, the date of its latest approved annual report.

EUR/000	
Assets	1,219
Capital and reserves	76
Liabilities	(1,295)
Revenues	0
Costs	(76)
Net profit (loss) for the year	(76)

At 30 June 2008 there were no contingent liabilities associated with joint ventures.

## **6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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The main financial instruments used by the Company 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.

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.

Starting this year, the subsidiary 505 Games S.r.l. has had access to its own independent credit facilities to finance its international growth.

Digital Bros S.p.A. 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 through short-term credit lines. Long-term investments are normally financed through medium/long-term lines, often dedicated to the individual investment (the Company purchased a warehouse under a floating-rate finance lease, which was later switched to a fixed-rate lease by means of an interest rate swap).

Given the above, 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 rate spreads;
- 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 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 Company'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 €200K.

### *Liquidity risk*

The Company's activities present no significant liquidity risk. Due to the seasonal nature of its business, which entails higher debt in the autumn, it usually obtains seasonal "self-liquidating" credit lines from banks and financial institutions on the basis of the needs presented by its budget.

### *Exchange rate risk*

The Company is not heavily influenced by exchange rate fluctuations. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds.

### *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.

Because the Company operates mainly in the highly fragmented Italian distribution market, risks are not concentrated on any individual parties.

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 €500 thousand. The insurance policy does not eliminate all credit risk on the buyers covered, but considerably limits potential losses.

## 7. ANALYSIS OF THE BALANCE SHEET

The balance sheet at 30 June 2008 is reported below with comparative figures from the previous year:

	EUR/000	30 June 2008	30 June 2007	Change	
<b>Non-current assets</b>					
1	Property, plant and equipment	3,261	3,253	8	0.2%
2	Investment property	455	456	(1)	-0.2%
3	Intangible assets	595	466	129	27.7%
4	Equity investments	2,204	1,355	849	62.7%
5	Non-current receivables and other assets	4	4	0	0.0%
6	Deferred tax assets	525	1,027	(502)	-49.0%
	<b>Total non-current assets</b>	<b>7,044</b>	<b>6,561</b>	<b>483</b>	<b>7.3%</b>
<b>Non-current liabilities</b>					
7	Employee benefits	(531)	(653)	122	-18.7%
8	Non-current provisions	(249)	(206)	(43)	20.9%
9	Other non-current payables and liabilities	0	0	0	0.0%
	<b>Total non-current liabilities</b>	<b>(780)</b>	<b>(859)</b>	<b>79</b>	<b>-9.2%</b>
<b>Net working capital</b>					
10	Inventories	31,401	34,298	(2,897)	-8.4%
11	Trade receivables	26,888	18,758	8,130	43.3%
12	Due from subsidiaries	13,131	10,626	2,505	23.6%
13	Tax credits	77	861	(784)	-91.1%
14	Other current assets	6,441	3,558	2,883	810.0%
15	Trade payables	(6,129)	(8,739)	2,610	-29.9%
16	Due to subsidiaries	(1,451)	(1,801)	350	-19.4%
17	Taxes payable	(4,190)	(913)	(3,277)	n.a.
18	Current provisions	(2,230)	0	(2,230)	0.0%
19	Other current liabilities	(2,280)	(2,180)	(100)	4.6%
	<b>Total net working capital</b>	<b>61,658</b>	<b>54,468</b>	<b>7,190</b>	<b>13.2%</b>
<b>Capital and reserves</b>					
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(17,965)	(17,965)	0	0.0%
22	Treasury shares	717	204	513	n.a.
23	(Profits) losses carried forward	(5,895)	(5,704)	(191)	3.3%
	<b>Total capital and reserves</b>	<b>(28,787)</b>	<b>(29,109)</b>	<b>322</b>	<b>-1.1%</b>
	<b>Total net assets</b>	<b>39,135</b>	<b>31,061</b>	<b>8,074</b>	<b>26.0%</b>
<b>Current liabilities</b>					
24	Cash and cash equivalents	8,014	6,739	1,275	18.9%
25	Short-term payables to banks	(40,451)	(31,007)	(9,444)	30.5%
26	Other current financial liabilities	(1,803)	(3,250)	1,447	-44.5%
	<b>Current net debt</b>	<b>(34,240)</b>	<b>(27,518)</b>	<b>(6,722)</b>	<b>24.4%</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current payables to banks	(3,107)	(1,120)	(1,987)	n.a.
29	Other non-current financial liabilities	(1,788)	(2,423)	635	-26.2%
	<b>Non-current net debt</b>	<b>(4,895)</b>	<b>(3,543)</b>	<b>(1,352)</b>	<b>38.2%</b>
	<b>Total net debt</b>	<b>(39,135)</b>	<b>(31,061)</b>	<b>(8,074)</b>	<b>26.0%</b>

## 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 €40 thousand, consisting chiefly of €33 thousand for the ERP system, €8 thousand for the purchase of office automation machines and €108 thousand for other fixed assets, mainly company cars for employees.

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

### 1. Property, plant and equipment

This item went from €2,253 thousand to €3,261 thousand. Changes during the period were as follows:

EUR/000	30 June 2007	Increases	Decreases	Depreciation	Use of accumulated depreciation	30 June 2008
Industrial buildings	2,109	39	0	(70)	0	2,078
Land	600	0	0	0	0	600
Indust. & commercial equip.	222	137	0	(118)	0	241
Other assets	283	108	0	(85)	0	306
Leasehold improvements	39	19	0	(22)	0	36
<b>Total</b>	<b>3,253</b>	<b>303</b>	<b>0</b>	<b>(295)</b>	<b>0</b>	<b>3,261</b>

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 (€8 thousand) and other industrial and commercial equipment (€4 thousand).

"Other assets" increased due to the purchase of motor vehicles for €108 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 2007	Increases	Disposals	30 June 2008
Industrial buildings	2,289	39	0	2,328
Land	600	0	0	600
Industrial and commercial equipment	1,039	137	0	1,176
Other assets	676	108	0	784
Leasehold improvements	287	19	0	306
<b>Total</b>	<b>4,891</b>	<b>303</b>	<b>0</b>	<b>5,194</b>

EUR/000	30 June 2007	Depreciation	Utilizations	30 June 2008
Industrial buildings	(180)	(70)	0	(250)
Land	0	0	0	0
Industrial and commercial equipment	(817)	(118)	0	(935)
Other assets	(393)	(85)	0	(478)
Leasehold improvements	(248)	(22)	0	(270)
<b>Total</b>	<b>(1,638)</b>	<b>(295)</b>	<b>0</b>	<b>(1,933)</b>

## 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 is not being used. It is held with a view to appreciation of the invested capital. In accordance with IAS 40, the Company has opted to carry the building at depreciated 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 second half of 2007, is higher than its carrying value. The building's fair value is €1,045 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 2007	Increases	Decreases	Amort.	30 June 2008
Concessions and licenses	450	334	0	(202)	582
Trademarks and similar rights	16	3	0	(6)	13
<b>Total</b>	<b>466</b>	<b>337</b>	<b>0</b>	<b>(208)</b>	<b>595</b>

Concessions and licenses, worth €82 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 €13 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 2007	Increases	Disposals	30 June 2008
Concessions and licenses	1,113	334	0	1,447
Trademarks and similar rights	1,495	3	0	1,498
<b>Total</b>	<b>2,608</b>	<b>337</b>	<b>0</b>	<b>2,945</b>

EUR/000	30 June 2007	Amortization	Utilizations	30 June 2008
Concessions and licenses	(663)	(202)	0	(865)
Trademarks and similar rights	(1,479)	(6)	0	(1,485)
<b>Total</b>	<b>(2,142)</b>	<b>(208)</b>	<b>0</b>	<b>(2,350)</b>

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

EUR/000	30 June 2008	30 June 2007	Change
505 Games S.r.l.	100	100	0
Game Entertainment S.r.l.	1,000	1,000	0
DB France S.a.r.l.	100	100	0
DB Iberia S.l.	100	0	100
Game Service S.r.l	50	50	0
Game Media Networks S.r.l.	849	100	749
D3DB S.r.l.	5	5	0
<b>Total equity investments</b>	<b>2,204</b>	<b>1,355</b>	<b>849</b>

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 at 50%. In total they are worth €2,204 thousand. Changes during the year refer to the founding of DB Iberia S.I. and to the loss coverage and capital reconstruction of 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:

<b>EUR/000</b>	<b>Head office</b>	<b>Carrying value a</b>	<b>Share capital b</b>	<b>Pro-quota cap. &amp; reserves c</b>	<b>Net profit (loss) for the year</b>	<b>Change d=c-a</b>
505 Games S.r.l.	Milan	100	100	6,252	3,443	6,151
Game Entertainment S.r.l.	Milan	1,000	100	2,323	323	1,323
DB France S.a.r.l.	Lyons	100	100	383	269	283
DB Iberia S.l.	Madrid	100	100	(45)	(145)	(145)
Game Service S.r.l.	Milan	50	50	15	(239)	(35)
Game Media Networks S.r.l.	Milan	849	100	(2,131)	(2,231)	(2,980)
D3DB S.r.l.	Milan	5	10	(38)	79	(43)
<b>Total</b>		<b>2,204</b>				

DB Iberia S.I. will close its first year of business on 31 December 2008. It 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 at 30 June is expected to be recovered during the second half of the year.

Digital Bros S.p.A. has added €2,230K 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. Game Media Networks has not been written down, as forecast results and the definitive launch of the gaming portal at the end of April make it likely that the difference with respect to capital and reserves will be quickly recovered.

#### **5. Non-current receivables and other assets**

This item is made up essentially of long-term security deposits against contractual obligations.

#### **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).

<b>EUR/000</b>	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>Change</b>
Deferred tax assets	525	1,027	(502)
<b>Total</b>	<b>525</b>	<b>1,027</b>	<b>(502)</b>

The table below reports the details of temporary differences existing at 30 June 2008 and 30 June 2007:

		<b>Balance of temporary differences at 30 June 2007</b>	<b>Movements in temporary differences during the year</b>	<b>Balance of temporary differences at 30 June 2008</b>
1	Taxed provision for doubtful accounts	1,036	62	1,098
2	Writedowns of equity investments	1,140	(1,140)	0
3	Derivative risk provision	700	(338)	362
4	Entertainment costs	99	(3)	96
5	Agents' indemnity provision	74	60	134
6	Directors' fees not pert.	92	96	188
7	External auditing fees not pert.	91	21	112
8	Other	0	2	2
9	Severance provisions	(156)	22	(134)
	<b>Total</b>	<b>3,076</b>	<b>(1,218)</b>	<b>1,858</b>

The following table calculates the balance of deferred tax assets at 30 June 2008 in comparison with the previous year. Due to the tax rate changes that will be effective starting next year, deferred tax assets at 30 June 2008 have been calculated using an IRES rate of 27.5% and an IRAP rate of 3.9%, while at 30 June 2007 the respective rates were 33% and 4.25%. The change in tax rates has had a negative impact of €103 thousand.

	<b>Balance of temporary differences at 30 June 2008</b>	<b>Rate IRAP</b>	<b>Deferred tax assets (IRAP) at 30 June 2008</b>	<b>Rate IRES</b>	<b>Deferred tax assets (IRES) at 30 June 2008</b>	<b>Total deferred tax assets at 30 June 2008</b>
1	1,098	n.a.	0	27.5%	303	303
2	0	n.a.	0	n.a.	0	0
3	362	n.a.	0	27.5%	99	99
4	96	3.9%	4	27.5%	27	31
5	134	3.9%	5	27.5%	37	42
6	188	n.a.	0	27.5%	52	52
7	112	3.9%	4	27.5%	31	35
8	2	3.9%	0	27.5%	0	0
9	(134)	n.a.	0	27.5%	(37)	(37)
<b>Total</b>	<b>1,858</b>		<b>13</b>		<b>512</b>	<b>525</b>

## NON-CURRENT LIABILITIES

### 7. Employee benefits

Employee benefits cover the liability for employee termination indemnities, which is treated as a defined benefit plan. Movements take account of the legal changes introduced with effect from 1 January 2007.

The balance 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 90, with an average age of 35.86 years.

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.

<b>EUR/000</b>	<b>2007-08</b>	<b>2006-07</b>
<b>Provision for employee termination indemnities at 1 July</b>	<b>653</b>	<b>793</b>
Benefits paid for termination of service	(168)	(160)
Accrual for the year	244	240
Payments to complementary pension funds	(223)	(78)
Actuarial adjustment	25	(142)
<b>Provision for employee termination indemnities at 30 June</b>	<b>531</b>	<b>653</b>

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 2008 was €249 thousand, an increase of €43 thousand with respect to the previous year. Movements were comprised of a provision for the year of €59 thousand, net of €16 thousand in withdrawals for termination.

## **9. Other non-current payables and liabilities**

At 30 June 2008, as in previous periods, there were no other non-current payables or liabilities.

## **NET WORKING CAPITAL**

Net working capital increased by €7,191 thousand with respect to 30 June 2007 (+13.2%).

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

EUR/000	30 June 2008	30 June 2007	Change	
Inventories	31,401	34,298	(2,897)	-8.4%
Trade receivables	26,888	18,758	8,130	43.3%
Due from subsidiaries	13,131	10,626	2,505	23.6%
Tax credits	77	861	(784)	-91.0%
Other current assets	6,441	3,558	2,883	81.0%
Trade payables	(6,129)	(8,739)	2,610	-29.9%
Due to subsidiaries	(1,451)	(1,801)	350	-19.4%
Taxes payable	(4,190)	(913)	(3,277)	n.a.
Current provisions	(2,230)	0	(2,230)	0.0%
Other current liabilities	(2,280)	(2,180)	(100)	4.6%
<b>Total net working capital</b>	<b>61,658</b>	<b>54,468</b>	<b>7,190</b>	<b>13.2%</b>

At 30 June 2008 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 2008:

EUR/000	Italy	Rest of EU	Non-EU	Total
Inventories	31,401	0	0	31,401
Trade receivables	25,476	486	926	26,888
Due from subsidiaries	11,324	1,807	0	13,131
Tax credits	77	0	0	77
Other current assets	6,170	271	0	6,441
Trade payables	(3,546)	(2,170)	(413)	(6,129)
Due to subsidiaries	(1,451)	0	0	(1,451)
Taxes payable	(4,190)	0	0	(4,190)
Current provisions	(2,230)	0	0	(2,230)
Other current liabilities	(2,280)	0	0	(2,280)
<b>Total net working capital</b>	<b>60,751</b>	<b>394</b>	<b>513</b>	<b>61,658</b>

## 10. Inventories

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

EUR/000	30 June 2008	30 June 2007	Change	
Halifax inventories	23,144	26,016	(2,872)	-11%
Returns to be received	1,547	1,105	442	40.0%
<b>Net Halifax inventories</b>	<b>24,691</b>	<b>27,121</b>	<b>(2,430)</b>	<b>-9%</b>
DTI inventories	6,710	7,177	(467)	-6.5%
<b>Total inventories</b>	<b>31,401</b>	<b>34,298</b>	<b>(2,897)</b>	<b>-8.4%</b>

Inventories went from €34,298 thousand at 30 June 2007 to €31,401 thousand at 30 June 2008, a decrease of €2,897K.

Halifax revenues have been separated from DTI revenues because the latter have a lower risk of obsolescence, due to agreements in force with the publishers distributed by DTI.

The policy of limiting net working capital made it possible to reduce inventories by €2,897 thousand, despite an increase in sales.

## 11. Trade receivables

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

EUR/000	30 June 2008	30 June 2007	Change
Due from customers: Italy	26,874	18,797	8,077
Due from customers: rest of EU	486	414	72
Due from customers: rest of the world	218	137	81
Provision for doubtful accounts	(1,524)	(1,124)	(400)
<b>Total trade receivables</b>	<b>26,054</b>	<b>18,224</b>	<b>7,830</b>
Receivables for user licenses	421	391	30
Receivables for Disney products	413	143	270
<b>Total trade receivables</b>	<b>26,888</b>	<b>18,758</b>	<b>8,130</b>

Trade receivables include advances on receivables factored without recourse, amounting to €1,605 thousand at 30 June 2008, with respect to €3,074 thousand a year earlier.

The total figure for trade receivables at 30 June 2008 (€26,054 thousand) is €7,830 thousand higher than the figure at the close of the previous year (€18,224 thousand).

The following table breaks down net trade receivables by maturity:

EUR/000	not yet due	0 < 30 days	30 < 60 days	60 - 90 days	> 90 days	Total
Trade receivables	22,236	2,166	9	90	1,553	<b>26,054</b>
	85%	9%	0%	0%	6%	<b>100%</b>

The provision for doubtful accounts had a year-end balance of €1,524 thousand, due to accruals of €400 thousand and no utilizations.

Receivables for user licenses 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.

The increase of €270 thousand in receivables on Disney products relates to the renewal of the contract with Disney.

## 12. Due from subsidiaries

Receivables from subsidiaries amount to €13,131 thousand, an increase of €2,505K due primarily to the significant investments made to support the growth of Group companies.

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 consist of VAT credits and decreased from €861 thousand to €77 thousand over the course of the year.

## 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 €6,441 thousand at the close of the year, compared with €3,558 thousand at 30 June 2007.

Movements during the period were as follows:

EUR/000	30 June 2008	30 June 2007	Change
Insurance refunds to be received	14	8	6
Due from suppliers	252	492	(240)
Advances paid to suppliers	4,598	2,374	2,224
Advances paid to employees	96	96	0
Advances paid to sales representatives	1,467	568	899
Other receivables	14	20	(6)
<b>Total other current assets</b>	<b>6,441</b>	<b>3,558</b>	<b>2,883</b>

Advances paid to suppliers rose from €2,374 thousand at 30 June 2007 to €4,598 thousand a year later, increasing by €2,224K. This reflects trade relations with suppliers, who receive payments for their services in advance. As it did the previous year, the Company made advance purchases of advertising space through a barter transaction (amounting to €4,209 thousand at 30 June 2008), to take advantage of better contract terms.

Advances to sales representatives reflect the Company's practice of advancing commissions to the sales force on a monthly basis.

The item "other receivables" refers to costs incurred during the year that pertain to future periods.

## 15. Trade payables

Trade payables due within 12 months decreased from €8,739 thousand at 30 June 2007 to €6,129 thousand (-€2,610 thousand), and consist mainly of amounts due to publishers for the purchase of finished products.

EUR/000	30 June 2008	30 June 2007	Change
Trade payables: Italy	(3,547)	(5,492)	1,945
Trade payables: rest of EU	(2,470)	(3,067)	597
Trade payables: rest of the world	(112)	(180)	68
<b>Total trade payables</b>	<b>(6,129)</b>	<b>(8,739)</b>	<b>2,610</b>

## 16. Due to subsidiaries

Payables to subsidiaries amount to €1,451 thousand, a decrease of €350K 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 €13 thousand to €4,190 thousand, an increase of €3,277 thousand. In detail:

EUR/000	30 June 2008	30 June 2007	Change
Income taxes	(2,120)	(436)	(1,684)
VAT	(1,866)	(283)	(1,583)
Other taxes due	(204)	(194)	(10)
<b>Total taxes payable</b>	<b>(4,190)</b>	<b>(913)</b>	<b>(3,277)</b>

For the year ended 30 June 2008, 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 amount recognized as taxes payable.

The difference in income taxes of €1,684 thousand is due primarily to higher taxes as a result of greater pre-tax earnings, and the use in 2006-2007 of prior-year fiscal losses.

## 18. Current provisions

These increased by €2,230 thousand due to the writedown of Game Media Networks S.r.l. as a result of its losses. This item had a balance of zero the previous year.

## 19. Other current liabilities

These rose from €2,180 thousand at 30 June 2007 to €2,280 thousand, an increase of €100K as detailed below:

EUR/000	30 June 2008	30 June 2007	Change
Due to social security institutions	(277)	(344)	67
Due to employees	(942)	(906)	(36)
Due to contract workers	(47)	(45)	(2)
Commissions due to sales representatives	(1,007)	(846)	(161)
Other payables	(7)	(39)	32
<b>Total other current liabilities</b>	<b>(2,280)</b>	<b>(2,180)</b>	<b>(100)</b>

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

Consolidated capital and reserves at 30 June 2008 were made up as follows:

EUR/000	30 June 2008	30 June 2007	Change
Share capital	5,644	5,644	0
Treasury shares	(717)	(204)	(513)
Legal reserve	1,129	1,129	0
Share premium reserve	16,954	16,954	0
IFRS reserve	(142)	(142)	0
Other reserves	24	24	0
Retained earnings	4,575	3,659	916
Net profit for the year	1,320	2,045	(725)
<b>Total capital and reserves</b>	<b>28,787</b>	<b>29,109</b>	<b>(322)</b>

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	30 June 2008	30 June 2007
<b>Opening capital and reserves</b>	<b>29,109</b>	<b>27,688</b>
Dividend payments	(1,128)	(1,117)
Movements in treasury shares	(513)	467
Profit for the period	1,320	2,045
Other changes	0	26
<b>Closing capital and reserves</b>	<b>28,787</b>	<b>29,109</b>

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 €16 thousand in retained earnings is explained by the shareholders' resolution of 30 October 2007 to carry forward the previous year's profit, net of dividends paid. In accordance with that resolution, on 14 December 2007 the Company paid a dividend of €0.08 per share excluding treasury shares, for a total of €1,128 thousand.

Treasury shares held at year-end, 154,263 ordinary Digital Bros S.p.A. shares, amounted to €17 thousand or 1.09% of the share capital. The increase of 116,773 shares (€13 thousand) with respect to the previous year stems from purchases authorized by the AGM of 30 October 2007. 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

The net debt of Digital Bros S.p.A. rose by €8,074 thousand with respect to 30 June 2007. The trend is explained mostly by a rise in short-term payables to banks. A more in-depth analysis is provided in the cash flow statement.

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

	EUR/000	30 June 2008	30 June 2007	Change
24	Cash and cash equivalents	8,014	6,739	1,275
25	Short-term payables to banks	(40,451)	(31,007)	(9,444)
26	Other current financial liabilities	(1,803)	(3,250)	1,447
	<b>Current net debt</b>	<b>(34,240)</b>	<b>(27,518)</b>	<b>(6,722)</b>
27	Non-current financial assets	0	0	0
28	Non-current payables to banks	(3,107)	(1,120)	(1,987)
29	Other non-current financial liabilities	(1,788)	(2,423)	635
	<b>Non-current net debt</b>	<b>(4,895)</b>	<b>(3,543)</b>	<b>(1,352)</b>
	<b>Total net debt</b>	<b>(39,135)</b>	<b>(31,061)</b>	<b>(8,074)</b>

Below is a comparison between the carrying value and the fair value of the Company's financial instruments at 30 June 2008:

	EUR/000	Non-current		Current	
		Carrying value	Fair value	Carrying value	Fair value
24	Cash and cash equivalents	0	0	8,014	8,014
25	Short-term payables to banks	0	0	(40,451)	(40,451)
26	Other current financial liabilities	0	0	(1,803)	(1,803)
	<b>Current net debt</b>	<b>0</b>	<b>0</b>	<b>(34,240)</b>	<b>(34,240)</b>
27	Non-current financial assets	0	0	0	0
28	Non-current payables to banks	(3,107)	(3,107)	0	0
29	Other non-current financial liabilities	(1,788 )	(1,788 )	0	0
	<b>Non-current net debt</b>	<b>(4,895)</b>	<b>(4,895)</b>	<b>0</b>	<b>0</b>
	<b>Total</b>	<b>(4,895)</b>	<b>(4,895)</b>	<b>(34,240)</b>	<b>(34,240)</b>

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 leasing arrangement is backed by an interest rate swap.

The following table shows the maturity of financial liabilities at 30 June 2008:

EUR/000	Within 1 year	1 - 5 years	beyond 5 years	Total
Bank overdrafts	(1,212)	0	0	(1,212)
Import/export financing	(23,117)	0	0	(23,117)
Advances on invoices and subject to collection	(13,581)	0	0	(13,581)
Bank loans	(2,238)	(3,107)	0	(5,345)
Bank borrowings for fair value recognition of derivatives	(303)	(59)	0	(362)
<b>Total due to banks (A)</b>	<b>(40,451)</b>	<b>(3,166)</b>	<b>0</b>	<b>(43,617)</b>
<b>Other financial liabilities (B)</b>	<b>(1,803)</b>	<b>(811)</b>	<b>(918)</b>	<b>(3,532)</b>
<b>Total (A+B)</b>	<b>(42,254)</b>	<b>(3,977)</b>	<b>(918)</b>	<b>(47,149)</b>

Other financial liabilities due beyond five years refer to the property lease for the warehouse in Trezzano sul Naviglio, which dates to 25 November 2004. For further details see Note 29.

### Current net debt

Current net debt is made up as follows:

	EUR/000	30 June 2008	30 June 2007	Change
24	Cash and cash equivalents	8,014	6,739	1,275
25	Short-term payables to banks	(40,451)	(31,007)	(9,444)
26	Other current financial liabilities	(1,803)	(3,250)	1,447
	<b>Total current net debt</b>	<b>(34,240)</b>	<b>(27,518)</b>	<b>(6,722)</b>

## 24. Cash and cash equivalents

Cash and cash equivalents at 30 June 2008 are comprised of sight deposits at banks, securities and money market funds used as short-term investments of cash, and a Quadrante policy taken out by Digital Bros S.p.A. on 21 October 2002 in connection with the Montepaschivita insurance scheme (€267 thousand).

In detail:

EUR/000	30 June 2008	30 June 2007	Change
Cash on hand and bank deposits	5,569	4,348	1,221
Securities held at Banca Antonveneta	2,178	2,129	49
Quadrante policy	267	262	5
<b>Total cash and cash equivalents</b>	<b>8,014</b>	<b>6,739</b>	<b>1,275</b>

Cash and cash equivalents at 30 June 2008 amount to €8,014 thousand, an increase of €1,275 thousand with respect to 30 June 2007 due to a rise in cash on hand and bank deposits.

Cash deposited at banks earns interest at variable rates based on the daily deposit balance.

## 25. Short-term payables to banks

Short-term payables to banks are comprised of account overdrafts, import-export financing, advances on invoices, advances subject to collection, and the portion of derivatives and bank loans due within 12 months. The amount due for short-term derivatives at 30 June 2008 is €303 thousand. The increase in short-term payables to banks with respect to 30 June 2007 is explained by a rise in import-export financing, advances on invoices and advances subject to collection. Account overdrafts decreased significantly with respect to 30 June 2007.

In detail:

EUR/000	30 June 2008	30 June 2007	Change
Account overdrafts	(1,212)	(2,315)	1,103
Import-export financing	(23,117)	(17,401)	(5,716)
Advances on invoices and subject to collection	(13,581)	(10,169)	(3,412)
Loan installments due within 12 months	(2,238)	(721)	(1,517)
Fair value recognition of derivatives - due within 12 months	(303)	(401)	98
<b>Total short-term payables to banks</b>	<b>(40,451)</b>	<b>(31,007)</b>	<b>(9,444)</b>

Loan installments due within 12 months are shown below:

EUR/000	30 June 2008	30 June 2007	Change
To Banca Intesa San Paolo	(342)	(455)	113
To UniCredit Banca	(267)	(266)	(1)
To Barclays Bank	(1,629)	(0)	(1,629)
<b>Total short-term loans and borrowings</b>	<b>(2,238)</b>	<b>(721)</b>	<b>(1,517)</b>

## 26. Other current financial liabilities

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasing falling due within 12 months, for a total of €198 thousand. The leasing agreements currently in force concern the warehouse in Trezzano sul Naviglio as well as office automation equipment and cars.

This item also includes the advances received by Digital Bros S.p.A. on trade receivables factored on a non-recourse basis, in the amount of €1,605 thousand.

The following table shows finance lease payments by maturity:

EUR/000	Nominal value of payments
Within 1 year	198
1 - 5 years	811
Beyond 5 years	918
<b>Total</b>	<b>1,927</b>

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. The difference between the nominal value and fair value of the payments is a positive €11 thousand.

## Non-current net debt

Non-current net debt is made up as follows:

	EUR/000	30 June 2008	30 June 2007	Change
27	Non-current financial assets	0	0	0
28	Non-current payables to banks	(3,107)	(1,120)	(1,987)
29	Other non-current financial liabilities	(1,788)	(2,423)	635
	<b>Non-current net debt</b>	<b>(4,895)</b>	<b>(3,543)</b>	<b>(1,352)</b>

## 27. Non-current financial assets

The Company has recognized no non-current financial assets at either 30 June 2008 or 30 June 2007.

## 28. 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 €3,107 thousand. There are no covenants on these loans.

At 30 June 2008, the Company had the following bank loans outstanding:

- a € million loan granted by Banca Intesa San Paolo on 14 March 2005, with a term of 56 months from the date of disbursement, with annual interest equal to the three-month Euribor plus a spread of 1.75 points. Installments fall due every quarter, with the last payment scheduled for November 2009;
- a € million loan granted by Unicredit Banca d'Impresa on 15 June 2005, maturing on 30 September 2010. Interest is charged at an annual rate of the three-month Euribor plus 1.5 points. In March 2007 the Group began to make equal payments against the principal at the end of every quarter. 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 € 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 € million granted by Barclays Bank to Digital Bros S.p.A. on 19 December 2007. 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.

## 29. Other non-current liabilities

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

In detail:

EUR/000	30 June 2008	30 June 2007	Change
Lease payments falling due beyond 12 months	(1,729)	(1,875)	146
Fair value recognition of derivatives - beyond 12 months	(59)	(548)	489
<b>Total non-current financial liabilities</b>	<b>(1,788)</b>	<b>(2,423)</b>	<b>635</b>

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 €16 thousand each, plus a payment upon delivery of €528 thousand and an end of lease purchase option of €792 thousand.

The lease charges nominal annual interest of 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. To hedge the risk of rising interest rates during the term of the lease, the Company 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 Company will pay interest of 3.35% annually and receive the three-month Euribor. The notional amount of the IRS varies according to the residual principal of the lease.

Non-hedge derivatives are recognized at fair value. The Company uses derivatives to minimize interest rate and exchange rate risks. Financial liabilities hedged by derivatives are recognized at fair value according to the rules for hedge accounting. Derivatives for which gains and losses are recognized to profit or loss refer to various interest rate hedges.

The derivatives outstanding at 30 June 2008 to which hedge accounting does not apply are as follows:

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

The following table summarizes the interest rate swaps in effect at 30 June 2008 (in EUR/000):

<b>Bank</b>	<b>Date of initiation</b>	<b>Maturity</b>	<b>Fair value at 30 June 2008</b>	<b>Nominal value at 30 June 2008</b>
Intesa San Paolo	23 December 2004	28 December 2009	(481)	20,000
Intesa San Paolo	17 July 2003	21 July 2008	(5)	3,000
Intesa San Paolo	7 October 2005	28 November 2014	111	1,975
Unicredit Banca d'Impresa	15 June 2005	30 September 2010	13	600
<b>Total</b>			<b>(362)</b>	<b>n.a.</b>

## COMMITMENTS AND RISKS

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

EUR/000	Guarantor	30 June 2008	30 June 2007	Change
Konami of Europe GmbH	San Paolo IMI	(1,000)	(1,000)	0
Electronics Arts Publishing	Banca Intesa	0	(2,000)	(2,000)
Vivendi Universal Games	UniCredit Banca	(1,000)	(1,000)	0
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
<b>Total commitments</b>		<b>(3,286)</b>	<b>(5,286)</b>	<b>(2,000)</b>

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 2008.

The guarantee of €2 million in favor of Electronic Arts Publishing expired on 30 June 2008. This is the only change with respect to the previous year.

The guarantee in favor of Vivendi Universal Games Italia S.p.A. was taken out with Unicredit Banca d'Impresa on 28 July 2004 for an amount of €1 million, and has been renewed on an annual basis. There is a yearly fee of 0.16%. The guarantee covers a product distribution agreement between Digital Bros S.p.A. and Vivendi Universal Games Italia and will expire on 30 November 2008.

The two guarantees from Intesa San Paolo in favor of Buena Vista Games, totaling €144 thousand, cover distribution agreements between Digital Bros S.p.A. 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

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### 3. Net revenues

Total net revenues increased from €105,132 thousand to €113,754 thousand (+8.2%).

	EUR/000	2007-2008	2006-2007	Change	%
	Gross sales: Italy	122,778	103,801	18,977	18.3%
	Gross sales: elsewhere	2,989	10,023	(7,034)	-70.2%
<b>1</b>	<b>Total gross revenues</b>	<b>125,767</b>	<b>113,824</b>	<b>11,943</b>	<b>10.4%</b>
<b>2</b>	<b>Total adjustments</b>	<b>(12,013)</b>	<b>(8,692)</b>	<b>(3,321)</b>	<b>38.2%</b>
<b>3</b>	<b>Total net revenues</b>	<b>113,754</b>	<b>105,132</b>	<b>8,622</b>	<b>8.2%</b>

Gross revenues are broken down by geographical segment in the following table:

	EUR/000	2007-2008	2006-2007	Change	%
	Gross revenues: Italy	122,778	103,801	18,977	18.3%
	Gross revenues: rest of EU	2,989	10,023	(7,034)	-70.2%
	<b>Total gross revenues</b>	<b>125,767</b>	<b>113,824</b>	<b>11,943</b>	<b>10.4%</b>

### 8. Cost of sales

The cost of sales is detailed below:

	EUR/000	2007-2008	2006-2007	Change	%
4	Purchase of goods for resale	(82,817)	(83,950)	1,133	-1.3%
5	Purchase of services for resale	0	0	0	n.a.
6	Royalties	(701)	(3,178)	2,477	-77.9%
7	Change in inventories of finished products	(2,896)	8,001	(10,897)	-136.2%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(86,414)</b>	<b>(79,127)</b>	<b>(7,287)</b>	<b>9.2%</b>

### 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	2007-2008	2006-2007	Change	%
Advertising, marketing and tradeshows	(3,869)	(3,060)	(809)	26.4%
Transport and freight	(1,055)	(1,011)	(44)	4.3%
Other costs related to sales	(1,189)	(1,257)	68	-5.4%
<b>Subtotal: services related to sales</b>	<b>(6,113)</b>	<b>(5,328)</b>	<b>(785)</b>	<b>14.7%</b>
Miscellaneous insurance	(260)	(284)	25	-8.6%
Legal and notary fees	(1,036)	(911)	(126)	13.8%
Post & telegraph	(108)	(111)	3	-2.7%
Travel & accommodation	(382)	(361)	(21)	5.8%
Utilities	(87)	(88)	1	-1.1%
Maintenance	(72)	(53)	(19)	35.8%
Directors' and statutory auditors' fees	(69)	(73)	4	-5.5%
<b>Subtotal: general services</b>	<b>(2,014)</b>	<b>(1,880)</b>	<b>(134)</b>	<b>7.1%</b>
Intercompany charge-backs	(576)	(2,539)	1,963	-77.3%
<b>Subtotal</b>	<b>(2,590)</b>	<b>(4,419)</b>	<b>1,829</b>	<b>-41.4%</b>
<b>Total service expenses</b>	<b>(8,703)</b>	<b>(9,747)</b>	<b>1,045</b>	<b>-10.7%</b>

This item decreased by a total of €1,045 thousand (-10.7%). More specifically, the cost of services related to sales rose by €784 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 rose by 7.1% to €134 thousand.

## 12. Rent and leasing

Rent and leasing came to €295 thousand (€316 thousand the previous year), and consist of rent on the administrative offices at Via Bisceglie 76 (€224 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 €8,673 thousand and increased by €1,039 thousand on the previous year:

EUR/000	2007-2008	2006-2007	Change	%
Wages and salaries	(3,774)	(3,450)	(325)	9.4%
Social security charges	(1,367)	(1,191)	(176)	14.8%
Employee termination indemnities	(298)	(107)	(191)	178.5%
Directors' fees	(1,000)	(900)	(100)	11.1%
Temps and contract workers	(375)	(285)	(90)	31.4%
Sales rep commissions	(1,754)	(1,595)	(158)	9.9%
Other	(105)	(106)	1	-0.8%
<b>Total payroll costs</b>	<b>(8,673)</b>	<b>(7,634)</b>	<b>(1,039)</b>	<b>13.6%</b>

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 €693 thousand, or 14.6%, with a rise in average cost per employee of 8.2%:

EUR/000	2007-2008	2006-2007	Change	%
Wages and salaries	(3,774)	(3,450)	(325)	9.4%
Social security charges	(1,367)	(1,191)	(176)	14.8%
Employee termination indemnities	(298)	(107)	(191)	179.5%
<b>Total employee payroll costs</b>	<b>(5,439)</b>	<b>(4,747)</b>	<b>(693)</b>	<b>14.6%</b>
Average headcount	92	87	5	5.75%
<b>Average cost per employee</b>	<b>(59.1)</b>	<b>(54.6)</b>	<b>(4.5)</b>	<b>8.2%</b>

The difference on the previous year stems from legal changes in the severance indemnity system, which in 2006-2007 had a positive impact of €133 thousand. The average cost per employee increased by 8.2% as a result.

Directors' fees rose by €100 thousand in accordance with the shareholders' resolution of 30 October 2007.

#### 14. Other operating expenses

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

EUR/000	2007-2008	2006-2007	Change	%
Miscellaneous materials purchased	(387)	(390)	4	-0.9%
General and administrative expenses	(1,136)	(1,008)	(128)	12.6%
Entertainment costs	(139)	(221)	82	-37.1%
Miscellaneous bank charges	(351)	(304)	(47)	15.4%
<b>Total other operating expenses</b>	<b>(2,013)</b>	<b>(1,924)</b>	<b>(89)</b>	<b>4.6%</b>

Operating expenses rose by 4.6% with respect to the previous year, from €1,924 thousand to €2,013 thousand.

General and administrative costs grew from €1,008 thousand to €1,136 thousand, due mainly to the rise in factoring commissions, which in turn results from the increase in such transactions (in line with the growth of sales) and from the greater amount of receivables insured. Conversely, there was a decrease in entertainment costs, from €221 thousand to €139K.

#### 21. Depreciation, amortization, provisions and impairment

	EUR/000	2007-2008	2006-2007	Change	%
17	Depreciation and amortization	(503)	(741)	238	-32.1%
18	Provisions	(2,231)	0	(2,231)	n.a.
19	Asset impairment charge	(400)	(512)	112	21.9%
20	Impairment reversal	600	234	366	156.4%
<b>21</b>	<b>Total depreciation, amortization and impairment</b>	<b>(2,534)</b>	<b>(1,019)</b>	<b>(1,515)</b>	<b>148.7%</b>

Depreciation and amortization are discussed in the notes concerning non-current assets and investments.

Provisions increased by €2,231 thousand for the investment in Game Media Networks S.r.l., as mentioned above.

The entire asset impairment charge of €400 thousand refers to trade receivables. The impairment reversal pertains to the dividend received from the subsidiary 505 Games S.r.l. during the year.

## 25. Net interest income

Interest income is broken down below:

EUR/000	2007-2008	2006-2007	Change	%
Interest on bank accounts	31	16	15	93.8%
Interest on derivatives	258	56	202	n.a.
Financial income	61	0	61	n.a.
<b>Total interest income</b>	<b>350</b>	<b>72</b>	<b>278</b>	<b>n.a.</b>

Below are the details of interest expense:

EUR/000	2007-2008	2006-2007	Change	%
Interest on account overdrafts and commercial transactions	(2,591)	(2,082)	(509)	24.4%
Other interest expense	(5)	(10)	5	-50%
Interest on derivatives	(84)	(33)	(51)	154.5%
Interest on loans and leasing agreements	(355)	(202)	(153)	75.8%
Factoring interest	(240)	(242)	2	-1.0%
<b>Total interest expense</b>	<b>(3,275)</b>	<b>(2,569)</b>	<b>(706)</b>	<b>27.5%</b>

Interest expense increased by 27.5%, due mostly to the Company's need to finance the growth of its' subsidiaries operations during the year.

However, the implied cost of debt—net interest expense as a percentage of average debt—decreased by 1.37 points. Average debt was calculated as the average of net indebtedness at the end of each quarter:

EUR/000	2007-2008	2006-2007	Change
Average debt	44,523	31,440	13,083
Net interest expense	2,925	2,497	428
Cost of debt	6.57%	7.94%	-1.37%

## 29. Taxes

The breakdown of current and deferred taxes at 30 June 2008 is as follows:

EUR/000	2007-2008	2006-2007	Change	%
Current taxes	(2,332)	(911)	(1,421)	156.0%
Deferred taxes	(502)	(1,510)	1,008	-66.8%
<b>Total taxes</b>	<b>(2,834)</b>	<b>(2,421)</b>	<b>(413)</b>	<b>17.1%</b>

Below is the breakdown of current taxes between corporate income tax (IRES) and the regional business tax (IRAP):

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>	<b>%</b>
IRES	1,780	332	1,448	436.1%
IRAP	552	579	(27)	-4.7%
<b>Total current taxes</b>	<b>2,332</b>	<b>911</b>	<b>1,421</b>	<b>156.0%</b>

IRES was determined as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>
Taxable income for IRES purposes	5,394	1,005	4,389
IRES rate	33%	33%	0
Total IRES for the period	1,780	332	1448
Release of deferred taxes	0	0	0
<b>Total IRES for the period</b>	<b>1,780</b>	<b>332</b>	<b>1,448</b>

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

<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>	
Digital Bros S.p.A. pre-tax profit	<b>4,154</b>		<b>4,466</b>	
IRES rate (33%)	<b>33%</b>		<b>33%</b>	
Theoretical charge	1,371	33%	1,474	33%
Tax effect of non-deductible costs	1,240	30%	447	10%
Tax effect of the use of losses carried forward	0	0%	(1,590)	-36%
Tax charge for the year and effective tax rate	<b>1.780</b>	<b>42.8%</b>	<b>332</b>	<b>7.4%</b>

IRAP was determined as follows:

<b>EUR/000</b>	<b>2007-2008</b>	<b>2006-2007</b>	<b>Change</b>
Taxable income for IRAP purposes	12,988	13,624	(635)
IRAP rate	4.25%	4.25%	0
<b>IRAP for the period</b>	<b>552</b>	<b>579</b>	<b>(27)</b>

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

<b>EUR/000</b>	<b>2007-2008</b>		<b>2006-2007</b>	
Digital Bros S.p.A. gross profit	<b>9,613</b>		<b>6,963</b>	
IRAP rate (4.25%)	<b>4.25%</b>		<b>4.25%</b>	
Theoretical charge	409	4.3%	296	4.3%
Tax effect of non-deductible costs	3,381	35.2%	283	4.0%
Tax charge for the year and effective tax rate	<b>552</b>	<b>5.7%</b>	<b>579</b>	<b>8.3%</b>

## **9. SIGNIFICANT SUBSEQUENT EVENTS**

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No significant events have occurred since 30 June 2008, except for the commencement of business by the subsidiary Digital Bros Iberia S.I.

## **10. CONTINGENT ASSETS AND LIABILITIES**

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In May 2006, Digital Bros 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 2008.

## 11. RELATED PARTY TRANSACTIONS

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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.

### Digital Bros S.p.A./subsidiaries

EUR/000	receivables		payables		revenues	costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	500	2,064	0	0	786	(7,739)
Game Media Networks S.r.l.	0	4,833	0	0	891	0
Game Service S.r.l.	0	3,712	(1,451)	0	2,794	0
Game Entertainment S.r.l.	0	215	0	0	1,164	(10)
Digital Bros France S.a.r.l.	0	395	0	0	6	(10)
505 Games Ltd.	0	1,086	0	0	0	0
Digital Bros Iberia S.l.	0	326	0	0	7	0
<b>Total</b>	<b>500</b>	<b>12,631</b>	<b>(1,451)</b>	<b>0</b>	<b>5,648</b>	<b>(7,759)</b>

### Joint ventures

Below are key figures for the non-consolidated subsidiary D3DB S.r.l. (held 50%) at 31 March 2008, its year-end reporting date:

EUR/000	
Assets	1,219
Capital and reserves	(76)
Liabilities	1,295
Revenues	0
Costs	(76)
Net profit (loss) for the period	(76)

### Other related parties

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, for which €201 thousand was paid during the year.

### Group tax election

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

## 12. OTHER INFORMATION

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### 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 for the previous year:

Category	30 June 2008	30 June 2007	Change
Executives	6	7	(1)
White collar	74	72	2
Blue collar and trainees	10	10	0
<b>Total employees</b>	<b>90</b>	<b>89</b>	<b>1</b>

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

Category	Average in 2007-2008	Average in 2006-2007	Change
Executives	7	7	0
White collar	75	70	5
Blue collar and trainees	10	10	0
<b>Total employees</b>	<b>92</b>	<b>87</b>	<b>5</b>

### 13. 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 compensation 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 compensation
<b>Board of Directors</b>							
Abramo Galante	Chairman and managing director (1)	01/07/07 to 30/06/08	30/06/08	370,000	65,000	5,661	50,025
Raffaele Galante	Managing director (1)	01/07/07 to 30/06/08	30/06/08	370,000	65,000	5,588	50,025
Davide Galante	Director (1)	01/07/07 to 30/06/08	30/06/08	72,000	0	0	0
Stefano Salbe	Director (1) (4)	01/07/07 to 30/06/08	30/06/08	0	55,000	3,231	184,008
Bruno Soresina	Director (3)	01/07/07 to 30/06/08	30/06/08	16,500	0	0	0
Dario Treves	Director (2)	01/07/07 to 30/06/08	30/06/08	6,600	0	0	201,000
Sergio Treves	Director (3)	01/07/07 to 27/03/08	30/06/08	12,375	0	0	0
Umberto Virri	Director (3)	01/07/07 to 30/06/08	30/06/08	16,500	0	0	0
Alberto Pianta	Director (3)	27/03/08 to 30/06/08	30/06/08	4,125	0	0	0
<b>Board of Statutory Auditors</b>							
Nicolino Cavalluzzo	Chairman	01/07/07 to 30/06/08	30/06/08	27,602	0	0	0
Franco Gaslini	Standing auditor	01/07/07 to 30/06/08	30/06/08	19,519	0	0	0
Paolo Villa	Standing auditor	01/07/07 to 30/06/08	30/06/08	18,745	0	0	0
Enrico Muscato	Alternate auditor	01/07/07 to 30/06/08	30/06/08	0	0	0	0
Marcello Priori	Alternate auditor	01/07/07 to 30/06/08	30/06/08	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

## 14. INFORMATION ON SHARE OWNERSHIP (pursuant to Art. 123 bis of the Consolidated Finance Act)

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### Structure of share capital

At 30 June 2008 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 26 September 2008 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	34.73%	34.73%
Abramo Galante	Abramo Galante	34.54%	34.54%
Lemanik SICAV	Lemanik SICAV	2.35%	2.35%

### 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](http://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](http://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.

## 15. EQUITY INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS

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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 2007	No. of shares purchased	No. of shares sold	No. of shares held at 30 June 2008
Abramo Galante	Digital Bros S.p.A.	4,651,995	0	0	4,651,995
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

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

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

## **17. LOANS GRANTED TO MEMBERS OF ADMINISTRATIVE, MANAGERIAL AND SUPERVISORY BODIES**

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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.

## **18. RESEARCH AND DEVELOPMENT COSTS**

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

## **19. EXTERNAL AUDITING FEES**

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Pursuant to Art. 149-duodecies of the Issuers' Regulations, the external auditing company, Reconta Ernst & Young, received €32 thousand in 2007-2008 for auditing the year-end financial statements and €5 thousand for signing the tax return.

## **STATEMENT BY THE FINANCIAL REPORTING OFFICER**

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

I, the undersigned, Stefano Salbe, financial reporting officer of Digital Bros S.p.A., hereby declare in accordance with the second paragraph of Art. 154-bis, Part IV, Title III, Chapter II, Section V-bis of Legislative Decree 58 of 24 February 1998 that to the best of my knowledge, the financial statements at 30 June 2008 correspond to the records, books of account and accounting entries.

Signed

Abramo Galante

Chairman of the Board of Directors