Consolidated and Separate Financial Statements for the year ended 30 June 2016

Digital Bros S.p.A.
Via Tortona, 37 – 20144 Milan, Italy
VAT No. and tax code 09554160151
Share capital: Euro 5,644,334.80 fully paid
Milan Companies Register No. 290680 - Vol. 7394 Chamber of Commerce No. 1302132

This report can be downloaded from the Company's website
at www.digitalbros.com in the Investors section

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BOARD OF DIRECTORS AND SUPERVISORY BODIES

Board of Directors

Lidia Florean	Director (2)
Abramo Galante	Chairman and managing director (1)
Davide Galante	Director (2)
Raffaele Galante	Managing director (1)
Guido Guetta	Director (3)
Elena Morini	Director (3)
Stefano Salbe	Director (1) (4)
Bruno Soresina	Director (3)
Dario Treves	Director (2)

(1) Executive directors
(2) Non-executive directors
(3) Independent directors
(4) Financial reporting manager pursuant to Art. 154 bis of Legislative Decree 58/98

Internal control and risk committee	**Remuneration committee**
Guido Guetta (Chairman)	Guido Guetta (Chairman)
Elena Morini	Elena Morini
Bruno Soresina	Bruno Soresina

Board of statutory auditors

Paolo Villa	Chairman
Emanuela Maria Conti	Acting auditor
Simone Luigi Dalledonne	Acting auditor

The shareholders' meeting of 28 October 2014 appointed the members of the Board of Directors and Board of Statutory Auditors. The terms of office of the directors and statutory auditors will end with the shareholders' meeting held to approve the financial statements for the year ending 30 June 2017.

On 14 January 2016 Sergio Amendola resigned from his position as Chairman of the Board of Statutory Auditors. The acting auditor, Paolo Villa, became Chairman of the Board of Statutory Auditors, whereas Emanuela Maria Conti took up the position of acting auditor. On 20 June 2016 the acting auditor Laura Guazzoni tendered her resignation. Simone Luigi Dalledonne took up the position of acting auditor.

On 7 August 2007 the Board of Directors appointed the board member Stefano Salbe to the position of financial reporting manager pursuant to Art. 154 bis of Legislative Decree 58/98 and granted him adequate powers.

External auditors

Deloitte & Touche S.p.A.

On 26 October 2012 the shareholders in general meeting appointed Deloitte & Touche S.p.A, Via Tortona 25, Milan, as external auditors up to the approval of the financial statements for the year ending 30 June 2021.

Other information

Publication of the consolidated financial statements of Digital Bros S.p.A. Group for the year ended 30 June 2016 was authorised by resolution of the Board of Directors on 13 September 2016. Digital Bros S.p.A. is a company limited by shares incorporated and domiciled in Italy. It is listed on the STAR segment of the MTA market managed by Borsa Italiana S.p.A.

DIRECTORS' REPORT

1. GROUP STRUCTURE

Digital Bros Group develops, publishes, distributes and markets video games on an international scale.

During the year the Group's organisational structure and related responsibilities were revised. A decision was made to move from an organisation based on its distribution channels, International Publishing and Mobile, to an organisation based on the type of games published, Premium Games and Free to Play. The structure of the Development, Italian Distribution, Other Activities and Holding operating segments has remained unchanged.

The change made to the organisational structure was needed to reflect the various production, product positioning, marketing and financial planning mechanisms that are a feature of Free to Play games, unlike traditional paid games, known as Premium Games. Initially, the publishing of Free to Play games was more or less limited to the Apple and Google marketplaces, while the Sony and Microsoft console marketplaces offered solely traditional Premium games and, with the expansion of the console market to Free to Play, there was no longer a need for a distribution channel based organisation as opposed to an organisation based on the type of games published.

Accordingly, the Group is organised into five operating segments:

***Development*:** the Development operating segment designs and develops video games and similar applications. Its operations are conducted through a dedicated organisational structure. The operating segment undertakes development projects on behalf of Group companies and external customers. This work is performed solely by Pipeworks Inc.

Premium Games: its operations consist of the acquisition of video game content exploitation rights from developers and the subsequent distribution of the games through a traditional international sales network and via digital marketplaces such as Steam, Sony PlayStation Network and Microsoft Xbox Live.

The video games are normally acquired under exclusive licence and with international exploitations rights valid for several years. The Group operates globally in the Premium Games segment under the 505 Games brand.

Premium Games' operations were conducted during the period by the subsidiary 505 Games S.p.A., which coordinates the operating segment, together with 505 Games France S.a.s., 505 Games Ltd., 505 Games (US) Inc., 505 Games Spain Slu and 505 Games GmbH, which operate in the French, UK, U.S., Spanish and German markets, respectively. 505 Games Interactive (US) Inc. provides consulting services on behalf of 505 Games S.p.A. The Swedish company, 505 Games Nordic AB, was dormant during the period and has been put into liquidation.

Free to Play: Its operations consist of the development, inclusive of via the Group's organisational structures, and the publishing of video games that are made available to the public free of charge and that allow the gamer to purchase credits to use during the various stages of the game. With respect to Premium video games, Free to Play games are usually simpler and have a longer lifespan, given that the video game is continuously developed and improved subsequent to its launch, in order to encourage the public to continue playing and to spend money on the game.

The operating segment is coordinated by the subsidiary 505 Mobile S.r.l., which coordinates the U.S. company 505 Mobile (US) Inc., an internal provider of consulting services, the UK company DR Studios Ltd., a developer of Free to Play games and the subsidiary Game Entertainment S.r.l., a publisher of completely free Free to Play games that, however, generate advertising revenue.

The Group operates globally in this segment under the 505 Mobile brand.

Italian Distribution: this consists of the distribution in Italy of video games purchased from international publishers. The games are marketed through a direct sales network of key accounts and through an indirect sales network comprised of sales agents.

These operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand and by the subsidiary Game Service S.r.l. as far as alternative distribution channels are concerned.

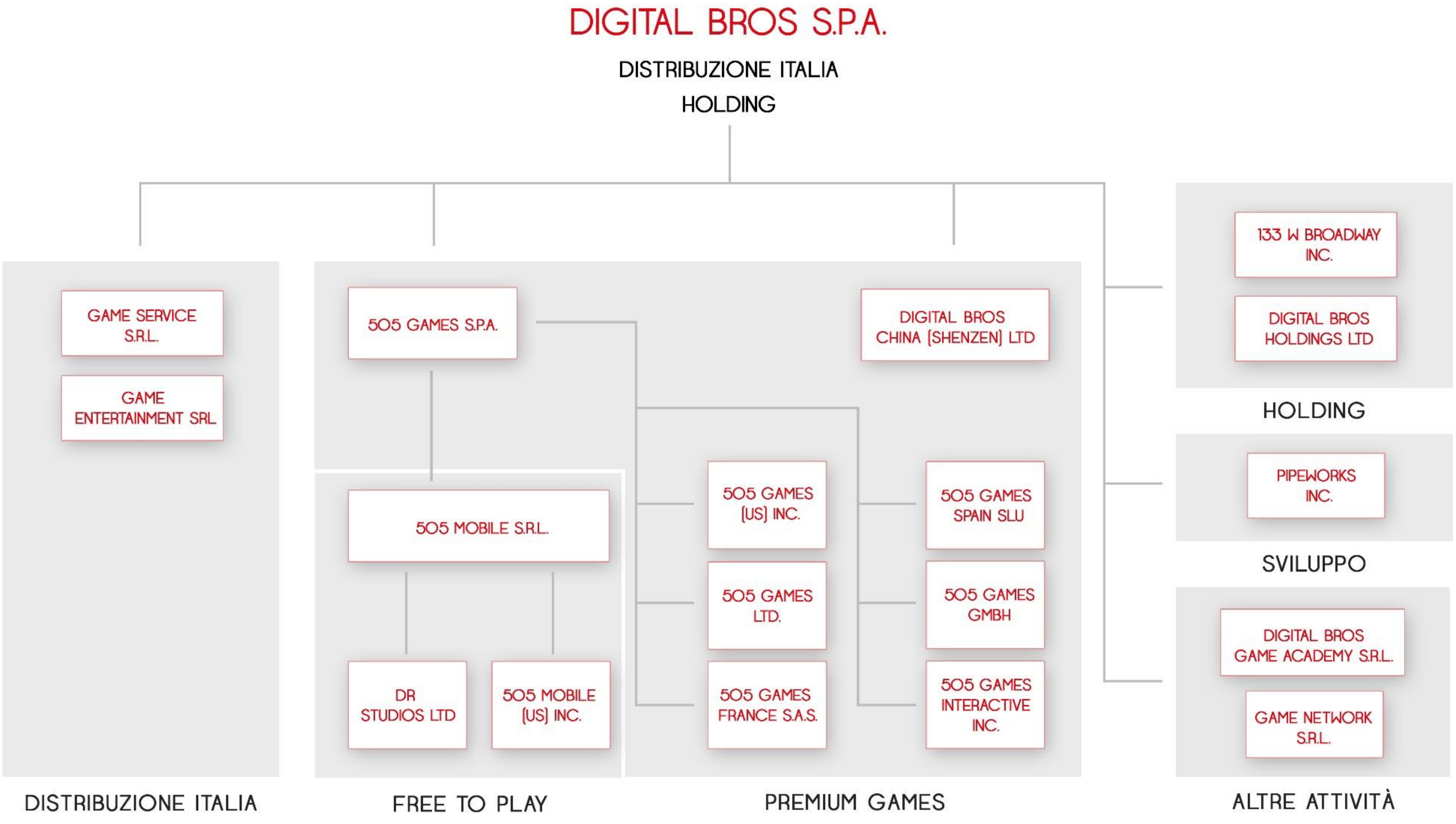
The Group also distributes the Yu-Gi-Oh! trading card game in Italy.

Other Activities: this operating segment handles all of the Group's less significant activities, which are thus allocated to a separate operating segment for a logical presentation of the results. It includes the operations of the subsidiary Game Network S.r.l., which manages paid games under concession from AAMS (Italian State Monopoly Administration) and the operations of the subsidiary Digital Bros Game Academy S.r.l., which organises specialist IT and gaming courses, training courses and professional update courses, inclusive of through the use of multimedia.

Holding**:** this includes all the coordinating functions carried out directly by Digital Bros S.p.A. on behalf of the various operating segments, particularly the implementation of sound financial policies to support the Group’s operations, the management of the Group's property, brand management and the management of equity investments. The Holding operating segment also handles administration, management control and business development.

Details are provided below of the Group structure at 30 June 2016. All the investee companies shown are 100% held.

GROUP STRUCTURE AT 30 JUNE 2016



During the period, the Group operated from the following locations:

Company	Address	Function
Digital Bros S.p.A.	Via Tortona 37, Milan	Offices
Digital Bros S.p.A.	Via Boccaccio 95, Trezzano sul Naviglio (MI)	Logistics
133 W. Broadway, Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, U.S.A.	Offices
Digital Bros China (Shenzhen) Ltd.	Tao Yuan Road, Nanshan district, Shenzhen 518062, China	Offices
Digital Bros Game Academy S.r.l.	Via Labus, 15 Milan	Offices
Digital Bros Holdings Ltd.	402 Silbury Court, Silbury Boulevard, Milton Keynes, U.K.	Offices
DR Studios Ltd.	4 Linford Forum, Rockingham Drive, Milton Keynes, U.K.	Offices
Game Entertainment S.r.l.	Via Tortona 37, Milan	Offices
Game Network S.r.l.	Via Tortona 37, Milan	Offices
Game Service S.r.l.	Via Tortona 37, Milan	Offices
Pipeworks Inc.	133 W. Broadway, Suite 200 Eugene, Oregon, U.S.A.	Offices
505 Games S.p.A.	Via Tortona 37, Milan	Offices
505 Games France S.a.s.	2, Chemin de la Chauderaie, Francheville, France	Offices
505 Games Spain Slu	Calle Cabo Rufino Lazaro 15, Las Rozas de Madrid, Spain	Offices
505 Games Ltd.	402 Silbury Court, Silbury Boulevard, Milton Keynes, UK	Offices
505 Games (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
505 Games GmbH	Brunnfeld 2-6, Burglengenfeld, Germany	Offices
505 Games Interactive (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
505 Mobile S.r.l.	Via Tortona 37, Milan	Offices
505 Mobile (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices

505 Games Nordic AB, which is based in Stockholm, was put into liquidation during the course of the period.

At 30 June 2016 the Group held equity investments in the associates listed below:

Name	Head office	Holding	Carrying amount
Delta DNA Ltd. (1)	Edinburgh, UK	1.12%	60
Ebooks&Kids S.r.l.	Milan	16%	200
Cityglance S.r.l.	Milan	42.5%	46
Ovosonico S.r.l.	Varese	28.58%	420
Seekhana Ltd.	Milton Keynes, UK	28.34%	173
Total equity investments			**898**

(1) formerly Games Analytics Ltd.

More information is provided in Note 5.

2. THE VIDEO GAMES MARKET

The video games market is part of the broader entertainment industry. Films, publishing, video games and toys are sectors that share the same characters, brands, distinctive features and intellectual property.

The market is in constant flux and is expanding quickly as a result of non-stop technological advances. Gaming is no longer limited to traditional consoles like the various iterations of Sony Playstation and Microsoft Xbox, but has expanded to mobile phones, tablets, etc. Widespread connectivity at increasingly lower costs and the availability of fibre optic networks and high speed mobile networks enable video games to become increasingly diversified, sophisticated and interactive. The widespread use of smartphones by the entire population, of all ages and walks of life, has led to creativity being expressed in a completely new manner, generating forms of entertainment dedicated to the adult public and the female public.

As is the case for almost all technological markets, the video games market for the Sony Playstation and Microsoft Xbox is cyclical as it is linked to the stage of development of the consoles for which the video games are developed. With the rollout of a given console, prices of the hardware and the video games designed therefor are high and relatively small quantities are sold. During their lifespan, console and game prices gradually go down, as they progress from new releases to maturity and the quantities sold increase along with the quality of the video games. The video games market for a given console usually peaks in its fifth year on the market. The lifespan for consoles is currently around seven years. The Sony Playstation 4 and Microsoft Xbox One consoles were launched in November 2013.

High quality video games with high sales potential, in addition to being marketed on the digital marketplaces, are also produced physically and distributed through the sales networks. In this case, the value chain is as follows:

Developers are those who create and program a game, which is usually based on an original idea, a successful brand, a film or sports simulations, etc. The developers retain the intellectual property rights, but they transfer the exploitation rights for a limited amount of time, as agreed by contract, to international video game publishers, which are therefore crucial for completing the game, for raising its awareness, for enhancing its reputation and for distributing it internationally.

Publishers enable the game to reach the end consumer thanks to their direct and indirect international sales networks. They also finance the development phases of the game and implement appropriate communication and marketing strategies to maximise the game's global sales. The publisher decides on a game’s release schedule, its global pricing and sales policy and studies its product positioning and package design, while taking on all of the risks and, jointly with the developer, benefiting from all the opportunities that the video game may generate if it is a success.

The console manufacturer is the company that designs, engineers, produces and markets the hardware or platform on which consumers play the game. Sony is the Sony Playstation 4 console manufacturer, Microsoft is the Microsoft Xbox One console manufacturer and Nintendo is the Nintendo 3 DS and Nintendo Wii U console manufacturer. The console manufacturer stamps the game on behalf of publishers in facilities dedicated to the reproduction of software on the various physical storage devices used. The video game must be approved in advance by the manufacturer, through a structured process known as submission. Only publishers selected in advance will be allowed to publish games by the console manufacturer, according to a licensing publishing agreement. The console manufacturer and the video game publisher are often one and the same.

The role of the distributor varies from country to country. The more a market is fragmented, such as the Italian market, the more the distributor's role is integrated with that of the publisher, with the implementation of specific communication policies for the local market and the undertaking of public relations. In certain markets, such as the UK and the U.S., due to a high concentration of retailers, publishers usually have a direct commercial presence. The French and Spanish markets have an intermediate structure somewhere between the Italian and Anglo-Saxon markets.

The retailer is the outlet where the end consumer purchases a game. Retailers may be international chains specialised in the sale of video games, mass retail stores, specialised independent shops, or even online shopping web sites that sell directly to the public.

As distribution goes increasingly digital, console manufacturers have developed "marketplaces" whereby video games can be sold directly to the end consumer without the need for a distributor or retailer. The value chain is less complex for games distributed in digital format in the marketplaces and for those designed for smartphones and tablets, as indicated below:

The main marketplaces through which video games for consoles are sold to end consumers are: Sony's PlayStation Store, Microsoft's Xbox Live and Nintendo's eShop. Steam marketplace is the global leader in the digital distribution of games for personal computers. Through its subsidiaries, the Group has entered into distribution contracts with all of the marketplaces mentioned.

The increased weighting of sales via digital marketplaces has made it possible for publishers to extend the lifespan of products by the distribution of additional game episodes (so-called DLC, or downloadable content), which are aimed at encouraging those who have purchased the game to continue playing and also make it possible to offer promotions throughout the year that significantly increase sales over a limited period.

Free to Play video games are offered to the public solely in a digital format and, thus, as part of the second value chain presented. The marketplaces used are the App Store for iPhone and iPad video games and the Play Store for Android video games. Recently, the Group published Free to Play video games on Sony's and Microsoft's marketplaces for consoles and on Steam for personal computers.

3. MARKET SEASONALITY

Seasonality is influenced by the launch of successful products, given that quarter-on-quarter results can be volatile depending on whether or not a popular new game is released. In fact, the launch of these products leads to a concentration of sales in the first few days following their release.

The seasonal pattern is even more pronounced for a video game publisher, which usually releases a limited number of games over a 12-month period, whereas a distributor can count on a steady stream of new products, as its business is to sell different publishers' games in a given geographical market. The launch of a game in one quarter as opposed to another concentrates sales in a restricted period of time, thus magnifying the volatility of earnings between different quarters and/or different years.

The publication and distribution of video games in the digital marketplace partially reduces the volatility of a publisher's results from one quarter to the next. In fact, in the event of digital distribution, revenue is recognised when the end consumer purchases a game from the marketplace. This process occurs more gradually over time and not prevalently in the days immediately after the launch, unlike traditional distribution, for which revenue is recognised at the time of shipment of the finished product to the distributor/dealer, regardless of whether it has been purchased by the end consumer.

The fact that it is possible to offer product promotions on the main marketplaces in a fairly rapid and effective manner tends to concentrate revenue during such periods. It is evident that publishers try to plan their promotional campaigns for the more favourable phases of the market, such as the Christmas season for European markets or Black Friday for the American market.

The trend in Free to Play video games revenue is less influenced by seasonality factors than Premium video games, given that, up till now, successful Free to Play video games have achieved revenue growth over time without any particular peaks over the launch period, with certain rare exceptions relating to Free to Play video games that had been highly anticipated and with well known brands. The impact of promotions on revenue trends is significant, but, unlike the Premium video games market, promotions are frequently repeated after fairly short intervals and thus do not create distortive effects on the monthly video games revenue trend.

The financial position is also closely linked to the revenue trend. The physical distribution of a product in a quarter entails the concentration of net working capital investment, which is temporarily reflected by the level of net debt until such time as the related sales revenue is collected. This factor is accentuated by the launch of Premium products, which also require investment in the physical production of a game.

4. SIGNIFICANT EVENTS DURING THE YEAR

The main events during the period were as follows:

- Digital Bros S.p.A. purchased 3,466,910 Starbreeze B shares for a total amount of Euro 3,708 thousand and disposed of 4,667,601 shares for a total amount of Euro 6,744 thousand. In the same period, it purchased 2,068,133 Starbreeze A ordinary shares for a total amount of Euro 2,291 thousand;
- in August and September 2015, Digital Bros S.p.A. sold on the open market 270,000 treasury shares for a total amount of Euro 3,045 thousand. The number of treasury shares held at the end of the year equated to 130,247 ordinary shares;
- on 2 September 2015 Digital Bros S.p.A. set up a company named Digital Bros China (Shenzhen) Ltd. based in Shenzhen, China, which performs a marketing and business development role in China on behalf of the Group companies. Its capital amounts to Euro 100 thousand;
- on 11 September 2015 the Group signed an undertaking to subscribe to a capital increase of the Italian video games developer, Ovosonico S.r.l., amounting to Euro 720 thousand, inclusive of a share premium. The increase will take place in various stages and will lead to Digital Bros S.p.A. holding a 49% equity interest on completion of the process, which is expected to be on 31 December 2016. The company is based in Varese and employs approximately 25 persons. Among the products already developed thereby, Murasaki Baby, an award-winning video game published by Sony Computer Entertainment, merits a special mention. During the financial year two payments were made totalling Euro 420 thousand, of which Euro 28,583 equated to the par value and Euro 391,417 was paid as share premium, corresponding to 28.58% of the company's capital;

- on 8 January 2016 a company named 133 W. Broadway, Inc was set up. The company, which is located in the United States, is wholly controlled by Digital Bros S.p.A. and its capital amounts to 100 thousand dollars. In February the company purchased the property located in Eugene, Oregon, from which the subsidiary Pipeworks Inc. had been conducting its operations and it entered into a lease agreement therewith;

- on 11 January 2016 the general meeting of quotaholders of 505 Games S.r.l. approved the transformation of the company to an S.p.A., with its capital consisting of 1,000,000 shares with a par value of Euro 1 each. The company's new name is 505 Games S.p.A. Its head office, duration and financial year end have remained unchanged and the Board of Directors has been confirmed up to the end of its mandate. The general meeting also approved a bonus capital increase amounting to Euro 900 thousand, from Euro 100 thousand Euro 1,000 thousand, by means of the issue of 900,000 shares with a par value of Euro 1 each, via the partial use of retained earnings;

- on 13 January 2016 Digital Bros Holdings Ltd. was set up. The company, which is located in the United Kingdom, is wholly controlled by Digital Bros S.p.A. and its capital amounts to 100 thousand pounds. The company will act as a sub-holding company for the equity interests held by the Group in all the UK companies;

- 505 Games S.p.A. sold its PAYDAY2 rights to Starbreeze AB on 30 May, with the exception of the rights relating to the console versions of PAYDAY2. The sale consideration amounted to 249.3 million Swedish Krona, equating to approximately 30 million U.S. dollars, which was paid through the issue of 10,934,211 new Starbreeze B shares.

5. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2016

	Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015		Change	
1	Gross revenue	110,192	102.8%	121,244	104.5%	(11,052)	-9.1%
2	Revenue adjustments	(2,977)	-2.8%	(5,254)	-4.5%	2,278	-43.3%
3	**Net revenue**	**107,215**	**100.0%**	**115,990**	**100.0%**	**(8,775)**	**-7.6%**
4	Purchase of products for resale	(21,193)	-19.8%	(34,104)	-29.4%	12,911	-37.9%
5	Purchase of services for resale	(5,580)	-5.2%	(5,374)	-4.6%	(207)	3.8%
6	Royalties	(23,851)	-22.2%	(28,328)	-24.4%	4,476	-15.8%
7	Changes in inventories of finished products	(948)	-0.9%	(1,898)	-1.6%	950	-50.1%
8	**Total cost of sales**	**(51,572)**	**-48.1%**	**(69,704)**	**-60.1%**	**18,132**	**-26.0%**
9	**Gross profit (3+8)**	**55,643**	**51.9%**	**46,286**	**39.9%**	**9,357**	**20.2%**
10	Other income	5,714	5.3%	2,295	2.0%	3,419	n.m.
11	Cost of services	(13,425)	-12.5%	(11,660)	-10.1%	(1,766)	15.1%
12	Lease and rental charges	(1,555)	-1.5%	(1,548)	-1.3%	(7)	0.5%
13	Labour costs	(19,861)	-18.5%	(17,926)	-15.4%	(1,935)	10.8%
14	Other operating costs	(1,421)	-1.3%	(1,371)	-1.2%	(50)	3.6%
15	**Total operating costs**	**(36,262)**	**-33.8%**	**(32,505)**	**-28.0%**	**(3,758)**	**11.6%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**25,095**	**23.4%**	**16,076**	**13.9%**	**9,020**	**56.1%**
17	Depreciation and amortisation	(3,788)	-3.5%	(2,920)	-2.5%	(868)	29.7%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment losses recognised on assets	(1,080)	-1.0%	(1,455)	-1.3%	376	-25.8%
20	Reversal of impairment losses and non-monetary income	588	0.5%	641	0.6%	(53)	-8.3%
21	**Total non-monetary income and operating costs**	**(4,280)**	**-4.0%**	**(3,734)**	**-3.2%**	**(547)**	**14.6%**
22	**Operating margin (EBIT) (16+21)**	**20,815**	**19.4%**	**12,342**	**10.6%**	**8,474**	**68.6%**
23	Interest and finance income	3,093	2.9%	3,939	3.4%	(847)	-21.5%
24	Interest expense and finance costs	(5,570)	-5.2%	(2,027)	-1.7%	(3,545)	n.m.
25	**Net finance income (costs)**	**(2,477)**	**-2.3%**	**1,912**	**1.6%**	**(4,388)**	**n.m.**
26	**Profit before tax (22+25)**	**18,338**	**17.1%**	**14,254**	**12.3%**	**4,085**	**28.7%**
27	Current tax	(6,644)	-6.2%	(3,897)	-3.4%	(2,746)	n.m.
28	Deferred tax	845	0.8%	(1,252)	-1.1%	2,097	n.m.
29	**Total income tax expense**	**(5,799)**	**-5.4%**	**(5,149)**	**-4.4%**	**(650)**	**12.6%**
30	**Profit for the year (26+29)**	**12,539**	**11.7%**	**9,105**	**7.8%**	**3,435**	**37.7%**
	Earnings per share:						
33	**Basic earnings per share (in euros)**	**0.90**		**0.67**		**0.23**	**34.9%**
34	**Diluted earnings per share (in euros)**	**0.90**		**0.67**		**0.23**	**34.9%**

Note: "n.m." in this and the tables which follow stands for not meaningful

The Group's gross revenue amounted to Euro 110,192 thousand and which fell in the year by Euro 11,052 thousand. Net revenue fell by 7.6% to Euro 107,215 thousand from the amount reported for the year ended 30 June 2015 of Euro 115,990 thousand.

A breakdown is provided below of revenue by operating segment for the years ended 30 June 2016 and 2015:

Euro thousand	**Gross revenue**				**Net revenue**			
	2016	**2015**	**Change**		**2016**	**2015**	**Change**	
Premium Games	83,204	92,190	(8,986)	-9.7%	81,556	88,561	(7,005)	-7.9%
Italian Distribution	19,231	24,529	(5,298)	-21.6%	17,958	23,044	(5,086)	-22.1%
Free to Play	5,275	2,671	2,604	97.5%	5,275	2,671	2,488	97.5%
Development	1,736	1,565	171	10.9%	1,736	1,565	171	10.9%
Other Activities	746	289	457	158.1%	690	149	541	363.1%
Total gross revenue	**110,192**	**121,244**	**(11,052)**	**-9.1%**	**107,215**	**115,990**	**(8,775)**	**-7.6%**

Revenue fell in line with the trend in sales of the Premium Games operating segment, due to the absence of launches of significant new products that have been postponed to the coming financial year, as well as the trend in Italian Distribution revenue, whereas the revenue generated by Free to Play operating segment almost doubled.

Revenue attributable to the Premium Games operating segment accounted for the most significant portion of the Group's sales. The operating segment's revenue fell by Euro 8,986 thousand, despite the sale of rights relating to PAYDAY2 for Euro 26,832 thousand. Details are provided below of gross revenue by video game:

Amounts in Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**
Terraria	19,113	20,936	(1,823)
PAYDAY 2	15,741	33,429	(17,688)
Sniper Elite V3	8,260	30,144	(21,884)
Rocket League	5,833	0	5,833
Brothers	2,312	1,010	1,302
How to Survive	1,583	2,320	(737)
Portal Knights	1,264	0	1,264
Sniper Elite V2	253	1,760	(1,507)
Other products	2,013	2,591	(578)
Sale of PAYDAY 2 rights	26,832	0	26,832
Total Premium Games gross revenue	**83,204**	**92,190**	**(8,986)**

The most evident decreases were those relating to sales of the Sniper Elite V3 video game of Euro 21,884 thousand, with this game having failed to replicate the sales achieved in the prior year immediately after its launch, and to PAYDAY 2 of Euro 17,688 thousand. Terraria achieved revenue of Euro 19,113 thousand, which fell in the year by 10%. There were no significant launches during the year, with the exception of Rocket League, for which distribution commenced exclusively in the retail market in the last week of June. Worth noting are the sales achieved by Portal Knights, which was launched experimentally in February solely on the Steam Early Access platform and which generated revenue of Euro 1,264 thousand in less than five months.

The decrease in revenue reported by the Italian Distribution operating segment of Euro 5,298 thousand was attributable to a significant drop in sales of Yu-Gi-Oh! trading cards, whereas growth was recorded in video game distribution revenue thanks to the launch on the Italian market of the Metal Gear Solid V and PES 2016 video games that were well received by the public.

Revenue reported by the Free to Play operating segment almost doubled to Euro 5,275 thousand. Despite the absence of new product launches that have been postponed to the coming financial year, the operating segment benefited from the positive trend in sales of the Battle Island (developed by the subsidiary DR Studios) and Gems of War video games.

The Development operating segment's revenues amounted to Euro 1,736 thousand and related to sales that the U.S. developer, Pipeworks Inc., completed to meet development orders placed by non-Group customers.

The Other Activities operating segment's revenue includes Fantasfida revenue. Fantasfida is a Daily Fantasy Sport, a game which is particularly popular in the United States, being a game of skill in which the gamer fields a virtual team of champions of different sports and participates upon payment of a fee in a tournament with cash prizes.

Cost of sales fell by 26%, which in percentage terms exceeded the decrease in revenue, having gone from Euro 69,704 thousand to Euro 51,572 thousand, thus contributing to a 20.2% increase in gross profit to Euro 55,643 thousand for the year ended 30 June 2016.

Other income was fairly significant and amounted to Euro 5,714 thousand, in comparison to the prior year amount of Euro 2,295 thousand. It consists of the capitalisation of internal work on development projects undertaken by the subsidiaries Pipeworks Inc. and DR Studios Ltd. on behalf of the Group, being costs relating to the development of the Prominence Poker video game. Last year the amount in question was smaller, since the development companies acquired were only consolidated as from the month of September and Pipeworks Inc. had performed work mainly for third party customers, which was not the case in the year just ended as the result of better integration of the companies into the Group structure.

Operating costs rose by Euro 3,758 thousand (11.6%), having gone from Euro 32,505 thousand in the year ended 30 June 2015 to Euro 36,262 thousand in the year ended 30 June 2016. It is worth pointing out that the trend in operating costs was significantly impacted by the operating costs incurred for Fantasfida of Euro 3,107 thousand.

Cost of services, of which Euro 2,291 thousand related solely to advertising costs incurred for the launch of Fantasfida, increased by Euro 1,766 thousand (15.1%) in the year.

The increase in labour costs of Euro 1,935 thousand (10.8%) was attributable to the acquisition of two development studios, which last year were consolidated as from the month of September, but also to the growth of the organisational structures pertaining to Premium Games and Free to Play to handle the significant capital investment in new video games that the Group made in the last twenty four months and that will be launched during the course of the coming financial year.

The gross operating margin amounted to Euro 25,095 thousand, compared to the amount reported for the year ended 30 June 2015 of Euro 16,076 thousand.

Non-monetary operating costs, net of non-monetary income, increased by Euro 547 thousand mainly due to an increase in depreciation and amortisation of Euro 868 thousand attributable to the investment made by the Group on the acquisitions of 100% of Pipeworks Inc. and DR Studios Ltd. Impairment losses recognised on assets of Euro 1,080 thousand decreased in the year by Euro 376 thousand, whereas the reversal of impairment losses and non-monetary income decreased by Euro 53 thousand. The reversal of impairment losses relates to the reversal of the payable of Euro 588 thousand to the sellers of DR Studios Ltd. due to the fact that conditions were not met for the payment of an earn-out that would have fallen due in September 2016. This led to a simultaneous writedown of Euro 425 thousand of the assets allocated following the acquisition. The residual component of impairment losses recognised on assets of Euro 655 thousand relates to an allocation to the provision for doubtful debts.

The operating margin increased by Euro 8,474 thousand (68.6%), having gone from Euro 12,342 thousand for the year ended 30 June 2015 to Euro 20,815 thousand for the year just ended.

Net finance costs amounted to Euro 2,477 thousand compared to net income of Euro 1,912 thousand achieved in the previous year. Interest and finance income decreased by Euro 847 thousand due to exchange gains of Euro 1,429 thousand that compared to prior year exchange gains of Euro 3,193 thousand, partially offset by gains recognised on the sale of Starbreeze B shares of Euro 1,494 thousand. Interest expense and finance costs amounted to Euro 5,570 thousand, having increased in the year by Euro 3,545 thousand due to the year end market value measurement of the Starbreeze B shares that generated a loss of Euro 3,769 thousand. Finance costs, which amounted to Euro 667 thousand, decreased by Euro 250 thousand.

Profit before tax for the year ended 30 June 2016 came to Euro 18,338 thousand compared to prior year profit before tax of Euro 14,254 thousand. Profit for the year amounted to Euro 12,539 thousand, up 37.7% on profit for the year ended 30 June 2015 of Euro 9,105 thousand.

Basic and diluted earnings per share came to Euro 0.90, compared to prior year earnings per share of Euro 0.67.

The Group's results by operating segment, including through its subsidiaries, is presented in greater detail in Section 7.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

	Euro thousand	30 June 2016	30 June 2015	Change	
	Non-current assets				
1	Property, plant and equipment	7,032	4,841	2,191	45.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,458	7,946	2,512	31.6%
4	Equity investments	898	1,274	(376)	0.0%
5	Non-current receivables and other assets	1,056	1,058	(2)	-0.2%
6	Deferred tax assets	2,619	2,240	379	16.9%
	Total non-current assets	**22,064**	**17,359**	**4,704**	**27.1%**
	Non-current liabilities				
7	Employee benefits	(529)	(486)	(43)	8.8%
8	Non-current provisions	(36)	(170)	134	-79.1%
9	Other non-current payables and liabilities	(252)	(722)	470	-65.1%
	Total non-current liabilities	**(817)**	**(1,378)**	**561**	**-40.7%**
	Net working capital				
10	Inventories	11,933	12,881	(948)	-7.4%
11	Trade receivables	34,840	36,350	(1,509)	-4.2%
12	Current tax assets	2,019	2,466	(447)	-18.1%
13	Other current assets	5,034	6,148	(1,115)	-18.1%
14	Trade payables	(21,712)	(26,929)	5,217	-19.4%
15	Current tax liabilities	(6,211)	(3,029)	(3,182)	n.m.
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,312)	(1,726)	(586)	33.9%
	Total net working capital	**23,591**	**26,161**	**(2,570)**	**-9.8%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(20,804)	(19,417)	(1,387)	7.1%
20	Treasury shares	390	1,199	(809)	-67.5%
21	Retained earnings (accumulated losses)	(22,290)	(9,947)	(12,343)	n.m.
	Total equity	**(48,348)**	**(33,809)**	**(14,539)**	**43.0%**
	Total net assets	***(3,511)***	***8,333***	***(11,844)***	***n.m.***
22	Cash and cash equivalents	2,785	4,339	(1,554)	-35.8%
23	Current bank debt	(25,929)	(12,738)	(13,191)	n.m.
24	Other current financial assets and liabilities	28,913	1,685	27,228	n.m.
	Current net cash/debt	**5,769**	**(6,714)**	**12,483**	**n.m.**
25	Non-current financial assets	1,195	0	1,195	0.0%
26	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
27	Other non-current financial liabilities	(1,895)	0	(1,895)	0.0%
	Non-current net debt	**(2,258)**	**(1,619)**	**(639)**	**39.5%**
	Total net debt	***3,511***	***(8,333)***	***11,844***	***n.m.***

Non-current assets increased in the year by Euro 4,704 thousand due to net capital expenditure on property, plant and equipment of Euro 2,191 thousand, as a result of the purchase of the property located in Eugene, on net expenditure on intangible assets of Euro 2,512 thousand related mainly to internal development contracts and of an increase in deferred tax assets of Euro 379 thousand. There were minor changes in non-current receivables and other assets, whereas equity investments decreased by Euro 376 thousand attributable to:

- a decrease of Euro 969 thousand caused by the classification as other current financial assets of the Starbreeze A shares that were sold in July 2016;
- an increase of Euro 420 thousand due to the acquisition of a 28.58 % equity interest in Ovosonico S.r.l.;
- an increase of Euro 173 thousand relating to the subscription to 28.34% of the capital of Seekhana Ltd. that was set up in February 2016.

Non-current liabilities decreased by Euro 561 thousand due to the reversal of the earn-out payable arising from the agreement for the acquisition of DR Studios Ltd. of Euro 588 thousand, whereas the remainder was due to changes in employee benefits and non-current provisions.

Net working capital decreased in the year by Euro 2,570 thousand. An analysis of net working capital together with comparative figures at 30 June 2015 is provided below:

Euro thousand	**30 June 2016**	**30 June 2015**	**Change**	
Inventories	11,933	12,881	(948)	-7.4%
Trade receivables	34,840	36,350	(1,510)	-4.2%
Current tax assets	2,019	2,466	(447)	-18.1%
Other current assets	5,034	6,148	(1,114)	-18.1%
Trade payables	(21,712)	(26,929)	5,217	-19.4%
Current tax liabilities	(6,211)	(3,029)	(3,182)	n.m.
Current provisions	0	0	0	n.m.
Other current liabilities	(2,312)	(1,726)	(586)	33.9%
Total net working capital	**23,591**	**26,161**	**(2,570)**	**-9.8%**

Net cash amounted to Euro 3,511 thousand, representing an improvement of Euro 11,844 thousand compared to net debt of Euro 8,333 thousand at 30 June 2015.

An analysis of net cash/debt together with comparative figures at 30 June 2015 is provided below:

Euro thousand	**30 June 2016**	**30 June 2015**	**Change**	
Cash and cash equivalents	2,785	4,339	(1,554)	-35.8%
Current bank debt	(25,929)	(12,738)	(13,191)	n.m.
Other current financial assets and liabilities	28,913	1,685	27,228	n.m.
Current net cash/debt	**5,769**	**(6,714)**	**12,483**	**n.m.**
Non-current financial assets	1,195	0	1,195	0.0%
Non-current bank debt	(1,558)	(1,619)	61	-3.7%
Other non-current financial liabilities	(1,895)	0	(1,895)	0.0%
Non-current net debt	**(2,258)**	**(1,619)**	**(639)**	**39.5%**
Total net cash/debt	***3,511***	***(8,333)***	***11,844***	***n.m.***

The change is mainly due to an increase in other current financial assets and liabilities of Euro 27,092 thousand triggered by the classification therein of the Starbreeze A shares held by Digital Bros S.p.A. and which were sold in July 2016 and the Starbreeze B shares held by 505 Games S.p.A. of Euro 6,000 thousand and Euro 22,972 thousand, respectively and an increase in current bank debt of Euro 13,191 thousand.

For a more in-depth analysis of cash flow, reference should be to the consolidated statement of cash flows.

7. RESULTS OF OPERATING SEGMENTS

Following the changes made to the operating segments' structure as explained in the paragraph on Group structure, the prior year figures have been restated to reflect the current operating segments.

Development

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	**Development**					
		Year ended 30 June 2016		**Year ended 30 June 2015**		**Change**	
1	Gross revenue	1,736	100.0%	1,565	100.0%	171	10.9%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**1,736**	**100.0%**	**1,565**	**100.0%**	**171**	**10.9%**
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(468)	-27.0%	(189)	-12.1%	(279)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	n.m.
8	**Total cost of sales**	**(468)**	**-27.0%**	**(189)**	**-12.1%**	**(279)**	**n.m.**
9	**Gross profit (3+8)**	**1,268**	**73.1%**	**1,376**	**87.9%**	**(108)**	**-7.8%**
10	Other income	4,374	252.0%	1,558	99.6%	2,816	n.m.
11	Cost of services	(342)	-19.7%	(259)	-16.6%	(81)	31.8%
12	Lease and rental charges	(95)	-5.5%	(91)	-5.8%	(3)	n.m.
13	Labour costs	(5,333)	-307.3%	(3,604)	-230.3%	(1,729)	48.0%
14	Other operating costs	(122)	-7.1%	(85)	-5.5%	(37)	n.m.
15	**Total operating costs**	**(5,892)**	**-339.5%**	**(4,039)**	**-258.1%**	**(1,853)**	**n.m.**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(250)**	**-14.4%**	**(1,105)**	**-70.6%**	**854**	**n.m.**
17	Depreciation and amortisation	(601)	-34.6%	(441)	-28.2%	(160)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(16)	-0.9%	0	0.0%	(16)	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(617)**	**-35.5%**	**(441)**	**-28.2%**	**(176)**	**n.m.**
22	**Operating margin (EBIT) (16+21)**	**(867)**	**-49.9%**	**(1,546)**	**-98.8%**	**678**	**-43.9%**

This operating segment comprises the business operations of the U.S. company Pipeworks Inc. that was acquired on the first of September 2014 and for which only ten months' results were consolidated in the year ended 30 June 2015.

The Development operating segment's revenue relates to development contracts that the subsidiary has entered into with non-Group customers, whereas revenue arising from internal development contracts has been classified as other income, net of intercompany margins.

Revenue from non-Group customers in the period amounted to Euro 1,736 thousand compared to Euro 1,565 thousand in the previous year, whereas internal job orders increased to Euro 4,374 thousand compared to just Euro 1,558 thousand in the previous year, in line with the increased integration achieved over time between Pipeworks Inc. and the other Group companies.

Details are provided below of other income by project:

Euro thousand	**Labour costs**	**Other costs**	**Total**
Prominence Poker	1,973	326	**2,298**
Galapagos	419	3	**422**
Superfight	560	48	**608**
Quality Assurance	328	4	**333**
Other projects	611	102	**543**
Total	**3,891**	**483**	**4,374**

Prominence Poker has contributed the most to total revenue. Pipeworks has developed the video game for the Free to Play operating segment and it will be released in the first quarter of the coming financial year with versions for the next generation consoles and for the Steam personal computer video games platform.

Labour costs were the most significant component of operating costs and amounted to Euro 5,333 thousand. The costs on a monthly basis of Euro 444 thousand have increased with respect to last year's monthly cost of Euro 360 thousand, mainly due to strengthening of the Quality Assurance division to meet the Group companies' increasing needs in this area.

Depreciation and amortisation expense consists of amortisation of Euro 163 thousand relating to intangible assets that Pipeworks Inc. contributed to the Group and amortisation of Euro 438 thousand relating to intangible assets allocated upon acquisition.

A summary statement of financial position is provided below:

	Euro thousand	30 June 2016	%	30 June 2015	%	Change	
	Total non-current assets	**6,007**	**346.0%**	**3,003**	**191.9%**	**3,004**	**n.m.**
	Total non-current liabilities	**0**	**0.0%**	**0**	**0.0%**	**0**	**n.m.**
	Net working capital						
10	Inventories	0		0		0	n.m.
11	Trade receivables	207		254		(47)	-18.4%
12	Current tax assets	0		0		0	n.m.
13	Other current assets	49		182		(133)	-72.9%
14	Trade payables	(58)		(131)		73	-55.8%
15	Current tax liabilities	0		0		0	n.m.
17	Other current liabilities	(630)		(210)		(420)	n.m.
	Total net working capital	**(432)**	**-24.9%**	**95**	**6.1%**	**(527)**	**n.m.**
	Gross revenue - Development	**1,736**		**1,565**		**171**	**10.9%**

Non-current assets mainly consist of internal orders developed by Pipeworks Inc. on behalf of Group companies, net of transfers out.

Details of non-current assets are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Internal job orders	4,839	1,534	3,305
Open contracts	511	945	(434)
Software	31	34	(3)
Property, plant and equipment	264	284	(20)
Deferred tax assets	362	206	156
Total non-current assets	**6,007**	**3,003**	**3,004**

Details of internal job orders by project are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Prominence Poker	3,141	820	2,321
Galapagos	596	176	420
Superfight	769	150	619
Gems of War	0	143	(143)
Other	333	245	88
Total internal job orders	**4,839**	**1,534**	**3,305**

The Group has recognised as an intangible asset the difference between the purchase price of the investment and the underlying equity at the acquisition date that was allocated to the carrying amount of open contracts with third party customers and which is being amortised over three years, with the charge for the year having amounted to Euro 511 thousand.

Premium Games

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	**Premium Games**					
		Year ended 30 June 2016		**Year ended 30 June 2015**		**Change**	
1	Gross revenue	83,204	102.0%	92,190	104.1%	(8,986)	-9.7%
2	Revenue adjustments	(1,648)	-2.0%	(3,629)	-4.1%	1,981	-54.6%
3	**Net revenue**	**81,556**	**100.0%**	**88,561**	**100.0%**	**(7,005)**	**-7.9%**
4	Purchase of products for resale	(8,135)	-10.0%	(16,373)	-18.5%	8,238	-50.3%
5	Purchase of services for resale	(3,610)	-4.4%	(4,248)	-4.8%	638	-15.0%
6	Royalties	(20,975)	-25.7%	(27,256)	-30.8%	6,281	-23.0%
7	Changes in inventories of finished products	(721)	-0.9%	(1,332)	-1.5%	611	-45.9%
8	**Total cost of sales**	**(33,441)**	**-41.0%**	**(49,209)**	**-55.6%**	**15,767**	**-32.0%**
9	**Gross profit (3+8)**	**48,115**	**59.0%**	**39,352**	**44.4%**	**8,763**	**22.3%**
10	Other income	186	0.2%	58	0.1%	128	n.m.
11	Cost of services	(6,191)	-7.6%	(7,093)	-8.0%	902	-12.7%
12	Lease and rental charges	(596)	-0.7%	(552)	-0.6%	(43)	7.8%
13	Labour costs	(6,591)	-8.1%	(6,296)	-7.1%	(295)	4.7%
14	Other operating costs	(445)	-0.5%	(538)	-0.6%	93	-17.4%
15	**Total operating costs**	**(13,823)**	**-16.9%**	**(14,479)**	**-16.3%**	**656**	**-4.5%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**34,478**	**42.3%**	**24,932**	**28.2%**	**9,547**	**38.3%**
17	Depreciation and amortisation	(1,216)	-1.5%	(898)	-1.0%	(318)	35.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	(28)	0.0%	28	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(1,216)**	**-1.5%**	**(926)**	**-1.0%**	**(290)**	**31.3%**
22	**Operating margin (EBIT) (16+21)**	**33,262**	**40.8%**	**24,005**	**27.1%**	**9,258**	**38.6%**

The operating segment's gross revenue fell by Euro 8,986 thousand, despite the sale of rights relating to PAYDAY2 for Euro 26,832 thousand. Details are provided below of gross revenue by video game:

Amounts in Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change
Terraria	19,113	20,936	(1,823)
PAYDAY 2	15,741	33,429	(17,688)
Sniper Elite V3	8,260	30,144	(21,884)
Rocket League	5,833	0	5,833
Brothers	2,312	1,010	1,302
How to Survive	1,583	2,320	(737)
Portal Knights	1,264	0	1,264
Sniper Elite V2	253	1,760	(1,507)
Other products	2,013	2,591	(578)
Sale of PAYDAY 2 rights	26,832	0	26,832
Total Premium Games gross revenue	**83,204**	**92,190**	**(8,986)**

The most evident decreases were those relating to sales of the Sniper Elite V3 video game of Euro 21,884 thousand, with this game having failed to replicate the sales achieved in the prior year immediately after its launch, and to PAYDAY 2 of Euro 17,688 thousand. Terraria achieved revenue of Euro 19,113 thousand, which fell in the year by 10%. There were no significant launches during the year, with the exception of Rocket League, for which distribution commenced exclusively in the retail market in the last week of June. Worth noting are the sales achieved by Portal Knights, which was launched experimentally in February solely on the Steam Early Access platform and which generated revenue of Euro 1,264 thousand in less than five months.

Details are provided below of revenue by distribution channel for the year ended 30 June 2016, together with prior year comparatives:

Revenue (in Euro thousand)	Year ended 30 June 2016	Year ended 30 June 2015	Change	
Retail distribution revenue	23,477	48,872	(25,395)	-52.0%
Digital distribution revenue	30,962	42,141	(11,179)	-26.5%
Sub-licensing revenue	1,933	1,177	756	64.2%
Sale of PAYDAY 2 rights	26,832	0	26,832	n.m.
Total Premium Games revenue	**83,204**	**92,190**	**(8,986)**	**-9.7%**

Details are provided below of digital distribution revenue by digital marketplace for the year ended 30 June 2016:

Revenue (in Euro thousand)	Year ended 30 June 2016	Year ended 30 June 2015	Change
Steam	8,947	12,827	(3,880)
Sony Playstation Network	7,993	12,208	(4,215)
Microsoft Xbox Live	8,193	11,341	(3,148)
iTunes	2,739	3,537	(798)
Google	1,193	1,220	(27)
Other marketplaces	1,897	1,008	889
Total digital distribution revenue	**30,962**	**42,141**	**(11,179)**

Revenue adjustments decreased by Euro 1,981 thousand (54.6%), thus reducing the decrease in net revenue to 7.9%. This line item includes an estimate of credit notes for unsold products that the Group has forecast that it will have to issue to customers in the near future and which has fallen in line with the decrease in retail distribution revenue. Expressed as a percentage of retail distribution revenue, the figure for the year just ended of 7.0% is broadly in line with last year's figure of 7.4%.

Cost of sales decreased by 32%, having gone from Euro 49,209 thousand to Euro 33,440 thousand, with a particular fall in royalty expense of 23%, which has led to an increase in gross profit in percentage terms of 22.3% from Euro 39,352 thousand for the year ended 30 June 2015 to Euro 48,116 thousand for the year ended 30 June 2016.

Operating costs decreased by Euro 656 thousand, mainly due to a decrease in cost of services of Euro 903 thousand given that there was less need for advertising expenditure following the decision to postpone the launches of new video games to the coming financial year. Labour costs increased by Euro 295 thousand due to growth in the organisational structure to handle significant investment being made by the Group in new video games.

The gross operating margin amounted to Euro 34,479 thousand and increased by 38.3%, as well as having increased to 42.3% of net revenue from the prior year figure of 28.2%.

Non-monetary operating costs increased by Euro 290 thousand due to an increase in the amortisation of intellectual property, resulting in an operating margin of Euro 33,263 thousand, equating to 40.8% of net revenue.

The assets and liabilities pertaining to the Premium Games operating segment are as follows:

	Euro thousand	**30 June 2016**	**%**	**30 June 2015**	**%**	**Change**	
	Total non-current assets	**3,932**	**4.7%**	**4,642**	**5.0%**	**(710)**	**-15.3%**
	Total non-current liabilities	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
	Net working capital						
10	Inventories	7,129		7,850		(722)	-9.2%
11	Trade receivables	28,786		25,376		3,410	13.4%
12	Current tax assets	655		1,243		(588)	-47.3%
13	Other current assets	3,949		4,957		(1,008)	-20.3%
14	Trade payables	(17,933)		(23,690)		5,757	-24.3%
15	Current tax liabilities	(2,191)		(2,641)		450	-17.0%
16	Current provisions	0		0		0	n.m.
17	Other current liabilities	(186)		(385)		199	-51.7%
	Total net working capital	**20,209**	**24.3%**	**12,710**	**13.8%**	**7,500**	**59.0%**
	Premium Games gross revenue	**83,204**		**92,190**		**(8,986)**	**-9.7%**

The decrease in revenue and the increase in net working capital in the year led to a significant reduction in the ratio of working capital to total revenue for this operating segment.

Trade receivables consist of receivables arising from sales to customers and receivables pertaining to video game user licenses. The latter represent down payments to video game developers for licenses not yet exploited in full or in part and that are expected to be used as from the coming year.

Trade receivables consist of the following:

Category	30 June 2016	30 June 2015	Change
Receivables due from customers	10,307	16,717	(6,410)
Receivables pertaining to video game user licenses	18,479	8,659	9,820
Total trade receivables	**28,786**	**25,376**	**3,410**

The decrease in receivables due from customers is in line with the decrease in turnover, whereas the substantial increase in receivables pertaining to video game user licenses is the most evident impact of the investment in new products that will be launched in coming years.

The increase in trade payables is attributable to lower royalties due to video game developers as a result of lower sales recorded in the last quarter.

Other current assets consist mainly of advances paid to suppliers of localisation, programming, rating and quality assurance services, which are recognised in profit or loss when a video game is released.

Other current liabilities include accrued variable remuneration, which decreased in the year, and employee social contributions.

Free to Play

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	Free to Play					
		Year ended 30 June 2016		**Year ended 30 June 2015**		**Change**	
1	Gross revenue	5,275	100.0%	2,671	100.0%	2,603	97.5%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**5,275**	**100.0%**	**2,671**	**100.0%**	**2,603**	**97.5%**
4	Purchase of products for resale	0	0.0%	(0)	0.0%	0	0.0%
5	Purchase of services for resale	(1,236)	-23.4%	(920)	-34.4%	(316)	34.5%
6	Royalties	(2,767)	-52.5%	(1,059)	-39.7%	(1,708)	161.2%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	(0)	0.0%
8	**Total cost of sales**	**(4,003)**	**-75.9%**	**(1,979)**	**-74.1%**	**(2,024)**	**102.3%**
9	**Gross profit (3+8)**	**1,272**	**24.1%**	**692**	**25.9%**	**580**	**83.9%**
10	Other income	858	16.3%	445	16.7%	414	n.m.
11	Cost of services	(779)	-14.8%	(609)	-22.8%	(170)	27.8%
12	Lease and rental charges	(65)	-1.2%	(66)	-2.5%	1	n.m.
13	Labour costs	(2,958)	-56.1%	(2,598)	-97.2%	(360)	13.9%
14	Other operating costs	(93)	-1.8%	(38)	-1.4%	(55)	n.m.
15	**Total operating costs**	**(3,895)**	**-73.8%**	**(3,311)**	**-124.0%**	**(584)**	**17.6%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(1,765)**	**-33.5%**	**(2,174)**	**-81.4%**	**409**	**-18.8%**
17	Depreciation and amortisation	(1,330)	-25.2%	(1,118)	-41.9%	(213)	18.9%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(425)	-8.1%	(641)	-24.0%	216	0.0%
20	Reversal of impairment losses and non-monetary income	588	11.1%	641	24.0%	(53)	0.0%
21	**Total non-monetary income and operating costs**	**(1,167)**	**-22.1%**	**(1,118)**	**-41.9%**	**(49)**	**4.3%**
22	**Operating margin (EBIT) (16+21)**	**(2,932)**	**-55.6%**	**(3,292)**	**-123.2%**	**360**	**n.m.**

Revenue reported by the Free to Play operating segment almost doubled to Euro 5,275 thousand compared to the prior year figure of Euro 2,671 thousand.

Details are provided below of the operating segment's revenue by main product line:

Revenue (in Euro thousand)	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**
Battle Islands	2,478	1,925	553
Gems of War	1,622	233	1,389
Battle Ages	572	0	572
Other products	603	513	90

Total Free to Play revenue	**5,275**	**2,671**	**2,604**

The Battle Islands video game, which was developed by the subsidiary DR Studios Ltd. and launched in December 2013, contributed Euro 2,478 thousand to revenue for the period even after the Free to Play release of the console versions. The console versions of the Gems of War video game were remarkably successful, with this game having achieved the largest revenue increase in the year.

Cost of sales comprises only purchases of services and royalties. The former, which amounted to Euro 1,237 thousand in the year, consist of localisation, ratings and quality assurance costs, as well as costs incurred for live support services. This is a development activity that is carried out after a game is launched and which helps maintain and improve the game to encourage the player to pay out and continue playing. Details are provided below of cost of services by category:

Amounts in Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**
Live support	608	415	193
Programming	10	35	(25)
Quality assurance	348	290	58
Localisation	31	54	(23)
Hosting	238	122	116
Other	2	4	(2)
Total	**1,237**	**920**	**317**

The increase in royalty expense is attributable to a higher number of early terminations of development contracts, which is fairly typical for the Free to Play operating segment. The amount reported was Euro 2,360 thousand compared to the prior year figure of only Euro 762 thousand, representing an increase of Euro 1,598 thousand.

Operating costs include services, which are mostly advertising costs incurred to promote products on various platforms, as well as labour costs. The increase in labour costs is attributable to the acquired company DR Studios Ltd., which in the previous year had been only been consolidated as from September.

Depreciation and amortisation increased by Euro 213 thousand and consisted of the following:

Amounts in Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**
Amortisation of Battle Islands	795	862	(67)
Amortisation of intangible assets	484	224	260
Depreciation of property, plant and equipment	51	32	19
Total	**1,330**	**1,118**	**212**

The reversal of impairment losses relates to the reversal of the payable of Euro 588 thousand to the sellers of DR Studios Ltd. due to the fact that conditions were not met for the payment of an earn-out that would have fallen due in September 2016. This led to a simultaneous writedown of Euro 425 thousand of the assets allocated following the acquisition.

The negative operating margin fell slightly in the period to a loss of Euro 2,934 thousand from a loss of Euro 3,292 thousand reported for the year ended 30 June 2015 despite significant growth in the cost of early termination of contracts.

Non-current assets mainly consist of concessions for games purchased from 505 Mobile S.r.l. and internal job orders developed by DR Studios Ltd., whereas trade receivables mainly relate to receivables for video game user licences and receivables due from the main marketplaces. Trade payables mainly consist of payables due to video game developers.

	Euro thousand	**30 June 2016**	**%**	**30 June 2015**	**%**	**Change**	
	Total non-current assets	**2,769**	**52.5%**	**2,913**	**109.1%**	**(144)**	**-4.9%**
	Total non-current liabilities	**0**	**0.0%**	**(588)**	**22.0%**	**588**	**n.m.**
	Net working capital						
10	Inventories	0		0		0	n.m.
11	Trade receivables	2,252		5,274		(3,022)	-57.3%
12	Current tax assets	620		740		(120)	-16.3%
13	Other current assets	358		337		21	6.3%
14	Trade payables	(1,224)		(769)		(455)	59.1%
15	Current tax liabilities	(28)		(89)		61	-68.4%
16	Current provisions	0		0		0	n.m.
17	Other current liabilities	(36)		(39)		3	-8.4%
	Total net working capital	**1,942**	**36.8%**	**(5,454)**	**-204.2%**	**7,396**	**n.m.**
	Gross Free to Play revenue	**5,276**		**2,671**		**2,605**	**97.5%**

Trade receivables are a significant component of total net working capital and are made up as follows:

Category	**30 June 2016**	**30 June 2015**	**Change**
Receivables due from customers	966	2,408	(1,442)
Receivables pertaining to video game user licenses	1,286	2,866	(1,580)
Total trade receivables	**2,252**	**5,274**	**(3,022)**

Italian Distribution

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	Italian Distribution					
		Year ended 30 June 2016		Year ended 30 June 2015		Change	
1	Gross revenue	19,231	107.1%	24,529	106.4%	(5,298)	-21.6%
2	Revenue adjustments	(1,273)	-7.1%	(1,485)	-6.4%	213	-14.3%
3	**Net revenue**	**17,958**	**100.0%**	**23,044**	**100.0%**	**(5,087)**	**-22.1%**
4	Purchase of products for resale	(13,058)	-72.7%	(17,731)	-76.9%	4,673	-26.4%
5	Purchase of services for resale	(131)	-0.7%	0	0.0%	(131)	0.0%
6	Royalties	0	0.0%	0	0.0%	(0)	0.0%
7	Changes in inventories of finished products	(227)	-1.3%	(566)	-2.5%	339	-59.9%
8	**Total cost of sales**	**(13,416)**	**-74.7%**	**(18,297)**	**-79.4%**	**4,881**	**-26.7%**
9	**Gross profit (3+8)**	**4,542**	**25.3%**	**4,747**	**20.6%**	**(204)**	**-4.3%**
10	Other income	68	0.4%	81	0.4%	(13)	-16.5%
11	Cost of services	(1,981)	-11.0%	(2,230)	-9.7%	249	-11.2%
12	Lease and rental charges	(58)	-0.3%	(58)	-0.2%	(1)	1.5%
13	Labour costs	(1,646)	-9.2%	(1,985)	-8.6%	339	-17.1%
14	Other operating costs	(220)	-1.2%	(248)	-1.1%	29	-11.2%
15	**Total operating costs**	**(3,905)**	**-21.7%**	**(4,521)**	**-19.6%**	**617**	**-13.6%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**705**	**3.9%**	**307**	**1.3%**	**398**	**n.m.**
17	Depreciation and amortisation	(179)	-1.0%	(227)	-1.0%	48	-21.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(639)	-3.6%	(407)	-1.8%	(232)	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(818)**	**-4.6%**	**(634)**	**-2.8%**	**(184)**	**29.1%**
22	**Operating margin (EBIT) (16+21)**	**(113)**	**-0.6%**	**(327)**	**-1.4%**	**213**	**-65.4%**

The decrease in revenue reported by the Italian Distribution operating segment of Euro 5,297 thousand was attributable to a significant drop in sales of Yu-Gi-Oh! trading cards, whereas growth was recorded in video game distribution revenue thanks to the launch on the Italian market of the Metal Gear Solid V and PES 2016 video games that were well received by the public.

Details are provided below of gross revenue by type of video game distributed:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	
Distribution of video games for consoles	12,522	11,421	1,101	9.6%
Distribution of video games for PC-CDRom	477	1,515	(1,038)	-68.5%
Distribution of trading cards	5,581	11,383	(5,801)	-51.0%
Distribution of other products and services	690	348	342	98.2%
Cash discounts	(39)	(138)	99	-72.4%
Total gross Italian Distribution revenue	**19,231**	**24,529**	**(5,298)**	**-21.6%**

To facilitate analysis of the trend in gross revenue for the period from the distribution of video games for consoles, details are provided below of revenue by console:

Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015		Change	
	Units	**Revenue**	**Units**	**Revenue**	**Units**	**Revenue**
Sony Playstation 4	188,969	6,873	116,888	4,396	61.7%	56.3%
Sony Playstation 3	136,761	2,810	165,357	3,662	-17.3%	-23.3%
Microsoft Xbox One	36,974	1,238	30,916	1,160	19.6%	6.7%
Microsoft Xbox 360	69,231	1,244	76,600	1,569	-9.6%	-20.8%
Other consoles	40,521	357	47,509	633	-14.7%	-43.6%
Total console revenue	**472,456**	**12,522**	**437,270**	**11,421**	**8.0%**	**9.6%**

The operating segment reported revenue growth arising from the distribution of video games for consoles of Euro 1,101 thousand due to the fact that the two video games Metal Gear Solid V and PES 2016 were well received by the public. Sales of Yu-Gi-Oh! trading cards, however, decreased by Euro 5,801 thousand.

Net revenue amounted to Euro 17,959 thousand, down by 22.1% on the prior year figure.

Gross profit fell in the year by 4.3% caused by a decrease in cost of sales of 26.7% that exceeded the decrease in net revenue.

Operating costs fell by 13.6% in the year to Euro 617 thousand. The decrease was mainly due to a reduction in cost of services of Euro 249 thousand and in labour costs of Euro 339 thousand.

The operating margin increased by Euro 213 thousand, having gone from a loss of Euro 327 thousand for the year ended 30 June 2015 to a loss of Euro 113 thousand for the year just ended, attributable to an increase in the provision for doubtful debts to Euro 639 thousand from the prior year end figure of Euro 407 thousand.

Assets and liabilities allocable to the Italian Distribution operating segment are:

	Euro thousand	30 June 2016	%	30 June 2015	%	Change	
	Total non-current assets	**3,409**	**17.7%**	**3,391**	**13.8%**	**18**	**0.5%**
	Total non-current liabilities	**(531)**	**2.8%**	**(612)**	**2.5%**	**81**	**-13.2%**
	Net working capital						
10	Inventories	4,804		5,031		(228)	-4.5%
11	Trade receivables	3,595		5,446		(1,851)	-34.0%
12	Current tax assets	741		471		270	57.4%
13	Other current assets	312		252		60	23.9%
14	Trade payables	(1,669)		(1,598)		(71)	4.4%
15	Current tax liabilities	(155)		(285)		129	-45.5%
17	Other current liabilities	(797)		(808)		11	-1.3%
	Total net working capital	**6,831**	**35.5%**	**8,509**	**34.7%**	**(1,678)**	**-19.7%**
	Gross Italian Distribution revenue	**19,231**		**24,539**		**(5,308)**	**-21.6%**

The balance sheet structure is typical of commercial businesses, with fairly negligible non-current assets and liabilities and significant investment in net working capital to support the distribution business. Another typical feature is the insignificance of trade payables (approximately 9% of revenue), reflecting the terms of payment accorded to video game publishers.

The decrease in the weighting of net working capital in the year is in line with the revenue trend.

Other Activities

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	**Other Activities**					
		Year ended 30 June 2016		**Year ended 30 June 2015**		**Change**	
1	Gross revenue	746	108.2%	289	194.6%	457	n.m.
2	Revenue adjustments	(56)	-8.2%	(140)	-93.9%	82	-59.7%
3	**Net revenue**	**690**	**100.0%**	**149**	**100.0%**	**541**	**n.m.**
4	Purchase of products for resale	0	0.1%	0	0.0%	0	0.0%
5	Purchase of services for resale	(135)	-19.6%	(17)	-11.3%	(119)	n.m.
6	Royalties	(109)	-15.8%	(13)	-9.0%	(96)	n.m.
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**(244)**	**-35.4%**	**(30)**	**-20.3%**	**(215)**	**n.m.**
9	**Gross profit (3+8)**	**446**	**64.6%**	**119**	**79.7%**	**327**	**n.m.**
10	Other income	228	33.0%	153	102.6%	75	0.0%
11	Cost of services	(2,849)	-412.9%	(197)	-132.5%	(2,652)	n.m.
12	Lease and rental charges	(20)	-2.9%	(22)	-14.9%	2	-10.8%
13	Labour costs	(647)	-93.8%	(482)	-324.3%	(165)	34.2%
14	Other operating costs	(73)	-10.5%	(41)	-27.3%	(32)	78.6%
15	**Total operating costs**	**(3,589)**	**-520.2%**	**(742)**	**-498.9%**	**(2,847)**	**n.m.**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(2,915)**	**-422.6%**	**(470)**	**-315.9%**	**(2,446)**	**n.m.**
17	Depreciation and amortisation	(275)	-39.8%	(117)	-78.9%	(157)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(275)**	**-39.8%**	**(117)**	**-78.9%**	**(157)**	**n.m.**
22	**Operating margin (EBIT) (16+21)**	**(3,190)**	**-462.4%**	**(587)**	**-394.8%**	**(2,603)**	**n.m.**

Gross revenue for the year ended 30 June 2016 is attributable to the subsidiary Game Network S.r.l. (Euro 484 thousand) and Digital Bros Game Academy S.r.l. (Euro 262 thousand).

The revenue generated by Game Network S.r.l. includes Fantasfida revenue. Fantasfida is a Daily Fantasy Sport, a game which is particularly popular in the United States, being a game of skill in which the gamer fields a virtual team of champions of different sports and participates upon payment of a fee in a tournament with cash prizes.

The revenue generated by Digital Bros Academy S.r.l. relates to fees paid by students who have attended courses organised by the company. As of March 2016, the second year of courses began with a discrete increase in the number of students.

Revenue adjustments relate entirely to tax paid on income earned from the portals www.gameplaza.it and www.fantasfida.it.

Other income consists of the increase in internal job orders relating to direct costs incurred in the period for the development of the product Fantasfida.it that was released in September 2015.

Operating costs, which increased from Euro 742 thousand to Euro 3,589 thousand, were significantly influenced by costs incurred for the launch of Fantasfida and which amounted to Euro 3,107 thousand.

The negative operating margin amounted to Euro 3,190 thousand and was mainly attributable to Fantasfida launch costs.

A summary statement of financial position is provided below:

	Euro thousand	**30 June 2016**	**%**	**30 June 2015**	**%**	**Change**	
	Total non-current assets	**1,281**	**171.7%**	**708**	**245.0%**	**573**	**80.9%**
	Total non-current liabilities	**(34)**	**4.5%**	**(44)**	**15.2%**	**10**	**-23.7%**
	Net working capital						
10	Inventories	0		0		0	n.m.
11	Trade receivables	0		0		0	n.m.
12	Current tax assets	3		12		(9)	-75.4%
13	Other current assets	128		174		(46)	-26.2%
14	Trade payables	(383)		(135)		(248)	n.m.
15	Current tax liabilities	(21)		(14)		(7)	48.6%
17	Other current liabilities	(660)		(284)		(376)	n.m.
	Total net working capital	**(933)**	**-125.1%**	**(247)**	**-85.5%**	**(686)**	**n.m.**
	Gross revenue - Other Activities	**746**		**289**		**457**	**n.m.**

Non-current assets consist of Euro 762 thousand of expenditure incurred by Game Network S.r.l. for the launch of Fantasfida and which is being amortised over three years and of Euro 220 thousand of cautionary deposits relating to operations governed by AAMS, while the remainder consists of deferred tax assets and plant and machinery.

Other current liabilities include amounts due to Game Network S.r.l.'s employees for accruals of additional monthly salaries, holiday pay and leave of absence and the portion of registration fees for training courses already received by Digital Bros Game Academy S.r.l., but which is attributable to the coming year.

Holding

Financial highlights (reclassified)

	Consolidated figures in Euro thousand	Holding					
		Year ended 30 June 2016		Year ended 30 June 2015		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
9	**Gross profit (3+8)**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(1,283)	0.0%	(1,272)	0.0%	(11)	0.9%
12	Lease and rental charges	(721)	0.0%	(759)	0.0%	39	-5.1%
13	Labour costs	(2,686)	0.0%	(2,961)	0.0%	275	-9.3%
14	Other operating costs	(468)	0.0%	(421)	0.0%	(47)	11.1%
15	**Total operating costs**	**(5,158)**	**0.0%**	**(5,413)**	**0.0%**	**255**	**-4.7%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(5,158)**	**0.0%**	**(5,413)**	**0.0%**	**255**	**-4.7%**
17	Depreciation and amortisation	(187)	0.0%	(119)	0.0%	(68)	56.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	(379)	0.0%	379	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(187)**	**0.0%**	**(498)**	**0.0%**	**311**	**-62.5%**
22	**Operating margin (EBIT) (16+21)**	**(5,345)**	**0.0%**	**(5,911)**	**0.0%**	**566**	**-9.6%**

Business activity is carried out by the parent company Digital Bros S.p.A. and the newly formed company 133 W. Broadway Inc. The activities carried out by the parent company include the coordination of the business operations of the various operating segments, the implementation of sound financial policies to support the Group’s operations, the management of property and the management of brands and equity investments. The U.S. subsidiary owns the property located in Eugene used by Pipeworks Inc. for the conduct of is operations.

Operating costs amounted to Euro 5,158 thousand, representing a decrease in the year of Euro 255 thousand. The decrease was to a large extent attributable to a fall in labour costs due to a lower charge recognised in the year for variable remuneration and Directors's remuneration.

Depreciation and amortisation increased by Euro 68 thousand due to expenditure by the Group on ERP systems, whereas, unlike the previous financial year, no asset impairment was recognised.

The assets and liabilities pertaining to the operating segment are as follows:

	Euro thousand	30 June 2016	30 June 2015	Change	
	Non-current assets				
1	Property, plant and equipment	2,721	472	2,249	n.m.
2	Investment property	0	0	0	n.m.
3	Intangible assets	399	322	78	24.0%
4	Equity investments	898	1,274	(376)	-29.5%
5	Non-current receivables and other assets	635	635	0	0.0%
6	Deferred tax assets	12	0	12	n.m.
	Total non-current assets	**4,665**	**2,703**	**1,962**	**72.6%**
	Non-current liabilities	**(252)**	**(133)**	**(119)**	**89.5%**
	Net working capital	**(4,025)**	**(360)**	**(3,665)**	n.m.

The increase in property relates to the purchase by the subsidiary 133 West Broadway of the property located in Eugene, Oregon for 2,500 thousand U.S. dollars.

The decrease in investments is due to a reclassification of Euro 969 thousand relating to the Starbreeze A shares held at the year end, but which were sold in July 2016, partially countered, by the acquisition of a 28.58% interest in Ovosonico S.r.l. for Euro 420 thousand and a subscription to 28.34% of the capital of Seekhana Ltd. for an amount of Euro 173 thousand.

8. ANALYSIS OF RESULTS FOR THE FOURTH QUARTER OF THE FINANCIAL YEAR 2015/2016

The Group's results for the fourth quarter are set out below:

	Euro thousand	**4th quarter 2015/2016**
1	Revenue	48,911
2	Revenue adjustments	(297)
3	**Net revenue**	**48,614**
4	Purchase of products for resale	(4,820)
5	Purchase of services for resale	(1,142)
6	Royalties	(9,203)
7	Changes in inventories of finished products	216
8	**Total cost of sales**	**(14,950)**
9	**Gross profit (3+8)**	**33,664**
10	Other income	1,347
11	Cost of services	(3,578)
12	Lease and rental charges	(396)
13	Labour costs	(5,260)
14	Other operating costs	(286)
15	**Total operating costs**	**(9,520)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**25,492**
17	Depreciation and amortisation	(990)
18	Allocations to provisions	0
19	Impairment losses recognised on assets	(655)
20	Reversal of impairment losses and non-monetary income	0
21	**Total non-monetary income and operating costs**	**(1,645)**
22	**Operating margin (EBIT) (16+21)**	**23,847**
23	Interest and finance income	519
24	Interest expense and finance costs	(4,349)
25	**Net finance income (costs)**	**(3,830)**
26	**Profit before tax (22+25)**	**20,017**
27	Current tax	(5,900)
28	Deferred tax	(289)
29	**Total income tax expense**	**(6,189)**
30	**Profit for the year (26+29)**	**13,828**

In order to highlight the impact of the sale of the PAYDAY 2 rights to Starbreeze and to enable the comparison with forecast results made available upon the approval of the third quarter figures for the year ended 30 June 2016 and the sale of the PAYDAY2 rights, set out below is the consolidated statement of profit or loss for the fourth quarter excluding the sale of the PAYDAY2 rights as well as the consolidated statement of profit or loss highlighting the impact of the PAYDAY2 rights.

	Euro thousand	**4° quarter 2015/2016 excluding sale of PAYDAY 2 rights**	**Sale of PAYDAY 2 rights**
1	Revenue	22,079	26,832
2	Revenue adjustments	(297)	0
3	**Net revenue**	**21,782**	**26,832**
4	Purchase of products for resale	(4,820)	0
5	Purchase of services for resale	(1,142)	0
6	Royalties	(5,807)	(3,396)
7	Changes in inventories of finished products	216	0
8	**Total cost of sales**	**(11,553)**	**(3,396)**
9	**Gross profit (3+8)**	**10,229**	**23,436**
10	Other income	1,347	0
11	Cost of services	(3,578)	0
12	Lease and rental charges	(396)	0
13	Labour costs	(5,260)	0
14	Other operating costs	(286)	0
15	**Total operating costs**	**(9,520)**	**0**
16	**Gross operating margin (EBITDA) (9+10+15)**	**2,057**	**23,436**
17	Depreciation and amortisation	(990)	0
18	Allocations to provisions	0	0
19	Impairment losses recognised on assets	(655)	0
20	Reversal of impairment losses and non-monetary income	0	0
21	**Total non-monetary income and operating costs**	**(1,645)**	**0**
22	**Operating margin (EBIT) (16+21)**	**412**	**23,436**
23	Interest and finance income	519	0
24	Interest expense and finance costs	(591)	(3,758)
25	**Financial items**	**(72)**	**(3,758)**
26	**Profit before tax (22+25)**	**340**	**19,678**
27	Current tax	279	(6,179)
28	Deferred tax	(289)	0
29	**Total income tax income (expense)**	**(10)**	**(6,179)**
30	**Profit for the year (26+29)**	**330**	**13,499**

The fourth quarter closed, in line expectations, with a profit for the period, even with the exclusion of the sale of PAYDAY2 rights subsequent to the publication of the quarterly figures that comprised the related estimate. This was despite the unexpected need to accrue for the payment of variable components of employee remuneration of Euro 600 thousand, for which the need arose on the achievement of the profit target for the year upon the sale of the PAYDAY2 rights.

The impact on profit before tax of the sale of PAYDAY2 rights was Euro 19,678 thousand due to the year end market value measurement of the Starbreeze B shares of 19.8 Swedish Krona. The impact of the transaction, assuming the unitary value of 22.8 Swedish Krona had been maintained, would have been Euro 23.3 million and thus higher than the amount of Euro 22.5 million that had originally been estimated on drawing up the agreement.

9. INTERCOMPANY AND RELATED PARTY TRANSACTIONS AND ATYPICAL/UNUSUAL TRANSACTIONS

All intercompany and related party transactions entered into by Group companies are conducted at arm's length.

Intercompany transactions

The main intercompany transactions are the sale of video games by 505 Games S.p.A. to local distributors.

The U.S. subsidiary 505 Games (US) Inc. is charged royalties by 505 Games S.p.A. for products distributed locally in the American market.

505 Games Ltd. and 505 Games (US) Inc. bill 505 Games S.p.A. for labour costs and overheads pertaining to employees involved in production and international marketing for the Premium Games operating segment.

505 Games Interactive Inc. bills 505 Games S.p.A. for labour costs and overheads pertaining to employees involved in product management for the Premium Games operating segment.

505 Games Mobile (US) Inc. bills 505 Mobile S.r.l. for labour costs and overheads pertaining to employees involved in production and marketing for the Free to Play operating segment.

At the time of acquisition, DR Studios Ltd. already had development and live support contracts for various video games with the subsidiaries 505 Games S.p.A. and 505 Mobile S.r.l., which remained unchanged. The new development contracts subsequent to integration were governed by a framework agreement based on direct project costs incurred plus a percentage mark-up.

Pipeworks Inc. is party to a number of open video game development contracts with 505 Games S.p.A. and 505 Mobile S.r.l. based on direct project costs incurred plus a percentage mark-up.

Digital Bros S.p.A., 505 Games Ltd., 505 Games France, 505 Games Spain Slu and 505 Games GmbH bill 505 Games S.p.A. an amount equating to 15% of digital revenue achieved in the respective countries as recognition of the indirect marketing and public relations services performed by the local companies that are not directly attributable to individual products.

Digital Bros S.p.A. bills 505 Games S.p.A. the direct costs directly incurred on its behalf, and, based on a percentage of the holding company's total costs, indirect costs for the coordination of the acquisition of games and for administrative, financial, legal, logistics and IT services.

Digital Bros S.p.A. charges Digital Bros Game Academy S.r.l. for the cost of administrative, financial, legal and IT services incurred on its behalf and for the cost of the lease of the property located in Via Labus, Milan, the subsidiary's operational headquarters.

505 Games S.p.A. charges the U.S. company 505 Games US for the cost of coordinating the acquisition of games and the cost of administrative, financial, legal and IT services incurred on its behalf.

Commencing February 2016, 133 W. Broadway charges rent to Pipeworks Inc. for the use of the property located in Eugene, where the company is based.

Other minor transactions consisted of administrative, financial, legal and general services that are usually performed by Digital Bros S.p.A. on behalf of other Group companies. The parent company also provides a centralised cash management service, using intercompany current accounts to which positive and negative balances between Group companies are transferred, including through the transfer of receivables. These accounts do not bear interest.

Italian Group companies also transfer tax receivables and payables to the parent company Digital Bros S.p.A. in accordance with domestic tax group arrangements.

On preparing the consolidated financial statements for the year ended 30 June 2016, the impact of intercompany transactions on the results and financial position has been eliminated.

Related party transactions

Related party transactions consist of:

- legal counsel provided by the director Dario Treves;
- lease of property by Matov Imm. S.r.l. to the parent company and the subsidiary 505 Games France S.a.s.;
- lease of property by Matov LLC to the subsidiary 505 Games (US) Inc.

Both Matov Imm. S.r.l. and Matov LLC are owned by Abramo and Raffaele Galante.

The impact of related party transactions is disclosed in paragraph 12 of the explanatory notes.

Atypical transactions

There were no atypical or unusual transactions in the period just ended or in the corresponding prior year period, as defined by Consob Communication DEM 6064293 of 28 July 2006.

10. TREASURY SHARES

Pursuant to Art. 2428, paragraph 2.3 of the Italian Civil Code, it is hereby disclosed that, at 30 June 2016, Digital Bros S.p.A. held 130,247 treasury shares versus 400,247 treasury shares held at 30 June 2015.

Pursuant to paragraph 2.4, it is hereby disclosed that the Company sold 270,000 treasury shares in the period at an average price of Euro 11.28 each for a total amount of Euro 3,045 thousand.

11. RESEARCH AND DEVELOPMENT

During the year, the Group incurred research expenses of Euro 66 thousand and development expenses of Euro 5,051 thousand. The amounts incurred in the year ended 30 June 2015 were Euro 717 thousand and Euro 3,666 thousand, respectively.

The research relates to the preliminary stages of the conception of new video games and is performed by the subsidiaries Pipeworks Inc. and DR Studios Ltd., which also carry out development subsequent to the research phase.

12. MANAGEMENT OF OPERATIONAL RISK, FINANCIAL RISK AND FINANCIAL INSTRUMENTS

The Group has implemented a risk identification process that involves the Board of Directors together with top-level organisational structures in coordination meetings that are held periodically throughout the year. Their work is summarised in a risk matrix that is prepared and regularly reviewed by the director in charge of control, who attends the coordination meetings. Records are maintained for each risk that provide a description of the risk in question, a gross risk rating based on a probability/impact matrix, any mitigating factors and/or safeguards put in place to reduce and monitor the risk and the allocation of a net risk rating. The executive director is assisted in this task by the Control and Risks Committee.

The individual risk records also show the impact that a failure to meet the control objectives would have in terms of operations and financial reporting.

The thoroughness of the risk map and the ratings of net risk are assessed jointly by the two managing directors and by the director in charge of control and are updated by the Board of Directors at least once a year.

It is believed that, at present, the recent acquisitions of two video game developers have not increased the number and level of risks already highlighted.

Risks fall into one of two types: operational risks and financial risks.

Operational risks

The most significant operational risks are:

- ability to publish popular games;
- disintermediation of the publisher and the failure to control intellectual property;
- product obsolescence;
- dependence on key employees.

Ability to publish popular games

The video games market, like the entire entertainment industry, is exposed to a number of risks outside the Group's control. These include the popularity of celebrities and sports, the platforms players favour, demographic changes in consumption, and the rise of other forms of entertainment. If the Group were unable to please consumers and keep up with the speed of change, its revenues and margins could be deeply affected and its targets could be difficult to meet. This risk is mitigated by experienced management and by the procedure implemented by the Group for the acquisition of licensing and development contracts, which involves close examination of a product's economic potential using market analysis that is performed on an ongoing basis, inclusive of during the development phases of a video game.

Disintermediation of the publisher and the failure to control intellectual property

The continuous digitalisation of revenue in the video games market has led to a shortening of the value chain. The possibility that marketplace developments in the near future could lead to a further shortening of the value chain could cast doubts on the role of the publisher in the value chain, should the latter no longer own intellectual property and/or control it contractually. To mitigate this risk, the Group has pursued a strategy of acquiring controlling interests (Pipeworks and DR Studios) and/or non-controlling interests (Ovosonico) in order to increase the level of control over intellectual property. In addition to this, the Group has set up a number of organisational units designed to continuously propose innovative game ideas, which has led to the creation of internal intellectual property such as Portal Knights. The risk, however, is deemed to be high and, accordingly, the Group has implemented all necessary measures to ensure the risk is mitigated by contractual arrangements whereby exploitation rights are acquired.

Product obsolescence

Video games can quickly become obsolete. A game that is sold at a certain price is then repositioned at gradually lower ones over time. The launch price of a game is usually high during the launch of a console and then decreases throughout the lifespan of the hardware.

The decision to invest in a certain game is often made years before its actual release. Management must therefore estimate the retail prices a game will sell for in subsequent periods. A sudden acceleration in the obsolescence of a game or its supporting hardware could push retail prices below those originally foreseen, to the detriment of actual revenues and margins compared to those that were planned.

The risk of obsolescence is mitigated by that the fact that it is possible to reduce production, marketing and royalty costs payable to developers, thereby minimising the impact on margins; and by experience gained of the lifespans of earlier consoles and advance information on new gaming platforms.

Dependence on key employees

The Group's success depends on the performance of some key individuals who have made a solid contribution to its development and acquired valuable experience in the industry.

The Group has an executive team (chairman, managing director and CFO) with many years' experience in the sector and a decisive role in the management of its business. The loss of the services of these individuals without suitable replacements could have a negative impact on the Group's results and financial position and, in particular, could affect the process of understanding, appreciating and monitoring risks. In any case, management feels that the Group has an operational and executive structure that can ensure continuity in the handling of business affairs.

Financial instruments and financial risk management

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

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts
- Financial instruments held for trading

The purpose of these instruments is to finance the Group's operating activities. The policy for the use of financial instruments, including derivative contracts and financial instruments held for trading, are described in the explanatory notes.

Credit facilities granted to the Group and drawn down at 30 June 2016 are as follows:

Euro thousand	**Granted**	**Drawn down**	**Available**
Bank overdrafts	2,650	82	2,568
Import financing	21,000	18,860	2,140
Advances on invoices and bank receipts subject to collection	19,002	4,404	14,598
Factoring	15,280	128	15,152
Endorsement credits	1,000	0	1,000
Total	**58,932**	**23,474**	**35,458**

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

Since the year ended 30 June 2008, the subsidiary 505 Games S.p.A. has enjoyed its own independent credit facilities to finance international growth and, since April 2011, the subsidiary 505 Games Ltd. has had access to two international factoring lines and, since November 2012, the subsidiary 505 Games France S.a.s. was granted its own international factoring line.

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

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

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

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

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.
For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favourable conditions;
- the level of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market and that has shown a constantly falling trend;
- the implementation of a short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business.

The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities, the maturity and renewal terms of debt and the liquidity of investments and current conditions and available funds in the credit market.

The Group has reduced this risk by setting up the centralised management of treasury procedures and credit lines, by obtaining adequate credit that allows the creation of a sustainable liability structure through the use of irrevocable credit lines and continuous monitoring of prospective liquidity conditions.

It is believed that the results of short- and medium/long-term planning and currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management and debt repayment at natural maturity are concerned and in any case to determine its financing needs sufficiently ahead of time.

Exchange rate risk

The Group is affected by exchange rate fluctuations of the British pound and the US dollar. Purchases in currencies other than the euro are marginal and are almost entirely in British pounds and US dollars due to the manufacturing and structural costs of the local subsidiaries.

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

To monitor the risk level of the EUR/USD and EUR/GBP exchange rate, the Group closely monitors exchange rate forecasts from independent analysts and other sources and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

Following the completion of the Starbreeze AB transaction, the Group also has an exposure in Swedish Krona (SEK) for the transactions linked to the sale and purchase of shares of the Swedish company. The Group has entered into a derivative contract to mitigate the impact of fluctuations of the EUR/SEK exchange rate.

Credit risk

As far as Italian customers are concerned, the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold with advance payment and/or cash on delivery to limit credit risk.

The finance department reviews credit facilities and customer balances before any shipments are made. Despite these precautions, the Group has taken out insurance covering a significant percentage of its customers.

All foreign subsidiaries have taken out an appropriate credit insurance policy. The credit policy is never to exceed the limits of coverage for each individual customer, thereby limiting the chance that any difficulties faced by customers will affect the Group's performance.

13. RECONCILIATION OF RESULT FOR THE YEAR AND EQUITY OF PARENT COMPANY TO THOSE OF GROUP

The following table provides a reconciliation of the result for the year and equity as reported by Digital Bros S.p.A. to those reported by the Group.

	Profit for the period ended		Equity	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Profit (loss) and equity of Digital Bros S.p.A.	**(3,695)**	**6,946**	**28,706**	**29,921**
Profit for the period and equity of subsidiaries	15,622	13,815	42,364	25,855
Carrying amount of equity investments	0	0	(25,201)	(25,863)
Consolidation adjustments				
Impairment of investments in subsidiaries	2,363	(3,037)	2,963	1,491
Elimination of intercompany profits	(1,073)	(309)	(1,489)	(415)
Other adjustments	(678)	(8,310)	1,005	2,910
Profit (loss) and equity of the Group	**12,539**	**9,105**	**48,348**	**33,899**

Details are provided below of other adjustments for the years ended 30 June 2016 and 2015:

	Profit for the period ended		Equity	
	30 June 2016	**30 June 2015**	**30 June 2016**	**30 June 2015**
Impairment of Digital Bros S.p.A.'s investment in 505 Games S.p.A.	0	(5,460)	0	0
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	1,991	0	1,301	0
Impairment of Digital Bros S.p.A.'s investment in 505 Digital Bros Game Academy S.r.l.	372	0	171	0
Impairment of Digital Bros S.p.A.'s investment in 505 Game Entertainment S.r.l.	0	670	0	0
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	0	876	0	0
Impairment of Digital Bros S.p.A.'s investment in Pipeworks Inc.	0	1,491	1,491	1,491
Reversal of impairment of 505 Mobile S.r.l.'s investment in Game Network S.r.l.	0	(614)	0	0
Total impairment of investments in subsidiaries	**2,363**	**(3,037)**	**2,963**	**1,491**
Profits in inventory	(80)	(20)	(208)	(128)
DR Studios Ltd. and Pipeworks Inc. margin on intercompany sales	(993)	(289)	(1,281)	(287)
Total elimination of intercompany profits	**(1,073)**	**(309)**	**(1,489)**	**(415)**
Dividends from Game Entertainment S.r.l.	0	(6,000)	0	0
Dividends from 505 Games France S.a.S.	0	(1,460)	0	0
Amortisation/depreciation/allocation of purchase price of DR Studios Ltd., net of the related tax effect	(359)	(586)	401	1,991
Amortisation/depreciation/allocation of purchase price of Pipeworks Inc., net of the related tax effect	(319)	(264)	370	688
Other	0	0	234	231
Total other adjustments	**(678)**	**(8,310)**	**1,005**	**2,910**

14. CONTINGENT ASSETS AND LIABILITIES

The key financial terms of the sale of PAYDAY2 rights by the Group in May 2016 were the payment of 259.3 million Swedish Krona together with the granting of a loan of 5 million U.S. dollars against future sales of the console version of the PAYDAY2 video game. In addition, the buyer granted the Group the right to earn up to 40 million U.S. dollars to be computed as 33% of net revenue that the buyer will achieve from sales of PAYDAY3. As at the reporting date, the Group has deemed the foregoing to be a contingent asset.

No contingent liabilities exist, as was the case last year.

15. SUBSEQUENT EVENTS

Details of subsequent events are as follows:

- on 1 July 2016 Digital Bros S.p.A. sold 2,841,321 Starbreeze A shares for a total amount of Euro 6,059 thousand resulting in a gain of Euro 3,136 thousand;
- on 1 July 2016 it purchased 2,841,321 Starbreeze B ordinary shares for a total amount of Euro 6,059 thousand;
- on 26 August 505 Games S.p.A. sold 2,000,000 Starbreeze B ordinary shares for a total amount of Euro 4,901 thousand, arising in a gain of Euro 699 thousand, granting a right to the purchaser to purchase the same quantity of shares at the same price to be exercised by 30 June 2017.

16. BUSINESS OUTLOOK

The investment plan that the Group embarked upon in the last twenty four months and which has led to the simultaneous development of numerous new products, will start generating revenue as from the first quarter of the year. Specifically, these encompass the release of Assetto Corsa and Abzu by the Premium Games operating segment as well as Hawken and Prominence Poker by the Free to Play operating segment. During the course of the period, the personal computer and console versions of Portal Knights will be launched by the Premium Games operating segment and the evolution of the successful Battle Island, Battle Island Commander, which will be made available for consoles and on Mobile platforms by the Free to Play operating segment.

It is envisaged that Italian Distribution's volumes will decrease when compared to the year just ended, but the operating segment may benefit from significant savings triggered by cost containment policies that have already been implemented.

The Development business segment will continue to develop projects started in the year just ended and it is expected that it may still benefit from significant orders placed by non-Group customers.

The Daily Fantasy Sport, Fantasfida, will continue to generate negative margins in the coming year, but decidedly lower than those recorded in the year it was launched.

The outlook is thus for a positive year that will not, however, replicate the operating margin achieved in the year just ended, due, in part, to the impact of the sale of PAYDAY2 rights. Expectations are high in relation to the Free to Play operating segment for which the outlook is for significant revenue growth and a positive year in terms of operating margin.

Net cash/debt, which became a net cash position as a result of the sale of PAYDAY2 rights, is expected to remain stable during the course of the coming year, partially due to the impact of investment in new products, specifically, Overkill's The Walking Dead, which will be released in the year subsequent to the coming year.

17. OTHER INFORMATION

EMPLOYEES

Below are details of the workforce at 30 June 2016 with comparative figures at 30 June 2015:

Category	30 June 2016	30 June 2015	Change
Managers	10	10	0
Office workers	225	204	21
Blue-collar workers and apprentices	4	4	0
Total employees	**239**	**218**	**21**

Below are details of employees of foreign companies at 30 June 2016 with comparative figures at 30 June 2015:

Category	30 June 2016	30 June 2015	Change
Managers	5	5	0
Office workers	169	149	20
Total employees abroad	**174**	**154**	**20**

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

Category	2016 average	2015 average	Change
Managers	10	9	1
Office workers	208	190	28
Blue-collar workers and apprentices	4	6	(2)
Total employees	**222**	**197**	**25**

The average headcount at foreign companies is as follows:

Category	2016 average	2015 average	Change
Managers	5	4	1
Office workers	154	131	23
Total employees abroad	**159**	**135**	**24**

The increase in the number of employees abroad is due to the acquisitions that took place in the year just ended and to growth in the international structure.

The Group’s Italian companies apply the current Confcommercio national collective employment contract for the commercial, distribution and services sector.

ENVIRONMENT

At 30 June 2016, there were no issues of an environmental nature and as the Group’s environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

18. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

The report on corporate governance and ownership structure, which describes how Digital Bros Group complies with the Corporate Governance Code for Listed Companies endorsed by Borsa Italiana S.p.A. and which provides the additional information required by Art. 123-bis of the Consolidated Finance Act, is published in Italian and English in the investors section of the website at www.digitalbros.com.

19. REMUNERATION REPORT

The remuneration report, containing the information required by Art. 123-ter of the Consolidated Finance Act, is published in Italian and English in the investors section of the website at www.digitalbros.com.

Consolidated financial statements for the year ended 30 June 2016

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position at 30 June 2016

	Euro thousand	**30 June 2016**	**30 June 2015**	**Change**	
	Non-current assets				
1	Property, plant and equipment	7,032	4,841	2,191	45.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,458	7,946	2,512	31.6%
4	Equity investments	898	1,274	(376)	0.0%
5	Non-current receivables and other assets	1,056	1,058	(2)	-0.2%
6	Deferred tax assets	2,619	2,240	379	16.9%
	Total non-current assets	**22,063**	**17,359**	**4,704**	**27.1%**
	Non-current liabilities				
7	Employee benefits	(529)	(486)	(43)	8.8%
8	Non-current provisions	(36)	(170)	134	-79.1%
9	Other non-current payables and liabilities	(252)	(722)	470	-65.1%
	Total non-current liabilities	**(817)**	**(1,378)**	**561**	**-40.7%**
	Net working capital				
10	Inventories	11,933	12,881	(948)	-7.4%
11	Trade receivables	34,840	36,350	(1,510)	-4.2%
12	Current tax assets	2,019	2,466	(447)	-18.1%
13	Other current assets	5,034	6,148	(1,114)	-18.1%
14	Trade payables	(21,712)	(26,929)	5,217	-19.4%
15	Current tax liabilities	(6,211)	(3,029)	(3,182)	n.m.
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,312)	(1,726)	(586)	33.9%
	Total net working capital	**23,591**	**26,161**	**(2,570)**	**-9.8%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(20,804)	(19,417)	(1,387)	7.1%
20	Treasury shares	390	1,199	(809)	-67.5%
21	Retained earnings (accumulated losses)	(22,290)	(9,947)	(12,343)	n.m.
	Total equity	**(48,348)**	**(33,809)**	**(14,539)**	**43.0%**
	Total net assets	***(3,511)***	***8,333***	***(11,844)***	***n.m.***
22	Cash and cash equivalents	2,785	4,339	(1,554)	-35.8%
23	Current bank debt	(25,929)	(12,738)	(13,191)	n.m.
24	Other current financial assets and liabilities	28,913	1,685	27,228	n.m.
	Current net cash/debt	**5,769**	**(6,714)**	**12,483**	**n.m.**
25	Non-current financial assets	1,195	0	1,195	0.0%
26	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
27	Other non-current financial liabilities	(1,895)	0	(1,895)	0.0%
	Non-current net debt	**(2,258)**	**(1,619)**	**(639)**	**39.5%**
	Total net debt	***3,511***	***(8,333)***	***11,844***	***n.m.***

Digital Bros Group

Consolidated statement of profit or loss for the year ended 30 June 2016

	Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015		Change	
1	Gross revenue	110,192	102.8%	121,244	104.5%	(11,052)	-9.1%
2	Revenue adjustments	(2,977)	-2.8%	(5,254)	-4.5%	2,278	-43.3%
3	**Net revenue**	**107,215**	**100.0%**	**115,990**	**100.0%**	**(8,775)**	**-7.6%**
4	Purchase of products for resale	(21,193)	-19.8%	(34,104)	-29.4%	12,911	-37.9%
5	Purchase of services for resale	(5,580)	-5.2%	(5,374)	-4.6%	(207)	3.8%
6	Royalties	(23,851)	-22.2%	(28,328)	-24.4%	4,476	-15.8%
7	Changes in inventories of finished products	(948)	-0.9%	(1,898)	-1.6%	950	-50.1%
8	**Total cost of sales**	**(51,572)**	**-48.1%**	**(69,704)**	**-60.1%**	**18,132**	**-26.0%**
9	**Gross profit (3+8)**	**55,643**	**51.9%**	**46,286**	**39.9%**	**9,357**	**20.2%**
10	Other income	5,714	5.3%	2,295	2.0%	3,419	n.m.
11	Cost of services	(13,425)	-12.5%	(11,660)	-10.1%	(1,766)	15.1%
12	Lease and rental charges	(1,555)	-1.5%	(1,548)	-1.3%	(7)	0.5%
13	Labour costs	(19,861)	-18.5%	(17,926)	-15.4%	(1,935)	10.8%
14	Other operating costs	(1,421)	-1.3%	(1,371)	-1.2%	(50)	3.6%
15	**Total operating costs**	**(36,262)**	**-33.8%**	**(32,505)**	**-28.0%**	**(3,758)**	**11.6%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**25,095**	**23.4%**	**16,076**	**13.9%**	**9,020**	**56.1%**
17	Depreciation and amortisation	(3,788)	-3.5%	(2,920)	-2.5%	(868)	29.7%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment losses recognised on assets	(1,080)	-1.0%	(1,455)	-1.3%	376	-25.8%
20	Write-backs and non-monetary income	588	0.5%	641	0.6%	(53)	-8.3%
21	**Total non-monetary income and operating costs**	**(4,280)**	**-4.0%**	**(3,734)**	**-3.2%**	**(547)**	**14.6%**
22	**Operating margin (EBIT) (16+21)**	**20,815**	**19.4%**	**12,342**	**10.6%**	**8,474**	**68.6%**
23	Interest and finance income	3,093	2.9%	3,939	3.4%	(847)	-21.5%
24	Interest expense and finance costs	(5,570)	-5.2%	(2,027)	-1.7%	(3,545)	n.m.
25	**Net finance income (costs)**	**(2,477)**	**-2.3%**	**1,912**	**1.6%**	**(4,388)**	**n.m.**
26	**Profit before tax (22+25)**	**18,338**	**17.1%**	**14,254**	**12.3%**	**4,085**	**28.7%**
27	Current tax	(6,644)	-6.2%	(3,897)	-3.4%	(2,746)	n.m.
28	Deferred tax	845	0.8%	(1,252)	-1.1%	2,097	n.m.
29	**Total income tax income (expense)**	**(5,799)**	**-5.4%**	**(5,149)**	**-4.4%**	**(650)**	**12.6%**
30	**Profit for the year (26+29)**	**12,539**	**11.7%**	**9,105**	**7.8%**	**3,435**	**37.7%**
	Earnings per share:						
33	**Basic earnings per share (in euros)**	**0.90**		**0.67**		**0.23**	**34.9%**
34	**Diluted earnings per share (in euros)**	**0.90**		**0.67**		**0.23**	**34.9%**

Digital Bros Group

Consolidated statement of comprehensive income for the year ended 30 June 2016

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**
Profit (loss) for the period (A)	**12,539**	**9,105**	**3,434**
Items that will not be reclassified subsequently to profit or loss (B)			
Actuarial gain (loss)	**(45)**	30	**(75)**
Income tax relating to the actuarial gain (loss)	**11**	(8)	**19**
Exchange differences on translation of foreign operations	**(569)**	(389)	**(180)**
Income tax relating to exchange differences on translation of foreign operations	**0**	0	**0**
Fair value measurement of shares designated as available for sale	**2,746**	330	**2,416**
Income tax relating to the fair value measurement of shares designated as available for sale	**(756)**	(90)	**(666)**
Items that may be reclassified subsequently to profit or loss (C)	**1,387**	**(127)**	**1,514**
Total other comprehensive income D = (B)+(C)	**1,387**	**(127)**	**1,514**
Total comprehensive income (loss) (A) + (D)	**13,926**	**8,978**	**4,948**
Attributable to:			
Owners of the Company	**13,926**	**8,978**	**4,948**
Non-controlling interests	**0**	0	

Digital Bros Group

Consolidated statement of cash flows for the year ended 30 June 2016

	Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**
A.	**Opening net debt**	**(8,333)**	**(21,909)**
B.	**Cash flows from operating activities**		
	Profit (loss) for the year attributable to the Group	12,539	5,588
	Depreciation, amortisation and non-monetary costs:		
	Provisions and impairment losses	0	332
	Amortisation of intangible assets	3,117	1,849
	Depreciation of property, plant and equipment	671	334
	Net change in other provisions	(134)	(17)
	Net change in employee benefit provisions	43	16
	Net change in other non-current liabilities	(470)	615
	SUBTOTAL B.	**15,766**	**8,717**
C.	**Change in net working capital**		
	Inventories	948	1,898
	Trade receivables	1,510	5,154
	Current tax assets	447	1,352
	Other current assets	1,114	(2,782)
	Trade payables	(5,217)	4,895
	Current tax liabilities	3,182	(999)
	Current provisions	0	0
	Other current liabilities	586	279
	SUBTOTAL C.	**2,570**	**9,797**
D.	**Cash flows from investing activities**		
	Net payments for intangible assets	(5,629)	(7,775)
	Net payments for property, plant and equipment	(2,862)	(1,470)
	Net payments for non-current financial assets	(1)	117
	SUBTOTAL D.	**(8,492)**	**(9,128)**
E.	**Cash flows from financing activities**		
	Proceeds from capital increases	0	0
	SUBTOTAL E.	**0**	**0**
F.	**Changes in consolidated equity**		
	Dividends distributed	(1,818)	(960)
	Changes in treasury shares held	809	375
	Increases (decreases) in other equity components	3,009	(92)
	SUBTOTAL F.	**2,000**	**(677)**
G.	**Cash flow for the period (B+C+D+E+F)**	**11,844**	**13,576**
H.	**Closing net cash/debt (A+G)**	**3,511**	**(8,333)**

Notes to the statement of cash flows

Details of cash flow by maturity:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**
Increase (decrease) in securities and cash and cash equivalents	(1,554)	382
Decrease (increase) in current bank debt	(13,191)	9,617
Decrease (increase) in other current financial assets and liabilities	27,228	4,910
Change in net cash/debt due to acquisition of equity investments	0	267
Cash flow for the period pertaining to current net cash/debt	12,483	15,176
Cash flow for the period pertaining to non-current net cash/debt	(639)	(1,600)
Cash flow for the period	**11,844**	**13,576**

Digital Bros Group

Consolidated statement of changes in equity

Euro thousand	**Share capital (A)**	Share premium	Legal reserve	IAS transition reserve	Currency translation reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (accumulated losses)	Profit (loss) for the year	**Total retained earnings (D)**	**Consolidated equity attributable to Group (A+B+C+D)**
As at 1 July 2014	**5,644**	16,954	1,129	1,367	145	(86)	**19,509**	**(1,574)**	(122)	1,924	**1,802**	**25,381**
Allocation of profit for the year							**0**		(1,924)	1,924	**0**	**0**
Payment of dividends							**0**		(960)		**(960)**	**(960)**
Other changes						35	**35**	**375**			**0**	**410**
Comprehensive income (loss)					(389)	262	**(127)**			9,105	**9,105**	**8,978**
As at 30 June 2015	**5,644**	16,954	1,129	1,367	(244)	211	**19,417**	**(1,199)**	(3,006)	12,953	**9,947**	**33,809**
As at 1 July 2015	**5,644**	16,954	1,129	1,367	(244)	211	**19,417**	**(1,199)**	(3,006)	12,953	**9,947**	**33,809**
Allocation of profit for the year							**0**		9,105	(9,105)	**0**	**0**
Payment of dividends									(1,818)		**(1,818)**	**(1,818)**
Other changes							**0**	**809**	1,622		**1,622**	**2,431**
Comprehensive income (loss)					(569)	1,956	**1,387**			12,539	**12,539**	**13,926**
As at 30 June 2016	**5,644**	16,954	1,129	1,367	(813)	2,167	**20,804**	**(390)**	5,903	16,387	**22,290**	**48,348**

Digital Bros Group

Consolidated statement of profit or loss prepared in accordance with Consob Resolution 15519 of 27 July 2006

	Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015	
		Total	Of which with related parties	Total	Of which with related parties
1	Gross revenue	110,192	0	121,244	0
2	Revenue adjustments	(2,977)	0	(5,254)	0
3	**Net revenue**	**107,215**	**0**	**115,990**	**0**
4	Purchase of products for resale	(21,193)	0	(34,104)	0
5	Purchase of services for resale	(5,580)	0	(5,374)	0
6	Royalties	(23,851)	0	(28,328)	0
7	Changes in inventories of finished products	(948)	0	(1,898)	0
8	**Total cost of sales**	**(51,572)**	**0**	**(69,704)**	**0**
9	**Gross profit (3+8)**	**55,643**	**0**	**46,286**	**0**
10	Other income	5,714	0	2,295	0
11	Cost of services	(13,425)	(254)	(11,733)	(200)
12	Lease and rental charges	(1,555)	(1,131)	(1,548)	(1,047)
13	Labour costs	(19,861)	0	(17,853)	0
14	Other operating costs	(1,421)	0	(1,371)	0
15	**Total operating costs**	**(36,262)**	**(1,385)**	**(32,505)**	**(1,247)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**25,095**	**(1,385)**	**16,076**	**(1,247)**
17	Depreciation and amortisation	(3,788)	0	(2,920)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(1,080)	0	(1,455)	0
20	Reversal of impairment losses and non-monetary income	588	0	641	0
21	**Total non-monetary income and operating costs**	**(4,280)**	**0**	**(3,734)**	**0**
22	**Operating margin (EBIT) (16+21)**	**20,815**	**(1,385)**	**12,342**	**(1,247)**
23	Interest and finance income	3,093	0	3,939	0
24	Interest expense and finance costs	(5,570)	0	(2,027)	0
25	**Financial items**	**(2,477)**	**0**	**1,912**	**0**
26	**Profit before tax (22+25)**	**18,338**	**(1,385)**	**14,254**	**(1,247)**
27	Current tax	(6,644)	0	(3,897)	0
28	Deferred tax	845	0	(1,252)	0
29	**Total income tax income (expense)**	**(5,799)**	**0**	**(5,149)**	**0**
30	**Profit for the year (26+29)**	**12,539**	**(1,385)**	**9,105**	**(1,247)**

Digital Bros Group

Statement of financial position prepared in accordance with Consob Resolution 15519 of 27 July 2006

	Euro thousand	**30 June 2016**		**30 June 2015**	
	Non-current assets	**Total**	**Of which with related parties**	**Total**	**Of which with related parties**
1	Property, plant and equipment	7,032	0	4,841	0
2	Investment property	0	0	0	0
3	Intangible assets	10,458	0	7,946	**0**
4	Equity investments	898	0	1,274	0
5	Non-current receivables and other assets	1,056	768	1,058	768
6	Deferred tax assets	2,619	0	2,240	0
	Total non-current assets	**22,063**	**768**	**17,359**	**768**
	Non-current liabilities				
7	Employee benefits	(529)	0	(486)	0
8	Non-current provisions	(36)	0	(170)	0
9	Other non-current payables and liabilities	(252)	0	(722)	0
	Total non-current liabilities	**(817)**	**0**	**(1,245)**	**0**
	Net working capital				
10	Inventories	11,933	0	12,881	0
11	Trade receivables	34,840	0	36,350	0
12	Current tax assets	2,019	0	2,466	0
13	Other current assets	5,034	0	6,148	0
14	Trade payables	(21,712)	(25)	(26,929)	(18)
15	Current tax liabilities	(6,211)	0	(3,029)	0
16	Current provisions	0	0	0	0
17	Other current liabilities	(2,312)	0	(1,726)	0
	Total net working capital	**23,591**	**(25)**	**26,028**	**(18)**
	Capital and reserves				
18	Share capital	(5,644)	0	(5,644)	0
19	Reserves	(20,804)	0	(19,417)	0
20	Treasury shares	390	0	1,199	0
21	Retained earnings (accumulated losses)	(22,290)	0	(9,947)	0
	Total equity	**(48,348)**	**0**	**(33,809)**	**0**
	Total net assets	***(3,511)***	***743***	***8,333***	***750***
22	Cash and cash equivalents	2,785	0	4,339	0
23	Current bank debt	(25,929)	0	(12,738)	0
24	Other current financial assets and liabilities	28,913	0	1,685	0
	Current net cash/debt	**5,769**	**0**	**(6,714)**	**0**
25	Non-current financial assets	1,195	0	0	0
26	Non-current bank debt	(1,558)	0	(1,619)	0
27	Other non-current financial liabilities	(1,895)	**0**	0	0
	Non-current net debt	**(2,258)**	**0**	**(1,619)**	**0**

	Total net cash/debt	***3,511***	***0***	***(8,333)***	***0***

Digital Bros Group

Consolidated statement of profit or loss prepared in accordance with Consob Resolution 15519 of 27 July 2006

	Euro thousand	**Year ended 30 June 2016**		**Year ended 30 June 2015**	
		Total	**Of which non-recurring**	**Total**	**Of which non-recurring**
1	Gross revenue	110,192	0	121,244	0
2	Revenue adjustments	(2,977)	0	(5,254)	0
3	**Net revenue**	**107,215**	**0**	**115,990**	**0**
4	Purchase of products for resale	(21,193)	0	(34,104)	0
5	Purchase of services for resale	(5,580)	0	(5,374)	0
6	Royalties	(23,851)	0	(28,328)	0
7	Changes in inventories of finished products	(948)	0	(1,898)	0
8	**Total cost of sales**	**(51,572)**	**0**	**(69,704)**	**0**
9	**Gross profit (3+8)**	**55,643**	**0**	**46,286**	**0**
10	Other income	5,714	0	2,295	0
11	Cost of services	(13,425)	0	(11,733)	(181)
12	Lease and rental charges	(1,555)	0	(1,548)	0
13	Labour costs	(19,861)	0	(17,853)	0
14	Other operating costs	(1,421)	0	(1,371)	0
15	**Total operating costs**	**(36,262)**	**0**	**(32,505)**	**(181)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**25,095**	**0**	**16,076**	**(181)**
17	Depreciation and amortisation	(3,788)	0	(2,920)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(1,080)	0	(1,455)	0
20	Reversal of impairment losses and non-monetary income	588	0	641	0
21	**Total non-monetary income and operating costs**	**(4,280)**	**0**	**(3,734)**	**0**
22	**Operating margin (EBIT) (16+21)**	**20,815**	**0**	**12,342**	**(181)**
23	Interest and finance income	3,093	0	3,939	0
24	Interest expense and finance costs	(5,570)	0	(2,027)	0
25	**Net finance income (costs)**	**(2,477)**	**0**	**1,912**	**0**
26	**Profit before tax (22+25)**	**18,338**	**0**	**14,254**	**(181)**
27	Current tax	(6,644)	0	(3,897)	0
28	Deferred tax	845	0	(1,252)	0
29	**Total income tax income (expense)**	**(5,799)**	**0**	**(5,149)**	**0**
30	**Profit for the year (26+29)**	**12,539**	**0**	**9,105**	**(181)**

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Notes to the consolidated financial statements for the year ended 30 June 2016

1. INTRODUCTORY NOTE

The main operations inclusive of those of subsidiaries are described in the directors' report.

The consolidated financial statements for the year ended 30 June 2016 have been prepared on a going concern basis. The Group has deemed that the uncertainties and risks to which it is exposed, as described in the directors' report, do not cast doubt on its ability to operate as a going concern.

Accounting standards adopted and declaration of compliance with IAS/IFRS

The consolidated financial statements of Digital Bros Group. for the year ended 30 June 2016 have been prepared in accordance with Art. 154-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments thereto. They comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), on the basis of the text published in the Official Journal of the European Union). The term "IFRS" encompasses the International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts included in the consolidated financial statements for the year ended 30 June 2016 are stated in thousands of euros, unless otherwise specified.

Reporting formats

The consolidated financial statements for the year ended 30 June 2016 comply with international accounting standards (IAS/IFRS) and with the interpretations thereof (SIC/IFRIC) endorsed by the European Commission as of the reporting date.

The financial statements and the notes thereto also include the disclosures required by Consob Resolution 15519 of 27 July 2006 and Consob Communication 6064293 of 28 July 2006.
No changes have been made to the reporting format with respect to previous years and all schedules are consistent with those used for the consolidated financial statements for the year ended 30 June 2015.

The financial statements are comprised of:

- consolidated statement of financial position at 30 June 2016 with comparative figures at 30 June 2015 (the annual reporting date for the previous consolidated financial statements);
- consolidated statement of profit or loss for the period from 1 July 2015 to 30 June 2016 together with comparative figures for the period from 1 July 2014 to 30 June 2015;
- consolidated statement of comprehensive income for the period from 1 July 2015 to 30 June 2016 together with comparative figures for the period from 1 July 2014 to 30 June 2015;
- consolidated statement of cash flows from 1 July 2015 to 30 June 2016 with comparative figures for the period from 1 July 2014 to 30 June 2015;
- consolidated statement of changes in equity from 1 July 2015 to 30 June 2016 and from 1 July 2014 to 30 June 2015.

The following have been provided to supplement the information presented in the financial statements:

- details of cash flows for the period by maturity together with comparative figures for the previous year;

- additional information on the consolidated statement of cash flows together with comparative figures for the previous year.

The first column of the statement of financial position indicates the number of the relevant note.

The components of the statement of financial position have been allocated to the following five categories:

- non-current assets;
- non-current liabilities;
- net working capital;
- equity;
- net cash/debt.

Non-current assets consist of assets that are long-term in nature, such as property, plant and equipment to be used for more than one period, equity investments in associated companies and receivables that fall due in subsequent periods. They also include deferred tax assets regardless of when they might be realised.

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, particularly the provision for employee termination indemnities pertaining to the parent company and its Italian subsidiaries, and, in general, payables that fall due beyond 30 June 2016.

Net working capital comprises current assets and liabilities. Due to the commercial nature of the Group's operations, net working capital is particularly significant, as it represents the amount the Group invests in operating activities to boost its turnover. Net working capital is significantly influenced by the trend in turnover and seasonality that is a feature of the market.

Equity consists of share capital, reserves, retained earnings (profit for the year plus prior year profits not allocated to specific reserves by the shareholders in general meeting) as adjusted for treasury shares.

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

Net cash/debt is split into current and non-current cash/debt and corresponds to total net assets.

The first column of the consolidated statement of profit or loss and of the statement of profit or loss presented for segment reporting purposes indicates the number of the relevant note.

The statement of profit or loss has been presented in a multi-step format, with expenses analysed by nature and shows four intermediate levels of profit:

- gross profit, the difference between net revenue and total cost of sales;

- gross operating margin (EBITDA), the difference between gross profit and total operating costs;
- operating margin (EBIT), the difference between gross operating margin and non-monetary operating costs;
- profit before tax, the difference between the operating margin and net finance income (costs).

Profit for the year, which is the difference between profit before tax and total income tax income (expense), is followed by earnings per share.

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

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

- cash flows from operating activities;
- changes in net working capital;
- cash flows from investing activities;
- cash flows from financing activities;
- changes in consolidated equity.

The statement of changes in equity has been prepared in accordance with international accounting standards (IAS/IFRS) and shows movements between 1 July 2014 and 30 June 2016.

There are no non-controlling interests, which are therefore not reported.

2. ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2016 have been prepared in accordance with international accounting standards and their interpretations in force at that date.

The consolidated financial statements were prepared on the basis of financial statements prepared by the Group companies falling within the scope of consolidation for the year ended 30 June 2016, adjusted, where necessary, to bring them into line with Group accounting policies and IAS/IFRS. All prior period comparative figures have been adjusted, as necessary, in order to render them compliant with IAS/IFRS.

The measurement criteria used to prepare the consolidated financial statements for the year ended 30 June 2016 are consistent with those used to prepare the consolidated financial statements for the year ended 30 June 2015. Changes in the standards and interpretations endorsed by the European Union have had no significant effect on the preparation of the consolidated financial statements for the year ended 30 June 2016.

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost and are shown net of depreciation and impairment. No revaluations of assets have been carried out in prior years. No borrowing costs have been capitalised.

Leasehold improvements and costs incurred subsequent to purchase are capitalised only if they increase the future economic benefits associated with the asset. All other costs are recognised in profit or loss when incurred.

Depreciation is computed on a straight-line basis over the assets' estimated useful lives, as follows:

Buildings	2.56%-3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%
Leasehold improvements	17%

Assets held under finance leases, whereby all of the risks and benefits of ownership are transferred to the Group, are recognised at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments payable over the entire lease term. The corresponding lease obligation is recognised under financial liabilities. Depreciation is charged on a straight-line basis over the estimated useful life of each asset category.

Leasing arrangements, whereby the lessor retains substantially all the risks and rewards incidental to ownership of an asset, are accounted for as operating leases. Operating lease costs are recognised in profit or loss over the lease term as lease and rental charges.

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

Intangible assets

Intangible assets acquired separately or internally-generated are capitalised in accordance with IAS 38 - Intangible assets, when it is likely that their use will generate future economic benefits and when their cost can be reliably determined.

They are recognised at purchase or production cost and those with a finite useful life are amortised on a straight-line basis over their estimated useful lives.

The amortisation rates applied are as follows:

- Brands and similar rights: 33.3% (including intellectual property, usage rights and long-term licenses)
- Microsoft Dynamics Navision licenses: 20%
- Long-term licences / usage rights: 20%.

Intangible assets with finite useful lives are amortised systematically over their estimated useful lives and amortisation begins when the assets are available for use; their carrying amount is tested for recoverability in accordance with IAS 36, as explained under "impairment of assets" below.

The same criterion is used for long-term licences for usage rights and intellectual property, the amortisation method of which must reasonably and reliably reflect the correlation between costs and income. If that correlation cannot be objectively determined, the Group applies amortisation on a straight-line basis over the contract term and, in any event, over a period not exceeding five years.

Rights available for multiple means of exploitation that are used in the distribution business are amortised according to international best practice, considering the relationship between the income earned for each type of exploitation and the total income generated by the exploitation of that right.

The related amortisation is included in depreciation and amortisation expense in the statement of profit or loss.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration transferred as of the acquisition date plus the amount of any non-controlling interest held in the acquiree. For each business combination, the Group decides whether to measure any non-controlling interest in the acquiree at fair value or in proportion to the non-controlling interest's attributable portion of the acquiree's net identifiable assets. Acquisition-related costs are generally recognised in profit or loss as incurred as administrative costs.

When the Group acquires a business, it classifies or designates the financial assets acquired and the liabilities assumed in accordance with the relevant contractual terms and the economic and other conditions existing at the acquisition date.

If a business combination is achieved in stages, the Group's previously held equity interest in the acquiree measured using the equity method is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Any contingent consideration is recognised at its acquisition-date fair value. In accordance with IAS 39, a change in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it need not be remeasured until settlement of the contingency is reflected within equity. The subsequent transaction will be accounted for in equity. If contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially stated at cost, measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by the Group. If the consideration paid is less than the fair value of the net assets acquired, the difference is recognised in profit or loss.

In the event that it is only possible to make a preliminary determination of the fair value of the assets, liabilities and contingent liabilities, the business combination is recognised using these preliminary amounts. Any adjustments arising from the final determination of the foregoing are recognised within twelve months of the acquisition and the comparatives are restated.
After its initial recognition, goodwill is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal. The goodwill associated with the operation disposed of is measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

Equity investments

Equity investments in associates are recognised at cost less any impairment.

The positive difference arising at the time of acquisition from third parties between the purchase cost and the Group's share of the fair value of equity is included in the carrying amount of the investment.

Once a year, or more frequently if necessary, equity investments in associates undergo impairment testing in accordance with IAS 36. If there is evidence that these investments have suffered an impairment loss, this is duly recognised in profit or loss. If the Group's share of an investee’s losses exceeds the carrying amount of the equity investment and if the Group is obliged to cover this loss, the carrying amount of the investment is reduced to zero and the Group's share of the additional losses is recognised as a provision in the statement of financial position. If there is any subsequent indication that an impairment loss may no longer exist or may have decreased, the reversal thereof is recognised in profit or loss up to the amount of the cost of the asset.

Other available-for-sale financial assets

In accordance with IAS 39, investments in companies other than subsidiaries and associates, constituting non-current financial assets which are not held for trading, are classified as available-for-sale financial assets and are measured at fair value, except in situations where the fair value may not be reliably determined: in such cases, the cost method is adopted.

Gains and losses resulting from fair value adjustments are recognised in a specific other comprehensive income reserve until an asset is sold or impaired; when an asset is sold, gains or losses previously recognised in other comprehensive income are reclassified to profit or loss for the period. When an asset is impaired, the accumulated loss is recognised in profit or loss as interest expense and finance costs.

For further information on the accounting policy for financial assets, reference should be made to the relevant note (“Financial Assets") included in the paragraph relating to net cash/debt.

Impairment of assets

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

Accordingly, at least once a year, the Group tests the recoverability of the above assets’ carrying amounts. If there is any indication that those assets have suffered an impairment loss, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When 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 the higher of fair value less costs of disposal and value in use. An asset’s value in use is estimated by discounting to their present value estimated future cash flows at a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

An impairment loss is recognised if the recoverable amount is less than its carrying amount. If impairment is subsequently reduced or reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Finished product inventories are recognised at the lower of cost including ancillary expenses and realisable value, as estimated from market trends. Specific cost is the measurement used to define cost.

When the realisable value of inventories is less than their purchase cost, impairment is charged directly to the unit value of the article in question.

Receivables and payables

Receivables are stated at their estimated realisable value. The face value of receivables is adjusted to their estimated realisable value by means of a provision for doubtful accounts, which takes account of debtors' individual situations.

Receivables due from customers undergoing insolvency procedures are written off in full, or written down to the extent that ongoing legal action indicates they are partially collectible.

Payables are stated at face value.

Factoring of trade receivables

The Group has factored its trade receivables without recourse to various factoring companies. In accordance with IAS 39, factored assets may be derecognised only when the associated risks and benefits have been substantially transferred. Accordingly, 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 transferred. An amount equal to the sums advanced for factored receivables not yet collected is therefore recognised in the consolidated financial statements under other current financial liabilities.

Employee benefits

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

Effective 1 January 2007, significant changes were made to Italian law governing the TFR, including the employee's choice as to where his or her benefits are to be held (in supplementary pension schemes or in the "Treasury Fund" managed by the Social Security agency INPS). Thus, the obligation to INPS and the payments to supplementary pension schemes qualify as defined contribution plans, while the amounts remaining in TFR, in accordance with IAS 19, retain their status as defined benefit plans.

Actuarial gains and losses in accordance with the amendment to IAS 19 are recognised in equity under other reserves.

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 fulfil 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 recognised in the profit or loss for the period in which the change occurs.

Financial assets and liabilities

Current financial assets, non-current financial assets and current and non-current financial liabilities are recognised 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 recognised as available-for-sale.

Current financial assets and securities are booked on the basis of their trading date and upon initial recognition they are measured at purchase cost including transaction expenses. Subsequent to initial recognition, available-for-sale financial instruments and securities held for sale are measured at fair value. If no market price is available, the fair value of available-for-sale financial instruments is measured with the most appropriate valuation techniques, such as the discounted cash flow method, using the market information available at the close of the year.

Financial liabilities comprise financial payables and other financial liabilities, including those arising from the recognition of derivative instruments at market value.

Financial assets measured at fair value through profit or loss

In accordance with IAS 39 this category includes the following cases:

- financial assets that are specifically held for trading;
- any financial asset that is designated on initial recognition as one to be measured at fair value.

On initial recognition, financial assets held for trading are measured at fair value, without adding directly attributable transaction costs or income that are recognised in profit or loss.

All assets within this category are classified as current if they are held for trading or if they are expected to be sold within 12 months from the reporting date.

Designation of a financial instrument to this category is final (IAS 39 only envisages some exceptional circumstances in which said financial assets may be classified in another category) and can only be done on initial recognition.
Gains or losses on financial assets measured at fair value through profit or loss are immediately recognised in profit or loss.

Fair value is the amount for which an asset could be exchanged, or to be paid to transfer the liability ("exit price") in an arm's length transaction between knowledgeable and independent parties. In the case of securities traded on regulated markets, the fair value is determined with reference to bid prices at the end of trading on the reporting date.

Purchases or sales regulated at "market prices" are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. In cases where fair value cannot be reliably determined, the financial asset is measured at cost, with disclosure in the notes of its type and related reasons.

Investments in financial assets may be derecognised only upon expiry of the contractual rights to receive cash flows from investments (e.g. final redemption of bonds subscribed) or when the Company transfers the financial asset and all related risks and benefits.

Derivative financial instruments

Derivatives 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 recognised 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 derivative financial instruments meet the conditions for hedge accounting, they are accounted for as follows:

- *Fair value hedge* - If a derivative financial instrument is designated as a hedge against changes in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value measurement of the hedge is recognised 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 recognised 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 recognised 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 recognised directly in equity. The cumulative gain or loss is transferred from equity to profit or loss in the same period in which the hedged transaction is recognised. The ineffective portion of the gain or loss on the hedging instrument is recognised 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 recognised up to that time in equity are reclassified to profit or loss soon as the transaction occurs. If the hedged transaction is no longer deemed probable, the profits or losses not yet realised that have been accounted for in equity are immediately recognised in profit or loss.

If hedge accounting cannot be used, the gains or losses arising from the fair value measurement of the derivative financial instrument are recognised immediately in profit or loss as interest income/expense or finance income/costs.

Treasury shares

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

Revenue

Revenue is recognised when the Group is expected to obtain economic benefits and the amount of which can be reliably determined. Specifically, revenue from the sale of goods is recognised 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.

Revenue from services is recognised when the services are rendered and accepted by the customer.

Gross revenue is shown net of discounts, rebates and returns. Revenue adjustments are comprised of revenue-based variable costs and estimated returns from customers, both contractual and non-contractual.

Costs

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

Advertising costs are recognised upon receipt of the service.

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.

Changes in inventories refer to the change in the period in the gross amount of period end inventories, net of the change in provisions for inventory obsolescence.

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

If royalty advances are wholly recouped, the calculation method involves determining recoupment by multiplying the unit royalty by the quantities sold during the period. In the case of partial recoupment, the degree of recoupment is calculated separately for each contract on the basis of estimated future use.

Dividends received

Dividends received from investee companies are recognised when the right to receive payment is established, provided they derive from the allocation of profits earned subsequent to the acquisition of the investee. If they derive from the distribution of reserves generated prior to the acquisition, such dividends are deducted from the carrying amount of the equity investment.

Interest income/expense and finance income/costs

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

Current tax

Income tax includes all taxes computed on the Group companies' taxable income. Income tax is generally recognised in profit or loss, except when it pertains to items debited or credited directly to equity, in which case the tax effect is recognised directly in equity.

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

Deferred tax

Deferred taxes are computed in accordance with the balance sheet liability method. They are calculated on all temporary differences between the accounting and tax basis 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 tax losses and unused tax credits eligible to be carried forward are recognised to the extent of the likelihood of earning enough future taxable income for these to be recovered. Deferred tax assets and liabilities are computed using the tax rates expected to be in force in the respective jurisdictions in which the Group operates, when the temporary differences are likely to be realised or reversed.
They are classified as non-current assets and liabilities, regardless of the estimated year of use.

Earnings per share

Basic earnings per share is calculated by dividing the profit for the period by the number of shares outstanding, net of treasury shares. Diluted earnings per share equates to basic earnings per share, since there were no financial instruments convertible to shares in circulation during the period.

Foreign currency transactions

Transactions in foreign currencies are recognised 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 recognised in profit or loss.

New accounting standards

The following accounting standards, amendments and interpretations are applicable to the Group for the first time as from 1 July 2015:

- on 21 November 2013, the IASB issued **Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**, which proposes that contributions (relating only to the service rendered by an employee in the period) made by employees or third parties to defined benefit plans be recognised as a reduction in the service cost in the period in which the contributions are paid. The need for this proposal stems from the introduction of the new IAS 19 (2011), which states that such contributions are to be interpreted as part of a post-employment benefit, rather than a short-term benefit and, therefore, that this contribution shall be spread over the years of service of the employee. The adoption of the amendments has had no impact on the Group's consolidated financial statements;
- on 12 December 2013 the IASB published **Annual Improvements to IFRSs: 2010-2012 Cycle**, a collection of amendments to standards as part of the annual process of improvements thereto. The major amendments relate to:
  - IFRS 2 *Share Based Payment – Definition of vesting conditions*. Changes have been made to definitions of "vesting conditions" and "market conditions" and separate definitions have been added for "performance condition" and "service condition" (previously included in the definition of "vesting conditions");
  - IFRS 3 *Business Combinations – Accounting for contingent consideration*. The amendment clarifies that a variable price component (contingent consideration) relating to a business combination that is classified as a financial asset or financial liability (contrary to the requirement for that classified as an equity instrument) can only be measured at fair value at the reporting date and that changes in fair value are to be presented in either profit or loss or other comprehensive income depending on the requirements of IAS 39 (or IFRS 9);
  - IFRS 8 *Operating segments – Aggregation of operating segments.* The amendments require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the aggregated segments and the economic indicators considered when determining whether such segments share similar economic characteristics that would allow them to be aggregated;
  - IFRS 8 *Operating segments – Reconciliation of total of the reportable segments' assets to the entity's assets.* The amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker;
  - IFRS 13 *Fair Value Measurement – Short-term receivables and payables.* An amendment has been made to the Basis for Conclusions of IFRS 13 in order to clarify that, with the issue of IFRS 13 and the consequent amendments to IAS 39 and IFRS 9, it is still valid to measure short-term receivables and payables without recognising the effects of discounting, if such effects are not material;

- IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation Method: proportionate restatement of accumulated depreciation and amortisation*. The amendments have eliminated inconsistencies in the recognition of accumulated depreciation and amortisation when a tangible or intangible asset has been revalued. The amendments also clarify that the gross carrying amount has to be restated in a manner consistent with the revaluation of the net carrying amount and that accumulated depreciation or amortisation is the difference between the restated gross and the net carrying amounts;
- IAS 24 *Related Parties Disclosures – Key management personnel*. This clarifies that where key management personnel services are provided by an entity (and not by an individual), the entity should be identified as a related party.

These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 6 May 2014 the IASB issued **Amendments to IFRS 11 *Joint Arrangements* – *Accounting for acquisitions of interests in joint operations*** that deals with the accounting for an acquisition of an interest in a joint operation in which the activity constitutes a business as defined in IFRS 3. For such cases, the amendments require the application of the accounting principles in IFRS 3 relating to the recognition of a business combination.

  These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 30 June 2014 the IASB issued **Amendments to IAS 16 *Property, plant and equipment*** and **IAS 41 *Agriculture – Bearer Plants.*** The amendments require bearer plants, that is, fruit trees that are expected to provide an annual harvest (for example, grape vines and hazelnut trees), to be accounted for in accordance with IAS 16 (rather than IAS 41). This means that such assets will be valued at cost instead of fair value net of costs to sell (although entities can continue to apply the revaluation method under IAS 16). The changes are limited to plants intended to grow produce seasonally and not to be sold as living plants or harvested themselves as agricultural products. These trees also fall within the scope of IAS 16 during their biological maturation, that is, until they are capable of bearing agricultural produce.

  These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 12 May 2014 the IASB issued **Amendments to IAS 16 *Property, plant and equipment*** and to **IAS 38 *Intangible assets – Clarification of acceptable methods of depreciation and amortisation***. The amendments to IAS 16 state that depreciation methods that are based on revenue are not appropriate, given that, according to the amendments, revenues generated by an activity that includes the use of a depreciable asset generally reflect factors that differ from the consumption of the economic benefit of the asset, being a requirement that needs to be met for depreciation or amortisation. The amendments to IAS 38 introduce a rebuttable presumption that an amortisation method that is based on revenue is generally deemed to be inappropriate for the same reasons given by the amendments introduced to IAS 16. In the case of intangible assets this can only be overcome in limited, specific circumstances.

These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 25 September 2014 the IASB issued ***Annual Improvements to IFRSs: 2012-2014 Cycle***. These amendments are applicable for annual periods beginning on or after 1 July 2015.
  The amendments impact the following standards:

  - IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.* The amendments introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments state that (i) for such reclassifications the same classification and measurement criteria should be applied; (ii) assets that no longer meet the criteria for held for distribution to owners should be treated in the same way as assets that cease to be classified as held for sale;
  - IFRS 7 – *Financial Instruments: Disclosures*. The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. Moreover, the amendments clarified that disclosure requirements on offsetting financial assets and financial liabilities are not generally explicitly required for interim financial reporting, except where the disclosure is deemed to be significant;
  - IAS 19 – *Employee Benefits*. The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level and not at the level of the reporting entity's country;
  - IAS 34 – *Interim Financial Reporting*. The amendments clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated elsewhere in the interim report by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

  The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 18 December 2014 the IASB issued **Amendments to IAS 1 - *Disclosure Initiative***. The objective of the amendments is to clarify certain disclosure issues that could be perceived as impediments to the preparation of clear and intelligible financial statements. The amendments made are the following:
  - Materiality and aggregation: the amendments clarify that information should not be obscured by aggregating or disaggregating and that materiality considerations should

apply to all parts of the financial statements, including the notes and specific IFRS disclosure requirements. The disclosures specifically required by IFRS shall be provided only if the information is significant;

   - Statement of financial position and statement of profit or loss and other comprehensive income: the amendments clarify that the list of line items specified by IAS 1 for presentation in these statements can be disaggregated and aggregated as relevant. Guidance is also provided on the use of subtotals in these statements;
   - Presentation of elements of Other Comprehensive Income ("OCI"): the amendments clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss;
   - Notes: the amendments clarify that entities have flexibility in defining the structure of the notes and provide guidance on how to order the notes, for example:
      i. Giving prominence to those that are most relevant to an understanding of the financial position (e.g. by combining all information on particular assets);
      ii. Disclosing related information together in cohesive sections (e.g. assets measured at fair value);
      iii. By following the order of the line items presented in the financial statements.

  These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements;

- on 12 August 2014 the IASB issued ***Amendments to IAS 27 - Equity Method in Separate Financial Statements***. The amendments introduce an option to allow an entity to use the equity method to account for investments in subsidiaries, joint ventures and associates in its separate financial statements. As a consequence, following the introduction of the amendments, an entity may account for equity investments in its separate financial statements either:
   - at cost; or
   - in accordance with IFRS 9 (or IAS 39); or
   - using the equity method.

  These amendments are applicable for annual periods beginning on or after 1 July 2015. The adoption of the amendments has had no impact on the Group's consolidated financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

As of the reporting date, the European Union's delegated bodies had not yet concluded the endorsement process required for the adoption of the amendments and standards described below.

- On 28 May 2014 the IASB issued **IFRS 15 – *Revenue from Contracts with Customers***, which, in conjunction with additional clarifications issued on 12 April 2016, replaces IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenue - Barter Transactions Involving Advertising*

Services. The standard provides a new revenue recognition model to be applied to all contracts with customers except for those that fall within the scope of application of other IAS/IFRS, such as leasing, insurance contracts and financial instruments. The fundamental steps for revenue recognition according to the model are as follows:

- identification of the contract with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contracts;
- revenue recognition criteria when the entity satisfies a performance obligation.

The standard is applicable as from 1 January 2018, although early application is permitted. The directors believe that the application of IFRS 15 may have a significant impact on revenue recognition and on related disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Group has completed a detailed analysis of customer contracts;

- On 24 July 2014, the IASB published the final version of **IFRS 9 – *Financial instruments.*** The document contains the results of the phases of the IAS 39 replacement project relating to Classification and measurement, Impairment and Hedge accounting. The new standard, which replaces the previous versions of IFRS 9, is effective for annual periods beginning on or after 1 January 2018.

It introduces new criteria for the classification and measurement of financial assets and liabilities. For financial assets, IFRS 9 uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets themselves to determine how those assets are measured, replacing the many different rules in IAS 39. Regarding financial liabilities, the main amendments relate to the accounting treatment of changes in fair value of a financial liability designated at fair value through profit or loss, in the event that these changes are due to a change in the credit risk of the issuer of the liability in question. In accordance with the new standard, these changes are to be presented in other comprehensive income and shall no longer be presented in the statement of profit or loss.

With reference to the impairment model, the new standard requires credit losses to be estimated based on an expected loss model (and not on an incurred loss model used by IAS 39) using supportable information, which is available without undue cost or effort that includes historical, current and prospective figures. The standard envisages that the impairment model shall be applied to all financial instruments, that is, financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39 that sometimes were considered too stringent and unsuitable to reflect the risk management policies of the Company. The changes introduced by the document concern:

- an increase in the types of transactions eligible for hedge accounting, including the risk components of non-financial assets and liabilities that are eligible for hedge accounting;
- changes in the way forward contracts and options are accounted for when they are in a hedge accounting relationship, in order to reduce profit or loss volatility;
- replacement of an effectiveness test based on a level of offset of between 80% and 125% with the principle of an economic relationship between the hedged item and the hedging instrument; furthermore, there will no longer be a requirement for a retrospective assessment of the effectiveness of the hedging relationship.

The increased flexibility of the new accounting rules is offset by additional disclosure requirements concerning a company's risk management activities. The directors do not expect that there will be any significant impact on the amounts and the disclosure in the Group's consolidated financial statements;

- on 13 January 2016 the IASB issued **IFRS 16 – *Leases*** which replaces IAS 17 – *Leases*, as well as the interpretations IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a new definition of a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts, identifying the following features: identification of the asset, the right to replacement thereof, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.

The standard sets out a single model for the recognition and measurement of lease contracts for a lessee that requires the recognition of assets held under leases, inclusive of operating leases, as balance sheet assets with an opposite entry to financial liabilities and it also makes it possible not to recognise as leases contracts for low-value assets and leases with a contractual duration equal to or less than 12 months. On the other hand, the standard does not include any significant amendments for lessors.

The standard is applicable as from 1 January 2019, although early application is permitted, but only for companies that were early adopters of IFRS 15 - *Revenue from Contracts with Customers*. The directors do not expect that there will be any significant impact on the amounts and the disclosure in the Group's consolidated financial statements;

- on 11 September 2014 the IASB issued ***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** The amendments were proposed due to the conflict between the requirements of IAS 28 and IFRS 10.

IAS 28 requires that gains and losses resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in the latter is limited to the extent of the investor's interest in the joint venture or associate. On the contrary, IFRS 10 requires full profit or loss recognition when a parent loses control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, inclusive of in the case of a sale or contribution of a subsidiary to a joint venture or associate. The amendments require that, in the case of a sale or contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller or contributor depends on whether the assets or the subsidiary sold or contributed consist of a business, as defined by IFRS 3. If the assets or the subsidiary sold or contributed consist of a business, then the entity should recognise the full profit or loss in line with the previously held equity interest; otherwise, the portion of the gain or loss relating to the equity interest that is still held should be eliminated. For the time being, the IASB has postponed the application of these amendments. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;

- on 18 December 2014 the IASB issued ***Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*** to address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments introduced are applicable for annual periods beginning on or after 1 January 2016, although early application is permitted. The directors do not believe that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements, given that the Company does not meet with the definition of an investment entity;
- on 19 January 2016 the IASB issued ***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***. The amendments provide clarifications concerning the recognition of deferred tax assets computed on unrealised losses under certain circumstances and the estimate of future taxable income. The amendments are applicable as from 1 January 2017, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;
- on 29 January 2016 the IASB issued ***Disclosure Initiative (Amendments to IAS 7).*** The amendments are intended to provide clarifications to improve information concerning liabilities arising from financing activities. Specifically, the amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from monetary movements and changes arising from non-monetary movements. The amendments do not envisage the use of any specific format for the disclosures. However, the amendments require entities to provide a reconciliation of the opening balance to the closing balance of liabilities arising from financing activities. The amendments are applicable as from 1 January 2017, although early application is permitted. There is no requirement to present comparative information relating to prior years. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;
- on 20 June 2016 the IASB issued ***Classification and measurement of share-based payment transactions (Amendments to IFRS 2).*** The amendments contain clarifications and amendments in relation to accounting for vesting conditions affecting cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement

features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are applicable as from 1 January 2018, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements.

3. USE OF ESTIMATES

Critical accounting judgements

The preparation of the consolidated financial statements for the year ended 30 June 2016 and the notes thereto required certain judgements, estimates and assumptions to be made about the carrying amounts of assets and liabilities recognised in the consolidated financial statements and the disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

Estimates are based on data reflecting current available knowledge, they are periodically reviewed and the effects are reflected in profit or loss. Actual results may differ even significantly from these estimates due to changes in the factors considered when formulating them. Estimates are used, in particular, to recognise provisions for doubtful accounts and for the measurement of inventories, depreciation and amortisation, equity investments, asset impairment, employee benefits, deferred taxes and other provisions and allowances.

The main sources of uncertainty in making estimates concerned credit risk, inventory impairment, employee benefits, revenue adjustments, royalties and deferred tax.

Credit risk

As far as the trade receivables of foreign subsidiaries are concerned, the policy is to stay within the insurance limits for individual customers and, accordingly, there are no particular risk assessment issues.

For the Group's Italian companies, the risk of credit default is assessed periodically, on the basis of opinions provided by the external legal advisor in charge of customer disputes. According to the Group's credit collection procedure, receivables not paid within 45 days of their due date are passed on to the legal advisor for collection. Frequent updates from the lawyer on the probability of collection make the estimate of doubtful debts reliable over time.

Measurement of inventories

The Group measures inventories on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment losses may be recognised to reflect individual products' lower market value with respect to their historical cost. To arrive at these estimates, the Group uses revenue forecasts for the subsequent four quarters, periodically produced by the sales department. Any differences found between the market value of a product held in inventory, taking account of its price category and its historical cost, are recognised in profit or loss in the period they are revealed.

Premium Games products are easier to measure on account of the smaller number of products distributed and that need to be valued, as well as the lower unit cost of the products, which consists solely of the cost of physically producing the games and, accordingly, the unit costs are smaller, thus reducing the need to recognise impairment losses.

Employee benefits

The Group offers no pension plans and/or other employee benefits, with the exception of employee termination indemnities (trattamento di fine rapporto, or TFR) required by Italian law. Estimating those benefits requires an assessment of the future financial outlays that may arise as a result of employees' voluntary and involuntary departure, in relation to their seniority and the revaluation rates these benefits enjoy by law.

The TFR system underwent significant changes during the year ended 30 June 2006. Estimating the liability is still complex, due to a small portion of benefits that have remained with the Group companies. To arrive at this estimate, the Group is assisted by a registered actuary to help define the necessary parameters.

Revenue adjustments

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

Revenue adjustments consist of various types of cost. The first, category, which is easier to determine, consists of discounts granted to customers at the end of the normally annual contractual period (year end bonuses). The second category is difficult to estimate and consists of potential credit notes that the Group may have to issue to customers as a result of unsold products. To estimate this amount, management prepares analyses by customer and by product that highlight the risks associated with price cuts and potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to customers with the volumes they have sold to end consumers. The availability of sales figures by country makes the estimate reliable over time. Many customers submit sales and inventory figures on a weekly basis, thus facilitating the estimation process.

Royalties and advances to developers for licenses

The method for the determination of royalties varies based on the different types of contract. The number of contracts that provide for variable royalties with a guaranteed minimum and/or contracts that provide for a fixed development portion has increased over time. For the foregoing types of contract, there is a need to estimate the future benefit that a contract will produce in subsequent quarters in order to match costs and income pertaining thereto and which is based on forecasts of quantities expected to be sold in subsequent periods. The sales forecasts are based on a medium term (three-year) plan, which is revised twice a year. For the determination of royalties for products with digital and/or mobile distribution, the revision of the three-year plan takes place at least monthly.

Deferred tax assets and liabilities

There are two areas of uncertainty in the calculation of deferred taxes. The first is their recoverability, an uncertainty the Group mitigates by assessing the deferred tax assets recognised by each company by reviewing the forecasts prepared therefor. The second is the tax rate to be used that is assumed to be constant over time and to equate to the rates currently applicable in the various countries in which the Group operates and/or to amended rates if it is certain that the changes will come into force.

4. BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are companies the Group controls. Control exists when the Group has the power, directly or indirectly, to influence the financial and operating policies of a subsidiary in such a way as to obtain benefits from its operations. The financial statements of subsidiaries are included in the consolidated financial statements for the year ended 30 June 2016 from the date control is obtained until the date control ceases to exist.

The financial statements of subsidiaries used for the consolidation are prepared as of the same reporting date and are adjusted from local GAAP to comply with the accounting policies employed by the Group.

Equity investments in associates are stated at cost less any impairment.

Translation of foreign currency financial statements

The Group's presentation currency is the euro, which is also the functional currency of the parent company. As at the reporting date, the financial statements of foreign companies with a functional currency other than the euro were translated into the presentation currency as follows:

- assets and liabilities were translated using the exchange rate in force at the reporting date;
- income statement components were translated using the average exchange rate for the period;
- equity components were translated at historical exchange rates.

Exchange differences arising from this process are recognised directly in other comprehensive income and are accumulated in the equity reserve, foreign currency translation reserve.

Transactions eliminated in the consolidation process

In preparing the consolidated financial statements for the year ended 30 June 2016, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies have been eliminated, as well as unrealised profits and losses on intragroup transactions.

Scope of consolidation

The tables below provide details of companies consolidated on a line-by-line basis and by using the equity method.

Companies consolidated on a line-by-line basis:

Name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W. Broadway	Eugene	USA	$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,644,334.80	Parent company
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 50,000	100%
Digital Bros Holdings Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 100,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Pipeworks Inc.	Eugene (OR)	USA	$ 61,929	100%
505 Games S.p.A.	Milan	Italy	€ 100,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	$ 100,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	$ 100,000	100%

505 Games Nordic AB, which is based in Stockholm, was put into liquidation during the course of the period.

Associated companies carried at cost:

Name	Operational headquarters	Capital	% held directly	% held indirectly
Delta DNA Ltd. (1)	Edinburgh, UK	£ 2,786,000	1.12%	0%
Ebooks&Kids S.r.l.	Milan	€ 26,366	16%	0%
Cityglance S.r.l.	Milan	€ 10,000	42.5%	0%
Ovosonico S.r.l.	Milan	€ 100,000	28.58%	0%
Seekhana Ltd.	Milton Keynes, UK	£ 10,000	28.34%	0%

(1) formerly Games Analytics Ltd.

5. EQUITY INVESTMENTS IN ASSOCIATES AND OTHER ENTITIES

Equity investments held by the Group companies as at 30 June 2016 are as follows:

- an equity interest of 1.12% in Delta DNA Ltd., acquired on 3 July 2013 and recognised at cost, equating to Euro 60 thousand (50 thousand pounds);

- an equity interest of 16% in Ebooks&Kids S.r.l., recognised at cost, equating to Euro 200 thousand. The investment was acquired via a first subscription on 7 July 2013 of Euro 70 thousand, of which Euro 68.7 thousand was paid as share premium and a subsequent subscription to a capital increase on 13 February 2014 of Euro 130 thousand, of which Euro 127.1 thousand was paid as share premium;

- an equity interest of 42.5% in Cityglance S.r.l., the carrying amount of which is Euro 46 thousand. This amount includes Euro 4,250.00 relating to the capital subscribed and approximately Euro 41 thousand relating to costs incurred by Digital Bros S.p.A. to develop the companies's operations and which was therefore added to the carrying amount of the investment;

- an equity interest of 42.5% in Ovosonico S.r.l., the carrying amount of which is Euro 420 thousand, of which Euro 28,583 thousand equated to the par value and Euro 391,417 was paid as share premium;

- an equity interest of 28.34% in Seekhana Ltd. of Euro 173 thousand (142 thousand pounds) of which Euro 4 thousand equated to the par value and Euro 169 thousand was paid as share premium.

6. . BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method in accordance with IFRS 3. At the effective acquisition date, the assets and liabilities that form part of the transaction are recognised at their fair value, except for deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements that are recognised in accordance with the relevant accounting standards. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value; the following, which are recognised and measured in accordance with the relevant accounting standards, are an exception:

- deferred tax assets and liabilities;
- assets or liabilities related to employee benefit arrangements;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree;
- assets that are classified as held for sale;
- discontinued operations.

7. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 30 June 2016 is set out below together with comparative figures at 30 June 2015:

	Euro thousand	30 June 2016	30 June 2015	Change	
	Non-current assets				
1	Property, plant and equipment	7,032	4,841	2,191	45.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,458	7,946	2,512	31.6%
4	Equity investments	898	1,274	(376)	0.0%
5	Non-current receivables and other assets	1,056	1,058	(2)	-0.2%
6	Deferred tax assets	2,619	2,240	379	16.9%
	Total non-current assets	**22,063**	**17,359**	**4,704**	**27.1%**
	Non-current liabilities				
7	Employee benefits	(529)	(486)	(43)	8.8%
8	Non-current provisions	(36)	(170)	134	-79.1%
9	Other non-current payables and liabilities	(252)	(722)	470	-65.1%
	Total non-current liabilities	**(817)**	**(1,378)**	**561**	**-40.7%**
	Net working capital				
10	Inventories	11,933	12,881	(948)	-7.4%
11	Trade receivables	34,840	36,350	(1,510)	-4.2%
12	Current tax assets	2,019	2,466	(447)	-18.1%
13	Other current assets	5,034	6,148	(1,114)	-18.1%
14	Trade payables	(21,712)	(26,929)	5,217	-19.4%
15	Current tax liabilities	(6,211)	(3,029)	(3,182)	n.m.
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,312)	(1,726)	(586)	33.9%
	Total net working capital	**23,591**	**26,161**	**(2,570)**	**-9.8%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(20,804)	(19,417)	(1,387)	7.1%
20	Treasury shares	390	1,199	(809)	-67.5%
21	Retained earnings (accumulated losses)	(22,290)	(9,947)	(12,343)	n.m.
	Total equity	**(48,348)**	**(33,809)**	**(14,539)**	**43.0%**
	Total net assets	***(3,511)***	***8,333***	***(11,844)***	***n.m.***
22	Cash and cash equivalents	2,785	4,339	(1,554)	-35.8%
23	Current bank debt	(25,929)	(12,738)	(13,191)	n.m.
24	Other current financial assets and liabilities	28,913	1,685	27,228	n.m.
	Current net debt	**5,769**	**(6,714)**	**12,483**	**n.m.**
25	Non-current financial assets	1,195	0	1,195	0.0%
26	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
27	Other non-current financial liabilities	(1,895)	0	(1,895)	0.0%
	Non-current net debt	**(2,258)**	**(1,619)**	**(639)**	**39.5%**
	Total net cash/debt	***3,511***	***(8,333)***	***11,844***	***n.m.***

1. Property, plant and equipment

The balance of this line item went from Euro 4,841 thousand to Euro 7,032 thousand. Movements during the year were as follows:

Euro thousand	1 July 2015	Additions	Disposals	Depr-eciation	Use of accum. deprec.	30 June 2016
Industrial buildings	2,375	2,348	0	(125)	0	**4,598**
Land	600	0	0	0	0	**600**
Industrial and commercial equipment	746	599	(61)	(331)	60	**1,013**
Other assets	1,120	115	(199)	(215)	0	**821**
Total	**4,841**	**3,062**	**(260)**	**(671)**	**60**	**7,032**

Movements during the prior year were as follows:

Euro thousand	1 July 2014	Additions	Disposals	Depr-eciation	Use of accum. deprec.	30 June 2015
Industrial buildings	2,011	455	0	(91)	0	2,375
Land	600	0	0	0	0	600
Industrial and commercial equipment	281	700	(46)	(233)	44	746
Other assets	340	959	(28)	(179)	28	1,120
Total	**3,232**	**2,114**	**(74)**	**(503)**	**72**	**4,841**

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

The increase in industrial buildings relates to the purchase by 133 W. Broadway of the property located in Eugene, Oregon, the operational headquarters of Pipeworks Inc, for 2,500 thousand U.S. dollars. Industrial buildings also include the Trezzano sul Naviglio warehouse and the freehold building used as office and laboratory premises located in Via Labus, Milan, the operational headquarters of Digital Bros Game Academy S.r.l.

The land pertains to the Trezzano sul Naviglio warehouse, the carrying amount of which is Euro 600 thousand. The Trezzano sul Naviglio warehouse and land had been held under a finance lease and are recognised in accordance with IAS 17. The related purchase option was exercised during the year.

Additions in the period came to Euro 3,062 thousand, as detailed below:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015
Building used by Pipeworks Inc.	2,281	0
Improvements made to new building used by 505 Games (US) Inc.	0	717
Office automation equipment	551	341
Other capital expenditure	230	184
Total capital expenditure in the year (A)	**3,062**	**1,242**
Office automation equipment and furnishing contributed by Pipeworks Inc.	0	340
Office automation equipment and furnishing contributed by DR Studios Ltd.	0	77
Total intangible assets contributed by companies acquired (B)	**0**	**417**
Reclassification of the property in Via Labus, Milan (C)	**0**	**455**
Total additions to property, plant and equipment (A+B+C)	**3,062**	**2,114**

Movements in property, plant and equipment and in accumulated depreciation in the year just ended and in the previous year, were as follows:

Current year

Gross carrying amount of property, plant and equipment

Euro thousand	1 July 2015	Additions	Disposals	30 June 2016
Industrial buildings	3,191	2,348	0	5,539
Land	600	0	0	600
Plant and machinery	24	0	0	24
Industrial and commercial equipment	3,667	599	(61)	4,205
Other assets	2,360	115	(199)	2,277
Total	**9,842**	**3,062**	**(260)**	**12,644**

Accumulated depreciation

Euro thousand	1 July 2015	Additions	Disposals	30 June 2016
Industrial buildings	(816)	(125)	0	(942)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(2,921)	(331)	60	(3,191)
Other assets	(1,240)	(215)	0	(1,455)
Total	**(5,001)**	**(671)**	**60**	**(5,613)**

Previous year

Gross carrying amount of property, plant and equipment

Euro thousand	1 July 2014	Additions	Disposals	30 June 2015
Industrial buildings	2,736	455	0	3,191
Land	600	0	0	600
Plant and machinery	24	0	0	24
Industrial and commercial equipment	3,013	700	(46)	3,667
Other assets	1,429	959	(28)	2,360
Total	**7,802**	**2,114**	**(74)**	**9,842**

Accumulated depreciation

Euro thousand	1 July 2014	Additions	Disposals	30 June 2015
Industrial buildings	(725)	(91)	0	(816)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(2,732)	(233)	44	(2,921)
Other assets	(1,089)	(179)	28	(1,240)
Total	**(4,570)**	**(503)**	**72**	**(5,001)**

3. Intangible assets

All of the intangible assets recognised by the Group have finite useful lives. During the year, the Group recognised an amount of Euro 5,051 thousand of costs incurred for internal development as intangible assets.

The following table shows movements for the year just ended and the previous year:

Euro thousand	1 July 2015	Additions	Disposals	Amortisation	30 June 2016
Concessions and licences	2,750	2,431	0	(1,762)	3,419
Trademarks and similar rights	2,334	6	(694)	(860)	786
Other assets	1,033	0	0	(495)	538
Assets under construction	1,829	4,538	(652)	0	5,715
Total	**7,946**	**6,975**	**(1,346)**	**(3,117)**	**10,458**

Euro thousand	1 July 2014	Additions	Disposals	Amortisation	30 June 2015
Concessions and licences	1,298	2,380	0	(928)	2,750
Trademarks and similar rights	672	2,674	0	(1,012)	2,334
Other assets	171	1,339	0	(477)	1,033
Internally developed assets	0	1,829	0	0	1,829
Total	**2,141**	**8,222**	**0**	**(2,417)**	**7,946**

Internally developed assets consist of costs incurred by DR Studios Ltd. and by Pipeworks Inc. in connection with development contracts for other Group companies and which were not yet completed at the reporting date.

Expenditure on intangible assets during the year is as follows:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015
Internal contracts in progress - Pipeworks Inc.	4,214	1,534
Fantasfida	801	153
Gems of War usage rights	408	374
Internal contracts in progress - DR Studios Ltd.	325	142
Battle Ages usage rights	279	312
Expenditure on development of ERP systems	275	102
Brothers usage rights	237	442
Battle Islands brand	215	2,670
Brothers usage rights	120	181
Other concessions and licenses	65	229
How to Survive 1.5 TPR usage rights	30	200
Other brands	6	4
Pipeworks Inc. contracts	0	1,314
How to Survive 1.5 usage rights	0	225
Mythic Islands usage rights	0	203
Cityglance app	0	112
Other assets	0	25
Total additions to intangible assets	**6,975**	**8,222**

Details are provided below of additions in the year relating to internal contracts in progress developed by Pipeworks Inc.:

Euro thousand	Year ended 30 June 2016
Prominence Poker	2,295
Superfight	619
Galapagos	420
Night of Terrors	269
Gems of War	253
Other contracts	358
Total additions relating to Pipeworks Inc. internal contracts	**4,214**

Movements in intangible assets and in accumulated amortisation in the year just ended and in the previous year, were as follows:

Current year

Gross carrying amount of intangible assets

Euro thousand	1 July 2015	Additions	Disposals	30 June 2016
Concessions and licences	6,594	2,431	0	9,025
Trademarks and similar rights	5,175	6	(694)	4,486
Other	1,678	0	0	1,678
Internally developed assets	1,829	4,538	(652)	5,715
Total	**15,276**	**6,975**	**(1,346)**	**20,905**

Accumulated amortisation

Euro thousand	1 July 2015	Additions	Disposals	30 June 2016
Concessions and licences	(3,844)	(1,762)	0	(5,606)
Trademarks and similar rights	(2,841)	(860)	0	(3,700)
Other assets	(645)	(495)	0	(1,139)
Total	**(7,330)**	**(3,116)**	**0**	**(10,446)**

Previous year

Gross carrying amount of intangible assets

Euro thousand	1 July 2014	Additions	Disposals	30 June 2015
Concessions and licences	4,215	2,380	0	6,595
Trademarks and similar rights	2,501	2,674	0	5,175
Other	339	1,339	0	1,678
Internally developed assets	0	1,829	0	1,829
Total	**7,055**	**8,222**	**0**	**15,276**

Accumulated amortisation

Euro thousand	1 July 2014	Additions	Disposals	30 June 2015
Concessions and licences	(2,917)	(928)	0	(3,845)
Trademarks and similar rights	(1,829)	(1,012)	0	(2,841)
Other assets	(168)	(477)	0	(645)
Total	**(4,914)**	**(2,417)**	**0**	**(7,330)**

4. Equity investments

Equity investments held by the Group at 30 June 2016 and 2015 were:

Euro thousand	30 June 2016	30 June 2015	Change
Game Analytics Ltd.	60	60	0
Ebooks&Kids S.r.l.	200	200	0
Cityglance S.r.l	45	45	0
Ovosonico S.r.l.	420	0	420
Seekhana Ltd.	173	0	173
Total associates	**898**	**305**	**593**
Starbreeze AB A Shares	0	969	(969)
Total other investments	**0**	**969**	**(969)**
Total equity investments	**898**	**1,274**	**(376)**

Changes in the year related to associates are detailed in paragraph 5 of the explanatory notes entitled "Equity investments in associates and other entities."

The Starbreeze AB A Shares have been reclassified at 30 June 2016 given that they were sold subsequent to the year end on 1 July 2016.

At the close of the year, the carrying amount of equity investments in comparison to the Group's share of the investees' equity was as follows:

Name	Location	Carrying amount (a)	Capital (b)	Pro-rata share of equity (c)	Result for the year	Change d=c-a
Games Analytics Ltd. [(1)]	Edinburgh	60	3	15	(1,222)	(45)
Ebooks S.r.l. [(1)]	Milan	200	26	65	(62)	(135)
Cityglance S.r.l. [(2)]	Milan	46	10	5	43	(41)
Ovosonico S.r.l. [(1)]	Varese	420	69	80	(52)	(340)
Seekhana Ltd. [(3)]	Milton Keynes	172	12	76	n.m.	(96)
Total		**898**				

[(1)] Figures taken from financial statements for period ended 31 December 2015

[(2)] Figures taken from financial statements for year ended 30 June 2015

[(3)] Company set up in February 2016

5. Non-current receivables and other assets

Non-current receivables and other assets at 30 June 2016 amounted to Euro 1,056 thousand.

The components thereof that consist of cautionary deposits pertaining to contractual obligations are as follows:

Euro thousand	30 June 2016	30 June 2015	Change
Cautionary deposits for the rental of office premises used by Italian companies	635	635	0
Cautionary deposits for the rental of office premises used by foreign companies	192	194	(2)
Cautionary deposits for utilities	5	5	0
Cautionary deposits for the AAMS and Bingo concessions	220	220	0
Other cautionary deposits	4	4	0
Total non-current receivables and other assets	**1,056**	**1,058**	**17**

6. Deferred tax assets

Deferred tax assets are calculated on tax loss carryforwards and temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis. They are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.

The balance at 30 June 2016 amounted to Euro 2,991 thousand, down Euro 751 thousand on the balance at 30 June 2015.

The table below provides details of deferred tax assets grouped by Italian companies, foreign companies and consolidation adjustments:

Euro thousand	30 June 2016	30 June 2015	Change
Italian companies	(195)	622	(817)
Foreign companies	2,493	2,236	257
Consolidation adjustments	321	(618)	939
Total	**2,619**	**2,240**	**379**

The following table provides details of temporary differences at 30 June 2016 and 30 June 2015:

Euro thousand	30 June 2016	30 June 2015	Change
Taxed provision for doubtful debts	1,138	1,483	(345)
Tax loss carryforwards	367	323	44
Non-deductible interest expense	0	0	0
Other liabilities	373	374	(1)
Actuarial differences	138	39	99
Security revaluation reserve	(3,073)	(330)	(2,743)
Costs not deducted in prior years	339	359	(20)
Total differences	**(718)**	**2,248**	**(2,966)**
IRES tax rate	27.5%	27.5%	
Deferred tax assets (IRES)	**(197)**	**619**	**(817)**
Deferred tax assets (IRAP)	**2**	**3**	**(1)**
Deferred tax assets pertaining to foreign subsidiaries	**2,493**	**2,236**	**257**
Deferred tax assets relating to consolidation adjustments	**321**	**(618)**	**939**
Total deferred tax assets	**2,619**	**2,240**	**378**

Deferred tax assets pertaining to foreign subsidiaries are as follows:

Euro thousand	30 June 2016	30 June 2015
505 Games Spain Sl - tax losses	190	163
Pipeworks Inc. - tax losses	142	359
505 Games (US) Inc. - temporary differences	2,105	1,667
505 Games Interactive - temporary differences	29	22
505 Games Mobile US - temporary differences	15	25
133 West Broadway - tax losses	12	0
Total deferred tax assets pertaining to foreign subsidiaries	**2,493**	**2,236**

Deferred tax assets pertaining to foreign subsidiaries relate to prior year tax losses that have been deemed to be recoverable, given that it is considered probable that each of these, based on approved projections, will generate sufficient future taxable profit against which the loss carryforward can be utilised.

NON-CURRENT LIABILITIES

7. Employee benefits

This provision reflects the actuarial value of the Group's actual employee liability, calculated by an independent actuary in accordance with IAS 19. It decreased in the year by Euro 43 thousand.

For the IAS 19 actuarial valuation at 30 June 2016 use was made of a discount rate based on the Iboxx Corporate A 10y+ index, consistent with the rate used at the end of the previous period. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

- for each employee on the payroll, projection of the termination indemnity already provided for at 31 December 2006 and revalued as of the measurement date;
- calculation for each employee of the probable termination indemnity that the Company will have to pay in the event of the employee's departure due to dismissal, resignation, disability, death or retirement and in the event of requests for advances;
- discounting of each probable payment to present value.

The estimate is based on a year end workforce at the Italian companies of 66 employees, with an average age of approximately 44.

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

- annual interest rate: 1.40%;
- annual rise in real pay: 1%;
- annual inflation rate of 1.50%, 1.80% for 2017, 1.70% for 2018, 1.60% for 2019 and of 2% from 2020 onwards.

The following table shows movements in the provision for employee termination indemnities in the year just ended and in the previous year:

Euro thousand	FY 2015/16	FY 2014/15
Provision for employee termination indemnities at 1 July 2015	**486**	**540**
Benefits paid on termination of service	(15)	(51)
Allocations to provision in the year	180	215
Measurement of supplementary pension schemes	(166)	(188)
Actuarial measurement	45	(30)
Provision for employee termination indemnities at 30 June 2016	**529**	**486**

The Group is not party to any integrated pension plans.

8. Non-current provisions

These consist entirely of the provision for agents' indemnities. The balance at 30 June 2016 of Euro 36 thousand was Euro 134 thousand lower than the balance at 30 June 2015 of Euro 170 thousand. The change was attributable to uses of the provision of Euro 136 thousand and allocations to the provision in the period of Euro 2 thousand.

9. Other non-current payables and liabilities

Other non-current payables and liabilities at 30 June 2016 consist entirely of variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid subsequent to 30 June 2017.

The balance at 30 June 2015 consisted of Euro 133 thousand relating to the amount accrued at that date for previously described bonuses and of Euro 589 thousand relating to an estimate of the potential earn-out payable in September 2016 for the acquisition of DR Studios Ltd. This amount was reversed in the year, given that, based on forecasts, no amount will be payable.

NET WORKING CAPITAL

10. Inventories

Inventories consist of finished products for resale. Details are provided below of inventories by distribution channel:

Euro thousand	30 June 2016	30 June 2015	Change
Italian Distribution inventories (A)	**4,804**	**5,031**	**(227)**
505 Games S.p.A. inventories	769	786	(17)
Foreign subsidiaries' inventories	6,360	7,064	(704)
Premium Games inventories (B)	**7,129**	**7,850**	**(721)**
Total inventories (A+B)	**11,933**	**12,881**	**(948)**

Inventories went from Euro 12,881 thousand at 30 June 2015 to Euro 11,933 thousand at 30 June 2016, a decrease of Euro 948 thousand.

The decrease is due to the pursuit of the Group's strategy of selling off games for older generation consoles, thus systematically reducing the finished product inventories.

11. Trade receivables

Changes in the period in receivables from customers and receivables pertaining to video game user licenses are summarised as follows:

Euro thousand	**30 June 2016**	**30 June 2015**	**Change**
Receivables from customers - Italy	4,414	7,279	(2,865)
Receivables from customers - EU	2,490	7,335	(4,845)
Receivables from customers - rest of the world	9,207	12,279	(3,072)
Provision for doubtful debts	(1,148)	(2,069)	921
Total receivables from customers	**14,963**	**24,824**	**(9,861)**
Receivables pertaining to video game user licenses	19,877	11,526	8,351
Total trade receivables	**34,840**	**36,350**	**(1,510)**

Receivables from customers at 30 June 2016 of Euro 14,963 thousand was Euro 9,861 thousand lower than the balance at 30 June 2015 of Euro 24,824 thousand. The decrease in receivables from customers was due to a decrease in revenue reported by the Italian Distribution operating segment and the particular concentration of Premium Games revenue in the last month of the previous year driven by the launch of Sniper Elite V3.

Receivables from customers are stated net of the estimated credit notes the Group may have to issue for price repositioning or returns.

Details are provided below of potential credit notes to be issued:

Euro thousand	**30 June 2016**	**30 June 2015**	**Change**
Credit notes for price repositioning	1,758	2,271	(513)
Credit notes for returned goods	3,870	88	3,782
Total credit notes to be issued	**5,628**	**2,359**	**3,269**

The credit notes to be issued for price repositioning decreased in the year by Euro 513 thousand, whereas the credit notes to be issued for returned goods increased by Euro 3,782 thousand due to sales of trading cards by Game Entertainment S.r.l., as from April 2016, through newsstands that contractually provide for the return of all unsold goods.

The provision for doubtful debts decreased in the year by Euro 921 thousand, having gone from Euro 2,069 thousand to Euro 1,148 thousand at the reporting date. The estimated losses are based on an analytical analysis of each customer’s degree of solvency. The change was attributable to an allocation to the provision of Euro 639 thousand and uses thereof of Euro 1,560 thousand.

The following table provides details of receivables from customers by due date at 30 June 2016 and 30 June 2015:

Euro thousand	30 June 2016	% of total	30 June 2015	% of total
Not past due	13,502	90%	22,013	89%
0 > 30 days	489	4%	1,002	4%
30 > 60 days	11	0%	297	1%
60 > 90 days	63	0%	101	1%
> 90 days	898	6%	1,411	5%
Total receivables from	**14,963**	**100%**	**24,824**	**100%**

Receivables pertaining to video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They increased in the year by Euro 11,526 thousand to Euro 19,877 thousand. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Advances to developers for licences not yet used	14,883	7,537	7,346
Advances to developers for licences partially used	4,994	3,989	1,005
Total receivables pertaining to video game user licenses	**19,877**	**11,526**	**8,351**

12. Current tax assets

Details of current tax assets are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Receivable under domestic tax group arrangements	1	1	0
VAT receivable	613	646	(33)
Tax credit for foreign income tax withholdings	403	1,083	(680)
IRES refund for IRAP deductibility	119	119	0
Other receivables	883	617	266
Total current tax assets	**2,019**	**2,466**	**(447)**

The significant decrease in the tax credit for foreign income tax withholdings is primarily due to 505 Games S.p.A.'s positive result for the year ended 30 June 2016 that made it possible to use the tax credit as an offset to the IRES payable under the domestic tax group arrangements.

13. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They went from Euro 6,148 thousand at 30 June 2015 to Euro 5,034 thousand at 30 June 2016. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Advances to suppliers	4,826	5,929	(1,103)
Advances to employees	92	103	(11)
Advances to agents	13	0	13
Other receivables	103	116	(13)
Total other current assets	**5,034**	**6,148**	**(1,114)**

Advances to suppliers consist of costs incurred in advance, particularly for the localisation and programming of video games and other operating costs, as well as amounts advanced for game production, the rental of equipment and office space. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Advertising	32	48	(16)
Insurance	57	36	21
Rent	167	224	(57)
Programming	3,029	4,257	(1,228)
Other operating costs	1,436	1,171	265
Other prepaid expenses	105	193	(88)
Total other current assets	**4,826**	**5,929**	**(1,103)**

The decrease in the year of Euro 1,103 thousand is mainly due to a decrease in programming advances of Euro 1,228 thousand paid by the subsidiary 505 Games S.p.A. for PAYDAY 2.

14. Trade payables

Trade payables, which amounted to Euro 21,712 thousand at 30 June 2016, decreased in the year by Euro 5,219 thousand and were mostly due to publishers for the purchase of finished products and to developers. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Trade payables - Italy	(2,267)	(1,626)	(641)
Trade payables - EU	(7,610)	(13,437)	5,827
Trade payables - rest of the world	(11,835)	(11,866)	31
Total trade payables	**(21,712)**	**(26,929)**	**5,217**

The decrease in EU trade payables is attributable to a reduction in royalties payable and the physical production of video games by 505 Games S.p.A. in line with the fall in sales throughout the entire quarter experienced by the Premium Games operating segment.

15. Current tax liabilities

Current tax liabilities went from Euro 3,029 thousand at 30 June 2015 to Euro 6,211 thousand at 30 June 2016, a decrease of Euro 3,182 thousand. Details of the balance are provided below:

Euro thousand	30 June 2015	30 June 2014	Change
Income tax	(5,085)	(1,311)	(3,774)
VAT payable	(236)	(769)	533
Other tax liabilities	(890)	(949)	59
Total current tax liabilities	**(6,211)**	**(3,029)**	**(3,182)**

The increase in the year is mainly due to a higher income tax liability attributable to the taxable income reported by the subsidiary 505 Games S.p.A.

The VAT payable decreased in the year by Euro 533 thousand mainly due to lower VAT payable due by the parent company and 505 Games Ltd.

16. Current provisions

There were no current provisions at 30 June 2016, as was also the case at 30 June 2015.

17. Other current liabilities

Other current liabilities amounted to Euro 2,312 thousand, having increased in the year by Euro 586 thousand. Details of the balance are provided below:

Euro thousand	**30 June 2016**	**30 June 2015**	**Change**
Amounts due to social security institutions	(367)	(495)	128
Amounts due to employees	(960)	(970)	10
Amounts due to contract staff	(52)	(52)	0
Commission due to agents	0	(35)	35
Other payables	(933)	(174)	(759)
Total other current liabilities	**(2,312)**	**(1,726)**	**(586)**

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the period as well as the 13th monthly salary, in addition to accrued variable remuneration that will be paid in September 2016.

The significant decrease in the year in commission due to agents is in line with the decrease in turnover generated by the distribution of video games by Italian Distribution.

The significant increase in other payables is mainly due to the portion of the registration fees for training courses already received by Digital Bros Game Academy S.r.l., but which is attributable to the coming year and to deposits on players' accounts pertaining to Game Network S.r.l.

EQUITY

Details of changes in equity are reported in the consolidated statement of changes in equity. A summary thereof is provided below:

Euro thousand	**Share capital (A)**	Share premium	Legal reserve	IAS transition reserve	Currency translation reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (accumulated losses)	Profit (loss) for the year	**Total retained earnings (D)**	**Consolidated equity attributable to Group (A+B+C+D)**
As at 1 July 2015	**5,644**	16,954	1,129	1,367	(244)	211	**19,417**	**(1,199)**	(3,006)	12,953	**9,947**	**33,809**
Allocation of profit for the year							**0**		9,105	(9,105)	**0**	**0**
Payment of dividends									(1,818)		**(1,818)**	**(1,818)**
Other changes							**0**	**809**	1,622		**1,622**	**2,431**
Comprehensive income (loss)					(569)	1,956	**1,387**			12,539	**12,539**	**13,926**
As at 30 June 2016	**5,644**	16,954	1,129	1,367	(813)	2,167	**20,804**	**(390)**	5,903	16,387	**22,290**	**48,348**

Share capital, which has not changed in the year, consists of 14,110,837 ordinary shares with a par value of Euro 0.4 each, amounting to Euro 5,644,334.8. No other types of shares are outstanding. There are no rights, liens or restrictions associated with the ordinary shares.

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

During the period 270,000 treasury shares were sold at an average price of Euro 11.28 per share for a total amount of Euro 3,045 thousand. The carrying amount of the shares that were sold was Euro 809 thousand and represents the change in the year in treasury shares, whereas the gain of Euro 1,622 thousand was classified as other changes in retained earnings.

Changes in reserves in the period were:

Euro thousand	Year ended 30 June 2016
Change in currency translation reserve	(569)
Change in IAS 19 reserve	(34)
Change in fair value reserve	1,990
Total changes in reserves	**1,387**

The change in fair value reserve is attributable to the difference between the year end market value and purchase cost of the Starbreeze A ordinary shares held at 30 June 2016 and classified in net cash/debt.

NET CASH/DEBT

Details are provided below of the components of the Group's net cash/debt at 30 June 2016 with comparative figures at 30 June 2015:

	Euro thousand	30 June 2016	30 June 2015	Change
22	Cash and cash equivalents	2,785	4,339	(1,554)
23	Current bank debt	(25,929)	(12,738)	(13,191)
24	Other current financial assets and liabilities	28,913	1,685	27,228
	Current net cash/debt	**5,769**	**(6,714)**	**12,483**
25	Non-current financial assets	1,195	0	1,195
26	Non-current bank debt	(1,558)	(1,619)	61
27	Other non-current financial liabilities	(1,895)	0	(1,895)
	Non-current net debt	**(2,258)**	**(1,619)**	**(639)**
	Total net cash/debt	***3,511***	***(8,333)***	***11,844***

Net cash/debt improved in the year by Euro 11,844 thousand mainly due to an increase in current financial assets of Euro 28,913 thousand and an increase in non-current financial assets of Euro 1,195 thousand, partially offset by an increase in current bank debt of Euro 13,191 thousand, an increase in other non-current financial liabilities of Euro 1,895 thousand and a decrease in cash and cash equivalents of Euro 1,554 thousand.

At the year end, the carrying amounts of financial instruments held by the Group equated to their fair values. The carrying amount of cash and cash equivalents is a reasonable approximation of fair value since these are highly liquid forms of investment, while the carrying amount of finance lease obligations (included in other financial liabilities) is a reasonable approximation of fair value.

The following table provides details of the Group's financial liabilities at 30 June 2016, grouped by maturity:

Euro thousand	Within 1 year	1 - 5 years	Beyond 5 years	Total
Bank overdrafts	(82)	0	0	(82)
Import and export financing	(21,137)	0	0	(21,137)
Advances on invoices subject to collection	(1,399)	0	0	(1,399)
Unsecured bank loans	(3,311)	(1,558)	0	(4,869)
Total bank debt (A)	**(25,929)**	**(1,558)**	**0**	**(27,487)**
Other financial liabilities (B)	**(195)**	**(1,895)**	**0**	**(2,090)**
Total financial liabilities (A) + (B)	**(26,124)**	**(3,453)**	**0**	**(29,577)**

Current net cash/debt

Current net cash/debt consists of the following:

	Euro thousand	30 June 2016	30 June 2015	Change
22	Cash and cash equivalents	2,785	4,339	(1,554)
23	Current bank debt	(25,929)	(12,738)	(13,191)
24	Other current financial assets and liabilities	28,913	1,685	27,228
	Total current net cash/debt	**5,769**	**(6,714)**	**12,483**

22. Cash and cash equivalents

Cash and cash equivalents at 30 June 2016, which are entirely unrestricted, consist of current account sight deposits. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Cash on hand and current account deposits	2,785	4,018	(1,233)
AXA MPS quadrant policy	0	321	(321)
Total cash and cash equivalents	**2,785**	**4,339**	**(1,554)**

The Group's cash and cash equivalents at 30 June 2016 amounted to Euro 2,785 thousand, having increased in the year by Euro 1,233 thousand.

The balance at 30 June 2015 included a quadrant insurance policy taken out by Digital Bros S.p.A. on 21 October 2002 with AXA MPS and which was paid in the period.

23. Current bank debt

Current bank debt consists of bank overdrafts, import and export financing, advances on invoices, advances subject to collection and current loan instalments. The increase in the year of current bank debt of Euro 13,191 thousand is mainly attributable to increases in import and export financing, advances on invoices and subject to collection and loan instalments due within 12 months. Details of the balance are provided below:

Euro thousand	30 June 2016	30 June 2015	Change
Bank overdrafts	(82)	(13)	(69)
Import and export financing	(21,137)	(10,529)	(10,608)
Advances on invoices and subject to collection	(1,399)	(859)	(540)
Loan instalments due within 12 months	(3,311)	(1,337)	(1,974)
Total current bank debt	**(25,929)**	**(12,738)**	**(13,191)**

Loan instalments due within 12 months at 30 June 2016 consist of Euro 1,398 relating to the current portion of a loan granted by Unicredit S.p.A. due to mature in January 2018, Euro 1,000 thousand relating to the current portion of a loan granted by Monte dei Paschi di Siena S.p.A. due to mature in September 2017 and Euro 913,000 relating to the current portion of a loan granted by the Credito Bergamasco division of Banco Popolare di Bergamo.

24. Other current financial assets and liabilities

Current financial assets and liabilities consist of the following:

Euro thousand	30 June 2016	30 June 2015	Change
Starbreeze A shares	6,000	0	6,000
Starbreeze B shares	22,972	1,553	21,419
Receivables collected by factoring companies on behalf of 505 Games Ltd.	0	302	(302)
Fair value of derivatives expiring within 12 months	136	0	136
Advances against trade receivables under non-recourse factoring arrangements	(128)	(151)	23
Current lease obligations	(15)	(19)	4
Loan for purchase of property located in Eugene	(52)	0	(52)
Total other current financial assets and liabilities	**28,913**	**1,685**	**27,228**

The amount of Starbreeze A shares represents the market value of 2,841,321 Starbreeze A shares (listed on Nasdaq Stockholm First North Premier) held by Digital Bros S.p.A. These shares were measured at fair value with recognition through equity of the difference between the carrying amount and the market value at 30 June 2016, given that they are instruments that were originally classified as available for sale. The shares were sold subsequent to the year end on 1 July 2016.

The amount of Starbreeze B shares at 30 June 2016 represents the market value of 10,934,211 Starbreeze B shares (listed on Nasdaq Stockholm First North Premier) held by 505 Games S.p.A.

On 1 June a synthetic forward contract for 100 million Swedish Krona was entered into by the subsidiary 505 Games S.p.A. with the bank named Unicredit S.p.A. to hedge foreign exchange risk. The contract was entered into to hedge the Group's risk concerning Euro / Swedish Krona exchange rate fluctuations and expires on 8 June 2017. The contract fixes the Euro / Swedish Krona exchange rate at 9.305. The positive fair value measurement of the contract at 30 June 2016 amounted to Euro 136 thousand.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 128 thousand and have decreased in the year by Euro 23 thousand.

Current lease obligations of Euro 15 thousand relate to two lease agreements entered into in the year with Unicredit Leasing. They consist of Euro 5 thousand relating to a car lease and Euro 10 thousand relating to the lease of a server.

The loan for the purchase of property located in Eugene of 58 thousand U.S. dollars relates to the current portion of a loan received by Spring Properties Inc. for the purchase of the property used by Pipeworks Inc.

Non-current net debt

Non-current net debt consists of the following:

	Euro thousand	**30 June 2016**	**30 June 2015**	**Change**
25	Non-current financial assets	1,195	0	1,195
26	Non-current bank debt	(1,558)	(1,619)	61
27	Other non-current financial liabilities	(1,895)	0	(1,895)
	Non-current net debt	**(2,258)**	**(1,619)**	**(639)**

25. Non-current financial assets

The balance at 30 June 2016 includes a loan granted by 505 Games S.p.A. to Shinshuppatsu Junbi Co. Ltd. of an amount of 150,000,000 Yen. The loan, which bears interest at an annual rate of 7 percent, is repayable on demand, but the Group estimates that the counterparty will benefit therefrom for at least 2 years. The loan was granted to the company as part of a broader commercial agreement concerning the development of a number of video games.

26. Non-current bank debt

Non-current bank debt consists of instalments falling due beyond 12 months relating to three short- and medium/long-term loans granted to the parent company as detailed below:

an unsecured loan of Euro 2.5 million granted by Unicredit S.p.A. on 1 April 2015; the loan agreement provides for interest payments and the repayment of the loan principal via quarterly instalments in arrears commencing 31 July 2015. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 3.50 percentage points. The agreement contains the following covenants of commitment:

- the maintenance of accounting policies in such a manner that, for the entire loan term, the accounting polices applied for the preparation of the separate financial statements and the consolidated financial statements (if prepared) are consistent with the criteria followed in prior years, without prejudice to any changes required by law;
- negative pledge not to grant or allow the granting of liens, pledges or mortgage charges over its assets (those already owned and those to be purchased) or any pre-emption right and/or preferential right in connection with its receivables, current or future, with the exception of security granted for the loan or granted in accordance with the provisions of the law, already in place at the date the loan was granted and except for the sale of trade receivables under factoring arrangements for working capital financing purposes (including the sale of VAT receivables);
- undertaking to inform the bank in advance in writing of the intention to apply for other medium-long term loans from credit institutions or individuals and, in any event, not to grant to third parties, subsequent to the date of the present agreement, mortgage charges over its assets and/or other collateral or unsecured guarantees, for any other loans, unless the security being granted to third parties is extended to the Bank.

In the event of failure to comply with even one of the foregoing commitments, the Bank may terminate the loan agreement in accordance with article 1456 of the Italian Civil Code.

The agreement also contains the following financial covenants:

- leverage (net debt/equity) lower than or equal to 1.50 to be verified annually with reference to the Company's consolidated financial statements effective as of those for the year ended 30 June 2015;
- debt cover (net debt/EBITDA) lower than or equal to 4.00 to be verified annually with reference to the Company's consolidated financial statements effective as of those for the year ended 30 June 2015.

In the event of failure to comply with the financial covenants, Digital Bros S.p.A. undertakes to submit a statement, prepared by its legal representative, with an indication of the reasons and an indication of the measures adopted, where possible, to restore the original conditions. In such cases, however, the Bank has the right to terminate the loan agreement in accordance with article 1456 of the Italian Civil Code.

A loan granted by Monte Paschi di Siena S.p.A. to the parent company on 23 November 2015 of Euro 1.5 million. The loan has to be repaid within 2 years via the payment of 6 quarterly instalments inclusive of capital and interest as from 30 September 2016 plus two instalments comprising interest alone due to mature on 31 March 2016 and 30 June 2016. Interest is charged at a floating rate based on the 6 month Euribor rate plus a spread of 2 percentage points. The agreement contains the following covenants of commitment: to present to the Bank, for each reference period, an amount of trade flows equating to Euro 1.350 million that may consist of invoices subject to collection channelled through the Bank in the reference period, advances on invoices or documents accepted by the Bank and for which advances had been granted during the reference period, POS flows through a current account opened with the Bank in the customer's name in connection with the card acceptance service via POS (point of sale) equipment issued by the Bank; and payment of notes and granting of powers for the payment of taxes and dues relating to current account payments made in the reference period via the Bank. For the purpose of verification of compliance with the covenants in the reference period, account will be taken of the volumes accumulated by the various types of eligible trade flows as stipulated above. In the event of failure to comply with the above covenants of commitment, Digital Bros S.p.A. shall pay to the Bank a compensatory amount commensurate with the difference between the interest rate/spread that would have applied if the Company had not taken on the foregoing commitment and the amount shall be calculated on a half-yearly basis as 0.500% of the residual loan existing on the date the failure to comply with the commitment was noted.

An unsecured loan of Euro 1.75 million granted by the Credito Bergamasco division of Banco Popolare to the parent company on 22 June 2016. The loan has to be repaid in 15 monthly instalments, the first of which falls due on 31/7/2016 and the last on 30/9/2017. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 1.2 percentage points. The agreement does not include any covenants of commitment or financial covenants.

27. Other non-current financial liabilities

The main component of the balance consists of an amount of Euro 1,840 thousand relating to the non-current portion of a loan granted by Spring Properties, Inc. for the purchase of the property located in Eugene, which is used by Pipeworks Inc. The loan, which amounts to 2,125 thousand U.S. dollars, is repayable in monthly instalments of 15 thousand U.S. dollars and bears interest at an annual rate of 6%. The residual amount of Euro 55 thousand relates to lease instalments due beyond twelve months relating to two finance leases entered into with Unicredit Leasing for the purchase of a server and a car. The amount financed under the first lease is Euro 54 thousand and the agreement envisages the payment of fifty nine monthly instalments plus an advance payment of Euro 5 thousand and a purchase option of Euro 1 thousand. The lease agreement expires on 29 December 2020. Instalments due within twelve months amount to Euro 35 thousand. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 3 percentage points. The amount financed under the car lease is Euro 31 thousand and the agreement envisages the payment of fifty nine monthly instalments plus an advance payment of Euro 1 thousand and a purchase option of Euro 1 thousand. The lease agreement expires on 28 April 2021. Instalments due within twelve months amount to Euro 20 thousand. Interest is payable at a floating rate of 1.41%.

The following table shows finance lease payments by maturity:

Euro thousand	30 June 2016	30 June 2015	Change
Due within 12 months	15	19	(4)
1-5 years	55	0	55
Over 5 years	0	0	0
Total	**70**	**19**	**(32)**

COMMITMENTS AND RISKS

The Group's commitments almost entirely consist of commitments assumed under executed contracts:

Euro thousand	30 June 2016	30 June 2015	Change
Starbreeze share purchase commitments	0	(5,534)	5,534
Commitments assumed under executed contracts	(23,882)	(17,544)	(6,338)
Commitment to subscribe to Ovosonico S.r.l.'s capital	(300)	0	(300)
Total commitments	**(24,182)**	**(23,078)**	**(1,104)**

Commitments assumed under executed contracts relate to future outlays by the Group with respect to licenses and user rights to video games not yet completed or for which production had not yet begun at the reporting date.

The commitment to subscribe to Ovosonico S.r.l.'s capital, as previously indicated, relates to an agreement executed on 11 September for the subscription of an amount of Euro 720 thousand, of which Euro 420 thousand was paid on 30 June 2016.

Commitments for the purchase of A and B shares of the Swedish company Starbreeze relate to the agreement that provided for the purchase of 5 million shares of the Swedish company for a total price of 8.2 million dollars.

3. Net revenue

Details are provided below of revenue by operating segment, except for the Holding segment, which does not generate revenue:

	Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	1,736	5,275	83,204	19,232	746	110,192
2	Revenue adjustments	0	0	(1,648)	(1,273)	(56)	(2,977)
3	**Net revenue**	**1,736**	**5,275**	**81,556**	**17,959**	**690**	**107,215**

The same details for the year ended 30 June 2015 are as follows:

	Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	1,565	2,671	92,190	24,529	289	121,244
2	Revenue adjustments	0	0	(3,629)	(1,485)	(140)	(5,254)
3	**Net revenue**	**1,565**	**2,671**	**88,561**	**23,044**	**149**	**115,990**

The Group's gross revenue for the year amounted to Euro 110,192 thousand, down by Euro 11,052 thousand. Net revenue fell by 7.6% to Euro 107,215 thousand from the amount reported for the year ended 30 June 2015 of Euro 115,990 thousand.

A breakdown is provided below of revenue by operating segment for the years ended 30 June 2016 and 2015:

Euro thousand	Gross revenue				Net revenue			
	2016	2015	Change		2016	2015	Change	
Premium Games	83,204	92,190	(8,986)	-9.7%	81,556	88,561	(7,005)	-7.9%
Italian Distribution	19,231	24,529	(5,298)	-21.6%	17,958	23,044	(5,086)	-22.1%
Free to Play	5,275	2,671	2,604	97.5%	5,275	2,671	2,488	97.5%
Development	1,736	1,565	171	10.9%	1,736	1,565	171	10.9%
Other Activities	746	289	457	158.1%	690	149	541	363.1%
Total gross revenue	**110,192**	**121,244**	**(11,052)**	**-9.1%**	**107,215**	**115,990**	**(8,775)**	**-7.6%**

Revenue fell in line with the trend in sales of the Premium Games operating segment, due to the absence of launches of significant new products that have been postponed to the coming financial year, as well as the trend in Italian Distribution revenue, whereas the revenue generated by the Free to Play operating segment almost doubled.

Revenue attributable to the Premium Games operating segment accounted for the most significant portion of the Group's sales. The operating segment's revenue fell by Euro 8,986 thousand, despite the sale of rights relating to PAYDAY2 for Euro 26,832 thousand. Details are provided below of gross revenue by video game:

Amounts in Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change
Terraria	19,113	20,936	(1,823)
PAYDAY 2	15,741	33,429	(17,688)
Sniper Elite V3	8,260	30,144	(21,884)
Rocket League	5,833	0	5,833
Brothers	2,312	1,010	1,302
How to Survive	1,583	2,320	(737)
Portal Knights	1,264	0	1,264
Sniper Elite V2	253	1,760	(1,507)
Other products	2,013	2,591	(578)
Sale of PAYDAY 2 rights	26,832	0	26,832
Total Premium Games gross revenue	**83,204**	**92,190**	**(8,986)**

The most evident decreases were those relating to sales of the Sniper Elite V3 video game of Euro 21,884 thousand, with this game having failed to replicate the sales achieved in the prior year immediately after its launch, and to PAYDAY 2 of Euro 17,688 thousand. Terraria achieved revenue of Euro 19,113 thousand, which fell in the year by 10%. There were no significant launches during the year, with the exception of Rocket League, for which distribution commenced exclusively in the retail market in the last week of June. Worth noting are the sales achieved by Portal Knights, which was launched experimentally in February solely on the Steam Early Access platform and which generated revenue of Euro 1,264 thousand in less than five months.

The decrease in revenue reported by the Italian Distribution operating segment of Euro 5,298 thousand was attributable to a significant drop in sales of Yu-Gi-Oh! trading cards, whereas growth was recorded in video game distribution revenue thanks to the launch on the Italian market of the Metal Gear Solid V and PES 2016 video games that were well received by the public.

Revenue reported by the Free to Play operating segment almost doubled to Euro 5,275 thousand. Despite the absence of new product launches that have been postponed to the coming financial year, the operating segment benefited from the positive trend in sales of the Battle Island (developed by the subsidiary DR Studios) and Gems of War video games.

The Development operating segment’s revenues amounted to Euro 1,736 thousand and related to sales that the U.S. developer, Pipeworks Inc., completed to meet development orders placed by non-Group customers.

The Other Activities operating segment's revenue includes Fantasfida revenue. Fantasfida is a Daily Fantasy Sport, a game which is particularly popular in the United States, being a game of skill in which the gamer fields a virtual team of champions of different sports and participates upon payment of a fee in a tournament with cash prizes.

8. Cost of sales

Cost of sales is detailed below:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
Purchase of products for resale	(21,193)	(34,104)	12,290	-26.5%
Purchase of services for resale	(5,580)	(5,374)	1,196	-18.2%
Royalties	(23,851)	(28,328)	8,581	-23.2%
Changes in inventories of finished products	(948)	(1,898)	4,006	-67.9%
Total cost of sales	**(51,572)**	**(69,704)**	**26,073**	**-27.2%**

Please refer to the directors' report for detailed information on the individual components of revenue and cost of sales.

10. Other income

Other income, which amounted to Euro 5,714 thousand and which increased in the year by Euro 2,295 thousand, almost entirely consisted of direct costs for development projects that Pipeworks Inc., DR Studios Ltd. and Game Network S.r.l. incurred for internal job orders.

11. Cost of services

The following table provides details of cost of services:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
Advertising, marketing, trade fairs and exhibitions	(7,563)	(5,605)	(1,958)	34.9%
Transport and freight	(530)	(782)	252	-32.2%
Other sales related costs	(818)	(1,157)	339	-29.3%
Subtotal: sales related services	**(8,911)**	**(7,544)**	**(1,367)**	**18.1%**
Miscellaneous insurance	(394)	(301)	(93)	31.0%
Consulting fees	(2,264)	(2,197)	(67)	3.0%
Postal and telegraph	(251)	(189)	(62)	33.0%
Travel and subsistence allowances	(1,162)	(876)	(286)	32.7%
Utilities	(237)	(305)	68	-22.3%
Maintenance	(98)	(140)	42	-29.6%
Statutory auditors' fees	(108)	(108)	0	0.4%
Subtotal: general services	**(4,514)**	**(4,116)**	**(398)**	**9.7%**
Total cost of services	**(13,425)**	**(11,660)**	**(1,765)**	**15.1%**

Cost of services increased by Euro 1,765 thousand, having gone from Euro 11,660 thousand to Euro 13,425 thousand mainly due to advertising expenditure incurred for the launch of Fantasfida of Euro 2,291 thousand.

The decrease in transport and freight is attributable to lower logistics costs driven by revenue growth of digital products.

12. Lease and rental charges

The following table provides details of lease and rental charges, which increased in the year by Euro 7 thousand:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Office rental - Italian companies	(720)	(754)	34	-4.5%
Office rental - 505 Games Ltd.	(99)	(102)	3	-2.9%
Office rental - DR Studios Ltd.	(65)	(45)	(20)	44.4%
Office rental - Digital Bros France S.a.s.	(46)	(46)	0	0.0%
Office rental - Digital Bros Spain Slu	(20)	(22)	2	-9.1%
Office rental - 505 Games US Inc.	(368)	(330)	(38)	11.5%
Office rental - Pipeworks Inc.	(95)	(91)	(4)	4.4%
Office rental - 505 Games GmbH	(3)	(3)	0	0.0%
Lease of cars and warehouse equipment	(139)	(155)	16	-10.3%
Total lease and rental charges	**(1,555)**	**(1,548)**	**(7)**	**0.5%**

13. Labour costs

Labour costs, including directors’ fees approved by the shareholders, amounts paid to temporary workers and contract staff and the cost of cars assigned to employees, came to Euro 19,861 thousand and increased in the year by Euro 1,935 thousand:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Wages and salaries	(14,379)	(12,939)	(1,440)	11.1%
Social contributions	(3,758)	(3,168)	(590)	18.6%
Employee termination indemnity	(191)	(215)	24	-11.1%
Directors’ fees	(1,084)	(1,147)	63	-5.5%
Temporary workers and contract staff	(347)	(321)	(26)	8.1%
Agents’ commission	(74)	(107)	33	-30.8%
Other labour costs	(28)	(29)	0	-1.1%
Total labour costs	**(19,861)**	**(17,926)**	**(1,935)**	**10.8%**

The increase in wages and salaries and related social contributions is attributable to staff hired by foreign subsidiaries to sustain the international development of the Group's activities.

Labour costs, in the strict sense of the term, consist of employee wages and salaries, social contributions and the cost of employee termination indemnities. They increased in the year by Euro 2,005 thousand, while the average cost per employee increased by 0.8%:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Wages and salaries	(14,379)	(12,939)	(1,440)	11.1%
Social contributions	(3,758)	(3,168)	(590)	18.6%
Employee termination indemnity	(191)	(215)	24	-11.1%
Total labour costs	**(18,328)**	**(16,322)**	**(2,005)**	**12.3%**
Average number of employees	223	197	26	13.2%
Average cost per employee	**(82.2)**	**(82.9)**	**0.7**	**-0.8%**

The breakdown of the Group's workforce at 30 June 2016 by category is provided in the directors’ report under “Other information”.

14. Other operating costs

Details of the nature of operating costs are provided below, together with prior year comparatives:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Purchase of miscellaneous materials	(77)	(87)	9	-9.8%
General and administrative costs	(1,042)	(1,028)	(14)	1.4%
Entertainment costs	(50)	(75)	24	-32.3%
Miscellaneous bank charges	(251)	(181)	(70)	38.9%
Total other operating costs	**(1,421)**	**(1,371)**	**(51)**	**3.7%**

Operating costs decreased in the year by 3.7%, from Euro 1,371 thousand to Euro 1,421 thousand. The increase is attributable to bank charges, which rose by 38.9%.

21. Non-monetary income and operating costs

Non-monetary operating costs consist of the following:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Depreciation and amortisation	(3,788)	(2,920)	(868)	29.7%
Allocations to provisions	0	0	0	0.0%
Impairment losses recognised on assets	(1,080)	(1,455)	376	-25.8%
Reversal of impairment losses	588	641	(53)	0.0%
Total non-monetary income and operating costs	**(4,280)**	**(3,734)**	**(544)**	**14.6%**

Net non-monetary operating costs increased in the year by Euro 544 thousand. This was mainly due to an increase in depreciation and amortisation of Euro 868 thousand attributable to the investment made by the Group on the acquisitions of 100% of Pipeworks Inc. and DR Studios Ltd as well as intellectual property purchased in the period. Impairment losses decreased by Euro 376 thousand from Euro 1,455 thousand to Euro 1,080 thousand. The latter include:

- the impairment of specific receivable balances of Euro 655 that may not be possible to collect;
- the impairment of the investment in DR Studios Ltd. of Euro 425 thousand due to the fact that conditions were not met for the payment of an earn-out that would have fallen due in September 2016. This led to the simultaneous reversal of the payable to the seller of Euro 588 thousand that had been classified as a reversal of impairment losses.

25. Net finance income (costs)

This consists of:

	Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
23	Interest and finance income	3,093	3,939	(847)	-21.5%
24	Interest expense and finance costs	(5,570)	(2,027)	(3,544)	n.m.
25	**Net finance income (costs)**	**(2,477)**	**1,912**	**(4,390)**	**n.m.**

Net finance costs amounted to Euro 2,477 thousand compared to net income of Euro 1,912 thousand achieved in the previous year.

Details are provided below of interest expense:

Euro thousand	**Year ended 30 June 2015**	**Year ended 30 June 2014**	**Change**	**%**
Bank interest	(499)	(878)	379	-43.1%
Other interest expense	(6)	(2)	(4)	299.3%
Interest on derivatives	0	0	0	0.0%
Interest on loans and leases	(151)	(16)	(135)	867.6%
Factoring interest	(11)	(21)	10	-49.4%
Total interest expense payable to lenders	**(667)**	**(917)**	**250**	**-27.4%**
Exchange losses	(1,134)	(1,110)	(24)	2.2%
Loss on disposal of securities	(3,769)	0	(3,769)	n.m.
Total interest expense	**(5,570)**	**(2,027)**	**(3,543)**	**n.m.**

Interest expense and finance costs amounted to Euro 5,570 thousand, having increased in the year by Euro 3,543 thousand due to the market value measurement of the Starbreeze B shares that generated a loss of Euro 3,769 thousand. Interest expense payable to lenders decreased by Euro 250 thousand.

Details are provided below of interest income:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**	**Change**	**%**
Exchange gains	1,429	3,193	(1,764)	-55.2%
Finance income	1,664	746	918	n.m.
Total interest income	**3,093**	**3,939**	**(846)**	**-21.5%**

Interest and finance income decreased by Euro 846 thousand due to lower exchange gains of Euro 1,429 thousand that compared to prior year exchange gains of Euro 3,193 thousand, partially offset by higher gains recognised on the sale of Starbreeze B shares of Euro 918 thousand.

The implied cost of debt, which is computed as a percentage of gross interest expense to average net debt, has decreased in the year to 6.6% from the prior year figure of 7.5%. Average debt was calculated as the average of net debt at the end of each quarter, while gross interest expense is net of interest payable on derivative products and exchange losses:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**
Average debt	10,092	12,193
Gross interest expense	(667)	(917)
Implied cost of debt	**-6.6%**	**-7.5%**

29. Taxation

Details of current and deferred taxes for the year ended 30 June 2016 are provided below:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
Current tax	(7,016)	(3,897)	(3,118)	80.0%
Deferred tax	1,217	(1,252)	2,469	n.m.
Total income tax income (expense)	**(5,799)**	**(5,149)**	**(650)**	**12.6%**

The increase in the year in the net tax expense is in line with the income trend.

Details are provided below of current tax:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
IRES	(5,134)	(2,628)	(2,506)	n.m.
IRAP	(987)	(615)	(372)	60.5%
Current tax - foreign companies	(535)	(520)	(15)	2.9%
Other current tax	12	(134)	146	n.m.
Total income tax expense	**(6,644)**	**(3,897)**	**(2,747)**	**70.5%**

IRES for the period was determined as follows:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015
IRES taxable income	18,557	12,272
IRES tax rate	27.5%	27.5%
IRES for the period	(5,103)	(3,375)
Effect of tax consolidation	160	816
Taxes on prior year income	(191)	(69)
IRES for the period	**(5,134)**	**(2,628)**

Below is a reconciliation of the IRES tax charge for the year to the result reported in the financial statements:

Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015	
Pre-tax result of the parent company	**(4,428)**		**2,240**	
IRES tax rate (27.5%)	**27.5%**		**27.5%**	
Theoretical tax charge	**1,218**	**-27.5%**	**(616)**	**13.9%**
Tax effect of non-deductible costs or non-taxable income	(873)	20%	975	-22%
Tax effect of the use of tax losses not previously used	0	0%	0	0%
Net tax effect of the reversal of deferred tax assets not included above	188	-4%	5	0%
Effect of tax consolidation	160	-4%	816	-18%
Tax effect of share of results of subsidiaries	(5,955)	134%	(3,772)	85%
Taxes on prior year income	128	-3%	(35)	1%
Tax charge for the year and effective tax rate	**(5,134)**	**116%**	**(2,628)**	**59%**

IRAP for the period was determined as follows:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**
IRAP taxable income	25,384	15,769
IRAP tax rate	3.9%	3.9%
IRAP attributable to the year	(990)	(615)
IRAP attributable to prior year	3	0
IRAP for the period	**(987)**	**(615)**

Below is a reconciliation of the IRAP tax charge for the year to the result reported in the financial statements:

Euro thousand	**Year ended 30 June 2016**		**Year ended 30 June 2015**	
Parent company operating margin	**(2,643)**		**(4,024)**	
IRAP tax rate	**3.9%**		**3.9%**	
Theoretical tax charge	**0**	**0.0%**	**0**	**0.0%**
Tax effect of non-deductible costs	0	0.0%	0	0.0%
Tax effect of share of results of subsidiaries	(987)	37.3%	(615)	23.3%
Tax charge for the year and effective tax rate	**(987)**	**37.3%**	**(615)**	**23.3%**

The increase in deferred taxes related mainly to the good performance of the Premium Games operating segment, which allowed the U.S. and UK subsidiaries to use the deferred tax assets recorded in prior years.

32. Basic earnings per share

The computation of basic earnings per share was based on the following figures:

Euro thousand	**Year ended 30 June 2016**	**Year ended 30 June 2015**
Profit (loss) for the year (1)	12,539	9,106
Average number of outstanding shares (2)	14,110,838	14,110,838
Number of treasury shares held in the year (3)	(171,250)	(525,247)
Total average number of shares (4)=(2)-(3)	13,939,588	13,585,591
Net earnings (loss) per share (1)/(4) (in euros)	**0.90**	**0.67**

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

Earnings per share for the year ended 30 June 2016 amounted to Euro 0.90 versus Euro 0.67 per share for the year ended 30 June 2015.

33. Diluted earnings per share

Diluted earnings per share equates to basic earnings per share, since there were no outstanding financial instruments convertible to shares in the years ended 30 June 2016 and 2015.

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (IFRS 7)

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

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts
- Financial instruments held for trading

The purpose of these instruments is to finance the Group's operating activities. The policy for the use of financial instruments, including derivative contracts and financial instruments held for trading, are described in the explanatory notes.

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

Since the year ended 30 June 2008, the subsidiary 505 Games S.p.A. has enjoyed its own independent credit facilities to finance international growth and, since April 2011, the subsidiary 505 Games Ltd. has had access to two international factoring lines and, since November 2012, the subsidiary 505 Games France S.a.s. was granted its own international factoring line.

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

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

In the following tables, the disclosures required by IFRS 7 regarding the significance of financial instruments for the Group's results and financial position are provided separately for 2016 and 2015.

Financial instruments: statement of financial position at 30 June 2016

Category of financial assets pursuant to IAS 39

Financial instruments – Assets at 30 June 2016 (in Euro thousand)	Fair value assets held for trading	Investments held to maturity	Receivables and loans	Assets held for sale	Carrying amount at 30 June 2016	Notes
Non-current receivables and other assets	-	-	1,056	-	1,056	5
Trade receivables	-	-	34,840	-	34,840	11
Other current assets	-	-	5,034	-	5,034	13
Cash and cash equivalents	-	-	2,785	-	2,785	22
Other current financial assets	29,108	-	-	-	29,108	24
Other non-current financial assets	-	-	1,195	-	1,195	25
Total	**29,108**	**-**	**44,910**	**-**	**74,018**	

Category of financial liabilities pursuant to IAS 39

Financial instruments – Liabilities at 30 June 2016 (in Euro thousand)	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2016	Notes
Trade payables	-	21,712	21,712	14
Other current liabilities	-	2,312	2,312	17
Current bank debt	-	25,929	25,929	23
Other current financial liabilities	-	195	195	24
Non-current bank debt	-	1,558	1,558	26
Other non-current financial liabilities	-	1,895	1,895	27
Total	**-**	**53,601**	**53,601**	

Financial instruments: statement of financial position at 30 June 2015

Category of financial assets pursuant to IAS 39

Financial instruments – Assets at 30 June 2015 (in Euro thousand)	Fair value assets held for trading	Investments held to maturity	Receivables and loans	Assets held for sale	Carrying amount at 30 June 2015	Notes
Non-current receivables and other assets	-	-	1,058	-	1,058	5
Trade receivables	-	-	36,684	-	36,684	11
Other current assets	-	-	6,148	-	6,148	13
Cash and cash equivalents	-	-	4,339	-	4,339	22
Other current financial assets	1,553	-	302		1,855	24
Total	**1,553**	**-**	**48,531**	**-**	**50,084**	

Category of financial liabilities pursuant to IAS 39

Financial instruments – Liabilities at 30 June 2015 (in Euro thousand)	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2015	Notes
Trade payables	-	26,929	26,929	14
Other current liabilities	-	2,472	2,472	17
Current bank debt	-	12,738	12,738	23
Other current financial liabilities	-	170	170	24
Non-current bank debt	-	1,619	1,619	26
Other non-current financial liabilities	-	-	-	27
Total	**-**	**43,928**	**43,928**	

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

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

Interest rate risk

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.
For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favourable conditions;
- the level of short-term borrowings, which varies substantially on the basis of seasonal trends in the video games market and that has shown a constantly falling trend;
- the implementation of a short-term cash flow procedure that constantly monitors the trend in short-term debt and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

Liquidity risk arises if it becomes difficult or impossible to obtain, under sustainable conditions, the financial resources needed to operate the business.

The factors that influence the Group's financial needs are the resources generated or absorbed by operating and investing activities, the maturity and renewal terms of debt and the liquidity of investments and current conditions and available funds in the credit market.

The Group has reduced this risk by setting up the centralised management of treasury procedures and credit lines, by obtaining adequate credit that allows the creation of a sustainable liability structure through the use of irrevocable credit lines and continuous monitoring of prospective liquidity conditions.

It is believed that the results of short- and medium/long-term planning and currently available funds, along with those to be generated by operating activities, should allow the Group to satisfy its requirements as far as investment, working capital management and debt repayment at natural maturity are concerned and in any case to determine its financing needs sufficiently ahead of time.

The following table shows the Group's financial obligations by maturity, in the worst-case scenario and using undiscounted values, considering the nearest date by which the Group could be asked for payment and providing the number of the relevant note.

Financial liabilities at 30 June 2016 (Euro thousand)	Carrying amount	within one year	1-2 years	2-3 years	3-4 years	4-5 years	beyond 5 years	Total	Notes
Current bank debt	25,929	25,929						25,929	23
Other current financial liabilities	195	195						195	24
Non-current bank debt	1,558		1,558					1,558	26
Other non-current financial liabilities	1,895		1,855	15	16	9		1,895	27
Total	**29,577**	**26,124**	**3,413**	**15**	**16**	**9**	**-**	**29,577**	

Financial liabilities at 30 June 2015 (Euro thousand)	Carrying amount	within one year	1-2 years	2-3 years	3-4 years	4-5 years	beyond 5 years	Total	Notes
Current bank debt	12,738	12,738						12,738	23
Other current financial liabilities	170	170						170	24
Non-current bank debt	1,619		913	706				1,619	26
Other non-current financial liabilities									27
Total	**14,527**	**12,098**	**913**	**706**	**-**	**-**	**-**	**14,527**	

The Group has sufficient financial resources to satisfy its debt maturing within one year, in the form of cash and cash equivalents, undrawn credit lines, which at the reporting date amounted to approximately Euro 35 million and cash flows from core operations.

Exchange rate risk

The Group is affected by exchange rate fluctuations of the British pound and the US dollar. Purchases in currencies other than the euro are marginal, and are almost entirely in British pounds and US dollars due to the manufacturing and structural costs of the local subsidiaries.

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

To monitor the risk level of the EUR/USD and EUR/GBP exchange rate, the Group closely monitors exchange rate forecasts from independent analysts and other sources, and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

Following the completion of the Starbreeze AB transaction, the Group also has an exposure in Swedish Krona (SEK) for the transactions linked to the sale and purchase of shares of the Swedish company. The Group has entered into a derivative contract to mitigate the impact of fluctuations of the EUR/SEK exchange rate.

Credit risk

As far as Italian customers are concerned, the Group sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold with advance payment and/or cash on delivery to limit credit risk.

The finance department reviews credit facilities and customer balances before any shipments are made. Despite these precautions, the Group has taken out insurance covering a considerable percentage of its customers.

All foreign subsidiaries have taken out an appropriate credit insurance policy. The credit policy is never to exceed the limits of coverage for each individual customer, thereby limiting the chance that any difficulties faced by customers will affect the Group's performance.

The following table provides details of receivables from customers by due date at 30 June 2016 and 30 June 2015:

Euro thousand	30 June 2016	% of total	30 June 2015	% of total
Not past due	13,502	90%	22,013	89%
0 > 30 days	489	4%	1,002	4%
30 > 60 days	11	0%	297	1%
60 > 90 days	63	0%	101	1%
> 90 days	898	6%	1,411	5%
Total receivables from customers	**14,963**	**100%**	**24,824**	**100%**

Fair value of financial assets and liabilities and calculation methods used

The table below presents the fair value of assets and liabilities by type of method used to calculate them. Financial assets whose fair value cannot be objectively determined are not included.

The fair value of payables to banks has been calculated on the basis of the interest rate curve as of the reporting date, without making assumptions as to the credit spread.

The fair value of financial instruments listed in an active market is based on market prices as of the reporting date. The market prices used are bid/ask prices depending on the asset/liability held. The fair value of unlisted financial instruments and derivatives is determined according to the market's prevailing models and techniques, using inputs observable in the market.

For trade receivables and payables and other financial assets, fair value has not been calculated as it is approximated by carrying value.

For lease instalments due and payables to other lenders, it is believed that there is no significant difference between fair value and the carrying amount at which they are recognised.

Euro thousand	Carrying amount at 30 June 2016	Mark to market	Mark to model	Total fair value	Note
		Fair value	Fair value		
Cash and cash equivalents	2,785	2,785		2,785	22
Current bank debt	25,929	25,929		25,929	23
Other current financial assets and liabilities	28,777	28,777		28,777	24
Other non-current financial assets and liabilities	1,195	1,195		1,195	25
Non-current bank debt	1,558	1,558		1,558	25
Interest rate swap	136	136		136	23-26
Other non-current financial liabilities	1,895	1,895		1,895	27

Euro thousand	Carrying amount at 30 June 2015	Mark to market	Mark to model	Total fair value	Note
		Fair value	Fair value		
Cash and cash equivalents	4,339	4,339		4,339	22
Current bank debt	12,738	12,738		12,738	23
Other current financial assets	1,553	1,553		1,553	24
Non-current bank debt	1,619	1,619		1,619	25
Interest rate swap	0	0		0	23-26

Exchange rate and interest rate risk: sensitivity analysis

The sensitivity analysis was performed in accordance with IFRS 7. It applies to all financial instruments recognised in the financial statements.

The sensitivity analysis measures the estimated impact on profit or loss and on the statement of financial position of a fluctuation in the exchange rate of +/-10% and in the interest rate of +/-1% with respect to the rates in effect at 30 June 2016 for each class of financial instrument, with all other variables remaining constant. The analysis is purely illustrative, as such changes rarely take place in an isolated manner.

At 30 June 2016, the Group was not exposed to additional risks, such as commodity risk.

For the sensitivity analysis of exchange rates, account was taken of the risk that may arise for any financial instrument denominated in a currency other than the euro. Consequently, translation risk was also taken into consideration.

Financial instruments that are subject to gains or losses in value as a result of movements in interest rates are instruments with floating interest rates and instruments with fixed interest rates, but which are measured at fair value.

The table below shows the impact on net cash/debt and pre-tax profit of an increase/decrease of 10% in the EUR/USD exchange rate with respect to the budgeted figures of 1.12:

Type of change	Impact on net cash/debt	Impact on pre-tax profit
+10% Dollar	768	(645)
-10% Dollar	(938)	789

Fair value hierarchy

IFRS 7 requires that financial instruments recognised at fair value be classified in a hierarchy reflecting the significance of the inputs used to measure fair value. The levels are as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted market prices included within Level 1 that are directly or indirectly observable in the market;
- Level 3: inputs not based on observable market data.

To calculate the market value of financial instruments, the Group uses various measurement and valuation models, as summarised below for 2016 and 2015:

Balances at 30 June 2016	Instrument	Level 1	Level 2	Level 3	Total	Note
Derivatives for trading	Flexible forward		136		136	23-26
Other current financial assets	Listed shares	28,777			28,777	24

Balances at 30 June 2015	Instrument	Level 1	Level 2	Level 3	Total	Note
Other current financial assets	Listed shares	1,553			1,553	24

10. NON-RECURRING INCOME AND EXPENSES

As required by Consob Resolution 15519 of 27 July 2006, non-recurring income and expenses are shown separately in the statement of profit or loss. These are generated by transactions or events that by nature do not occur on a regular basis in the ordinary course of business.

The Group did not recognise any non-recurring income and expenses in the year.

11. INFORMATION CONCERNING OPERATING SEGMENTS

The Digital Bros Group develops, publishes, distributes and markets video games on an international scale.

During the year the Group's organisational structure and related responsibilities were revised. A decision was made to move from an organisation based on its distribution channels, International Publishing and Mobile, to an organisation based on the type of games published, Premium Games and Free to Play. The structure of the Development, Italian Distribution, Other Activities and Holding operating segments has remained unchanged.

The change made to the organisational structure was needed to reflect the various production, product positioning, marketing and financial planning mechanisms that are a feature of Free to Play games, unlike traditional paid games, known as Premium Games. Initially, the publishing of Free to Play games was more or less limited to the Apple and Google marketplaces, while the Sony and Microsoft console marketplaces offered solely traditional Premium games and, with the expansion of the console market to Free to Play, there was no longer a need for a distribution channel based organisation as opposed to an organisation based on the type of games published.

For the sake of comparison, the prior year statement of profit or loss figures have been restated to reflect the current operating segments.

Accordingly, the Group is organised into five operating segments:

- Development;
- Premium Games;
- Free to Play;
- Italian Distribution;
- Other Activities;
- Holding.

The directors monitor the results of each operating segment separately in order to decide how to allocate resources and verify the results. Finance income and costs (including loan interest and charges) and income tax are managed at Group level and are not allocated to the operating segments.

The results by operating segment for the years ended 30 June 2016 and 2015 are set out below. Reference should be made to paragraph 7 of the directors' report for comments thereon.

Consolidated statement of profit or loss by operating segment for the year ended 30 June 2016

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	1,736	5,275	83,204	19,231	746	0	110,192
2	Revenue adjustments	0	0	(1,648)	(1,273)	(56)	0	(2,977)
3	**Total revenue**	**1,736**	**5,275**	**81,556**	**17,958**	**690**	**0**	**107,214**
4	Purchase of products for resale	0	0	(8,135)	(13,058)	0	0	(21,193)
5	Purchase of services for resale	(468)	(1,236)	(3,610)	(131)	(135)	0	(5,580)
6	Royalties	0	(2,767)	(20,975)	0	(109)	0	(23,851)
7	Changes in inventories of finished products	0	0	(721)	(227)	0	0	(948)
8	**Total cost of sales**	**(468)**	**(4,003)**	**(33,441)**	**(13,416)**	**(244)**	**0**	**(51,572)**
9	**Gross profit (3+8)**	**1,268**	**1,272**	**48,115**	**4,542**	**446**	**0**	**55,643**
10	Other income	4,374	858	186	68	228	0	5,714
11	Cost of services	(342)	(779)	(6,191)	(1,981)	(2,849)	(1,283)	(13,425)
12	Lease and rental charges	(95)	(65)	(596)	(58)	(20)	(721)	(1,555)
13	Labour costs	(5,333)	(2,958)	(6,591)	(1,646)	(647)	(2,686)	(19,861)
14	Other operating costs	(122)	(93)	(445)	(220)	(73)	(468)	(1,421)
15	**Total operating costs**	**(5,892)**	**(3,895)**	**(13,823)**	**(3,905)**	**(3,589)**	**(5,158)**	**(36,262)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(250)**	**(1,765)**	**34,478**	**705**	**(2,915)**	**(5,158)**	**25,095**
17	Depreciation and amortisation	(601)	(1,330)	(1,216)	(179)	(275)	(187)	(3,788)
18	Allocations to provisions	0	0	0	0	0	0	0
19	Impairment losses recognised on assets	(16)	(425)	0	(639)	0	0	(1,080)
20	Reversal of impairment losses and non-monetary income	0	588	0	0	0	0	588
21	**Total non-monetary income and operating costs**	**(617)**	**(1,167)**	**(1,216)**	**(818)**	**(275)**	**(187)**	**(4,280)**
22	**Operating margin (EBIT) (16+21)**	**(867)**	**(2,932)**	**33,262**	**(113)**	**(3,190)**	**(5,345)**	**20,815**

Information concerning operating segments

Consolidated statement of financial position at 30 June 2016

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
	Non-current assets							
1	Property, plant and equipment	264	30	1,009	2,820	187	2,721	7,032
2	Investment property	0	0	0	0	0	0	0
3	Intangible assets	5,381	2,686	1,223	0	769	399	10,458
4	Equity investments	0	0	(0)	0	0	898	898
5	Non-current receivables and other assets	0	0	192	9	220	635	1,056
6	Deferred tax assets	362	53	1,508	580	104	12	2,619
	Total non-current assets	**6,007**	**2,769**	**3,932**	**3,409**	**1,281**	**4,665**	**22,063**
	Non-current liabilities							
7	Employee benefits	0	0	0	(495)	(34)	0	(529)
8	Non-current provisions	0	0	0	(36)	0	0	(36)
9	Other non-current payables and liabilities	0	0	0	0	0	(252)	(252)
	Total non-current liabilities	**0**	**0**	**0**	**(531)**	**(34)**	**(252)**	**(817)**
	Net working capital							
10	Inventories	0	0	7,129	4,804	0	0	11,933
11	Trade receivables	207	2,252	28,786	3,595	0	0	34,840
12	Current tax assets	0	620	655	741	3	0	2,019
13	Other current assets	49	358	3,949	312	128	238	5,034
14	Trade payables	(58)	(1,224)	(17,933)	(1,669)	(383)	(445)	(21,712)
15	Current tax liabilities	0	(28)	(2,191)	(155)	(21)	(3,816)	(6,211)
16	Current provisions	0	0	0	0	0	0	0
17	Other current liabilities	(630)	(36)	(186)	(797)	(660)	(3)	(2,312)
	Total net working capital	**(432)**	**1,942**	**20,209**	**6,831**	**(933)**	**(4,025)**	**23,591**
	Total	**5,575**	**4,711**	**24,141**	**9,708**	**313**	**388**	**44,837**

Consolidated statement of profit or loss by operating segment for the year ended 30 June 2015

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	1,565	2,671	92,190	24,529	289	0	121,244
2	Revenue adjustments	0	0	(3,629)	(1,485)	(140)	0	(5,254)
3	**Total revenue**	**1,565**	**2,671**	**88,561**	**23,044**	**149**	**0**	**115,990**
4	Purchase of products for resale	0	(0)	(16,373)	(17,731)	0	0	(34,104)
5	Purchase of services for resale	(189)	(920)	(4,248)	0	(17)	0	(5,374)
6	Royalties	0	(1,059)	(27,256)	0	(13)	0	(28,328)
7	Changes in inventories of finished products	0	0	(1,332)	(566)	0	0	(1,898)
8	**Total cost of sales**	**(189)**	**(1,979)**	**(49,209)**	**(18,297)**	**(30)**	**0**	**(69,704)**
9	**Gross profit (3+8)**	**1,376**	**692**	**39,352**	**4,747**	**119**	**0**	**46,286**
10	Other income	1,558	445	58	81	153	0	2,295
11	Cost of services	(259)	(609)	(7,093)	(2,230)	(197)	(1,272)	(11,660)
12	Lease and rental charges	(91)	(66)	(552)	(58)	(22)	(759)	(1,548)
13	Labour costs	(3,604)	(2,598)	(6,296)	(1,985)	(482)	(2,961)	(17,926)
14	Other operating costs	(85)	(38)	(538)	(248)	(41)	(421)	(1,371)
15	**Total operating costs**	**(4,039)**	**(3,311)**	**(14,479)**	**(4,521)**	**(742)**	**(5,413)**	**(32,505)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(1,105)**	**(2,174)**	**24,932**	**307**	**(470)**	**(5,413)**	**16,076**
17	Depreciation and amortisation	(441)	(1,118)	(898)	(227)	(117)	(119)	(2,920)
18	Allocations to provisions	0	0	0	0	0	0	0
19	Impairment losses recognised on assets	0	(641)	(28)	(407)	0	(379)	(1,455)
20	Reversal of impairment losses and non-monetary income	0	641	0	0	0	0	641
21	**Total non-monetary income and operating costs**	**(441)**	**(1,118)**	**(926)**	**(634)**	**(117)**	**(498)**	**(3,734)**
22	**Operating margin (EBIT) (16+21)**	**(1,546)**	**(3,292)**	**24,005**	**(327)**	**(587)**	**(5,911)**	**12,342**

Information concerning operating segments

Consolidated statement of financial position at 30 June 2015

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
	Non-current assets							
1	Property, plant and equipment	284	52	1,101	2,865	67	472	4,841
2	Investment property	0	0	0	0	0	0	0
3	Intangible assets	2,513	3,322	1,451	0	338	322	7,946
4	Equity investments	0	0	(0)	0	0	1,274	1,274
5	Non-current receivables and other assets	0	0	194	9	220	635	1,058
6	Deferred tax assets	206	(461)	1,895	517	83	0	2,240
	Total non-current assets	**3,003**	**2,913**	**4,642**	**3,391**	**708**	**2,703**	**17,359**
	Non-current liabilities							
7	Employee benefits	0	0	0	(442)	(44)	0	(486)
8	Non-current provisions	0	0	0	(170)	0	0	(170)
9	Other non-current payables and liabilities	0	(588)	0	0	0	(133)	(721)
	Total non-current liabilities	**0**	**(588)**	**0**	**(612)**	**(44)**	**(133)**	**(1,378)**
	Net working capital							
10	Inventories	0	0	7,850	5,031	0	0	12,881
11	Trade receivables	254	5,274	25,376	5,446	0	0	36,350
12	Current tax assets	0	740	1,243	471	12	0	2,466
13	Other current assets	182	337	4,957	252	174	246	6,148
14	Trade payables	(131)	(769)	(23,690)	(1,598)	(135)	(606)	(26,929)
15	Current tax liabilities	0	(89)	(2,641)	(285)	(14)	0	(3,029)
16	Current provisions	0	0	0	0	0	0	0
17	Other current liabilities	(210)	(39)	(385)	(808)	(284)	0	(1,726)
	Total net working capital	**95**	**5,454**	**12,710**	**8,509**	**(247)**	**(360)**	**26,161**
	Total	**3,098**	**7,779**	**17,351**	**11,288**	**417**	**2,210**	**42,143**

***Development*:** the Development operating segment designs and develops video games and similar applications. Its operations are conducted through a dedicated organisational structure. The operating segment undertakes development projects on behalf of Group companies and external customers. This work is performed solely by Pipeworks Inc.

Premium Games: its operations consist of the acquisition of video game content exploitation rights from developers and the subsequent distribution of the games through a traditional international sales network and via digital marketplaces such as: Steam, Sony PlayStation Network and Microsoft Xbox Live.

The video games are normally acquired under exclusive licence and with international exploitations rights valid for several years. The Group operates globally in the Premium Games segment under the 505 Games brand.

Premium Games' operations were conducted during the period by the subsidiary 505 Games S.p.A., which coordinates the operating segment, together with 505 Games France S.a.s., 505 Games Ltd., 505 Games (US) Inc., 505 Games Spain Slu and 505 Games GmbH, which operate in the French, UK, U.S., Spanish and German markets, respectively. 505 Games Interactive (US) Inc. provides consulting services on behalf of 505 Games S.p.A. The Swedish company, 505 Games Nordic AB, was dormant during the period and has been put into liquidation.

Free to Play: Its operations consist of the development, inclusive of via the Group's organisational structures, and the publishing of video games that are made available to the public free of charge and that allow the gamer to purchase credits to use during the various stages of the game. With respect to Premium video games, Free to Play games are usually simpler and have a longer lifespan, given that the video game is continuously developed and improved subsequent to its launch, in order to encourage the public to continue playing and to spend money on the game.

The operating segment is coordinated by the subsidiary 505 Mobile S.r.l., which coordinates the U.S. company 505 Mobile (US) Inc., which provides consulting services to Group companies, the UK company DR Studios Ltd., which develops Free to Play games and the subsidiary Game Entertainment S.r.l., which publishes Free to Play games that are completely free, but generate advertising income.

The Group operates globally in this segment under the 505 Mobile brand.

Italian Distribution: this consists of the distribution in Italy of video games purchased from international publishers. The games are marketed through a direct sales network of key accounts and through an indirect sales network comprised of sales agents.

Business operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand and by the subsidiary Game Service S.r.l. as far as alternative distribution channels are concerned.

The Group also distributes the Yu-Gi-Oh! trading card game in Italy.

Other Activities: this operating segment handles all of the Group's less significant activities, which are thus allocated to a separate operating segment for a logical presentation of the results. It includes the operations of the subsidiary Game Network S.r.l., which manages paid games under concession from AAMS (Italian State Monopoly Administration) and the operations of the subsidiary Digital Bros Game Academy S.r.l., which organises specialist IT and gaming courses, training courses and professional update courses, inclusive of through the use of multimedia.

Holding**:** this includes all the coordinating functions carried out directly by Digital Bros S.p.A. on behalf of the various operating segments, particularly the implementation of sound financial policies to support the Group's operations, the management of the Group's property, brand management and the management of equity investments. The Holding operating segment also handles administration, management control and business development.

Information on geographical segments

Details are provided below of gross revenue by geographical segment:

Euro thousand	**Year ended 30 June 2016**		**Year ended 30 June 2015**		**Change**	
Europe	53,959	49%	21,774	18%	32,185	147.8%
The Americas	33,141	30%	71,257	59%	(38,116)	-53.5%
Rest of the world	3,114	3%	3,396	3%	(282)	-8.3%
Total foreign revenue	**90,214**	**82%**	**96,427**	**80%**	**(6,213)**	**-6.4%**
Italy	19,978	18%	24,817	20%	(4,840)	-19.5%
Total gross consolidated revenue	**110,192**	**100%**	**121,244**	**100%**	**(11,053)**	**-9.1%**

Foreign revenue accounted for 82% of gross consolidated revenue compared to the prior year figure of 80% and decreased in the year by 6.4%.

Rest of the world revenue relates to sales made by the subsidiary 505 Games Ltd., mainly in Australia, the Middle East and South Africa.

The most significant portion of foreign revenue is generated by the Premium Games operating segment, which generated foreign revenue of Euro 32,366 thousand, accounting for 73% of total foreign revenue, due, in part, to the impact of the sale of PAYDAY 2 rights.

Details are provided below of gross foreign revenue by operating segment:

Euro thousand	**Year ended 30 June 2016**		**Year ended 30 June 2015**		**Change**	
Free to Play	5,275	6%	14,847	15%	(9,572)	-64.5%
Premium Games	83,204	92%	80,014	83%	3,190	4.0%
Development	1,736	2%	1,565	2%	171	10.9%
Total gross foreign revenue	**90,215**	**100%**	**96,426**	**100%**	**(6,211)**	**-6.4%**

The Development operating segment's revenue includes revenue earned by Pipeworks Inc. from development contracts with non-Group customers.

The decrease in Italian revenue was less pronounced than that for foreign revenue.

12. RELATED PARTY TRANSACTIONS

In accordance with Consob Resolution 17221 of 12 March 2010, it is hereby disclosed that all commercial and financial transactions between Digital Bros Group companies and between those companies and other non-subsidiary related parties have been conducted at arm's length and do not qualify as atypical or unusual transactions.

Intercompany transactions

Intercompany transactions have been described in section 9 of the directors' report on intercompany and related party transactions and atypical/unusual transactions, to which reference should be made.

Other related parties

Related party transactions consist of:

- legal counsel provided by the director Dario Treves;
- lease of property by Matov Imm. S.r.l. to the parent company and the subsidiary 505 Games France S.a.s.;
- lease of property by Matov LLC to the subsidiary 505 Games (US) Inc.

Both Matov Imm. S.r.l. and Matov LLC are owned by Abramo and Raffaele Galante.

Transactions in the year ended 30 June 2016 are summarised below:

Euro thousand	**Receivables**		**Payables**		**Revenue**	**Costs**
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(25)	0	0	(254)
Matov Imm. S.r.l.	0	635	0	0	0	(763)
Matov LLC	0	133	0	0	0	(368)
Total	**0**	**768**	**(25)**	**0**	**0**	**(1,385)**

Those for the year ended 30 June 2015 were:

Euro thousand	**Receivables**		**Payables**		**Revenue**	**Costs**
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(18)	0	0	(200)
Matov Imm. S.r.l.	0	635	0	0	0	(800)
Matov LLC	0	133	0	0	0	(247)
Total	**0**	**768**	**(18)**	**0**	**0**	**(1,247)**

The financial receivable due to Digital Bros S.p.A. by Matov Imm. S.r.l. relates to a cautionary deposit paid for the Via Tortona 37 premises in Milan.

The financial receivable due to 505 Games (US) Inc. by Matov LLC relates to a cautionary deposit paid against lease obligations concerning the premises that became the U.S. subsidiary's new offices during the year.

Lease instalments for the Milan offices paid during the year by Digital Bros S.p.A. to Matov Imm. S.r.l. amount to Euro 717 thousand and those paid by 505 Games France S.a.s. for the buildings located in Francheville amount to Euro 46 thousand. As from December 2015, on the occasion of contract renewal for a further six years, the annual lease charge was reduced by Euro 60 thousand.

In November 2013, a lease agreement was entered into between the subsidiary 505 Games (US) Inc. and Matov LLC, a related party owned by the Galante family. The transaction was governed by the "Procedure for related party transactions" adopted by Digital Bros S.p.A. pursuant to Consob Regulation 17221 of 12 March 2010 and envisages an annual lease charge of 408 thousand U.S. dollars.

Tax consolidation

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for tax consolidation for the period 2015-2017, as allowed by Italian law, with the companies 2015 Games Mobile S.r.l., Game Entertainment S.r.l., Game Service S.r.l., 505 Games S.p.A., Digital Bros Game Academy S.r.l. and Game Network S.r.l. Membership of a domestic tax group has made it necessary to prepare an implementing regulation to govern intercompany transactions to ensure there are no grounds for prejudice against individual participants in the system.

13. ATYPICAL OR UNUSUAL TRANSACTIONS

There were no atypical or unusual transactions in the period just ended or in the corresponding prior year period, as defined by Consob Communication DEM 6064293 of 28 July 2006.

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

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

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

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

16. EXTERNAL AUDIT FEES

Pursuant to Article 149-duodecies of the Listing Rules, the following table provides details of the fees payable for the year just ended to Deloitte & Touche, the external auditors of Digital Bros S.p.A., and to other auditing firms not pertaining to its network:

Nature of service	Fees pertaining to FY 2015-16					
	Parent company auditor			Parent company auditor's network	Auditors not pertaining to parent network	Total
	to parent company	to other companies	Total	to other companies	to other companies	
Audit	175,000	61,900	236,900	32,000	81,000	349,900
Attestation services						
Tax consultancy services						
Other services (to be detailed)						
- Review of proforma financial statements and disclosure documents						
- Accounting, tax, legal and administrative due diligence						
- Agreed upon procedures						
- Advisory services to the reporting manager (Art. 154-bis CFA)						
- Opinions on the application of new accounting standards						
- Consultancy on accounting matters						
- Other services						
Total	**175,000**	**61,900**	**236,900**	**32,000**	**81,000**	**349,900**

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for preparation of the consolidated financial statements for the period July 2015 - June 2016. No significant issues arose.

We also confirm that:

1. the consolidated financial statements of Digital Bros Group for the year ended 30 June 2016:
   a) have been prepared in accordance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
   b) correspond to the books and accounting records;
   c) give a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;

2. the directors' reports accompanying the consolidated and separate financial statements include a reliable analysis of the results, as well as a description of the main risks and uncertainties to which Digital Bros S.p.A. and the consolidated entities are exposed.

Milan, 13 September 2016

Signed

Chairman of the Board of Directors	Financial Reporting Manager
Abramo Galante	Stefano Salbe

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