



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

**Consolidated report  
at 31 December 2006**

**(1st half 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](http://www.digital-bros.net).

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## CORPORATE OFFICERS

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### 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

Bruno Soresina  
Sergio Treves  
Umberto Virri

### Compensation Committee

Bruno Soresina  
Sergio Treves  
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 with the shareholders' meeting that approves the financial statements at 30 June 2008.

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

### External auditors

Reconta Ernst & Young S.p.A.

The shareholders' meeting of 30 October 2006 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**

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The Group distributes and sells video games in the Italian market. In recent years it has developed a number of operations complementary to video games themselves, to provide a wide range of digital entertainment products using the media in every form. These operations are performed under the Group's own distinctive brands in order to define the business segment.

After more than a decade of localizing and distributing video games in the domestic market (Distribution segment), the Group recently expanded into distribution on an international scale (International Publishing segment) and into the *new media industry* through online gaming and television-based digital entertainment (New Media segment).

Due to the growth spurt in newsstand distribution in the year ended 30 June 2006, and the Group's decision to devote 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 that are necessary for coordinating Group activities, and for the implementation of sound financial policies to support the growth of operations as a whole.

As a result, Group operations can now be divided into the five segments described below:

***Distribution:*** the Group's core business, 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 half-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 was managed until 31 December 2006 by the subsidiaries Game

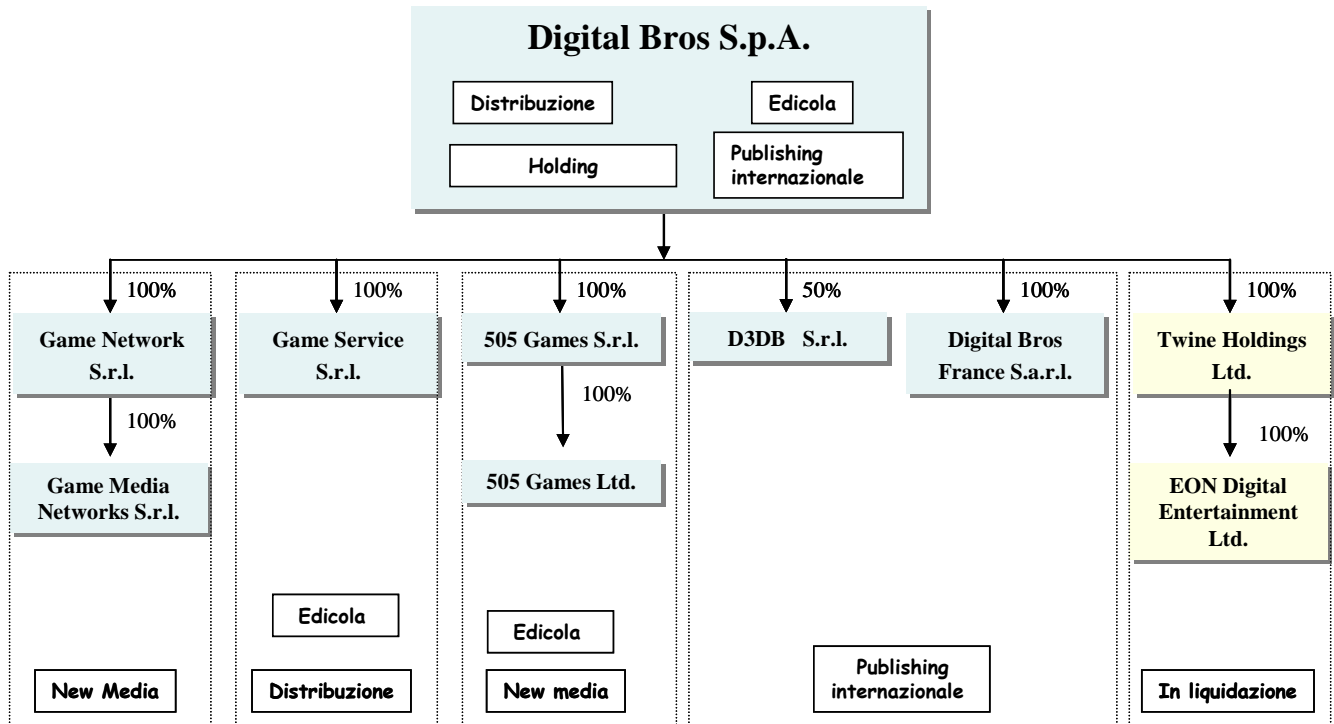
Entertainment S.r.l. (formerly Game Network S.r.l.) and Game Media Networks S.r.l. Online gaming, i.e. the exploitation of international licenses for online games, is run by 505 Games S.r.l.

**Newsstands:** the distribution of video games as newspaper or magazine add-ons, and the distribution of entertainment DVDs. This new activity is handled by the parent company Digital Bros S.p.A. (for add-ons) and by the subsidiaries Game Service S.r.l. and 505 Games S.r.l. (for DVDs). Starting with the distribution of the DVD game series towards the end of the half-year, the newsstand business has been run by the subsidiary Game Entertainment S.r.l.

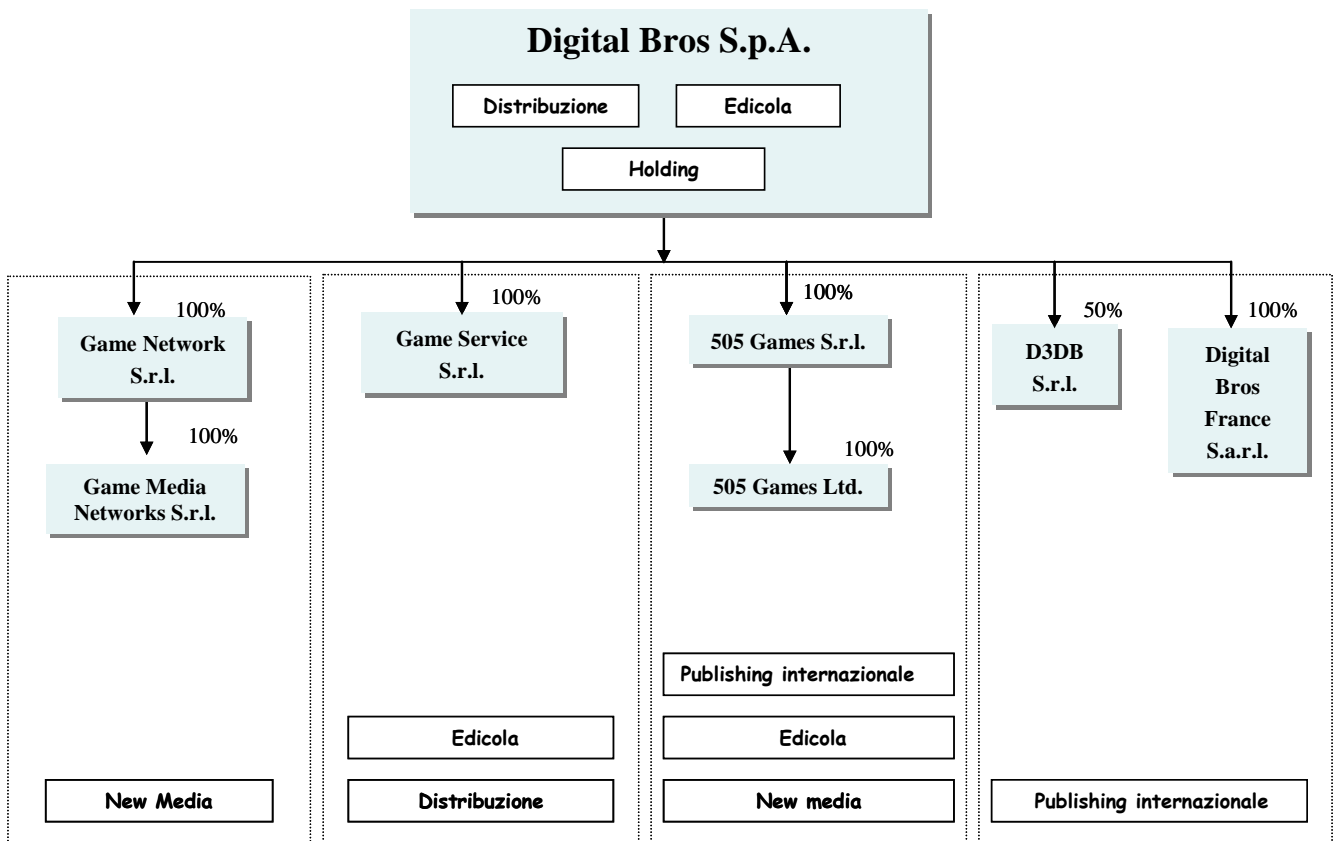
**Holding:** includes all coordination functions provided by the parent company, specifically the management of property investments and brands, as well as Group finance operations. These activities are performed by the parent company, Digital Bros S.p.A.

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 as from 1 January 2007:

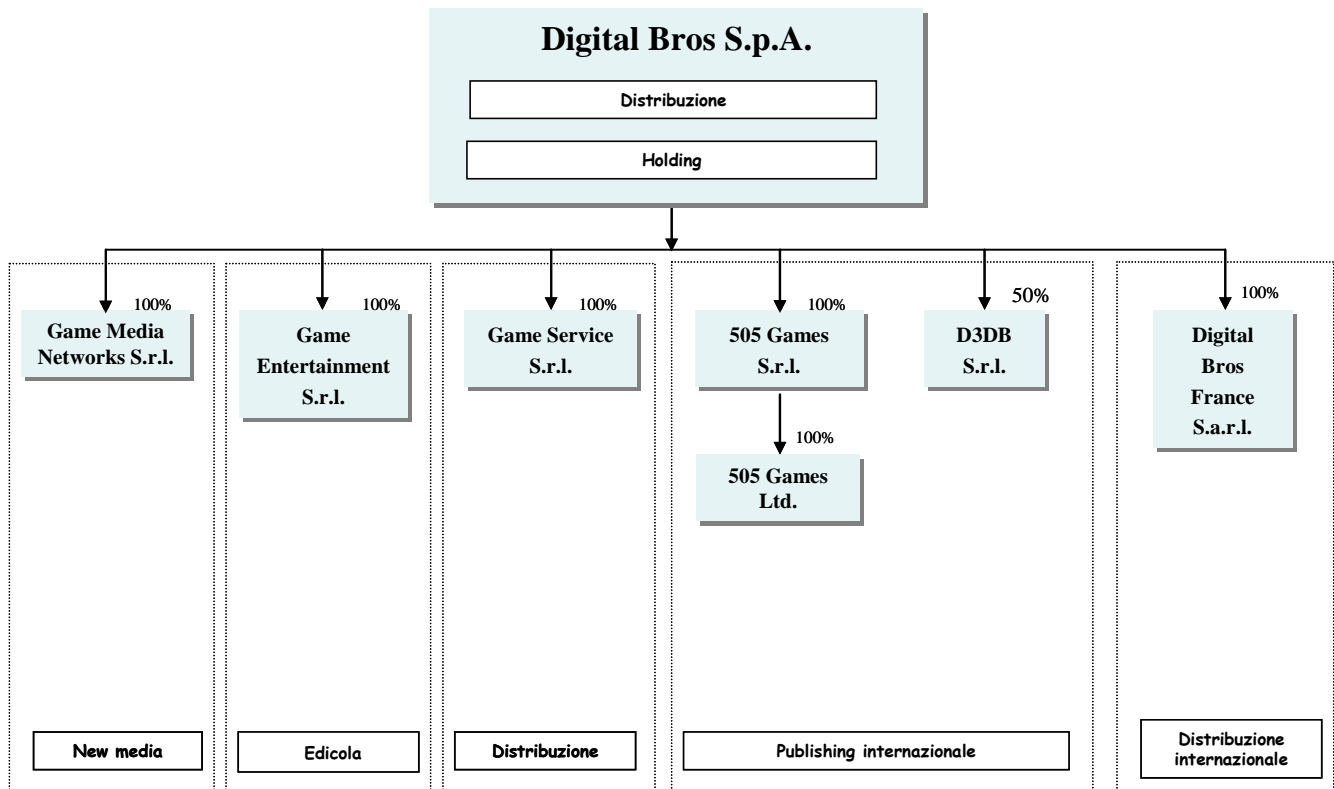
**1st quarter of fiscal year 2006-2007:**



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.

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

The subsidiaries Digital Bros France S.a.r.l. and 505 Games Ltd. have begun to distribute video games on a local and international scale, as they finalized implementation of the management software system on 1 October 2006 and have had a fully functioning distribution system since 1 November.

To render the Group structure more linear, the subsidiary Game Entertainment S.r.l. opted out of the capital increase of Game Media Networks S.r.l., which was subscribed to by the holding company Digital Bros S.p.A. (making Game Media Networks a direct, wholly-owned subsidiary).

Below is the list of companies in the scope of consolidation:

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

(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.

During the period the Group operated from the following locations:

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

## FINANCIAL STATEMENTS

### Digital Bros Group

#### Consolidated balance sheet at 31 December 2006

	EUR/000	31 December 2006	30 June 2006	31 December 2005
	<b>Non-current assets</b>			
1	Property, plant and equipment	3,286	3,299	3,376
2	Investment property	455	455	455
3	Intangible assets	450	684	596
4	Equity investments	5	5	0
5	Non-current receivables and other assets	53	53	1,350
6	Deferred tax assets	4,537	4,537	5,286
	<b>Total non-current assets</b>	<b>8,786</b>	<b>9,033</b>	<b>11,063</b>
	<b>Non-current liabilities</b>			
7	Employee benefits	(936)	(803)	(706)
8	Non-current provisions	(202)	(155)	(116)
9	Other non-current payables and liabilities	0	0	0
	<b>Total non-current liabilities</b>	<b>(1,138)</b>	<b>(958)</b>	<b>(822)</b>
	<b>Net working capital</b>			
10	Inventories	30,058	26,450	23,657
11	Trade receivables	53,013	22,672	49,173
12	Tax credits	1,006	437	182
13	Other current assets	5,892	995	1,201
14	Trade payables	(14,548)	(5,413)	(8,460)
15	Taxes payable	(2,669)	(1,158)	(4,024)
16	Current provisions	0	0	0
17	Other current liabilities	(2,134)	(2,115)	(3,166)
	<b>Total net working capital</b>	<b>70,618</b>	<b>41,868</b>	<b>58,563</b>
	<b>Capital and reserves</b>			
18	Share capital	5,644	5,644	5,644
19	Reserves	19,443	19,441	18,977
20	Treasury shares	(671)	(671)	(115)
21	Profit (losses) carried forward	7,129	4,788	4,656
	<b>Total capital and reserves</b>	<b>31,545</b>	<b>29,202</b>	<b>29,162</b>
	<b>Minority interests in capital and reserves</b>	<b>0</b>	<b>0</b>	<b>68</b>
	<b>Total</b>	<b>46,721</b>	<b>20,741</b>	<b>39,574</b>
22	Cash and cash equivalents	5,371	3,994	3,757
23	Short-term payables to banks	(39,179)	(19,087)	(27,464)
24	Other current financial liabilities	(8,093)	(1,351)	(10,371)
	<b>Current net debt</b>	<b>(41,901)</b>	<b>(16,444)</b>	<b>(34,078)</b>
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(2,925)	(1,006)	(1,879)
27	Other non-current financial liabilities	(1,895)	(3,291)	(3,617)
	<b>Non-current net debt</b>	<b>(4,820)</b>	<b>(4,297)</b>	<b>(5,496)</b>
	<b>Total net debt</b>	<b>(46,721)</b>	<b>(20,741)</b>	<b>(39,574)</b>

Digital Bros Group

Consolidated income statement for the half-year ended 31 December 2006

	EUR/000	HY to 31 December 2006		HY to 31 December 2005		Change	
1	Revenues	81,684	108.6%	73,335	107.7%	8,349	11.4%
2	Revenue adjustments	(6,494)	-8.6%	(5,213)	-7.7%	(1,281)	24.6%
<b>3</b>	<b>Total revenues</b>	<b>75,190</b>	<b>100.0%</b>	<b>68,122</b>	<b>100.0%</b>	<b>7,068</b>	<b>10.4%</b>
4	Purchase of goods for resale	(57,041)	-75.9%	(50,805)	-74.6%	(6,236)	12.3%
5	Purchase of services for resale	(667)	-0.9%	(148)	-0.2%	(519)	n.a.
6	Royalties	(2,629)	-3.5%	(2,144)	-3.1%	(485)	22.6%
7	Change in inventories of finished products	3,608	4.8%	1,468	2.2%	2,140	n.a.
<b>8</b>	<b>Total cost of goods sold</b>	<b>(56,729)</b>	<b>-75.4%</b>	<b>(51,629)</b>	<b>-75.8%</b>	<b>(5,100)</b>	<b>9.9%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>18,461</b>	<b>24.6%</b>	<b>16,493</b>	<b>24.2%</b>	<b>1,968</b>	<b>11.9%</b>
10	Other income	11	0.0%	280	0.4%	(269)	-96.1%
11	Cost of services	(4,652)	-6.2%	(3,806)	-5.6%	(846)	22.2%
12	Rent and leasing	(196)	-0.3%	(216)	-0.3%	20	-9.4%
13	Payroll costs	(4,680)	-6.2%	(4,392)	-6.4%	(288)	6.6%
14	Other operating expenses	(1,242)	-1.7%	(962)	-1.4%	(280)	29.2%
<b>15</b>	<b>Total operating expenses</b>	<b>(10,770)</b>	<b>-14.3%</b>	<b>(9,376)</b>	<b>-13.8%</b>	<b>(1,394)</b>	<b>14.9%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>7,702</b>	<b>10.2%</b>	<b>7,397</b>	<b>10.9%</b>	<b>305</b>	<b>4.1%</b>
17	Amortization and depreciation	(570)	-0.8%	(303)	-0.4%	(267)	88.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(97)	-0.1%	(1,393)	-2.0%	1,296	-93.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total amortization, depreciation and impairment</b>	<b>(667)</b>	<b>-0.9%</b>	<b>(1,696)</b>	<b>-2.5%</b>	<b>1,029</b>	<b>60.6%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>7,035</b>	<b>9.4%</b>	<b>5,701</b>	<b>8.4%</b>	<b>1,334</b>	<b>23.4%</b>
23	Interest income	8	0.0%	8	0.0%	(0)	-2.5%
24	Interest expense	(1,149)	-1.5%	(1,095)	-1.6%	(53)	4.8%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(1,141)</b>	<b>-1.5%</b>	<b>(1,087)</b>	<b>-1.6%</b>	<b>(53)</b>	<b>4.9%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>5,894</b>	<b>7.8%</b>	<b>4,614</b>	<b>6.8%</b>	<b>1,280</b>	<b>27.7%</b>
27	Current taxes	(2,416)	-3.2%	(2,311)	-3.4%	(105)	4.5%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
<b>29</b>	<b>Total taxes</b>	<b>(2,416)</b>	<b>-3.2%</b>	<b>(2,311)</b>	<b>-3.4%</b>	<b>(105)</b>	<b>4.5%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>3,478</b>	<b>4.6%</b>	<b>2,303</b>	<b>3.4%</b>	<b>1,175</b>	<b>51.0%</b>
31	(Net profit) loss pertaining to minority interests	0	0.0%	(63)	-0.1%	63	n.a.
<b>32</b>	<b>Group share of net profit (30+31)</b>	<b>3,478</b>	<b>4.6%</b>	<b>2,240</b>	<b>3.3%</b>	<b>1,238</b>	<b>55.3%</b>
	<b>Earnings per share:</b>						
33	Basic earnings per share (in EUR)	0.25		0.16		0.09	
34	Diluted earnings per share (in EUR)	0.25		0.16		0.09	

## Digital Bros Group

### 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)
<b>Total at 1 July 2005</b>	<b>5,644</b>	39,699	258	894	6	<b>40,857</b>	<b>(268)</b>	(22,728)	4,402	<b>(18,326)</b>	<b>27,907</b>
Allocation of net profit for the period			871			<b>871</b>		3,184	(4,055)	<b>(871)</b>	<b>0</b>
Coverage of losses carried forward		(22,745)				<b>(22,745)</b>		22,745		<b>22,745</b>	<b>0</b>
Dividend payments						<b>0</b>		(1,127)		<b>(1,127)</b>	<b>(1,127)</b>
Purchase of treasury shares						<b>0</b>	<b>153</b>			<b>0</b>	<b>153</b>
Other changes					(6)	<b>(6)</b>		(5)		<b>(5)</b>	<b>(11)</b>
Net profit for the period						<b>0</b>			2,240	<b>2,240</b>	<b>2,240</b>
<b>Total at 31 December 2005</b>	<b>5,644</b>	16,954	1,129	894	0	<b>18,977</b>	<b>(115)</b>	2,069	2,587	<b>4,656</b>	<b>29,162</b>
Purchase of treasury shares						<b>0</b>	<b>(556)</b>			<b>0</b>	<b>(556)</b>
Other changes				473	(9)	<b>464</b>		(1,104)	732	<b>(372)</b>	<b>92</b>
Net profit for the period						<b>0</b>			504	<b>504</b>	<b>504</b>
<b>Total at 30 June 2006</b>	<b>5,644</b>	16,954	1,129	1,367	(9)	<b>19,441</b>	<b>(671)</b>	<b>965</b>	<b>3,823</b>	<b>4,788</b>	<b>29,202</b>
Allocation of net profit for the period						<b>0</b>		3,823	(3,823)	<b>0</b>	<b>0</b>
Payment of dividends						<b>0</b>		(1,117)		<b>(1,117)</b>	<b>(1,117)</b>
Other changes					2	<b>2</b>		(20)		<b>(20)</b>	<b>(18)</b>
Net profit for the period						<b>0</b>			3,478	<b>3,478</b>	<b>3,478</b>
<b>Total at 31 December 2006</b>	<b>5,644</b>	16,954	1,129	1,367	(7)	<b>19,443</b>	<b>(671)</b>	3,651	3,478	<b>7,129</b>	<b>31,545</b>

**Digital Bros Group**  
**Segment reporting (IAS 14)**

	<b>Consolidated figures (in €000)</b>	<b>Distribution</b>	<b>Newsstands</b>	<b>New Media</b>	<b>Publishing</b>	<b>Holding</b>	<b>Total</b>
1	Revenues	74,130	1,593	250	5,711	0	81,684
2	Revenue adjustments	(5,575)	0	0	(919)	0	(6,494)
<b>3</b>	<b>Total revenues</b>	<b>68,555</b>	<b>1,593</b>	<b>250</b>	<b>4,792</b>	<b>0</b>	<b>75,190</b>
4	Purchase of goods for resale	(54,202)	(291)	(11)	(2,538)	0	(57,041)
5	Purchase of services for resale	0	(212)	(405)	(48)	0	(665)
6	Royalties	(588)	(370)	(58)	(1,611)	0	(2,628)
7	Change in inventories of finished products	2,075	0	0	1,530	0	3,605
<b>8</b>	<b>Total cost of goods sold</b>	<b>(52,715)</b>	<b>(873)</b>	<b>(474)</b>	<b>(2,667)</b>	<b>0</b>	<b>(56,729)</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>15,840</b>	<b>720</b>	<b>(224)</b>	<b>2,125</b>	<b>0</b>	<b>18,461</b>
10	Other income	9	0	0	2	0	11
11	Cost of services	(3,804)	(152)	(248)	(392)	(57)	(4,652)
12	Rent and leasing	(159)	(8)	(12)	(16)	(1)	(196)
13	Payroll costs	(3,324)	0	(141)	(667)	(548)	(4,680)
14	Other operating expenses	(970)	(51)	(12)	(132)	(77)	(1,242)
<b>15</b>	<b>Total operating expenses</b>	<b>(8,257)</b>	<b>(212)</b>	<b>(413)</b>	<b>(1,207)</b>	<b>(682)</b>	<b>(10,770)</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>7,592</b>	<b>508</b>	<b>(636)</b>	<b>920</b>	<b>(682)</b>	<b>7,702</b>
17	Amortization and depreciation	(271)	(5)	(12)	(6)	(276)	(570)
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
<b>21</b>	<b>Total amortization, depreciation and impairment</b>	<b>(368)</b>	<b>(5)</b>	<b>(12)</b>	<b>(6)</b>	<b>(276)</b>	<b>(667)</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>7,224</b>	<b>503</b>	<b>(648)</b>	<b>914</b>	<b>(958)</b>	<b>7,035</b>

**Digital Bros Group**

**Consolidated cash flow statement for the half-year to 31 December 2006**

(EUR/000)	31 December 2006	31 December 2005
<b>A. Opening net debt</b>	<b>(20,741)</b>	<b>(21,700)</b>
<b>B. Cash flow from operating activities</b>		
Group's share of net profit (loss) for the year	3,478	2,240
Net (profit) loss pertaining to minority interests	0	63
Amortization	440	95
Depreciation	130	208
Net change in other provisions	46	45
Net change in provision for employee severance indemnities	134	80
<b>SUBTOTAL B.</b>	<b>4,228</b>	<b>2,731</b>
<b>C. Change in net working capital</b>		
Inventories	(3,608)	(1,468)
Trade receivables	(30,341)	(26,853)
Tax credits	(568)	417
Deferred tax assets (current)	0	0
Other current assets	(4,896)	130
Trade payables	9,134	4,277
Taxes payable	1,511	2,636
Current provisions	0	0
Other current liabilities	18	1,054
<b>SUBTOTAL C.</b>	<b>(28,750)</b>	<b>(19,807)</b>
<b>D. Cash flow from investing activities</b>		
Net investments in intangible assets	(216)	(78)
Net investments in property, plant and equipment	(106)	(105)
Net investments in financial fixed assets	0	365
<b>SUBTOTAL D.</b>	<b>(323)</b>	<b>182</b>
<b>E. Cash flow from financing activities</b>		
Capital increases	0	0
<b>SUBTOTAL E.</b>	<b>0</b>	<b>0</b>
<b>F. Movements in consolidated capital and reserves</b>		
Dividends paid	(1,117)	(1,127)
Change in treasury shares held	0	153
Increases (decreases) in other components of capital and reserves	(18)	(6)
<b>SUBTOTAL F.</b>	<b>(1,135)</b>	<b>(980)</b>
<b>G. Cash flow for the period (B+C+D+E+F)</b>	<b>(25,980)</b>	<b>(17,874)</b>
<b>H. Closing net debt (A+G)</b>	<b>(46,721)</b>	<b>(39,574)</b>

**Details of cash flow movements by maturity**

<b>EUR/000</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Increase (decrease) in securities and cash & cash equivalents	1,377	(1,461)
Decrease (increase) in short-term payables to banks	(20,092)	(8,578)
Decrease (increase) in other current financial liabilities	(6,742)	(7,116)
Short-term cash flow for the period	(25,457)	(17,154)
Medium-term cash flow for the period	(522)	(720)
<b>Cash flow for the period</b>	<b>(25,980)</b>	<b>(17,874)</b>

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

**Balance sheet at 31 December 2006**

	EUR/000	31 December 2006	30 June 2006	31 December 2005
	<b>Non-current assets</b>			
1	Property, plant and equipment	3,199	3,198	3,260
2	Investment property	455	455	455
3	Intangible assets	409	659	569
4	Equity investments	1,355	1,255	263
5	Non-current receivables and other assets	4	6	1,306
6	Deferred tax assets	2,536	2,751	3,722
	<b>Total non-current assets</b>	<b>7,958</b>	<b>8,324</b>	<b>9,575</b>
	<b>Non-current liabilities</b>			
7	Employee benefits	(866)	(793)	(698)
8	Non-current provisions	(201)	(155)	(116)
9	Other non-current payables and liabilities	0	0	0
	<b>Total non-current liabilities</b>	<b>(1,067)</b>	<b>(948)</b>	<b>(814)</b>
	<b>Net working capital</b>			
10	Inventories	28,183	26,297	23,568
11	Trade receivables	50,809	24,368	49,434
12	Tax credits	726	51	68
13	Deferred tax assets (current)	0	0	0
14	Other current assets	8,990	5,132	9,286
15	Trade payables	(11,719)	(4,128)	(9,760)
16	Taxes payable	(1,971)	(1,225)	(3,825)
17	Current provisions	(738)	(3,304)	(4,632)
18	Other current liabilities	(3,278)	(5,943)	(5,598)
	<b>Total net working capital</b>	<b>71,002</b>	<b>41,248</b>	<b>58,541</b>
	<b>Capital and reserves</b>			
19	Share capital	5,644	5,644	5,644
20	Reserves	17,941	17,941	17,941
21	Treasury shares	(671)	(671)	(115)
22	Profit (losses) carried forward	6,378	4,774	3,927
	<b>Total capital and reserves</b>	<b>29,292</b>	<b>27,688</b>	<b>27,397</b>
	<b>Total</b>	<b>48,601</b>	<b>20,936</b>	<b>39,905</b>
23	Cash and cash equivalents	3,490	3,798	3,426
24	Short-term payables to banks	(39,179)	(19,086)	(27,464)
25	Other current financial liabilities	(8,092)	(1,351)	(10,371)
	<b>Current net debt</b>	<b>(43,781)</b>	<b>(16,639)</b>	<b>(34,409)</b>
26	Non-current financial assets	0	0	0
27	Non-current payables to banks	(2,925)	(1,006)	(1,879)
28	Other non-current financial liabilities	(1,895)	(3,291)	(3,617)
	<b>Non-current net debt</b>	<b>(4,820)</b>	<b>(4,297)</b>	<b>(5,496)</b>
	<b>Total net debt</b>	<b>(48,601)</b>	<b>(20,936)</b>	<b>(39,905)</b>

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

**Income statement for the half-year to 31 December 2006**

	<b>EUR/000</b>	<b>HY to 31 December 2006</b>		<b>HY to 31 December 2005</b>		<b>Change</b>	
1	Revenues	74,990	107.3%	74,076	107.5%	914	1.2%
2	Revenue adjustments	(5,109)	-7.3%	(5,163)	-7.5%	54	-1.0%
<b>3</b>	<b>Total revenues</b>	<b>69,881</b>	<b>100.0%</b>	<b>68,913</b>	<b>100.0%</b>	<b>968</b>	<b>1.4%</b>
4	Purchase of goods for resale	(54,076)	-77.4%	(52,070)	-75.6%	(2,006)	3.9%
5	Purchase of services for resale	0	0.0%	(148)	-0.2%	148	n.a.
6	Royalties	(1,781)	-2.5%	(2,137)	-3.1%	356	-16.7%
7	Change in inventories of finished products	1,886	2.7%	1,436	2.1%	450	31.3%
<b>8</b>	<b>Total cost of goods sold</b>	<b>(53,971)</b>	<b>-77.2%</b>	<b>(52,919)</b>	<b>-76.8%</b>	<b>(1,052)</b>	<b>2.0%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>15,910</b>	<b>22.8%</b>	<b>15,994</b>	<b>23.2%</b>	<b>(84)</b>	<b>-0.5%</b>
10	Other income	1,826	2.6%	825	1.2%	1,001	n.a.
11	Cost of services	(5,281)	-7.6%	(3,503)	-5.1%	(1,778)	50.8%
12	Rent and leasing	(172)	-0.2%	(150)	-0.2%	(22)	14.7%
13	Payroll costs	(3,985)	-5.7%	(4,122)	-6.0%	137	-3.3%
14	Other operating expenses	(1,083)	-1.5%	(925)	-1.3%	(158)	17.1%
<b>15</b>	<b>Total operating expenses</b>	<b>(10,521)</b>	<b>-15.1%</b>	<b>(8,700)</b>	<b>-12.6%</b>	<b>(1,821)</b>	<b>20.9%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>7,215</b>	<b>10.3%</b>	<b>8,119</b>	<b>11.8%</b>	<b>(904)</b>	<b>-11.1%</b>
17	Amortization and depreciation	(543)	-0.7%	(215)	-0.3%	(328)	n.a.
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(1,015)	-1.4%	(2,514)	-3.6%	1,499	-59.6%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total amortization, depreciation and impairment</b>	<b>(1,558)</b>	<b>-2.2%</b>	<b>(2,729)</b>	<b>-4.0%</b>	<b>1,171</b>	<b>-42.9%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>5,657</b>	<b>8.1%</b>	<b>5,390</b>	<b>7.8%</b>	<b>267</b>	<b>5.0%</b>
23	Interest income	8	0.0%	7	0.0%	1	14.3%
24	Interest expense	(1,145)	-1.6%	(1,063)	-1.5%	(82)	7.7%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(1,137)</b>	<b>-1.6%</b>	<b>(1,056)</b>	<b>-1.5%</b>	<b>(81)</b>	<b>7.7%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>4,520</b>	<b>6.5%</b>	<b>4,334</b>	<b>6.3%</b>	<b>186</b>	<b>4.3%</b>
27	Current taxes	(1,800)	-2.6%	(2,203)	-3.2%	403	-18.3%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
<b>29</b>	<b>Total taxes</b>	<b>(1,800)</b>	<b>-2.6%</b>	<b>(2,203)</b>	<b>-3.2%</b>	<b>403</b>	<b>-18.3%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>2,720</b>	<b>3.9%</b>	<b>2,131</b>	<b>3.1%</b>	<b>589</b>	<b>27.6%</b>

## **NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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### **ACCOUNTING POLICIES AND PRINCIPLES**

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The half-year 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, unless otherwise specified.

The financial statements that precede are comprised of:

- Consolidated balance sheet at 31 December 2006 with comparative figures at 30 June 2006 (the year-end reporting date), plus comparative figures at 31 December 2005 in order to highlight seasonal trends;
- consolidated income statement for the half-year ended 31 December 2006, with comparative figures for the first half of 2005-2006;
- statement of changes in consolidated shareholders' equity for the half-year under review, preceded by changes in consolidated shareholders' equity between 1 July 2005 and 31 December 2005 and between 1 January 2006 and 30 June 2006;
- Segment reporting (IAS 14);
- consolidated cash flow statement for the period under review, in comparison with the previous year's consolidated cash flow statement;
- details of cash flows by maturity, compared with movements taking place the previous year;
- consolidated balance sheet of the parent company Digital Bros S.p.A. with comparative figures at 30 June 2006 (the year-end reporting date), plus comparative figures at 31 December 2005 in order to highlight seasonal trends;
- income statement of the parent company Digital Bros S.p.A. for the first half of the fiscal year with comparative figures for the half-year ended 31 December 2005.

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

## **PREPARATION CRITERIA**

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The half-year report at 31 December 2006, for the first half of the fiscal year, was drawn up in accordance with IAS/IFRS and with Art. 81 of CONSOB Regulation 11971/99 on issuers (as amended).

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

In the balance sheet, assets and liabilities are shown separately in order of liquidity, to better represent the company's typical business cycle.

The income statement breaks down costs and income by type.

The consolidated financial statements were prepared on the basis of the accounts at 31 December 2006 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**

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The accounting policies used for the half-year report at 31 December 2006 (for the first half 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 fair value falls below cost.

#### *Intangible assets*

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

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

Amortization rates are as follows:

- Brands 10%
- Licenses 20%

The amortization charge is shown in the income statement.

#### *Goodwill*

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

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

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

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

#### *Impairment of assets*

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

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

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

An impairment loss is charged if the recoverable amount is below carrying value. If impairment is subsequently reduced or reversed, the carrying value of the asset or cash generating unit is written back 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 previously 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 proceeds 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 and returns. Revenue adjustments are comprised of variable costs depending on the revenues and estimated returns from customers, both contractual and non-contractual.

#### *Costs*

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

#### *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 and reserves. Estimates and assumptions are reviewed on a regular basis and any changes are reflected immediately in the profit and loss account.

## **CONSOLIDATION METHODS**

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### *Subsidiaries*

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

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 half-year 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

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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 is approaching €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, and 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 the Nintendo Wii have been launched in the last year, and in March the eagerly awaited Sony Playstation 3 will arrive 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 PlayStation2 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**

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

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

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

## **SIGNIFICANT EVENTS DURING THE HALF-YEAR**

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- 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 €2 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.).

## ECONOMIC PERFORMANCE IN THE HALF-YEAR

Below are the Group's results for the half-year to 31 December 2006, with comparative figures for 2005.

	EUR/000	HY to 31 December 2006		HY to 31 December 2005		Change	
1	Revenues	81,684	108.6%	73,335	107.7%	8,349	11.4%
2	Revenue adjustments	(6,494)	-8.6%	(5,213)	-7.7%	(1,281)	24.6%
<b>3</b>	<b>Total revenues</b>	<b>75,190</b>	<b>100.0%</b>	<b>68,122</b>	<b>100.0%</b>	<b>7,068</b>	<b>10.4%</b>
4	Purchase of goods for resale	(57,041)	-75.9%	(50,805)	-74.6%	(6,236)	12.3%
5	Purchase of services for resale	(667)	-0.9%	(148)	-0.2%	(519)	n.a.
6	Royalties	(2,629)	-3.5%	(2,144)	-3.1%	(485)	22.6%
7	Change in inventories of finished products	3,608	4.8%	1,468	2.2%	2,140	n.a.
<b>8</b>	<b>Total cost of goods sold</b>	<b>(56,729)</b>	<b>-75.4%</b>	<b>(51,629)</b>	<b>-75.8%</b>	<b>(5,100)</b>	<b>9.9%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>18,461</b>	<b>24.6%</b>	<b>16,493</b>	<b>24.2%</b>	<b>1,968</b>	<b>11.9%</b>
10	Other income	11	0.0%	280	0.4%	(269)	-96.1%
11	Cost of services	(4,652)	-6.2%	(3,806)	-5.6%	(846)	22.2%
12	Rent and leasing	(196)	-0.3%	(216)	-0.3%	20	-9.4%
13	Payroll costs	(4,680)	-6.2%	(4,392)	-6.4%	(288)	6.6%
14	Other operating expenses	(1,242)	-1.7%	(962)	-1.4%	(281)	29.2%
<b>15</b>	<b>Total operating expenses</b>	<b>(10,770)</b>	<b>-14.3%</b>	<b>(9,376)</b>	<b>-13.8%</b>	<b>(1,394)</b>	<b>14.9%</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>7,702</b>	<b>10.2%</b>	<b>7,397</b>	<b>10.9%</b>	<b>305</b>	<b>4.1%</b>
17	Amortization and depreciation	(570)	-0.8%	(303)	-0.4%	(267)	88.2%
18	Provisions	0	0.0%	0	0.0%	0	0.0%
19	Asset impairment charge	(97)	-0.1%	(1,393)	-2.0%	1,296	-93.0%
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total amortization, depreciation and impairment</b>	<b>(667)</b>	<b>-0.9%</b>	<b>(1,696)</b>	<b>-2.5%</b>	<b>1,029</b>	<b>-60.6%</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>7,035</b>	<b>9.4%</b>	<b>5,701</b>	<b>8.4%</b>	<b>1,334</b>	<b>23.4%</b>
23	Interest income	8	0.0%	8	0.0%	(0)	-2.5%
24	Interest expense	(1,149)	-1.5%	(1,095)	-1.6%	(53)	4.8%
<b>25</b>	<b>Net interest income (expense)</b>	<b>(1,140)</b>	<b>-1.5%</b>	<b>(1,087)</b>	<b>-1.6%</b>	<b>(53)</b>	<b>4.9%</b>
<b>26</b>	<b>Profit before taxes (22+25)</b>	<b>5,894</b>	<b>7.8%</b>	<b>4,614</b>	<b>6.8%</b>	<b>1,280</b>	<b>27.7%</b>
27	Current taxes	(2,416)	-3.2%	(2,311)	-3.4%	(105)	4.5%
28	Deferred taxes	0	0.0%	0	0.0%	0	0.0%
<b>29</b>	<b>Total taxes</b>	<b>(2,416)</b>	<b>-3.2%</b>	<b>(2,311)</b>	<b>-3.4%</b>	<b>(105)</b>	<b>4.5%</b>
<b>30</b>	<b>Net profit (26+29)</b>	<b>3,478</b>	<b>4.6%</b>	<b>2,303</b>	<b>3.4%</b>	<b>1,175</b>	<b>51.0%</b>
31	(Net profit) loss pertaining to minority interests	0	0.0%	(63)	-0.1%	63	n.a.
<b>32</b>	<b>Group share of net profit (30+31)</b>	<b>3,478</b>	<b>4.6%</b>	<b>2,240</b>	<b>3.3%</b>	<b>1,238</b>	<b>55.3%</b>
	<b>Earnings per share:</b>						
33	Basic earnings per share (in EUR)	0.25		0.16		0.09	
34	Diluted earnings per share (in EUR)	0.25		0.16		0.09	

The first half is normally when turnover is at its highest for the entire year, as the over-absorption of fixed costs provides a boost to profitability. This year, in particular, the second quarter featured several new game releases around the Christmas holidays, such as Pro Evolution Soccer 6, a soccer simulation game published internationally by Konami Int.; WWE SmackDown vs Raw 2007, a wrestling game published by THQ Ltd.; Kingdom Hearts II, a roleplay game published by Square Enix Ltd.; and Cars, an arcade game based on the movie published by Buena Vista Games Inc..

In the first half of the year the Group grossed €1,864 thousand, an increase of €349 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 €68,122 thousand to €75,190 thousand (a €7,068 thousand increase or +10.4%).

The cost of sales decreased slightly as a percentage of revenues, from 75.8% to 75.4%, permitting a gross profit of €18,461 thousand compared with €16,493 thousand at 31 December 2005 (+€1,968 thousand).

Other income, at €1 thousand, refers mainly to insurance reimbursements.

Operating expenses rose by €1,394 thousand or 14.9%.

The most significant increase in operating costs pertained to the cost of services, which rose from €3,806 thousand to €4,652 thousand (+€846 thousand), due mainly to the advertising costs incurred by the Group in order to strengthen the sales process for video games. There was also a €288 thousand increase in payroll costs because of new hiring, especially in the New Media and Publishing segments.

EBITDA rose from €7,397 thousand to €7,702 thousand, an increase of €305 thousand (+4.1%).

The 23.4% rise in EBIT, by €1,334 thousand, is explained by the Group's performance and by the reversal of impairment charged the previous year.

Basic earnings per share increased by €0.09, from €0.16 at 31 December 2005 to €0.25 a year later. The trend was identical for diluted earnings per share, which also rose by eight 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 to the improvement in results.

## **PERFORMANCE BY BUSINESS SEGMENTS**

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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**

Consolidated revenues outside Italy increased by €2,229 thousand, from €3,732 thousand in the first half of 2005 to €5,961 thousand for the period under review.

<b>EUR/000</b>	<b>31 December 2006</b>	<b>31 December 2005</b>	<b>Change</b>	
Italy	75,723	69,603	6,120	8.8%
Elsewhere	5,961	3,732	2,229	59.7%
<b>Total consolidated revenues</b>	<b>81,684</b>	<b>73,335</b>	<b>8,349</b>	<b>11.4%</b>

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 efforts.

<b>EUR/000</b>	<b>31 December 2006</b>	<b>31 December 2005</b>	<b>Change</b>	
New Media	250	264	(14)	-5.3%
Publishing	5,711	3,468	2,243	64.7%
<b>Total gross foreign revenues</b>	<b>5,961</b>	<b>3,732</b>	<b>2,229</b>	<b>59.7%</b>

See the comment on the 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;
- International Publishing;
- New Media;
- Newsstands;
- Holding.

Below are the details of revenues by business segment for the half-year ended 31 December 2006, with comparative figures for the first half of last year:

EUR/000	Gross revenues				Net revenues			
	2006	2005	Change		2006	2005	Change	
Distribution	74,130	69,598	4,532	6.5%	68,555	64,385	4,170	6.5%
Newsstands	1,593	0	1,593	n.a.	1,593	0	1,593	n.a.
New Media	250	269	(19)	-7.0%	250	269	(19)	-7.0%
International Publishing	5,711	3,468	2,243	64.7%	4,792	3,468	1,324	38.2%
Holding	0	0	0	n.a.	0	0	0	n.a.
<b>Total revenues</b>	<b>81,684</b>	<b>73,335</b>	<b>8,349</b>	<b>11.4%</b>	<b>75,190</b>	<b>68,122</b>	<b>7,068</b>	<b>10.4%</b>

Profit margins for the segments were as follows:

	Consolidated figures (in €000)	Distribution	Newsstands	New Media	Publishing	Holding	Total
1	Revenues	74,130	1,593	250	5,711	0	81,684
2	Revenue adjustments	(5,575)	0	0	(919)	0	(6,494)
<b>3</b>	<b>Total revenues</b>	<b>68,555</b>	<b>1,593</b>	<b>250</b>	<b>4,792</b>	<b>0</b>	<b>75,190</b>
4	Purchase of goods for resale	(54,202)	(291)	(11)	(2,538)	0	(57,041)
5	Purchase of services for resale	0	(212)	(405)	(47)	0	(667)
6	Royalties	(588)	(370)	(58)	(1,610)	0	(2,629)
7	Change in inventories of finished products	2,075	0	0	1,533	0	3,608
<b>8</b>	<b>Total cost of goods sold</b>	<b>(52,715)</b>	<b>(874)</b>	<b>(474)</b>	<b>(2,667)</b>	<b>0</b>	<b>(56,729)</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>15,840</b>	<b>720</b>	<b>(224)</b>	<b>2,125</b>	<b>0</b>	<b>18,461</b>
10	Other income	9	0	0	2	0	11
11	Cost of services	(3,804)	(152)	(248)	(397)	(57)	(4,652)
12	Rent and leasing	(159)	(8)	(12)	(16)	(1)	(196)
13	Payroll costs	(3,324)	0	(141)	(667)	(548)	(4,680)
14	Other operating expenses	(970)	(51)	(12)	(132)	(77)	(1,242)
<b>15</b>	<b>Total operating expenses</b>	<b>(8,257)</b>	<b>(212)</b>	<b>(413)</b>	<b>(1,207)</b>	<b>(682)</b>	<b>(10,770)</b>
<b>16</b>	<b>EBITDA (9+10+15)</b>	<b>7,592</b>	<b>508</b>	<b>(636)</b>	<b>920</b>	<b>(682)</b>	<b>7,702</b>
17	Amortization and depreciation	(271)	(5)	(12)	(6)	(276)	(570)
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
<b>21</b>	<b>Total amortization, depreciation and impairment</b>	<b>(368)</b>	<b>(5)</b>	<b>(12)</b>	<b>(6)</b>	<b>(276)</b>	<b>(667)</b>
<b>22</b>	<b>EBIT (16+21)</b>	<b>7,224</b>	<b>503</b>	<b>(648)</b>	<b>914</b>	<b>(958)</b>	<b>7,035</b>

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, THQ Ltd., Codemasters Ltd. 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					
	2006		2005		Change	
Revenues	74,130	108%	69,598	108%	4,532	7%
Revenue adjustments	(5,575)	-8%	(5,213)	-8%	(362)	7%
<b>Total net revenues</b>	<b>68,555</b>	<b>100%</b>	<b>64,385</b>	<b>100%</b>	<b>4,170</b>	<b>6%</b>
Other income	9	0%	279	0%	(270)	-97%
Operating expenses	(60,972)	-89%	(56,826)	-88%	(4,146)	7%
<b>EBITDA</b>	<b>7,592</b>	<b>11%</b>	<b>7,838</b>	<b>12%</b>	<b>(246)</b>	<b>-3%</b>
Amortization, depreciation and impairment	(368)	-1%	(915)	-1%	547	-60%
<b>EBIT</b>	<b>7,224</b>	<b>11%</b>	<b>6,923</b>	<b>11%</b>	<b>301</b>	<b>4%</b>

In the Distribution segment the Group maintained the growth rates achieved in prior years, with gross revenues up by 7% (+€4,532 thousand), from €69,598 thousand to €74,130 thousand.

The following table analyzes Distribution revenues in Italy by type:

EUR/000	31 December 2006	31 December 2005	Change	
Distribution of video games for consoles	66,939	64,679	2,260	3.5%
Distribution of video games for PCs/CD-ROMs	7,224	4,540	2,684	59.1%
Distribution of other products and services	335	730	(395)	-54.1%
Financial discounts	(369)	(351)	(18)	5.1%
<b>Total gross revenues</b>	<b>74,130</b>	<b>69,598</b>	<b>4,532</b>	<b>6.5%</b>

Gross revenues from video game distribution increased by €4,532 thousand, from €69,598 thousand to €74,130 thousand. Sales of games for PCs/CD-ROMs were up by 59%, from €4,540 thousand for the six months to 31 December 2005 to €7,224 thousand for the first half of this year. The increase in games for consoles was more modest, at 3.5% (+€2,260 thousand).

For a better comprehension of the trend in video game distribution for consoles, which constitutes the most significant share of turnover (90% of gross revenues), the following table shows units sold and revenues per console:

EUR/000	31 December 2006		31 December 2005		Change	
	Units	Revenues	Units	Revenues	Units	Revenues
Nintendo Gameboy Advance	240,596	5,182	242,465	6,939	-0.8%	-25.3%
Sony Playstation 2	1,448,346	43,819	1,350,531	46,489	7.2%	-5.7%
Microsoft Xbox	156,679	646	65,265	2,694	140.1%	-76.0%
Microsoft Xbox 360	114,028	5,443	6,413	289	n.a	n.a
Nintendo DS	198,534	4,932	54,236	1,723	266.1%	186.2%
Sony PSP	194,408	6,264	152,953	6,044	27.1%	3.6%
Other consoles	127,265	654	23,866	501	n.a	n.a
<b>Total revenues from distribution for consoles</b>	<b>2,479,856</b>	<b>66,939</b>	<b>1,895,729</b>	<b>64,679</b>	<b>30.8%</b>	<b>3.5%</b>

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 580,000 (+30.8%), 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 (+7.2%), and to the sale of games for new-generation consoles such as the Nintendo DS, Sony PSP and Microsoft Xbox 360, which together sold about 290,000 more units than last year (from 213,602 to 506,970) and made up 20.4% of quantities sold.
- A 20.9% reduction in average unit prices, as shown in the following table.

Unit prices in EUR	31 December 2006	31 December 2005	Change
Nintendo Gameboy Advance	21.5	28.6	-24.7%
Sony Playstation 2	30.3	34.4	-12.1%
Microsoft Xbox	4.12	41.3	n.a
Microsoft Xbox 360	47.7	46.0	3.8%
Nintendo DS	24.8	31.8	-21.8%
Sony PSP	32.2	39.5	-18.5%
<b>Average price for video games</b>	<b>260.9</b>	<b>34.1</b>	<b>-20.9%</b>

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

	<b>31 December 2006</b>	<b>31 December 2005</b>
Nintendo Gameboy Advance	7.7%	12.8%
Sony Playstation 2	65.5%	71.2%
Microsoft Xbox	1.0%	3.4%
Microsoft Xbox 360	8.1%	0.3%
Nintendo DS	7.4%	2.9%
Sony PSP	9.4%	8.1%
Other consoles	1.0%	1.3%
<b>Total revenues from distribution for consoles</b>	<b>100%</b>	<b>100%</b>

As shown in the table above, the Microsoft Xbox 360, launched for the Christmas season, has earned an 8.1% share of revenues. This was mostly to the detriment of the Sony Playstation 2, whose weighting fell from 71.2% for the period ended 31 December 2005 to 65.5% this year.

Nintendo DS has also done quite well, rising from 2.9% to 7.4% of revenues in the course of a year, thanks to its new "Lite" console that is more popular with consumers than the traditional Nintendo DS.

## Newsstands

In January 2006 the Group began distributing video games as add-ons to products sold at newsstands, along with DVDs relating to the subjects of the principal games sold by the Group. Comparative figures for the previous year are therefore unavailable.

### *Key results*

EUR/000	Newsstands	
	2006	
Revenues	1,593	100%
Revenue adjustments	0	0%
<b>Total net revenues</b>	<b>1,593</b>	<b>100%</b>
Other income	0	0.0%
Operating expenses	(1,085)	-68%
<b>EBITDA</b>	<b>508</b>	<b>31.9%</b>
Amortization, depreciation and impairment	(5)	-0.3%
<b>EBIT</b>	<b>503</b>	<b>31.6%</b>

Most revenues were earned through the distribution of the following products:

- the last eight issues of the DVD series "WWE Wrestling Megastars" on the lives of popular wrestlers (€30 thousand);
- the first of four DVD games, a new series for the entire family including successful games produced by Dreamworks (€420 thousand);
- the DVD series "The Sims," a real-life simulation game licensed for distribution to the RCS Group (€243 thousand).

EBITDA for this segment is very high (31.6% of sales), as operating costs are kept down by the process of distribution through newsstands.

## 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.

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

As one such initiative, in November 2006 the Digital Bros Group struck 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.

### Key results

EUR/000	New Media					
	2006		2005		Change	
Revenues	250	100%	269	100%	(19)	-7%
Revenue adjustments	0	0%	0	0%	0	0%
<b>Total net revenues</b>	<b>250</b>	<b>100%</b>	<b>269</b>	<b>100%</b>	<b>(19)</b>	<b>-7%</b>
Other income	0	0%	6	2%	(6)	-100%
Operating expenses	(886)	n.a.	(1,704)	n.a.	818	-48%
<b>EBITDA</b>	<b>(636)</b>	<b>n.a.</b>	<b>(1,429)</b>	<b>n.a.</b>	<b>793</b>	<b>-55%</b>
Amortization, depreciation and impairment	(12)	-4.8%	(529)	n.a.	517	-98%
<b>EBIT</b>	<b>(648)</b>	<b>n.a.</b>	<b>(1,958)</b>	<b>n.a.</b>	<b>1,310</b>	<b>-67%</b>

Revenues were made up of subscriptions to online games (€200 thousand) and sales of games for Mediaset's DTTV (€50 thousand). They decreased slightly with respect to the €269 thousand earned in the first half of last year.

Operating costs, although reduced by €818 thousand, were influenced heavily by the contractual expense of the online connections used by players to access the games.

On the whole, EBITDA for this segment was a negative €636 thousand, an improvement on last year's negative €1,429 thousand.

The improvement is more obvious at the EBIT level. Last year, asset impairment of €44 thousand was charged on the down payments made to the developer of "Horizons: Empire of Istaria," producing negative EBIT of €1,958 thousand compared with this year's negative €648 thousand (+€1,958 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 first half of this 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. They finalized implementation of the software system on 1 October 2006, and since 1 November have had a fully functioning distribution system.

### *Main profit indicators*

EUR/000	International Publishing					
	2006		2005		Change	
Revenues	5,711	119%	3,468	100%	2,243	65%
Revenue adjustments	(919)	-19%	0	0%	(919)	n.a.
<b>Total net revenues</b>	<b>4,792</b>	<b>100%</b>	<b>3,468</b>	<b>100%</b>	<b>1,324</b>	<b>38%</b>
Other income	1	0%	0	0%	1	n.a.
Operating expenses	(3,873)	-81%	(1,784)	-51%	(2,089)	n.a.
<b>EBITDA</b>	<b>920</b>	<b>19.2%</b>	<b>1,684</b>	<b>49%</b>	<b>(764)</b>	<b>-45%</b>
Amortization, depreciation and impairment	(6)	-0.1%	(115)	-3%	109	-95%
<b>EBIT</b>	<b>914</b>	<b>19.1%</b>	<b>1,569</b>	<b>45%</b>	<b>(655)</b>	<b>-42%</b>

Net revenues from the international publishing of video games increased by €1,324 thousand, from €3,468 thousand to €4,792 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 63 international licenses for video games existing and to be rolled out over the next 12 months, including "Arma: Armed Assault" for computers, "Cooking Mama" for the Nintendo Wii and "Armored Core" for the Sony Playstation 3.

One of the top sellers for the period was "Cooking Mama DS," which hit the top 10 list for Nintendo DS games in the U.K., France and Italy.

EBITDA and EBIT stood at 19.2% and 19.1% of net revenues, respectively. The cost structure has grown significantly more burdensome 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.

It should be noted that in the half-year under review, the two new companies added to their fixed cost basis but are not yet operating at full capacity.

## 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					
	2006		2005		Change	
Revenues	0	n.a.	0	n.a.	0	n.a.
Revenue adjustments	0	n.a.	0	n.a.	0	n.a.
<b>Total net revenues</b>	<b>0</b>	<b>n.a.</b>	<b>0</b>	<b>n.a.</b>	<b>0</b>	<b>n.a.</b>
Other income	0	n.a.	(5)	n.a.	5	n.a.
Operating expenses	(682)	n.a.	(690)	n.a.	8	-1%
<b>EBITDA</b>	<b>(682)</b>	<b>n.a.</b>	<b>(695)</b>	<b>n.a.</b>	<b>13</b>	<b>-2%</b>
Amortization, depreciation and impairment	(276)	n.a.	(138)	n.a.	(138)	31%
<b>EBIT</b>	<b>(958)</b>	<b>n.a.</b>	<b>(833)</b>	<b>n.a.</b>	<b>(125)</b>	<b>6%</b>

As in 2005, the cost structure reflects performance for the period: operating expenses include directors' fees approved at the latest shareholders' meeting and general and entertainment expenses not allocable to other segments.

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

## ANALYSIS OF KEY BALANCE SHEET FIGURES

The consolidated balance sheet at 31 December 2006 is reported below with comparative figures at 31 June 2006 and 31 December 2005:

	EUR/000	31 December 2006	30 June 2006	31 December 2005
	<b>Non-current assets</b>			
1	Property, plant and equipment	3,286	3,299	3,376
2	Investment property	455	455	455
3	Intangible assets	450	684	596
4	Equity investments	5	5	0
5	Non-current receivables and other assets	53	53	1,350
6	Deferred tax assets	4,537	4,537	5,286
	<b>Total non-current assets</b>	<b>8,786</b>	<b>9,033</b>	<b>11,063</b>
	<b>Non-current liabilities</b>			
7	Employee benefits	(936)	(803)	(706)
8	Non-current provisions	(202)	(155)	(116)
9	Other non-current payables and liabilities	0	0	0
	<b>Total non-current liabilities</b>	<b>(1,138)</b>	<b>(958)</b>	<b>(822)</b>
	<b>Net working capital</b>			
10	Inventories	30,058	26,450	23,657
11	Trade receivables	53,013	22,672	49,173
12	Tax credits	1,006	437	182
13	Other current assets	5,892	995	1,201
14	Trade payables	(14,548)	(5,413)	(8,460)
15	Taxes payable	(2,669)	(1,158)	(4,024)
16	Current provisions	0	0	0
17	Other current liabilities	(2,134)	(2,115)	(3,166)
	<b>Total net working capital</b>	<b>70,618</b>	<b>41,868</b>	<b>58,563</b>
	<b>Capital and reserves</b>			
18	Share capital	5,644	5,644	5,644
19	Reserves	19,443	19,441	18,977
20	Treasury shares	(671)	(671)	(115)
21	Profit (losses) carried forward	7,129	4,788	4,656
	<b>Total capital and reserves</b>	<b>31,545</b>	<b>29,202</b>	<b>29,162</b>
	<b>Minority interests in capital and reserves</b>	<b>0</b>	<b>0</b>	<b>68</b>
	<b>Total</b>	<b>46,721</b>	<b>20,741</b>	<b>39,574</b>
22	Cash and cash equivalents	5,371	3,994	3,757
23	Short-term payables to banks	(39,179)	(19,087)	(27,464)
24	Other current financial liabilities	(8,093)	(1,351)	(10,371)
	<b>Current net debt</b>	<b>(41,901)</b>	<b>(16,444)</b>	<b>(34,078)</b>
25	Non-current financial assets	0	0	0
26	Non-current payables to banks	(2,925)	(1,006)	(1,879)
27	Other non-current financial liabilities	(1,895)	(3,291)	(3,617)
	<b>Non-current net debt</b>	<b>(4,820)</b>	<b>(4,297)</b>	<b>(5,496)</b>
	<b>Total net debt</b>	<b>(46,721)</b>	<b>(20,741)</b>	<b>(39,574)</b>

## NET WORKING CAPITAL

Net working capital increased by €12,055 thousand with respect to 31 December 2005 (+20.58%). The trend is explained by a rise of €3,840 thousand in trade receivables and by an increase of €6,401 thousand in inventories. The above was partially offset by a rise in trade payables of €6,088 thousand. These trends are in line with the seasonal pattern described.

The increase in inventories (€6,401 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 (€1,500 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 December 2005 (in consideration of the sharp increase in sales during the Christmas season) is provided below:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Inventories	30,058	26,450	23,657	6,401
Trade receivables	53,013	22,672	49,173	3,840
Tax credits	1,006	437	182	824
Other current assets	5,892	995	1,201	4,691
Trade payables	(14,548)	(5,413)	(8,460)	(6,088)
Taxes payable	(2,669)	(1,158)	(4,024)	1,355
Current provisions	0	0	0	0
Other current liabilities	(2,134)	(2,115)	(3,166)	1,032
<b>Total net working capital</b>	<b>70,618</b>	<b>41,868</b>	<b>58,563</b>	<b>12,055</b>

### Inventories

Inventories are comprised solely of finished products for resale. Below is the breakdown of inventories by distribution channel, with the provision for obsolescence shown separately:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A-C)
Halifax inventories	18,493	18,418	14,056	4,437
Returns to be received	1,966	864	2,026	(60)
<b>Gross Halifax inventories</b>	<b>20,459</b>	<b>19,282</b>	<b>16,082</b>	<b>4,377</b>
Provision for obsolescence	0	0	(334)	334
<b>Subtotal</b>	<b>20,459</b>	<b>19,282</b>	<b>15,748</b>	<b>4,711</b>
DTI inventories	7,725	7,015	7,766	(41)
Game Service S.r.l. inventories	365	153	143	222
505 Games S.r.l. inventories	511	0	0	511
Digital Bros France S.a.r.l. inventories	204	0	0	204
505 Games Ltd. inventories	794	0	0	794
<b>Total inventories</b>	<b>30,058</b>	<b>26,450</b>	<b>23,657</b>	<b>6,401</b>

Inventories rose from €26,450 thousand at 30 June 2006 to €30,058 thousand at 31 June 2006, an increase of €3,608 thousand. In a comparison with 31 December 2005, inventories rose by €6,401 thousand, due

essentially to an increase of €4,377 thousand for Halifax and €1,731 thousand in finished products held by subsidiaries.

The change in net inventories at Halifax was also affected by a correction for potential contractual returns to be received, in the amount of €1,966 thousand, in accordance with last year's practice.

The writedown of gross inventories, reflecting potential losses due to a decrease in the market value of the goods, came to €3,604 thousand (€2,674 thousand for the first half of 2005). Inventories are shown net of the writedown.

### Trade receivables

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

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A-C)
Due from customers: Italy	43,217	20,258	45,049	(1,832)
Due from customers: rest of EU	6,614	779	2,260	4,354
Due from customers: rest of the world	511	145	500	11
Provision for doubtful accounts	(1,084)	(1,084)	(1,084)	0
<b>Total trade receivables</b>	<b>49,258</b>	<b>20,098</b>	<b>46,725</b>	<b>2,533</b>
Receivables for video game licenses	3,428	2,222	1,966	1,462
Receivables for Disney products	327	352	482	(155)
<b>Total trade receivables</b>	<b>53,013</b>	<b>22,672</b>	<b>49,173</b>	<b>3,840</b>

Receivables due from customers in Italy include advances on receivables factored without recourse, amounting to €7,935 thousand at 31 December 2006 (€10,291 thousand at 31 December 2005 and €1,199 thousand at 30 June 2006), in accordance with IAS 39. On that same basis, other current financial liabilities were increased by the same amount.

The total figure for trade receivables at 30 June 2006 (€20,098 thousand) is €29,160 thousand lower than the figure at the close of the year (€49,259 thousand). The seasonal nature of the sector makes it more significant to compare trade receivables at 31 December 2006 and at the close of 2005. For the 12-month period, trade receivables increased by €3,840 thousand (+7.8%), even as gross revenues went up by 11.4%.

The provision for doubtful accounts reflects potential losses on receivables due to customer default. It is unchanged with respect to 30 June 2006 and 31 December 2005.

Receivables for video game licenses and Disney products are advances paid for the acquisition of video game user licenses, the exploitation of which had not yet begun or been completed at the close of the year. The degree of use of the licenses is calculated according to the ratio of the number of units produced to the total number of units expected to be sold during the life of the contract.

The increase of €1,181 thousand in receivables for video game licenses with respect to 30 June 2006 stems from the acquisition of more licenses during the period than were actually used, in line with the growth of the International Publishing segment.

### Tax credits

Tax credits consist of advance tax payments and VAT credits owed to the parent company and to subsidiaries. They rose from €182 thousand to €1,006 thousand.

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Advance tax payments	101	0	47	54
Other tax credits	905	437	135	770
<b>Total tax credits</b>	<b>1,006</b>	<b>437</b>	<b>182</b>	<b>824</b>

### Other current assets

Other current assets are comprised of advances paid to suppliers, employees and sales representatives. They totaled €5,892 thousand at the close of the year, compared with €995 thousand at 30 June 2006.

Movements during the period were as follows:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Insurance refunds to be received	3	31	43	(40)
Advances paid to suppliers	4,221	404	230	3,991
Advances paid to employees	101	99	96	5
Advances paid to sales representatives	588	413	450	138
Other receivables	979	48	382	597
<b>Total other current assets</b>	<b>5,892</b>	<b>995</b>	<b>1,201</b>	<b>4,691</b>

Advances paid to suppliers rose from €404 thousand at 30 June 2006 to €4,221 thousand at the end of December, an increase of €3,991 thousand. This reflects normal trade relations with suppliers, who receive payments for their services in advance.

### Trade payables

Trade payables went from €3,460 thousand at 31 December 2005 to €4,548 thousand, an increase of €1,088 thousand, and consist mainly of amounts due to publishers for the purchase of finished products (split equally between Italian and international suppliers).

### Taxes payable

These fell from €4,024 thousand at 31 December 2005 to €2,669 thousand at the close of December 2006, a decrease of €1,355 thousand. In detail:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Income taxes - IRAP/IRES	(2,334)	(105)	(2,298)	(36)
Due to the Treasury	0	(965)	(1,442)	1,442
Other taxes due	(335)	(88)	(284)	(51)
<b>Total taxes payable</b>	<b>(2,669)</b>	<b>(1,158)</b>	<b>(4,024)</b>	<b>1,355</b>

The difference of €1,355 thousand with respect to the previous year is due primarily to the change in amounts due to the Treasury.

### 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 year came to about €300 thousand: €170 thousand for the ERP system, €62 thousand for the purchase of office automation machines and €68 thousand for other fixed assets.

### Property, plant and equipment

This item went from €3,299 thousand to €3,286 thousand. Changes during the year were as follows:

EUR/000	30 June 2006	Additions	Disposals	Depreciation	31 December 2006
Industrial buildings	2,178	0	0	(34)	2,144
Land	600	0	0	0	600
Plant and machinery	7	0	0	0	7
Industrial and commercial equipment	424	62	(17)	(75)	394
Other assets	46	68	0	(16)	98
Leasehold improvements	44	4	0	(5)	43
<b>Total</b>	<b>3,299</b>	<b>134</b>	<b>(17)</b>	<b>(130)</b>	<b>3,286</b>

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

The heading "Industrial buildings" refers to the warehouse in Trezzano sul Naviglio, which also accounts for the €600 thousand in land. These assets were acquired by the Group

under a finance lease and are recognized in the balance sheet in accordance with IAS 17. The financial expenses relating to the lease have not been capitalized.

No depreciation is charged on land.

For the other headings, the additions shown for the period essentially reflect the purchase of office automation equipment (€62 thousand) and furniture and fittings (€68 thousand).

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

### **Investment property**

There were no changes in this item during the year.

Investment property consists of one building owned in Milan for office and manufacturing use, which at the moment the Group is not using. It is held with a view to appreciation of the invested capital. In accordance with IAS 40, the Group has opted to carry the building at depreciated cost. An adjustment has therefore been made in order to bring its value into line with the figure at 1 July 2004.

The fair value of the investment property, based on figures in the real estate market review ("Osservatorio sul Mercato Immobiliare") published by the Milan Chamber of Commerce in September 2005, is higher than its cost, so there was no depreciation charge for the year. The building's fair value is €62 thousand.

### **Intangible assets**

The following table presents movements during the year:

<b>EUR/000</b>	<b>30 June 2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Amortization</b>	<b>31 December 2006</b>
Concessions and licenses	429	206	0	(198)	<b>437</b>
Trademarks and similar rights	255	0	0	(242)	<b>13</b>
<b>Total</b>	<b>684</b>	<b>206</b>	<b>0</b>	<b>(440)</b>	<b>450</b>

Concessions and licenses, worth €437 thousand, pertain to deferred charges for the second development phase of the Group's new Navision-based ERP system.

Movements during the period refer to software development.

Trademarks, for €13 thousand, consist of the brands owned by the parent company Digital Bros S.p.A.

Movements for the period refer chiefly to the complete amortization of the Game Network brand, previously used for operations conducted over the Game Network satellite channel.

### **Equity investments**

The equity investment of €5 thousand stands for the 50% interest in D3DB S.r.l., owned jointly with the Japanese firm D3 Publisher Inc.

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

Non-current receivables and other assets changed as follows:

<b>EUR/000</b>	<b>30 June 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>31 December 2006</b>
Trade receivables	0	0	0	0
Security deposits due beyond one year	53	0	0	53
Other receivables due beyond one year	0	0	0	0
<b>Total non-current receivables and other assets</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>53</b>

This item consists exclusively of security deposits.

#### **Deferred tax assets**

Deferred tax assets refer to savings from prior year fiscal losses and to temporary differences between amounts declared for tax purposes and amounts recognized in the financial statements, estimated at the tax rates expected to be applicable at the time of use. There were no changes in this item during the period, except for a different classification between current and non-current.

Deferred tax assets by type are listed below:

<b>EUR/000</b>	<b>31 December 2006</b>	<b>30 June 2006</b>	<b>31 December 2005</b>
Prior year fiscal losses	2,001	2,001	2,757
Temporary differences	2,536	2,536	2,529
<b>Total deferred tax assets</b>	<b>4,537</b>	<b>4,537</b>	<b>5,286</b>

## NON-CURRENT LIABILITIES

### Employee benefits

Movements for the period show a net increase of €133 thousand in the provision for employee severance indemnities, from €803 thousand at 30 June 2006 to €936 thousand at 31 December 2006. The balance represents the actuarial value of the Group's effective liability to employees, calculated by an independent actuary in accordance with IAS 19.

Movements in the provision for employee severance indemnities are shown below:

EUR/000	2006	2005
<b>Provision for employee severance indemnities at start of period</b>	<b>803</b>	<b>626</b>
Withdrawals for termination of service	(14)	(43)
Provisions during the half-year	179	120
Actuarial adjustment	(32)	3
<b>Provision for employee severance indemnities at end of period</b>	<b>936</b>	<b>706</b>

The Group has no supplementary pension plans in course.

### Non-current provisions

These refer to the provision for agents' indemnities, which changed as follows during the year:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Provision for agents' indemnities	(202)	(155)	(116)	(86)
<b>Total</b>	<b>(202)</b>	<b>(155)</b>	<b>(116)</b>	<b>(86)</b>

The only change concerned provisions of €17 thousand during the period.

### Other non-current payables and liabilities

At 31 December 2006, as in previous periods, there were no other non-current payables or liabilities.

## NET DEBT

Net debt with respect to 31 December 2005 grew by €7,147 thousand (+18.1%), due to the higher business volumes during the period. Since the increase in net working capital amounted to €2,055 thousand and the company paid €1,117 thousand in dividends during the period, the trend in net debt is line with expectations. For a further analysis of cash flow, see the consolidated cash flow statement attached to this report.

The breakdown of net debt with comparative figures at 30 June 2005 is as follows:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Cash and cash equivalents	5,371	3,994	3,757	1,614
Short-term payables to banks	(39,179)	(19,087)	(27,464)	(11,715)
Other current financial liabilities	(8,093)	(1,351)	(10,371)	2,278
<b>Current net debt</b>	<b>(41,901)</b>	<b>(16,444)</b>	<b>(34,078)</b>	<b>(7,823)</b>
Non-current financial assets	0	0	0	0
Non-current payables to banks	(2,925)	(1,006)	(1,879)	(1,046)
Other non-current financial liabilities	(1,895)	(3,291)	(3,617)	1,722
<b>Non-current net debt</b>	<b>(4,820)</b>	<b>(4,297)</b>	<b>(5,496)</b>	<b>676</b>
<b>Total net debt</b>	<b>(46,721)</b>	<b>(20,741)</b>	<b>(39,574)</b>	<b>(7,147)</b>

### Current net debt

Current net debt is made up as follows:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A- C)
Cash and cash equivalents	5,371	3,994	3,757	1,614
Short-term payables to banks	(39,179)	(19,087)	(27,464)	(11,715)
Other current financial liabilities	(8,093)	(1,351)	(10,371)	2,278
<b>Total</b>	<b>(41,901)</b>	<b>(16,444)</b>	<b>(34,078)</b>	<b>(7,823)</b>

Cash and cash equivalents are comprised of sight deposits at banks, securities and money market funds used as short-term investments of cash (€2,084 thousand), and a Quadrante policy taken out by Digital Bros S.p.A. on 21 October 2002 in connection with the Montepaschivita insurance scheme (€253 thousand).

Short-term payables to banks are comprised of account overdrafts, import-export financing, advances on invoices, advances subject to collection, and the portion of bank loans due within 12 months.

Other current financial liabilities consist of the portion of finance leases held with Intesa Leasing and SanPaolo Leasint falling due within 12 months of the close of the period, recognized in the amount of €158 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 €7,935 thousand.

## Non-current net debt

Non-current net debt is made up as follows:

EUR/000	31 December 2006 (A)	30 June 2006 (B)	31 December 2005 (C)	Change (A-C)
Non-current financial assets	0	0	0	0
Non-current payables to banks	(2,925)	(1,006)	(1,879)	(1,046)
Other non-current financial liabilities	(1,895)	(3,291)	(3,617)	1,722
<b>Non-current net debt</b>	<b>(4,820)</b>	<b>(4,297)</b>	<b>(5,496)</b>	<b>676</b>

Non-current payables to banks are comprised of two five-year loans taken out in 2005 from San Paolo IMI and UniCredit Banca d'Impresa and one five-year loan taken out on 15 November 2006 from Banca Intesa to finance medium/long-term investments. 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. During the half-year, principal was paid back in the amount of €123 thousand.

Non-current payables to banks also include the amounts due beyond 12 months on non-hedge derivatives (€790 thousand), which at 30 June 2006 were classified as other financial payables. 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 December 2006 to which hedge accounting does not apply are as follows:

- an interest rate swap taken out on 27 December 2004 with San Paolo IMI, maturing on 28 December 2009 with a notional principal amount of €20,000,000.00. Under this arrangement the Company 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, 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

Movements in capital and reserves during the half-year are detailed below:

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)
<b>Total at 30 June 2006</b>	<b>5,644</b>	16,954	1,129	1,367	(9)	<b>19,441</b>	<b>(671)</b>	<b>965</b>	<b>3,823</b>	<b>4,788</b>	<b>29,202</b>
Allocation of net profit for the period						<b>0</b>		3,823	(3,823)	<b>0</b>	<b>0</b>
Payment of dividends						<b>0</b>		(1,117)		<b>(1,117)</b>	<b>(1,117)</b>
Other changes					2	<b>2</b>		(20)		<b>(20)</b>	<b>(18)</b>
Net profit for the period						<b>0</b>			3,478	<b>3,478</b>	<b>3,478</b>
<b>Total at 31 December 2006</b>	<b>5,644</b>	16,954	1,129	1,367	(7)	<b>19,443</b>	<b>(671)</b>	3,651	3,478	<b>7,129</b>	<b>31,545</b>

Details of movements during the half-year to 31 December 2006 are attached to this report.

The share capital is divided into 14,110,838 ordinary shares with par value of €0.4 each, for a total of €5,644,334.80. There are no other types of shares outstanding.

On 14 December 2006 Digital Bros S.p.A. made a dividend payment of €1,117 thousand for a unit dividend of €0.08 approved by the shareholders' meeting of 30 October 2006.

During the period ended 31 December 2006, no treasury shares were purchased or sold.

## **SIGNIFICANT SUBSEQUENT EVENTS**

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In early February 2007, Digital Bros signed 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.

Mid-February 2007: The Digital Bros Group and the RCS Group sign a deal for the creation of a joint venture called RCSDB Games S.p.A. The new company, combining the many years' experience of the Digital Bros Group in the digital entertainment industry and in online gaming with the internet visibility of RCS Quotidiani, will present itself as the first online entertainment portal.

## **OUTLOOK**

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

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

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

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

## **CONTINGENT ASSETS AND LIABILITIES**

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In May 2006, the parent company was audited by the local revenue office with regard to direct taxes and VAT for fiscal year 2002-2003. 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 December 2006, at 31 December 2005 or at 30 June 2006.

## **RELATED PARTY TRANSACTIONS**

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In accordance with CONSOB Communications DAC/RM/97001574 of 20 February 1997 and DAC/98015375 of 27 February 1998, it is hereby reported that all commercial and financial transactions between Digital Bros Group companies and their direct subsidiaries and associates have been conducted under arm's-length conditions.

### *Non-consolidated subsidiaries*

Key figures for the non-consolidated company D3DB S.r.l., held 50%, are as follows:

<b>EUR/000</b>	<b>31 December 2006</b>
Assets	1,217
Capital and reserves	5
Liabilities	1,212
Revenues	134
Costs	140
Net profit for the year	(6)

### *Other related parties*

Transactions with other related parties consist of the legal counsel provided by director Dario Treves, for which €81 thousand was paid during the year, and the consulting performed by director Umberto Virri who received €2 thousand for his work.

Directors Abramo and Raffaele Galante have an ongoing commitment to secure Servizi 5 S.r.l.'s debt to Digital Bros S.p.A. For the period under review the debt was reduced by €155 thousand, from €1,542 thousand to €1,387 thousand, in line with the repayment plan drawn up on 25 February 2004.