Digital Bros S.p.A.

Consolidated report at 31 March 2007

(third quarter of fiscal year 2006-2007)

Digital Bros S.p.A.
Via Bisceglie, 76 – 20152 Milan, Italy
VAT no. 09554160151
Share capital: EUR 5,644,334.80 fully paid-in
Milan Companies Register no. 290680 - Vol. 7394
Chamber of Commerce no. 1302132

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

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CORPORATE OFFICERS

Board of Directors

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

(1) Executive directors

(2) Non-executive directors

(3) Independent directors

Internal Control Committee	**Compensation Committee**
Umberto Virri (Chairman)	Sergio Treves (Chairman)
Sergio Treves	Bruno Soresina
Bruno Soresina	Umberto Virri

Board of Statutory Auditors

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

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

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

External auditors

Reconta Ernst & Young S.p.A.

At the meeting of 30 October 2006 the shareholders renewed Reconta Ernst & Young's assignment to audit the separate and consolidated financial statements until approval of the accounts at 30 June 2009.

GROUP STRUCTURE AND SCOPE OF CONSOLIDATION

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

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

With the growth spurt in the distribution via newsstands of video games and DVDs in the year ended 30 June 2006, and as a reflection of the Group's strategy of devoting steady attention to this business, the pertinent costs and revenues have been split off from the Distribution segment and channeled into a Newsstands segment.

In addition to these is the Holding segment, responsible for costs not directly associated with the operating segments mentioned above, but which are necessary for coordinating Group activities and for the implementation of sound financial policies to support the development process.

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

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

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

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

The division of the parent company called 505 Games (formerly 505 Game Street) has been in charge of this segment for the past two years. For market reasons and in light of the segment's fast growth, since the start of this fiscal year 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.

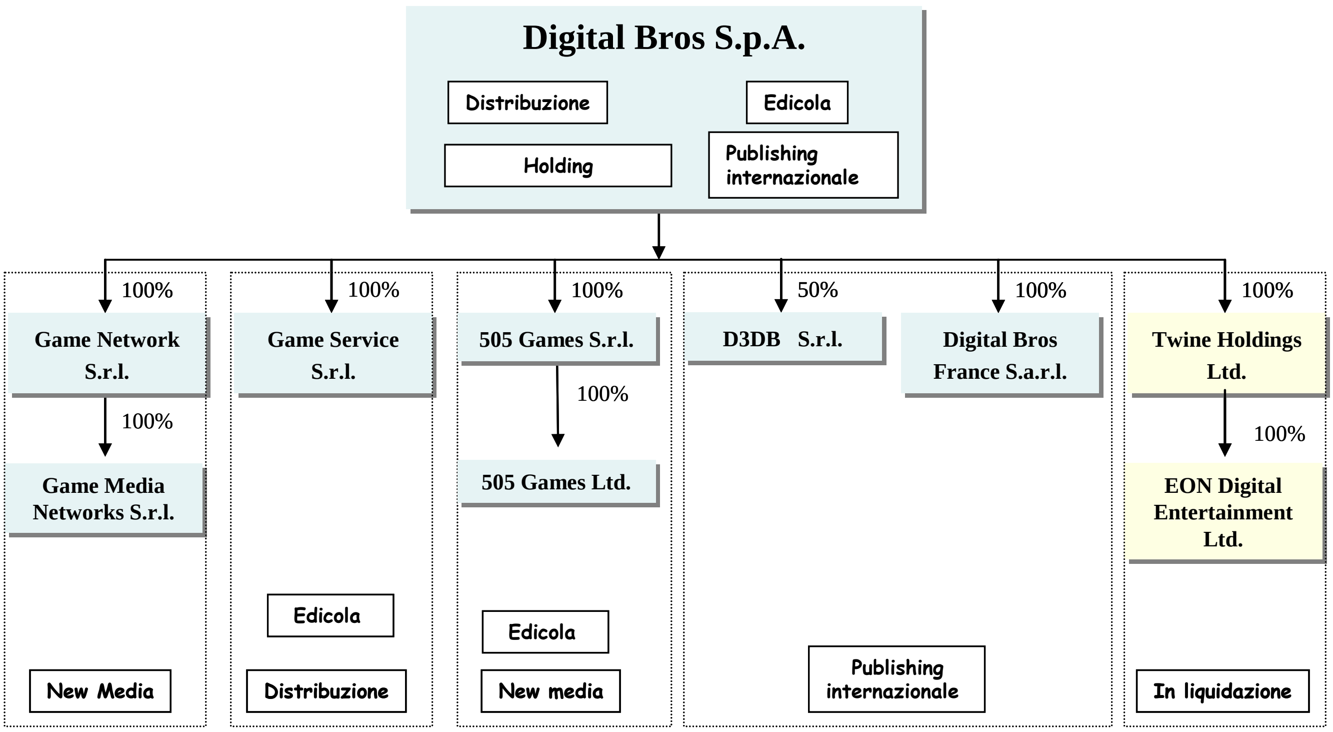
***New Media*:** this segment covers all forms of interactive entertainment distributed over the new media. Digital entertainment content is provided over channels such as digital TV, mobile phones, e-commerce, d-commerce and IP TV, and is managed by the subsidiary Game Media Networks S.r.l. Online gaming, i.e. the exploitation of international licenses for online games, was run by 505 Games S.r.l. until 31 December 2006. Since the start of 2007, as an effect of the streamlining process, this business has been operated by the subsidiary Game Media Networks S.r.l.

Newsstands: the distribution of video games as newspaper or magazine add-ons, and the distribution of entertainment DVDs. As a result of the Group's streamlining process, newsstand distribution has been handled by the subsidiary Game Entertainment S.r.l. since the start of the fiscal year.

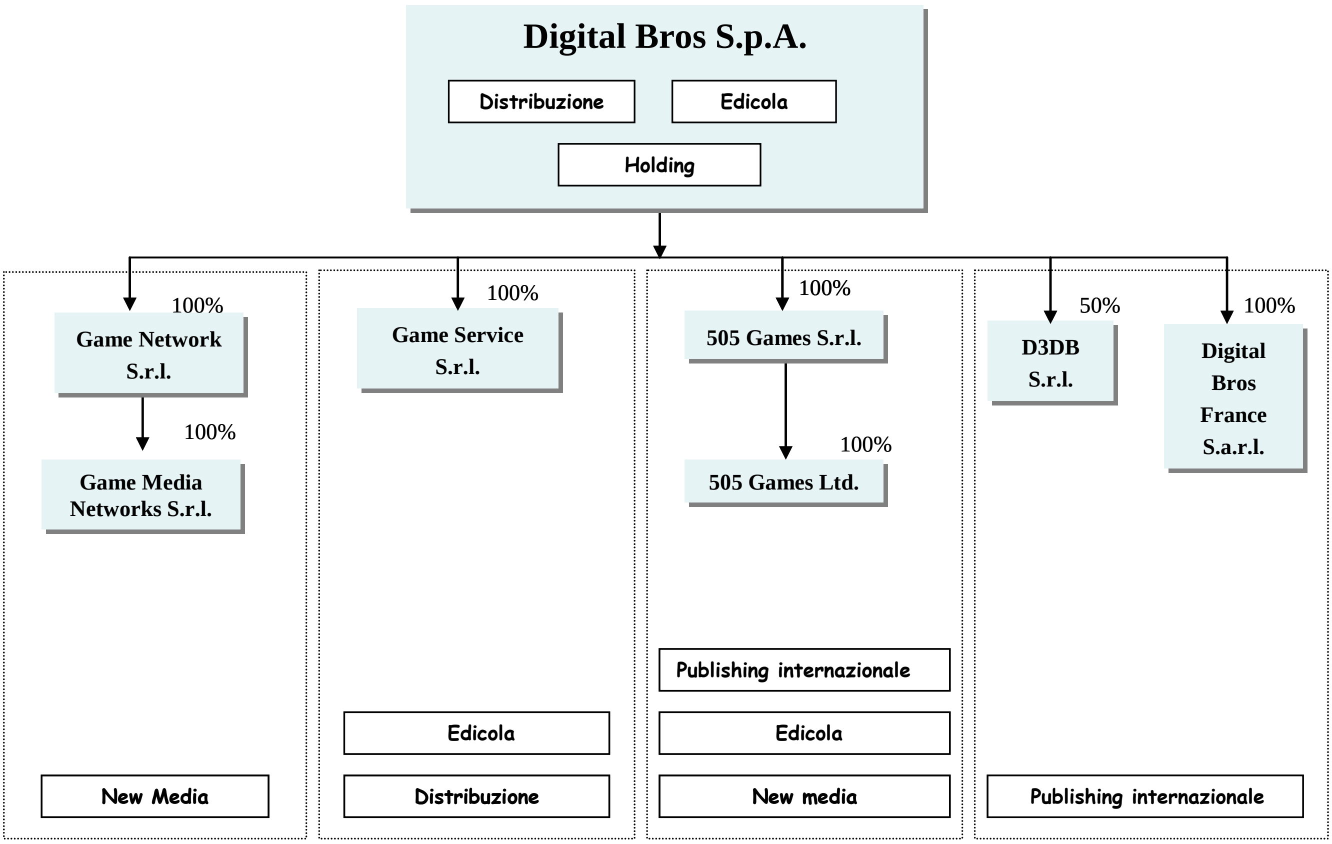
Holding**:** includes all coordination functions provided by the parent company, specifically the management of property investments and brands, as well as Group finance operations. These activities are performed by the parent company, Digital Bros S.p.A.

The following two charts show recent changes in the Group's organization by business segment, while the third presents the structure the Group will assume in the second half of 2006-2007:

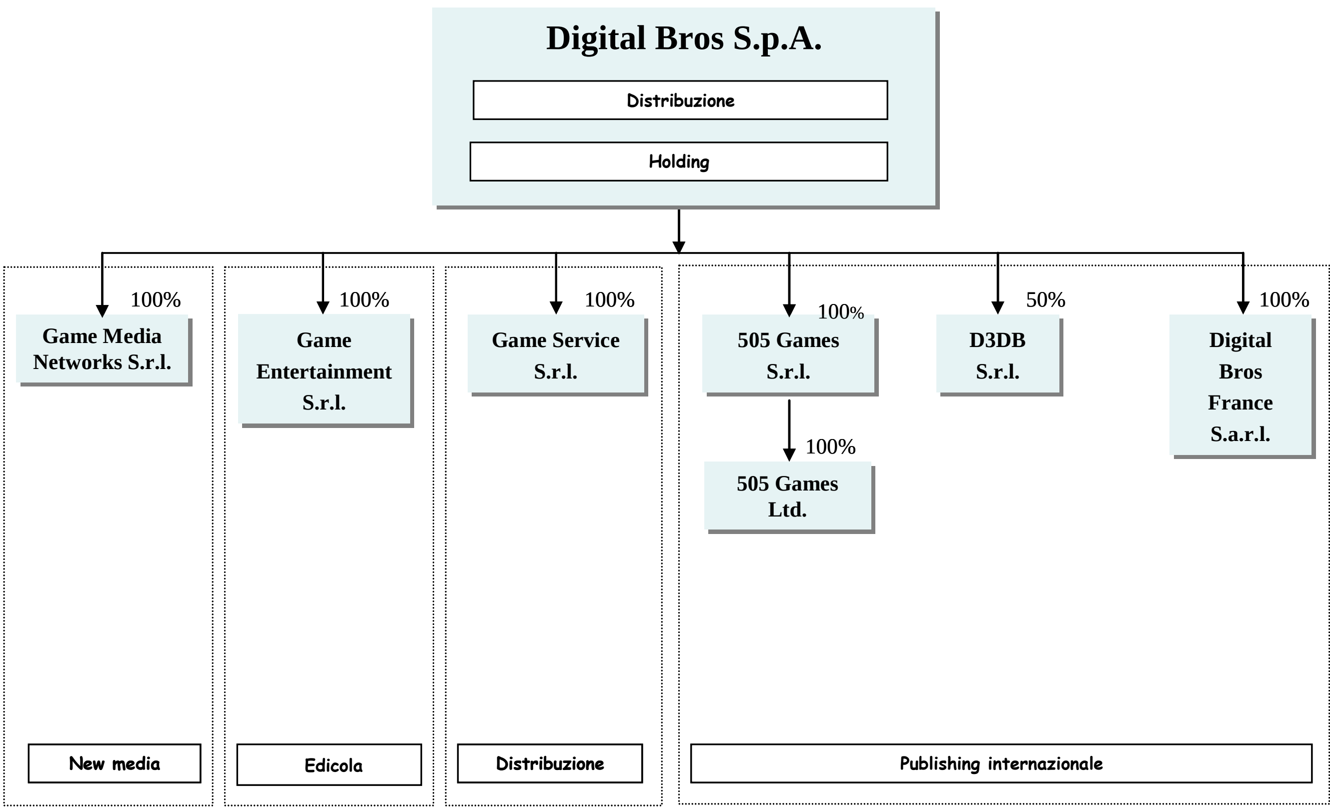
1st quarter of fiscal year 2006-2007:



2nd quarter of fiscal year 2006-2007:



2nd half of fiscal year 2006-2007:



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

The only differences in the scope of consolidation concern the U.K. subsidiaries Twine Holdings Ltd. and EON Digital Entertainment Ltd., which are now fully wound up and have therefore been deconsolidated.

Below is the list of companies in the scope of consolidation at 31 March 2007:

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

(1) interest held 100% by 505 Games S.r.l.
(2) formerly called DB International S.r.l., subsequent to Game Network On Line S.r.l.
(3) formerly called Game Network S.r.l.

Below is a list of non-consolidated companies at the close of the quarter:

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

During the period the Group operated from the following locations:

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

FINANCIAL STATEMENTS

Digital Bros Group

Consolidated balance sheet at 31 March 2007

	EUR/000	31 March 2007	30 June 2006	31 March 2006
	Non-current assets			
1	Property, plant and equipment	3,406	3,299	3,355
2	Investment property	455	455	455
3	Intangible assets	507	684	603
4	Equity investments	741	5	0
5	Non-current receivables and other assets	61	53	1,350
6	Deferred tax assets	5,125	4,537	5,673
	Total non-current assets	**10,295**	**9,033**	**11,436**
	Non-current liabilities			
7	Employee benefits	(888)	(803)	(747)
8	Non-current provisions	(217)	(155)	(138)
9	Other non-current payables and liabilities	0	0	0
	Total non-current liabilities	**(1,105)**	**(958)**	**(885)**
	Net working capital			
10	Inventories	34,677	26,450	24,727
11	Trade receivables	37,195	22,672	30,172
12	Tax credits	251	437	351
13	Deferred tax assets (current)	0	0	0
14	Other current assets	8,882	995	2,090
15	Trade payables	(15,116)	(5,413)	(4,527)
16	Taxes payable	(4,198)	(1,158)	(4,184)
17	Current provisions	0	0	0
18	Other current liabilities	(1,931)	(2,115)	(2,210)
	Total net working capital	**59,760**	**41,868**	**46,419**
	Capital and reserves			
19	Share capital	5,644	5,644	5,644
20	Reserves	19,476	19,441	19,339
21	Treasury shares	(114)	(671)	(671)
22	Profit (losses) carried forward	7,184	4,788	5,212
	Total capital and reserves	**32,190**	**29,202**	**29,524**
	Minority interests in capital and reserves	**0**	**0**	**10**
	Total	***36,760***	***20,741***	***27,436***
23	Cash and cash equivalents	7,547	3,994	3,752
24	Short-term payables to banks	(35,700)	(19,087)	(22,287)
25	Other current financial liabilities	(3,109)	(1,351)	(3,814)
	Current net debt	**(31,262)**	**(16,444)**	**(22,349)**
26	Non-current financial assets	0	0	0
27	Non-current payables to banks	(3,581)	(1,006)	(1,758)
28	Other non-current financial liabilities	(1,917)	(3,291)	(3,329)
	Non-current net debt	**(5,498)**	**(4,297)**	**(5,087)**
	Total net debt	***(36,760)***	***(20,741)***	***(27,436)***

Digital Bros Group

Consolidated income statement for the nine months to 31 March 2007

	EUR/000	9M 2006-2007		9M 2005-2006		Change	
1	Revenues	107,803	111.6%	95,862	106.8%	11,941	12.5%
2	Revenue adjustments	(11,198)	-11.6%	(6,063)	-6.8%	(5,135)	84.7%
3	**Total net revenues**	**96,605**	**100.0%**	**89,799**	**100.0%**	**6,806**	**7.6%**
4	Purchase of goods for resale	(74,487)	-77.1%	(65,327)	-72.7%	(9,160)	14.0%
5	Purchase of services for resale	(737)	-0.8%	(1,251)	-1.4%	514	-41.1%
6	Royalties	(4,583)	-4.7%	(4,126)	-4.6%	(457)	11.1%
7	Change in inventories of finished products	8,242	8.5%	2,537	2.8%	5,705	n.a.
8	**Total cost of goods sold**	**(71,565)**	**-74.1%**	**(68,167)**	**-75.9%**	**(3,398)**	**5.0%**
9	**Gross profit (3+8)**	**25,040**	**25.9%**	**21,632**	**24.1%**	**3,408**	**15.8%**
10	Other income	96	0.1%	372	0.4%	(276)	-74.2%
11	Cost of services	(6,497)	-6.7%	(4,990)	-5.6%	(1,507)	30.2%
12	Rent and leasing	(322)	-0.3%	(338)	-0.4%	16	-4.7%
13	Payroll costs	(7,249)	-7.5%	(6,280)	-7.0%	(969)	15.4%
14	Other operating expenses	(1,987)	-2.1%	(1,334)	-1.5%	(653)	49.0%
15	**Total operating expenses**	**(16,055)**	**-16.6%**	**(12,942)**	**-14.4%**	**(3,113)**	**24.1%**
16	**EBITDA (9+10+15)**	**9,081**	**9.4%**	**9,062**	**10.1%**	**19**	**0.2%**
17	Amortization and depreciation	(698)	-0.7%	(462)	-0.5%	(236)	51.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(97)	-0.1%	(1,396)	-1.6%	1,299	-93.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	**Total amortization, depreciation and impairment**	**(796)**	**-0.8%**	**(1,858)**	**-2.1%**	**1,062**	**-57.2%**
22	**EBIT (16+21)**	**8,285**	**8.6%**	**7,204**	**8.0%**	**1,081**	**15.0%**
23	Interest income	52	0.1%	122	0.1%	(70)	-57.4%
24	Interest expense	(2,024)	-2.1%	(1,760)	-2.0%	(264)	15.0%
25	**Net interest income (expense)**	**(1,972)**	**-2.0%**	**(1,638)**	**-1.8%**	**(334)**	**20.4%**
26	**Profit before taxes (22+25)**	**6,313**	**6.5%**	**5,566**	**6.2%**	**747**	**13.4%**
27	Current taxes	(2,783)	-2.9%	(2,792)	-3.1%	9	-0.3%
28	Deferred taxes	0	0.0%	386	0.4%	(386)	n.a.
29	**Total taxes**	**(2,783)**	**-2.9%**	**(2,406)**	**-2.7%**	**(377)**	**15.7%**
30	**Net profit (26+29)**	**3,530**	**3.7%**	**3,160**	**3.5%**	**370**	**11.7%**
31	(Net profit) loss pertaining to minority interests	0	0.0%	(5)	0.0%	5	n.a.
32	**Group share of net profit (30+31)**	**3,530**	**3.7%**	**3,155**	**3.5%**	**375**	**11.9%**
	Earnings per share:						
33	**Basic earnings per share (in EUR)**	**0.25**		**0.22**		**0.03**	
34	**Diluted earnings per share (in EUR)**	**0.25**		**0.22**		**0.03**	

Digital Bros Group

Consolidated income statement for the third quarter (January – March 2007)

	EUR/000	3rd quarter 2006-2007		3rd quarter 2005-2006		Change	
1	Revenues	26,119	122.0%	22,527	103.9%	3,592	15.9%
2	Revenue adjustments	(4,704)	-22.0%	(850)	-3.9%	(3,854)	n.a.
3	**Total net revenues**	**21,415**	**100.0%**	**21,677**	**100.0%**	**(262)**	**-1.2%**
4	Purchase of goods for resale	(16,764)	-78.3%	(14,522)	-67.0%	(2,242)	15.4%
5	Purchase of services for resale	(323)	-1.5%	(1,103)	-5.1%	780	-70.7%
6	Royalties	(2,385)	-11.1%	(1,982)	-9.1%	(403)	n.a.
7	Change in inventories of finished products	4,637	21.7%	1,069	4.9%	3,568	n.a.
8	**Total cost of goods sold**	**(14,835)**	**-69.3%**	**(16,538)**	**-76.3%**	**1,703**	**-10.3%**
9	**Gross profit (3+8)**	**6,580**	**30.7%**	**5,139**	**23.7%**	**1,441**	**28.0%**
10	Other income	85	0.4%	92	0.4%	(7)	-7.6%
11	Cost of services	(1,844)	-8.6%	(1,184)	-5.5%	(660)	n.a.
12	Rent and leasing	(127)	-0.6%	(122)	-0.6%	(5)	4.1%
13	Payroll costs	(2,569)	-12.0%	(1,888)	-8.7%	(681)	36.1%
14	Other operating expenses	(744)	-3.5%	(372)	-1.7%	(372)	100.0%
15	**Total operating expenses**	**(5,284)**	**-24.7%**	**(3,566)**	**-16.5%**	**(1,718)**	**48.2%**
16	**EBITDA (9+10+15)**	**1,381**	**6.4%**	**1,665**	**7.7%**	**(284)**	**-17.1%**
17	Amortization and depreciation	(128)	-0.6%	(159)	-0.7%	31	-19.5%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	(3)	0.0%	3	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	**Total amortization, depreciation and impairment**	**(128)**	**-0.6%**	**(162)**	**-0.7%**	**34**	**-21.0%**
22	**EBIT (16+21)**	**1,253**	**5.9%**	**1,503**	**6.9%**	**(250)**	**-16.6%**
23	Interest income	45	0.2%	114	0.5%	(69)	-60.5%
24	Interest expense	(876)	-4.1%	(665)	-3.1%	(211)	31.7%
25	**Net interest income (expense)**	**(831)**	**-3.9%**	**(551)**	**-2.5%**	**(280)**	**50.8%**
26	**Profit before taxes (22+25)**	**422**	**2.0%**	**952**	**4.4%**	**(530)**	**-55.7%**
27	Current taxes	(367)	-1.7%	(481)	-2.2%	114	-23.7%
28	Deferred taxes	0	0.0%	386	1.8%	(386)	n.a.
29	**Total taxes**	**(367)**	**-1.7%**	**(95)**	**-0.4%**	**(272)**	**n.a.**
30	**Net profit (26+29)**	**55**	**0.3%**	**857**	**4.0%**	**(802)**	**-93.6%**
31	(Net profit) loss pertaining to minority interests	0	0.0%	58	0.3%	(58)	n.a.
32	**Group share of net profit (30+31)**	**55**	**0.3%**	**915**	**4.2%**	**(860)**	**-94.0%**
	Earnings per share:						
33	**Basic earnings per share (in EUR)**	**0.004**		**0.07**		**(0.07)**	
34	**Diluted earnings per share (in EUR)**	**0.004**		**0.07**		**(0.07)**	

Digital Bros Group

Statement of changes in consolidated shareholders' equity

EUR/000	**Share capital (A)**	Share premium reserve	Legal reserve	IAS transition reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Profit (losses) carried forward	Net profit (loss) for the year	**Total unallocated income (D)**	**Consolidated capital and reserves: Group's share (A+B+C+D)**
Total at 1 July 2005	**5,644**	39,699	258	894	6	**40,857**	**(268)**	(22,741)	4,402	**(18,339)**	**27,894**
											0
Allocation of net profit for the period			871			**871**		3,184	(4,055)	**(871)**	**0**
Coverage of losses carried forward		(22,745)				**(22,745)**		22,745		**22,745**	**0**
Dividend payments						**0**		(1,127)		**(1,127)**	**(1,127)**
Purchase of treasury shares						**0**	**(403)**			**0**	**(403)**
Other changes				362	(6)	**356**		(4)	(352)	**(356)**	**0**
Net profit for the period						**0**			3160	**3,160**	**3,160**
Total at 31 March 2006	**5,644**	16,954	1,129	1,256	0	**19,339**	**(671)**	2,057	3,155	**5,212**	**29,524**
Other changes				111	(9)	**102**		(1,092)		**(1,092)**	**(990)**
Net profit for the period						**0**			668	**688**	**688**
Total at 1 July 2006	**5,644**	16,954	1,129	1,367	(9)	**19,441**	**(671)**	965	3,823	4,788	**29,202**
Allocation of net profit for the period						**0**		3,823	(3,823)	**0**	**0**
Dividend payments						**0**		(1,117)		**(1,117)**	**(1,117)**
Purchase of treasury shares						**0**	**557**			**0**	**557**
Other changes					35	**35**		(20)		**(20)**	**15**
Net profit for the period						**0**			3,533	**3,533**	**3,533**
Total at 31 March 2007	**5,644**	16,954	1,129	1,367	26	**19,476**	**(114)**	3,651	3,533	7,184	**32,190**

Digital Bros Group

Segment reporting (IAS 14)

	Consolidated figures (in EUR/000)	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Revenues	94,859	2,018	278	10,648	0	107,803
2	Revenue adjustments	(8,614)	0	0	(2,585)	0	(11,199)
3	**Total net revenues**	**86,245**	**2,018**	**278**	**8,063**	**0**	**96,605**
4	Purchase of goods for resale	(70,751)	(215)	(24)	(3,497)	(0)	(74,487)
5	Purchase of services for resale	0	(126)	(592)	(19)	0	(737)
6	Royalties	(739)	(578)	(58)	(3,208)	0	(4,583)
7	Change in inventories of finished products	5,661	0	0	2,581	0	8,242
8	**Total cost of goods sold**	**(65,829)**	**(919)**	**(674)**	**(4,144)**	**(0)**	**(71,565)**
9	**Gross profit (3+8)**	**20,416**	**1,100**	**(396)**	**3,919**	**(0)**	**25,040**
10	Other income	35	0	61	0	0	96
11	Cost of services	(5,125)	(484)	(32)	(754)	(102)	(6,498)
12	Rent and leasing	(234)	0	(59)	(28)	(1)	(322)
13	Payroll costs	(4,857)	(0)	(601)	(948)	(842)	(7,249)
14	Other operating expenses	(1,385)	(40)	(18)	(427)	(116)	(1,987)
15	**Total operating expenses**	**(11,602)**	**(524)**	**(711)**	**(2,157)**	**(1,062)**	**(16,055)**
16	**EBIT (9+10+15)**	**8,850**	**576**	**(1,046)**	**1,762**	**(1,062)**	**9,081**
17	Amortization and depreciation	(363)	(8)	(5)	(29)	(294)	(699)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	(97)	0	0	0	0	(97)
20	Impairment reversal	0	0	0	0	0	0
21	**Total amortization, depreciation and impairment**	**(460)**	**(8)**	**(5)**	**(29)**	**(294)**	**(796)**
22	**EBIT (16+21)**	**8,390**	**568**	**(1,050)**	**1,734**	**(1,356)**	**8,285**

Digital Bros Group

Consolidated cash flow statement for the period ended 31 March 2007

	(EUR/000)	31 March 2007	31 March 2006
A.	**Opening net debt**	**(20,741)**	**(21,700)**
B.	**Cash flow from operating activities**		
	Group's share of net profit (loss) for the year	3,530	3,150
	Net (profit) loss pertaining to minority interests	0	5
	Amortization	503	243
	Depreciation	195	218
	Net change in other provisions	62	67
	Net change in provision for employee severance indemnities	85	121
	SUBTOTAL B.	**4,375**	**3,804**
C.	**Change in net working capital**		
	Inventories	(8,227)	(2,538)
	Trade receivables	(14,523)	(7,852)
	Tax credits	186	248
	Deferred tax assets (current)	0	0
	Other current assets	(7,887)	(759)
	Trade payables	9,703	344
	Taxes payable	3,040	2,796
	Current provisions	0	0
	Other current liabilities	(184)	98
	SUBTOTAL C.	**(17,893)**	**(7,663)**
D.	**Cash flow from investing activities**		
	Net investments in intangible assets	(324)	(233)
	Net investments in property, plant and equipment	(301)	(94)
	Net investments in financial fixed assets	(1,332)	(22)
	SUBTOTAL D.	**(1,957)**	**(349)**
E.	**Cash flow from financing activities**		
	Capital increases	0	0
	SUBTOTAL E.	**0**	**0**
F.	**Movements in consolidated capital and reserves**		
	Increase (decrease) in minority interests in capital and reserves	0	5
	Dividends paid	(1,117)	(1,127)
	Change in treasury shares held	557	(403)
	Increases (decreases) in other components of capital and reserves	15	(3)
	SUBTOTAL F.	**(545)**	**(1,528)**
G.	**Cash flow for the period (B+C+D+E+F)**	**(16,019)**	**(5,736)**
H.	**Closing net debt (A+G)**	**(36,760)**	**(27,436)**

Details of cash flow movements by maturity

EUR/000	31 March 2007	31 March 2006
Increase (decrease) in securities and cash & cash equivalents	3,553	(1,466)
Decrease (increase) in short-term payables to banks	(16,613)	(3,401)
Decrease (increase) in other current financial liabilities	(1,758)	(559)
Short-term cash flow for the period	(14,818)	(5,426)
Medium-term cash flow for the period	(1,201)	(310)
Cash flow for the period	**(16,019)**	**(5,736)**

Digital Bros S.p.A.

Balance sheet at 31 March 2007

	EUR/000	31 March 2007	30 June 2006	31 March 2006
	Non-current assets			
1	Property, plant and equipment	3,288	3,198	3,255
2	Investment property	455	455	455
3	Intangible assets	452	659	579
4	Equity investments	1,355	1,255	263
5	Non-current receivables and other assets	4	6	1,306
6	Deferred tax assets	3,123	2,751	3,722
	Total non-current assets	**8,677**	**8,324**	**9,580**
	Non-current liabilities			
7	Employee benefits	(828)	(793)	(740)
8	Non-current provisions	(217)	(155)	(138)
9	Other non-current payables and liabilities	0	0	0
	Total non-current liabilities	**(1,045)**	**(948)**	**(878)**
	Net working capital			
10	Inventories	31,502	26,297	24,789
11	Trade receivables	34,454	24,368	28,804
12	Tax credits	(261)	51	50
13	Deferred tax assets (current)	0	0	0
14	Other current assets	9,805	5,132	5,573
15	Trade payables	(10,063)	(4,128)	(3,684)
16	Taxes payable	(2,037)	(1,225)	(4,039)
17	Current provisions	(1,088)	(3,304)	(5,218)
18	Other current liabilities	(3,141)	(5,943)	(4,719)
	Total net working capital	**59,171**	**41,248**	**41,556**
	Capital and reserves			
19	Share capital	5,644	5,644	5,644
20	Reserves	17,965	17,941	17,941
21	Treasury shares	(114)	(671)	(671)
22	Profit (losses) carried forward	5,821	4,774	4,597
	Total capital and reserves	**29,316**	**27,688**	**27,511**
	Total	***37,487***	***20,936***	***22,747***
23	Cash and cash equivalents	2,986	3,798	3,415
24	Short-term payables to banks	(33,510)	(19,086)	(22,286)
25	Other current financial liabilities	(3,109)	(1,351)	(150)
	Current net debt	**(33,633)**	**(16,639)**	**(19,021)**
26	Non-current financial assets	0	0	0
27	Non-current payables to banks	(1,936)	(1,006)	(1,758)
28	Other non-current financial liabilities	(1,918)	(3,291)	(1,968)
	Non-current net debt	**(3,854)**	**(4,297)**	**(3,726)**
	Total net debt	***(37,487)***	***(20,936)***	***(22,747)***

Digital Bros S.p.A.

Income statement for the nine months to 31 March 2007

	EUR/000	9M 2006-2007		9M 2005-2006		Change	
1	Revenues	95,877	108.7%	93,478	106.9%	2,399	2.6%
2	Revenue adjustments	(7,691)	-8.7%	(6,013)	-6.9%	(1,678)	27.9%
3	**Total net revenues**	**88,186**	**100.0%**	**87,465**	**100.0%**	**721**	**0.8%**
4	Purchase of goods for resale	(70,890)	-80.4%	(66,216)	-75.7%	(4,674)	7.1%
5	Purchase of services for resale	0	0.0%	(171)	-0.2%	171	n.a.
6	Royalties	(2,378)	-2.7%	(3,430)	-3.9%	1,052	-30.7%
7	Change in inventories of finished products	5,205	5.9%	2,657	3.0%	2,548	95.9%
8	**Total cost of goods sold**	**(68,063)**	**-77.2%**	**(67,160)**	**-76.8%**	**(903)**	**1.3%**
9	**Gross profit (3+8)**	**20,123**	**22.8%**	**20,305**	**23.2%**	**(182)**	**-0.9%**
10	Other income	2,802	3.2%	1,122	1.3%	1,680	n.a.
11	Cost of services	(7,282)	-8.3%	(4,881)	-5.6%	(2,401)	49.2%
12	Rent and leasing	(250)	-0.3%	(230)	-0.3%	(20)	8.7%
13	Payroll costs	(6,032)	-6.8%	(5,876)	-6.7%	(156)	2.7%
14	Other operating expenses	(1,519)	-1.7%	(1,255)	-1.4%	(264)	21.0%
15	**Total operating expenses**	**(15,083)**	**-17.1%**	**(12,242)**	**-14.0%**	**(2,841)**	**23.2%**
16	**EBITDA (9+10+15)**	**7,842**	**8.9%**	**9,185**	**10.5%**	**(1,343)**	**-14.6%**
17	Amortization and depreciation	(650)	-0.7%	(351)	-0.4%	(299)	85.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(1,366)	-1.5%	(1,738)	-2.0%	372	-21.4%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	**Total amortization, depreciation and impairment**	**(2,016)**	**-2.3%**	**(2,089)**	**-2.4%**	**73**	**-3.5%**
22	**EBIT (16+21)**	**5,826**	**6.6%**	**7,096**	**8.1%**	**(1,270)**	**-17.9%**
23	Interest income	50	0.1%	122	0.1%	(72)	-59.0%
24	Interest expense	(2,013)	-2.3%	(1,731)	-2.0%	(282)	16.3%
25	**Net interest income (expense)**	**(1,963)**	**-2.2%**	**(1,609)**	**-1.8%**	**(354)**	**22.0%**
26	**Profit before taxes (22+25)**	**3,863**	**4.4%**	**5,487**	**6.3%**	**(1,624)**	**-29.6%**
27	Current taxes	(1,700)	-1.9%	(2,684)	-3.1%	984	-36.7%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
29	**Total taxes**	**(1,700)**	**-1.9%**	**(2,684)**	**-3.1%**	**984**	**-36.7%**
30	**Net profit (26+29)**	**2,163**	**2.5%**	**2,803**	**3.2%**	**(640)**	**-22.8%**

NOTES TO THE ACCOUNTS AT 31 MARCH 2007

ACCOUNTING POLICIES AND PRINCIPLES

The quarterly report has been prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standard Boards (IASB). All amounts are expressed in thousands of euros, where not otherwise specified.

The financial statements that precede are comprised of:

- consolidated balance sheet at 31 March 2007 with comparative figures at 30 June 2006 (the year-end reporting date), plus comparative figures at 31 March 2006 in order to highlight seasonal trends;

- consolidated income statement for the nine months ended 31 March 2007, with comparative figures for the first three quarters of the previous year;

- consolidated income statement for the quarter ended 31 March 2007, with comparative figures for the third quarter of the previous year;

- statement of changes in consolidated shareholders' equity for the period under review, preceded by changes in consolidated shareholders' equity between 1 July 2005 and 31 March 2006 and between 1 April 2006 and 30 June 2006;

- consolidated cash flow statement for the period under review, in comparison with figures for the previous year;

- details of cash flows by maturity, compared with movements taking place during the same period of the previous year;

- balance sheet of the parent company Digital Bros S.p.A. at 31 March 2007 with comparative figures at 30 June 2006 (the year-end reporting date), plus comparative figures at 31 March 2006 in order to highlight seasonal trends;

- income statement of the parent company Digital Bros S.p.A. for the first three quarters of the fiscal year with comparative figures for the nine months ended 31 March 2006.

Separate notes for the parent company figures have not been provided, as the notes to the consolidated financial statements are deemed to be sufficiently thorough.

PREPARATION CRITERIA

The quarterly report at 31 March 2007, for the third quarter of the fiscal year, was drawn up in accordance with IAS/IFRS and with Art. 82 of CONSOB Regulation 11971/99 for issuers (as amended).

The content is consistent with IAS 34 on interim financial reporting.

The consolidated financial statements were prepared on the basis of the accounts at 31 March 2007 submitted by the companies in the consolidation, which have been adjusted, where necessary, to bring them into line with Group accounting policies and IAS/IFRS. All comparative figures from prior periods have been modified as necessary in order to render them IAS/IFRS-compliant.

ACCOUNTING POLICIES

The accounting policies used for the quarterly report at 31 March 2007 (for the third quarter of the fiscal year) are consistent with those used to prepare the consolidated financial statements at 30 June 2006.

Property, plant and equipment

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

Costs incurred after purchase are capitalized only if they increase the future economic benefits expected of 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	25%

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

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

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

Investment property

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

Intangible assets

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

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

Amortization rates are as follows:

- Brands 10%
- Licenses 20%

The amortization charge is shown in the income statement.

Equity investments in subsidiaries, associates and joint ventures

Equity investments in subsidiaries, associates and joint ventures 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 write down cease to apply.

The goodwill implicit in the carrying amount of equity investments is subject to annual impairment testing using the procedures described above.

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 up 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

Employee severance indemnities that are mandatory for Italian companies pursuant to law 297/1982 ("trattamento di fine rapporto", or TFR) qualify as defined benefit plans and are based, among other factors, on employees' working lives and on the compensation they receive during a pre-determined period of employment. These benefits were redetermined by independent actuaries using the Projected Unit Credit method. Increases or decreases in the present value of the liability for TFR are classified as payroll costs.

Inventories

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

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

Receivables and payables

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

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

Payables are shown at face value.

Factoring of trade receivables

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

Current and non-current provisions

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

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

Financial assets and liabilities

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

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

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

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

Profits and losses from financial assets available for sale are recorded directly to capital and reserves until the asset is sold or written down; at that time, accumulated profits or losses, including those previous charged to capital and reserves, are recognized in profit or loss for the year.

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

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

Derivative financial instruments

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

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

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

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

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

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

Treasury shares

Treasury shares are deducted from capital and reserves. Their original cost and any positive differences from their subsequent sale are recorded as equity movements.

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.

"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 principles of accrual and matching, when they do not produce future economic benefits, or when those benefits do not qualify for recognition as assets.

Cost of sales

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

Royalties concerning the use of exploitation rights on international and national licenses are treated as a component of the cost of sales.

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

Current taxes

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

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

Deferred taxes

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

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

They are classified as non-current assets and liabilities.

Earnings per share

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

Use of estimates

The preparation of the interim accounts and notes in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the information on contingent assets and liabilities as of the reporting date. Actual results may differ. Estimates are used to report provisions for doubtful accounts, the writedown of inventories to market value, depreciation and amortization, asset impairment, employee benefits, taxes, restructuring provisions, and other provisions. Estimates and assumptions are reviewed on a regular basis and any changes are reflected immediately in the profit and loss account.

CONSOLIDATION METHODS

Subsidiaries

Subsidiaries are companies the Group controls. Control exists when the Group has the power, directly or indirectly, to influence their financial and managerial policies in such a way as to obtain benefits from their operations. The financial statements of subsidiaries are consolidated as from the date control is assumed until the date control ceases to exist.
Since the subsidiaries are wholly owned, either directly or indirectly, their results and capital and reserves pertain 100% to the Group.

Joint ventures are valued under the equity method.

Transactions eliminated in the consolidation process

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

THE VIDEO GAMES MARKET

The video games market took root in the latter 1980s and has been growing non-stop ever since. Today, according to industry figures, the European market is worth more than €5 billion, and the Italian market has topped €400 million in value.

Growth has been swift for many reasons. Constant technological progress means that video games are increasingly polished in terms of look, playability and depth of content. The number of players is on the rise; the average age of players is also increasing, as those who start to play when young continue to do so at a later age, so the market can release games for an ever more mature audience. The industry is also adapting to female players, who in recent years have become avid leisure time fans. In Europe, thanks to these trends, gaming now accounts for
34% of the total entertainment market.

Technological development allows hardware manufacturers to launch more powerful consoles than ever that can also improve the quality of games. The Microsoft Xbox 360 and Nintendo Wii have been launched in the last year, and in March the eagerly awaited Sony Playstation 3 arrived on store shelves. The market thus performs in cycles, in parallel with the life cycle of the consoles for which the games are developed. With the rollout of a given console, the price of both the machines and the video games is high, and relatively small quantities are sold. Console and game prices then gradually go down, 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 current lifespan for consoles is 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—to international video game publishers, who are therefore crucial for giving the game a global reputation and clientele.

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

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

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

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

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

SEASONAL TRENDS IN THE MARKET

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

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

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

SIGNIFICANT EVENTS DURING THE PERIOD

The main events during the past six months are described below.

- September 2006: Digital Bros signs an agreement with California firm Crave Entertainment for the exclusive distribution in Europe, South Africa and Australia of eight new video games: Cartoon Network's Champ Lazio, Cartoon Network's Foster's Home, National Rifle Association Gun Club, Veggietables Larryboy, Dave Mirra BMX Racing, World Championship Poker3, World Championship Cards and Brunswick Bowling;

- October 2006: on 30 October the ordinary shareholders' meeting of Digital Bros S.p.A. resolves to:
    - approve the financial statements for the year ended 30 June 2006 and the report on operations;
    - allocate the net profit for the year, €3,068,437, as follows:
        i. a dividend of €0.08 per ordinary share for a total of €1,116,455;
        ii. the remaining €1,951,982 to be carried forward.

  The shareholders also vote to extend Ernst & Young's assignment to audit the separate and consolidated financial statements through the years ending 30 June 2007, 2008 and 2009;

- November 2006: Digital Bros S.p.A. strikes a deal with the RCS Group to create a joint venture in the online entertainment business. The JV will be held 51% by RCS MediaGroup and 49% by Game Media Networks S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.) and will concern the management and development of an online multiplayer and single-player gaming portal;

- November 2006: the company Game Network S.r.l. changes its name to Game Entertainment S.r.l., reflecting the new brand the Group will use for its newsstand distribution business;

- November 2006: Digital Bros S.p.A. rolls out the sixth edition of soccer simulation game Pro Evolution Soccer, which sells over 550,000 units during the period for revenues topping €22 million, confirming its position as the best-selling game in the Italian market;

- December 2006: Digital Bros S.p.A. launches its first set of DVD games, a new publishing product to be distributed through newsstands in Italy and France through Game Entertainment S.r.l. (a wholly-owned subsidiary of Digital Bros S.p.A.);

- February 2007: Digital Bros signs an agreement with Bohemia Interactive for the exclusive publication in EMEA zone countries of the CD-ROM game "ArmA: Armed Assault," a military strategy simulator. The game will be distributed by 505 Games S.r.l;

- March 2007: A joint venture called RCS DB Games S.p.A. is founded with share capital of €1,500 thousand, owned 49% by Digital Bros Group and 51% by RCS Media Group. The purpose of the new company is to manage and develop an online multiplayer and single-player gaming portal.

ECONOMIC PERFORMANCE FOR THE FIRST NINE MONTHS OF THE YEAR

Consolidated results for the first nine months of the year are repeated below, with comparative figures for the same period in 2005-2006.

	EUR/000	9M 2006-2007		9M 2005-2006		Change	
1	Revenues	107,803	111.6%	95,862	106.8%	11,941	12.5%
2	Revenue adjustments	(11,198)	-11.6%	(6,063)	-6.8%	(5,135)	84.7%
3	**Total net revenues**	**96,605**	**100.0%**	**89,799**	**100.0%**	**6,806**	**7.6%**
4	Purchase of goods for resale	(74,487)	-77.1%	(65,327)	-72.7%	(9,160)	14.0%
5	Purchase of services for resale	(737)	-0.8%	(1,251)	-1.4%	514	-41.1%
6	Royalties	(4,583)	-4.7%	(4,126)	-4.6%	(457)	11.1%
7	Change in inventories of finished products	8,242	8.5%	2,537	2.8%	5,705	n.a.
8	**Total cost of goods sold**	**(71,565)**	**-74.1%**	**(68,167)**	**-75.9%**	**(3,398)**	**5.0%**
9	**Gross profit (3+8)**	**25,040**	**25.9%**	**21,632**	**24.1%**	**3,408**	**15.8%**
10	Other income	96	0.1%	372	0.4%	(276)	-74.2%
11	Cost of services	(6,497)	-6.7%	(4,990)	-5.6%	(1,507)	30.2%
12	Rent and leasing	(322)	-0.3%	(338)	-0.4%	16	-4.7%
13	Payroll costs	(7,249)	-7.5%	(6,280)	-7.0%	(969)	15.4%
14	Other operating expenses	(1,987)	-2.1%	(1,334)	-1.5%	(653)	49.0%
15	**Total operating expenses**	**(16,055)**	**-16.6%**	**(12,942)**	**-14.4%**	**(3,113)**	**24.1%**
16	**EBITDA (9+10+15)**	**9,081**	**9.4%**	**9,062**	**10.1%**	**19**	**0.2%**
17	Amortization and depreciation	(698)	-0.7%	(462)	-0.5%	(236)	51.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(97)	-0.1%	(1,396)	-1.6%	1,299	-93.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	**Total amortization, depreciation and impairment**	**(796)**	**-0.8%**	**(1,858)**	**-2.1%**	**1,062**	**-57.2%**
22	**EBIT (16+21)**	**8,285**	**8.6%**	**7,204**	**8.0%**	**1,081**	**15.0%**
23	Interest income	52	0.1%	122	0.1%	(70)	-57.4%
24	Interest expense	(2,024)	-2.1%	(1,760)	-2.0%	(264)	15.0%
25	**Net interest income (expense)**	**(1,972)**	**-2.0%**	**(1,638)**	**-1.8%**	**(334)**	**20.4%**
26	**Profit before taxes (22+25)**	**6,313**	**6.5%**	**5,566**	**6.2%**	**747**	**13.4%**
27	Current taxes	(2,783)	-2.9%	(2,792)	-3.1%	9	-0.3%
28	Deferred taxes	0	0.0%	386	0.4%	(386)	n.a.
29	**Total taxes**	**(2,783)**	**-2.9%**	**(2,406)**	**-2.7%**	**(377)**	**15.7%**
30	**Net profit (26+29)**	**3,530**	**3.7%**	**3,160**	**3.5%**	**370**	**11.7%**
31	(Net profit) loss pertaining to minority interests	0	0.0%	(5)	0.0%	5	n.a.
32	**Group share of net profit (30+31)**	**3,530**	**3.7%**	**3,155**	**3.5%**	**375**	**11.9%**
	Earnings per share:						
33	**Basic earnings per share (in EUR)**	**0.25**		**0.22**		**0.03**	
34	**Diluted earnings per share (in EUR)**	**0.25**		**0.22**		**0.03**	

In the first nine months of fiscal year 2006-2007 the Group grossed €107,803 thousand, an increase of €11,941 thousand on the same period last year, thanks to the growth of the traditional Italian Distribution business and the start-up of International Publishing as better described in the section on business segments.

Net revenues, i.e. net of potential returns and/or costs directly associated with the trend in sales, rose from €89,799 thousand to €96,605 thousand (a €6,806 thousand increase or +7.6%).

The cost of sales decreased slightly as a percentage of revenues, from 75.9% to 74.1%, permitting a gross profit of €25,040 thousand compared with €21,632 thousand at 31 March 2006 (+€3,408 thousand).

Other income, at €96 thousand, refers mainly to insurance reimbursements and contributions for expenses incurred on behalf of third parties.

Operating expenses rose by €3,113 thousand or 24.1%. The most significant increase in operating expenses pertained to the cost of services, which rose from €4,990 thousand to €6,497 thousand (+€1,507 thousand), due mainly to the advertising costs incurred by the Group in order to strengthen the sales process for video games in Italy and on an international scale. There was also a €969 thousand increase in payroll costs because of new hiring, especially in the New Media and International Publishing segments, and a rise of €653 thousand in other operating expenses due to the higher business volume and the growth of the International Publishing segment.

EBITDA came to €9,081 thousand, in line with the previous year's result.

The 15% rise in EBIT, by €1,081 thousand, is explained by the Group's core business performance and by the reversal of impairment charged the previous year.

Basic earnings per share increased by €0.03, from €0.22 at 31 March 2006 to €0.25 a year later. The trend was identical for diluted earnings per share, which also rose by three cents.

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.

Earnings per share was higher than for the same period last year due almost exclusively to the improvement in results.

ECONOMIC PERFORMANCE FOR THE THIRD QUARTER

Consolidated results for the third quarter of the year are repeated below, with comparative figures for the same period in 2005-2006.

	EUR/000	**3rd quarter 2006-2007**		**3rd quarter 2005-2006**		**Change**	
1	Revenues	26,119	122.0%	22,527	103.9%	3,592	15.9%
2	Revenue adjustments	(4,704)	-22.0%	(850)	-3.9%	(3,854)	n.a.
3	**Total net revenues**	**21,415**	**100.0%**	**21,677**	**100.0%**	**(262)**	**-1.2%**
4	Purchase of goods for resale	(16,764)	-78.3%	(14,522)	-67.0%	(2,242)	15.4%
5	Purchase of services for resale	(323)	-1.5%	(1,103)	-5.1%	780	-70.7%
6	Royalties	(2,385)	-11.1%	(1,982)	-9.1%	(403)	n.a.
7	Change in inventories of finished products	4,637	21.7%	1,069	4.9%	3,568	n.a.
8	**Total cost of goods sold**	**(14,835)**	**-69.3%**	**(16,538)**	**-76.3%**	**1,703**	**-10.3%**
9	**Gross profit (3+8)**	**6,580**	**30.7%**	**5,139**	**23.7%**	**1,441**	**28.0%**
10	Other income	85	0.4%	92	0.4%	(7)	-7.6%
11	Cost of services	(1,844)	-8.6%	(1,184)	-5.5%	(660)	n.a.
12	Rent and leasing	(127)	-0.6%	(122)	-0.6%	(5)	4.1%
13	Payroll costs	(2,569)	-12.0%	(1,888)	-8.7%	(681)	36.1%
14	Other operating expenses	(744)	-3.5%	(372)	-1.7%	(372)	100.0%
15	**Total operating expenses**	**(5,284)**	**-24.7%**	**(3,566)**	**-16.5%**	**(1,718)**	**48.2%**
16	**EBITDA (9+10+15)**	**1,381**	**6.4%**	**1,665**	**7.7%**	**(284)**	**-17.1%**
17	Amortization and depreciation	(128)	-0.6%	(159)	-0.7%	31	-19.5%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	0	0.0%	(3)	0.0%	3	n.a.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	**Total amortization, depreciation and impairment**	**(128)**	**-0.6%**	**(162)**	**-0.7%**	**34**	**-21.0%**
22	**EBIT (16+21)**	**1,253**	**5.9%**	**1,503**	**6.9%**	**(250)**	**-16.6%**
23	Interest income	45	0.2%	114	0.5%	(69)	-60.5%
24	Interest expense	(876)	-4.1%	(665)	-3.1%	(211)	31.7%
25	**Net interest income (expense)**	**(831)**	**-3.9%**	**(551)**	**-2.5%**	**(280)**	**50.8%**
26	**Profit before taxes (22+25)**	**422**	**2.0%**	**952**	**4.4%**	**(530)**	**-55.7%**
27	Current taxes	(367)	-1.7%	(481)	-2.2%	114	-23.7%
28	Deferred taxes	0	0.0%	386	1.8%	(386)	n.a.
29	**Total taxes**	**(367)**	**-1.7%**	**(95)**	**-0.4%**	**(272)**	**n.a.**
30	**Net profit (26+29)**	**55**	**0.3%**	**857**	**4.0%**	**(802)**	**-93.6%**
31	(Net profit) loss pertaining to minority interests	0	0.0%	58	0.3%	(58)	n.a.
32	**Group share of net profit (30+31)**	**55**	**0.3%**	**915**	**4.2%**	**(860)**	**-94.0%**
	Earnings per share:						
33	**Basic earnings per share (in EUR)**	**0.004**		**0.07**		**(0.07)**	
34	**Diluted earnings per share (in EUR)**	**0.004**		**0.07**		**(0.07)**	

Unlike in the Christmas quarter, when the Group focuses its sales efforts on new releases, the mix is different in the quarter from January to March. The best selling products from the Christmas season continue to be sold, together with new arrivals.

Some of the titles launched during the quarter are “Final Fantasy XII” for Sony Playstation 2, a popular role playing game now in its twelfth edition; "Virtua Tennis 3" for Sony PSP; and "Spectrobes" for Nintendo DS, a role playing adventure game.

In the International Publishing segment, major new releases include the military strategy simulator “ArmA: Armed Assault” for PC/CD-ROM, and "Touch Detective", a who-done-it simulation game for Nintendo DS.

Some of the games launched earlier that continued to sell well during the quarter were "Pro Evolution Soccer 6" and the cooking school game "Cooking Mama".

Business volumes went down with respect to the previous quarter, due in part to the Group's focus on International Publishing, but were high enough to absorb fixed costs and generate positive margins.

Net revenues for the quarter came to €21,415 thousand, essentially in line with the figure for the third quarter of the previous year.

EBITDA dipped from €1,665 thousand to €1,381 thousand, and EBIT from €1,503 to €1,253 thousand.

The loss of profitability in the International Publishing segment stems mainly from higher structural costs, advertising investments and a delay in the launch of certain games. In the Newsstands segment, profitability suffered from the postponement to the following quarter of some products distributed as add-ons.

The pre-tax profit fell from €952 thousand to €422 thousand, a decrease of €530 thousand.

PERFORMANCE BY BUSINESS SEGMENTS

Having chosen business segments as its primary segment reporting format, the Group has defined four operating segments mostly on the basis of revenue type, plus a Holding segment that covers all operating expenses not directly attributable to the individual businesses (coordination costs, investment property and brand management, financial management, etc.).

REVENUES BY GEOGRAPHICAL SEGMENT

EUR/000	9M 2006-2007	9M 2005-2006	Change	
Italy	96,877	89,693	7,184	8.0%
Elsewhere	10,926	6,169	4,757	77.1%
Total consolidated revenues	**107,803**	**95,862**	**11,941**	**12.5%**

Consolidated revenues outside Italy increased by €4,757 thousand, from €6,169 thousand in the first nine months of 2005-2006 to €10,926 thousand for the period under review.

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

EUR/000	9M 2006-2007	9M 2005-2006	Change	
New Media	278	395	(117)	-29.6%
International Publishing	10,648	5,774	4,874	84.4%
Total gross foreign revenues	**10,926**	**6,169**	**4,757**	**77.1%**

See the comment on the International Publishing segment for more details on sales performance.

BUSINESS SEGMENTS

The launch of distribution via newsstands in 2005-2006 led to the creation of the "Newsstands" segment, while the online gaming and television businesses were grouped into the New Media segment given the relative insignificance of their operations and the fact that they share expenses such as payroll and office maintenance.

The five segments are therefore as follows:

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

Below are the details of revenues by business segment for the period ended 31 March 2007, with comparative figures for the previous year:

EUR/000	**Gross revenues**				**Net revenues**			
	2007	**2006**	**Change**		**2007**	**2006**	**Change**	
Distribution	94,859	89,646	5,213	5.8%	86,246	83,583	2,663	3.2%
Newsstands	2,018	0	2,018	n.a.	2,018	0	2,018	n.a.
New Media	278	442	(164)	-37.0%	278	442	(164)	-37.0%
International Publishing	10,648	5,774	4,874	84.4%	8,062	5,774	2,288	39.6%
Holding	0	0	0	n.a.	0	0	0	n.a.
Total gross revenues	**107,803**	**95,862**	**11,941**	**12.5%**	**96,605**	**89,799**	**6,806**	**7.6%**

Profit margins for the segments were as follows:

	Consolidated figures in EUR/000	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Revenues	94,859	2,018	278	10,648	0	107,803
2	Revenue adjustments	(8,614)	0	0	(2,585)	0	(11,199)
3	**Total net revenues**	**86,245**	**2,018**	**278**	**8,063**	**0**	**96,605**
4	Purchase of goods for resale	(70,751)	(215)	(24)	(3,497)	(0)	(74,487)
5	Purchase of services for resale	0	(126)	(592)	(19)	0	(737)
6	Royalties	(739)	(578)	(58)	(3,208)	0	(4,583)
7	Change in inventories of finished products	5,661	0	0	2,581	0	8,242
8	**Total cost of goods sold**	**(65,829)**	**(919)**	**(674)**	**(4,144)**	**(0)**	**(71,565)**
9	**Gross profit (3+8)**	**20,416**	**1,100**	**(396)**	**3,919**	**(0)**	**25,040**
10	Other income	35	0	61	0	0	96
11	Cost of services	(5,125)	(484)	(32)	(754)	(102)	(6,497)
12	Rent and leasing	(234)	0	(59)	(28)	(1)	(322)
13	Payroll costs	(4,857)	(0)	(601)	(948)	(842)	(7,249)
14	Other operating expenses	(1,385)	(40)	(18)	(427)	(116)	(1,987)
15	**Total operating expenses**	**(11,602)**	**(524)**	**(711)**	**(2,157)**	**(1,062)**	**(16,055)**
16	**EBITDA (9+10+15)**	**8,849**	**576**	**(1,046)**	**1,762**	**(1,062)**	**9,081**
17	Amortization and depreciation	(363)	(8)	(5)	(29)	(294)	(698)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	(97)	0	0	0	0	(97)
20	Impairment reversal	0	0	0	0	0	0
21	**Total amortization, depreciation and impairment**	**(460)**	**(8)**	**(5)**	**(29)**	**(294)**	**(796)**
22	**EBIT (16+21)**	**8,390**	**568**	**(1,050)**	**1,734**	**(1,356)**	**8,285**

Margin trends by segment are described in the sections below.

Distribution

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

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

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

- Halifax is the exclusive representative in Italy for publishers like Konami International and Buena Vista Games Inc., whose products it sells over all distribution channels (retail shops and major chains);

- DTI (Distribuzione Trade Italia), using the small retail channel only, distributes games produced by publishers with their own organization, sales force and marketing department in Italy, such as Electronic Arts, Activision Italia and Vivendi Universal Games.

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

Key results

EUR/000	**Distribution**					
	2007		**2006**		**Change**	
Revenues	94,859	110%	89,646	107%	5,213	5.8%
Revenue adjustments	(8.614)	-10%	(6,063)	-7%	(2,550)	42.1%
Total net revenues	**86,245**	**100%**	**83,583**	**100%**	**2,663**	**3.2%**
Other income	35	0%	365	0%	(330)	-90.5%
Operating expenses	(77,431)	-90%	(74,400)	-89%	(3,030)	4.1%
EBITDA	**8,849**	**10%**	**9,548**	**11%**	**(697)**	**-7.3%**
Amortization, depreciation and impairment	(460)	-1%	(1,029)	-1%	569	-55.3%
EBIT	**8,390**	**9.7%**	**8,519**	**10%**	**(128)**	**-1.5%**

In the Distribution segment the Group maintained the growth rates achieved in prior years, with gross revenues up by 5.8% (+€5,213 thousand), from €89,646 thousand to €94,859 thousand.

As a result, EBITDA held steady at €8,851 thousand (€9,548 thousand the previous year), falling only slightly because of the rise in payroll costs and advertising investments.

EBIT was €8,390 thousand or 9.7% of net revenues, in line with the result for the previous year.

The following table analyzes Distribution revenues in Italy by type:

EUR/000	**2007**	**2006**	**Change**	
Distribution of video games for consoles	85,050	79,966	5,084	6.3%
Distribution of video games for PC/CD-ROM	9,781	6,449	3,332	51.7%
Distribution of other products and services	450	3,641	(3,191)	-87.7%
Financial discounts	(422)	(410)	(12)	2.9%
Gross revenues	**94,859**	**89,646**	**5,213**	**5.8%**

Gross revenues from video game distribution increased by €5,213 thousand, from €89,646 thousand to €94,859 thousand, with a significant upward trend in games for both consoles and personal computers. Sales of games for PCs were up by 51.7%, from €6,449 thousand for the nine months to 31 March 2006 to €9,781 thousand for the first three quarters of this year. The increase in sales of console games (amounting to 89% of gross revenues for the segment, which represents 88% of consolidated gross turnover) came to €5,084 thousand or +6.3%.

The decrease in revenues from the distribution of other products and services (-87.7%) owes entirely to the classification of newsstand revenues in a separate segment.

The following table shows units sold and revenues per console:

EUR/000	**2007**		**2006**		**Change**	
	Units	***Revenues***	***Units***	***Revenues***	***Units***	***Revenues***
Nintendo Gameboy Advance	271,248	5,952	290,038	8,306	-6.5%	-28.3%
Sony Playstation 2	1,762,433	52,852	1,755,917	56,730	0.4%	-6.8%
Sony Playstation 3	40,121	2,003	n.a.	n.a.	n.a.	n.a.
Nintendo Wii	16,422	691	n.a.	n.a.	n.a.	n.a.
Microsoft Xbox	157,213	650	81,342	3,163	93.3%	-79.4%
Microsoft Xbox 360	132,274	6,371	11,003	507	1102.2%	1156.5%
Nintendo DS	299,534	8,020	95,640	2,770	213.2%	189.5%
Sony PSP	252,316	8,144	220,207	7,957	14.6%	2.4%
Other consoles	123,396	368	26,476	533	366.1%	-31.0%
Total revenues from distribution for consoles	**3,054,957**	**85,051**	**2,480,623**	**79,966**	**23.2%**	**6.4%**

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

- An increase in units sold, by more than 570,000 (+23%), confirming the Group's capacity to penetrate the market. The growth pertains to the sale of products for consoles long on the market, like the Sony Playstation 2 (+0.4%), but mostly to the sale of games for new-generation consoles such as the Nintendo DS, Microsoft Xbox 360, Sony PSP and Nintendo Wii, which together sold about 370,000 more units than last year (from 326,850 to 700,546) and made up 22.9% of quantities sold.
- A 13.6% reduction in unit prices, as shown in the following table.

During the quarter, on 23 March 2007, the Sony Playstation 3 was rolled out to gradually replace Playstation 2, launched in October 2000. On that date the Group came out with seven new titles, which grossed about €2 million in just seven days.
However, because retrocompatibility is incomplete (not all PS2 games can be played on the Playstation 3) and because so many Italian households already have the PS2, the new console should be somewhat slower to reach maturity.

The trend in average video game prices is shown below:

Unit prices in EUR	**2007**	**2006**	**Change**
Nintendo Gameboy Advance	21.9	28.6	-23.4%
Sony Playstation 2	30.0	32.3	-7.2%
Sony Playstation 3	49.9	n.a.	n.a.
Nintendo Wii	42.1	n.a.	n.a.
Microsoft Xbox	4.1	38.9	n.a.
Microsoft Xbox 360	48.2	46.0	4.7%
Nintendo DS	26.8	29.0	-7.6%
Sony PSP	32.3	36.1	-10.7%
Other consoles	n.a.	n.a.	n.a.
Average price	**27.8**	**32.2**	**-13.6%**

Price trends are typical of the video games market. Games for new-generation consoles 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.

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

	2007	**2006**
Nintendo Gameboy Advance	7.0%	11.7%
Sony Playstation 2	62.1%	70.8%
Sony Playstation 3	2.4%	n.a.
Nintendo Wii	0.8%	n.a.
Microsoft Xbox	0.8%	3.3%
Microsoft Xbox 360	7.5%	0.4%
Nintendo DS	9.4%	3.9%
Sony PSP	9.6%	8.9%
Other consoles	0.4%	1.1%
Total revenues from distribution for consoles	**100%**	**100%**

As shown in the table above, the Microsoft Xbox 360, launched for the Christmas season, has earned a 7.5% share of revenues. This was mostly to the detriment of the Sony Playstation 2, whose weighting fell from 70.8% for the period ended 31 March 2006 to 62.1% this year.

Nintendo DS has also done quite well, rising from 3.9% to 9.6% of revenues in the course of a year, thanks to its popular new "Lite" console.

Newsstands

In January 2006 the Group began distributing video games as add-ons to products sold at newsstands, along with DVDs and other entertainment-related publications. As a result of the corporate streamlining process, since the start of the fiscal year distribution through newsstands has been handled by the subsidiary Game Entertainment S.r.l.

Key results

EUR/000	**Newsstands**					
	2007		**2006**		**Change**	
Revenues	2,018	100%	2,362	100%	(344)	-15%
Revenue adjustments	0	0%	0	0%	0	n.a.
Total net revenues	**2,018**	**100%**	**2,362**	**100%**	**(344)**	**-15%**
Other income	0	0.0%	0	0%	0	n.a.
Operating expenses	(1,443)	-71%	(1,551)	-66%	108	-7%
EBITDA	**576**	**28.5%**	**811**	**34%**	**(235)**	**-29%**
Amortization, depreciation and impairment	(8)	-0.4%	0	0%	(8)	n.a.
EBIT	**568**	**28.1%**	**811**	**34%**	**(243)**	**-30%**

Revenues were earned through the distribution of the following products:

- the DVD series "WWE Wrestling Megastars" and "Greatest Hits", on the lives of popular wrestlers;
- the first of five issues of "DVD-games", a new series of games played on a DVD player using the remote control, based on popular Dreamworks titles;
- the game series "The Sims", a real-life simulation game, distributed as an add-on with newspapers published by the RCS Group;
- the Maxima2 series of video games for PC/CD-ROM, also sold as add-ons to RCS Group papers;
- the first two out of four issues of "Wanted" ("Desperate Housewives" and "E.R."), inspired by the hit TV shows.

Revenues were slightly lower than in the first nine months of last year, because the next issue of "DVD-games" has been postponed to the fourth quarter.

Operating expenses (-€108 thousand) are linked closely to the performance of revenues, and are kept down by having the distribution process managed by newsstands.

Margins are very high in this segment: EBITDA came to 28.5% of sales and EBIT to 28.1%.

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.

Online gaming operations were handled by the subsidiary 505 Games S.r.l. and consist of the exclusive marketing in Europe of the games "Legend of Mir" and "Myth of Soma." In online gaming, players who subscribe to the service connect from their own computers to one or more servers owned by the Group, to play against others who are currently online. Since the start of 2007, as an effect of the streamlining process, this business has been operated by the subsidiary Game Media Networks S.r.l.

The production and distribution of digital entertainment content for television, Internet and cell phones was handled by Game Media Networks S.r.l.

During the year ended 30 June 2006 this segment was fully reorganized, with the suspension of the Italian and British satellite channels and the simultaneous investment of new resources in other projects.

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 Media Group 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.

Key results

EUR/000	**New Media**					
	2007		**2006**		**Change**	
Revenues	278	100%	442	100%	(164)	-37%
Revenue adjustments	0	0%	0	0%	0	0%
Total net revenues	**278**	**100%**	**442**	**100%**	**(164)**	**-37%**
Other income	61	22%	7	2%	54	n.a.
Operating expenses	(1,385)	-497%	(2,142)	n.a.	757	-35%
EBITDA	**(1,046)**	**n.a.**	**(1,693)**	**n.a.**	**647**	**-38%**
Amortization, depreciation and impairment	(5)	-1.7%	(548)	n.a.	543	-99%
EBIT	**(1,050)**	**n.a.**	**(2,241)**	**n.a.**	**1,191**	**-53%**

Most revenues (€270 million) were earned through subscriptions to online games.

Operating expenses decreased by €757 thousand, but were influenced heavily 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 combination of these factors produced negative EBITDA of €1,046 thousand, an improvement on last year's negative €1,693 thousand.

The improvement is more obvious at the EBIT level. Last year, asset impairment of €444 thousand was charged on the down payments made to the developer of "Horizons: Empire of Istaria," producing negative EBIT of €2,241 thousand compared with this year's negative €1,050 thousand (+€1,191 thousand).

International Publishing

In the International Publishing business, video game rights are acquired from developers, and the products are subsequently launched by way of an international sales network.

For market reasons and in light of the segment's fast growth, since the second quarter of the year 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.

The subsidiaries Digital Bros France S.a.r.l. and 505 Games Ltd. have begun to distribute video games in the local markets; 505 Games Ltd. also serves as an international sales office. They finalized implementation of the software system on 1 October 2006, and since 1 November have had a fully functioning distribution system.

Key results

EUR/000	**International Publishing**					
	2007		**2006**		**Change**	
Revenues	10,648	132%	5,774	100%	4,874	84%
Revenue adjustments	(2,585)	-32%	0	0%	(2,585)	n.a.
Total net revenues	**8,063**	**100%**	**5,774**	**100%**	**2,289**	**40%**
Other income	0	0%	0	0%	0	n.a.
Operating expenses	(6,301)	-78%	(3,289)	-57%	(3,012)	92%
EBITDA	**1,762**	**21.9%**	**2,485**	**43%**	**(723)**	**-29%**
Amortization, depreciation and impairment	(28)	-0.4%	(117)	-2%	88	-76%
EBIT	**1,734**	**21.5%**	**2,368**	**41%**	**(635)**	**-27%**

Net revenues from the international publishing of video games increased by €4,874 thousand, from €5,774 thousand to €10,648 thousand. The growth in turnover reflects a flurry of international license acquisitions and the start-up of foreign distribution.

The policy of content expansion pursued by the Group in the last two years now gives it 70 international licenses for video games, of which some are already in stores, including “ArmA: Armed Assault” for PC/CD-ROM, “Cooking Mama” for Nintendo Wii and “Armored Core” for PS3.

Two of the best selling games in recent months are "Cooking Mama" for Nintendo DS and "ArmA: Armed Assault" for PC/CD-ROM.

Operating expenses also increased, from €3,289 thousand to €6,301 thousand, as a result of royalties paid to game developers and the cost of physically producing and localizing the games, as well as fixed costs for the start-up of international units (in line with the trend in gross revenues).

EBITDA and EBIT stood at 21.9% and 21.5% of net revenues, respectively, showing a decrease on the first nine months of last year. The decline in profitability is ascribable to the two new companies, which have burdened the fixed cost structure, and to the planning of major video game releases for the fourth quarter.

Holding

The Holding segment covers all of the parent company's coordination duties and handles investment property and corporate brands. These activities are performed by the parent company, Digital Bros S.p.A.

Key results

EUR/000	**Holding**					
	2007		**2006**		**Change**	
Revenues	0	n.a.	0	n.a.	0	n.a.
Revenue adjustments	0	n.a.	0	n.a.	0	n.a.
Total net revenues	**0**	**n.a.**	**0**	**n.a.**	**0**	**n.a.**
Other income	0	n.a.	0	n.a.	0	n.a.
Operating expenses	(1,062)	n.a.	(1,278)	n.a.	216	-17%
EBITDA	**(1,062)**	**n.a.**	**(1,278)**	**n.a.**	**216**	**-17%**
Amortization, depreciation and impairment	(294)	n.a.	(164)	n.a.	(130)	79%
EBIT	**(1,356)**	**n.a.**	**(1,442)**	**n.a.**	**86**	**-6%**

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

Depreciation, amortization and write downs refer to the depreciation of the Group's warehouse at Trezzano sul Naviglio and the amortization of brands. Due to the name change by Game Network S.r.l. to Game Entertainment S.r.l., the new brand the Group will use for its newsstand operations, the Game Network brand (previously used for satellite TV gaming) was fully amortized during the previous quarter.

ANALYSIS OF KEY BALANCE SHEET FIGURES

The consolidated balance sheet at 31 March 2007 is reported below with comparative figures at 30 June 2006 and 31 March 2006:

	EUR/000	**31 March 2007**	**30 June 2006**	**31 March 2006**
	Non-current assets			
1	Property, plant and equipment	3,406	3,299	3,355
2	Investment property	455	455	455
3	Intangible assets	507	684	603
4	Equity investments	741	5	0
5	Non-current receivables and other assets	61	53	1,350
6	Deferred tax assets	5,125	4,537	5,673
	Total non-current assets	**10,295**	**9,033**	**11,436**
	Non-current liabilities			
7	Employee benefits	(888)	(803)	(747)
8	Non-current provisions	(217)	(155)	(138)
9	Other non-current payables and liabilities	0	0	0
	Total non-current liabilities	**(1,105)**	**(958)**	**(885)**
	Net working capital			
10	Inventories	34,677	26,450	24,727
11	Trade receivables	37,195	22,672	30,172
12	Tax credits	251	437	351
13	Deferred tax assets (current)	0	0	0
14	Other current assets	8,882	995	2,090
15	Trade payables	(15,116)	(5,413)	(4,527)
16	Taxes payable	(4,198)	(1,158)	(4,184)
17	Current provisions	0	0	0
18	Other current liabilities	(1,931)	(2,115)	(2,210)
	Total net working capital	**59,760**	**41,868**	**46,419**
	Capital and reserves			
19	Share capital	5,644	5,644	5,644
20	Reserves	19,476	19,441	19,339
21	Treasury shares	(114)	(671)	(671)
22	Profit (losses) carried forward	7,184	4,788	5,212
	Total capital and reserves	**32,190**	**29,202**	**29,524**
	Minority interests in capital and reserves	**0**	**0**	**10**
	Total	***36,760***	***20,741***	***27,436***
23	Cash and cash equivalents	7,547	3,994	3,752
24	Short-term payables to banks	(35,700)	(19,087)	(22,287)
25	Other current financial liabilities	(3,109)	(1,351)	(3,814)
	Current net debt	**(31,262)**	**(16,444)**	**(22,349)**
26	Non-current financial assets	0	0	0
27	Non-current payables to banks	(3,581)	(1,006)	(1,758)
28	Other non-current financial liabilities	(1,917)	(3,291)	(3,329)
	Non-current net debt	**(5,498)**	**(4,297)**	**(5,087)**
	Total net debt	***(36,760)***	***(20,741)***	***(27,436)***

NET WORKING CAPITAL

Net working capital increased by €13,341 thousand with respect to 31 March 2006 (+28.7%). The trend is explained by a rise of €7,023 thousand in trade receivables and by an increase of €9,950 thousand in inventories. The above was partially offset by a rise in trade payables of €10,529 thousand. These trends are in line with the seasonal pattern described.

The increase in inventories (€9,950 thousand) was caused primarily by the growth in revenues and publishers represented on an exclusive basis in Italy, but also by the rise in inventories kept by the International Publishing segment (€2900 thousand).

The upturn in trade receivables stems from the sale of user licenses, while the trend in trade payables is explained by the improved payment conditions negotiated by the Group.

An analysis of net working capital in comparison with figures at 30 June 2006 and 31 March 2006 (in consideration of the sharp increase in sales during the Christmas season) is provided below:

EUR/000	**31 March 2007 (A)**	**30 June 2006 (B)**	**31 March 2006 (C)**	**Change (A-C)**
Inventories	34,677	26,450	24,727	9,950
Trade receivables	37,195	22,672	30,172	7,023
Tax credits	251	437	351	-100
Other current assets	8,882	995	2,090	6,792
Trade payables	(15,116)	(5,413)	(4,527)	(10,589)
Taxes payable	(4,198)	(1,158)	(4,184)	(14)
Current provisions	0	0	0	0
Other current liabilities	(1,931)	(2,115)	(2,210)	279
Total net working capital	**59,760**	**41,868**	**46,419**	**13,341**

NON-CURRENT ASSETS

The investment policy during the year was geared mainly towards implementation of the new ERP system based on Microsoft Navision. Total investments for the first nine months of the year came to €625 thousand: €300 thousand for the ERP system, €80 thousand for the purchase of office automation machines and €245 thousand for other fixed assets.

New initiatives include the joint venture in the online entertainment business launched in March 2007 by the Digital Bros Group and RCS Media Group. Called RCS DB Games S.p.A., the new company is owned 51% by RCS Media Group 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 Digital Bros Group of €735 thousand.

NET DEBT

Net debt with respect to 31 March 2006 grew by €9,324 thousand, due to the higher business volumes during the period. Compared with the second quarter, net debt decreased by €9,961 thousand, in keeping with the seasonal trends of the market. For a further analysis of cash flow, see the consolidated cash flow statement attached to this report.

The breakdown of consolidated net debt with comparative figures at 31 March 2006 is as follows:

EUR/000	**31 March 2007 (A)**	**30 June 2006 (B)**	**31 March 2006 (C)**	**Change (A-C)**
Cash and cash equivalents	7,547	3,994	3,752	3,795
Short-term payables to banks	(35,700)	(19,087)	(22,287)	(13,413)
Other current financial liabilities	(3,109)	(1,351)	(3,814)	705
Current net debt	**(31,262)**	**(16,444)**	**(22,349)**	**(8,913)**
Non-current financial assets	0	0	0	0
Non-current payables to banks	(3,581)	(1,006)	(1,758)	(3,523)
Other non-current financial liabilities	(1.917)	(3,291)	(3,329)	1,411
Non-current net debt	**(5,498)**	**(4,297)**	**(5,087)**	**(2,112)**
Total net debt	***(36,760)***	***(20,741)***	***(27,436)***	**(11,025)**

Current net debt

Current net debt is made up as follows:

EUR/000	**31 March 2007 (A)**	**30 June 2006 (B)**	**31 March 2006 (C)**	**Change (A-C)**
Cash and cash equivalents	7,547	3,994	3,752	3,795
Short-term payables to banks	(35,700)	(19,087)	(22,287)	(13,413)
Other current financial liabilities	(3,109)	(1,351)	(3,814)	705
Total	**(31,262)**	**(16,444)**	**(22,349)**	**(8,913)**

Cash and cash equivalents at 31 March 2007 are comprised of sight deposits at banks, securities and money market funds used as short-term investments of cash, and a Quadrante policy taken out by Digital Bros S.p.A. on 21 October 2002 in connection with the Montepaschivita insurance scheme (€259 thousand).

EUR/000	**31 March 2007 (A)**	**30 June 2006 (B)**	**31 March 2006 (C)**	**Change (A-C)**
Cash on hand and bank deposits	5,176	1,657	1,105	4,071
Securities held at Banca Antonveneta	2,112	2,084	2,084	28
Fondo Cisalpino (Banca di Roma)	0	0	310	(310)
Quadrante policy (Banca Toscana)	259	253	253	6
Total cash and cash equivalents	**7,547**	**3,994**	**3,752**	**3,795**

With respect to 31 March 2006, the Group's cash and cash equivalents increased by €3,795 thousand, due mainly to the rise in cash on hand and bank deposits and to a mortgage loan of €2 million granted to the subsidiary 505 Games S.r.l. in the previous quarter.

During the quarter, 505 Games S.r.l. obtained two new credit lines on its accounts with Capitalia Group and Banca Intesa San Paolo. The Capitalia facility is a credit line secured by Digital Bros S.p.A. and granted on 30 January 2007 for €2,900,000.00, while the Banca Intesa San Paolo facility is a €2 million mortgage loan granted on 2 February 2007. The mortgage loan has a 60-month term starting from the date of disbursement and charges 5.781% annual interest. Installments fall due every quarter.

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 short-term portion of derivatives amounts to €436 thousand.

At 31 March 2007, the Group had the following bank loans outstanding:

- Two five-year loans taken out in 2005 by Digital Bros S.p.A. from Banca Intesa San Paolo and UniCredit Banca d'Impresa. The amounts borrowed, net of ancillary expenses, have been credited to ordinary accounts at the two banks, which the company has agreed to keep open until the loans are fully repaid.

- A five-year loan taken out on 15 November 2006 by Digital Bros S.p.A. from Banca Intesa San Paolo to finance medium- and long-term investments.

- A five-year loan taken out during the quarter by 505 Games S.r.l. from Banca Intesa San Paolo.

The instalments due within 12 months amount to €1,201 thousand, as follows:

Short-term loans and borrowings at 31 March 2007	
Banca Intesa San Paolo loan due within 12 months	(319)
Banca Intesa San Paolo loans due within 12 months	(615)
UniCredit Banca loan due within 12 months	(267)
Total short-term loans and borrowings	**(1,201)**

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasint falling due within 12 months, recognized in the amount of €182 thousand in accordance with IAS 17. The leasing agreements in force concern the warehouse and land in Trezzano sul Naviglio as well as office automation equipment and cars. The item also includes advances on trade receivables factored without recourse, in keeping with IAS 39, totaling €2,927 thousand.

Non-current net debt

Non-current net debt is made up as follows:

EUR/000	31 March 2007 (A)	30 June 2006 (B)	31 March 2006 (C)	Change (A-C)
Non-current financial assets	0	0	0	0
Non-current payables to banks	(3,581)	(1,006)	(1,758)	(1,823)
Other non-current financial liabilities	(1,917)	(3,291)	(3,329)	1,412
Non-current net debt	**(5,498)**	**(4.297)**	**(5,087)**	**(411)**

Non-current payables to banks at 31 March 2007 consist of the portion due beyond 12 months of non-hedge derivatives (€665 thousand) and the long-term portion of loans being paid back in installments (€2,916 thousand).

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 31 March 2007 to which hedge accounting does not apply are as follows:

- an interest rate swap taken out on 27 December 2004 with Banca Intesa San Paolo, maturing on 28 December 2009 with a notional principal amount of €20,000,000.00. Under this arrangement the Group pays quarterly interest corresponding to the three-month Euribor ACT/360 +2% and collects the variable three-month Euribor. A ceiling of 7% applies.
- an interest rate swap taken out on 21 July 2003 with Banca Intesa San Paolo, maturing on 21 July 2008 with a notional principal amount of €3,000,000.00. 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.

CAPITAL AND RESERVES

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

EUR/000	31 March 2007	31 March 2006	Change
Share capital	5,644	5,644	0
Reserves	19,476	19,441	35
Treasury shares	(114)	(671)	557
Profit (losses) carried forward	7,184	4,788	2,396
Total capital and reserves	**32,190**	**29,202**	**2,988**

During the quarter there were no changes in capital and reserves, except for the sale of treasury shares for €557 thousand.

SIGNIFICANT SUBSEQUENT EVENTS

In early May 2007 Digital Bros signed an exclusive agreement with Capcom, a major publisher and developer of international video games, for the distribution in the Italian market of 10 of its most eagerly awaited titles (including Devil May Cry 4 and MotoGP 07) for Microsoft Xbox 360, Sony Playstation 3, Sony Playstation 2, Sony PSP, Nintendo DS and Nintendo Wii.

OUTLOOK

The forecast for 2006-2007 is shown below, with comparative figures for the year ended 30 June 2006:

EUR/000	**FORECAST 2006-2007**	**ACTUAL 2005-2006**	**Change**
Gross revenues	125,000	113,022	11,978
EBIT	10,300	8,060	2,240

Expectations have increased for 2006-2007 due to the Group's fine performance in the first three quarters of the year. Below is a comparison between the 2006-2007 forecast and the budget set for the year:

EUR/000	**FORECAST 2006-2007**	**BUDGET 2006-2007**	**Change**
Gross revenues	125,000	115,100	9,900
EBIT	10,300	8,000	2,300

CONTINGENT ASSETS AND LIABILITIES

In May 2006, the parent company was audited by the local revenue office with regard to direct taxes and VAT for fiscal year 2002-2003. As of this writing, no assessment has been received and the audit is not expected to produce a tax liability.

There were no other contingent assets or liabilities at 31 March 2007, at 31 December 2006 or at 30 June 2006.