



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

**Separate financial statements  
for the year ended 30 June 2016**

**(Financial year 2015-2016)**

**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.  
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A copy of this report is available on the Company's website  
at [www.digitalbros.com](http://www.digitalbros.com), in the Investors section

## **DIRECTORS' REPORT**

Digital Bros S.p.A. distributes video games in Italy under the Halifax brand acquired 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. The Company also distributes the Yu-Gi-Oh! trading card game in Italy.

For a breakdown of revenue by geographical area, please refer to the directors' report attached to the consolidated financial statements of Digital Bros Group of which the Company is the parent.

### **1. 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 marketplace, are also produced physically and distributed through traditional 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 used by the end consumers who play the video 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.

## **2. MARKET SEASONALITY**

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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 by Group companies 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.

### 3. SIGNIFICANT EVENTS DURING THE YEAR

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The main events during the year 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 end 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 Digital Bros S.p.A. 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 July 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, stands out. 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 from which Pipeworks Inc. conducts its operations;
- 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.

#### 4. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2016

Set out below are the Company's results for the year ended 30 June 2016 together with comparative figures for the year ended 30 June 2015:

	Euro thousand	Year ended 30 June 2016		Year ended 30 June 2015		Change	
1	Revenue	21,025	105.8%	24,538	106.4%	(3,513)	-14.3%
2	Revenue adjustments	(1,156)	-5.8%	(1,485)	-6.4%	330	-22.2%
3	<b>Net revenue</b>	<b>19,869</b>	<b>100.0%</b>	<b>23,053</b>	<b>100.0%</b>	<b>(3,184)</b>	<b>13.8%</b>
4	Purchase of products for resale	(13,227)	-66.6%	(17,731)	-76.9%	4,502	-25.4%
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	(2,253)	-11.3%	(541)	-2.3%	(1,712)	n.m.
8	<b>Total cost of sales</b>	<b>(15,480)</b>	<b>-77.9%</b>	<b>(18,272)</b>	<b>-79.3%</b>	<b>2,792</b>	<b>15.3%</b>
9	<b>Gross profit (3+8)</b>	<b>4,389</b>	<b>22.1%</b>	<b>4,781</b>	<b>20.7%</b>	<b>(392)</b>	<b>-8.2%</b>
10	Other income	3,439	17.3%	1,824	7.9%	1,615	88.5%
11	Cost of services	(3,752)	-18.9%	(3,484)	-15.1%	(267)	7.7%
12	Lease and rental charges	(779)	-3.9%	(825)	-3.6%	47	-5.6%
13	Labour costs	(4,884)	-24.6%	(5,474)	-23.7%	590	-10.8%
14	Other operating costs	(683)	-3.4%	(667)	-2.9%	(18)	2.5%
15	<b>Total operating costs</b>	<b>(10,098)</b>	<b>-50.8%</b>	<b>(10,450)</b>	<b>-45.3%</b>	<b>352</b>	<b>-3.4%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(2,270)</b>	<b>-11.4%</b>	<b>(3,845)</b>	<b>-16.7%</b>	<b>1,575</b>	<b>n.m.</b>
17	Depreciation and amortisation	(373)	-1.9%	(359)	-1.6%	(14)	3.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(3,001)	-15.1%	(3,825)	7.1%	824	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	12,920	32.4%	(12,920)	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(3,374)</b>	<b>-17.0%</b>	<b>8,736</b>	<b>37.9%</b>	<b>(12,110)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(5,644)</b>	<b>-28.4%</b>	<b>4,891</b>	<b>21.2%</b>	<b>(10,535)</b>	<b>n.m.</b>
23	Interest and finance income	2,132	10.7%	2,353	10.2%	(221)	-9.4%
24	Interest expense and finance costs	(916)	-4.6%	(1,035)	-4.5%	119	-11.5%
25	<b>Net finance income (costs)</b>	<b>1,216</b>	<b>6.1%</b>	<b>1,318</b>	<b>5.7%</b>	<b>(102)</b>	<b>n.m.</b>
26	<b>Profit (loss) before tax (22+25)</b>	<b>(4,428)</b>	<b>-22.3%</b>	<b>6,209</b>	<b>26.9%</b>	<b>(10,637)</b>	<b>n.m.</b>
27	Current tax	820	4.1%	1,144	5.0%	(324)	-28.3%
28	Deferred tax	(87)	-0.4%	(407)	-1.8%	319	-78.6%
29	<b>Total income tax expense</b>	<b>733</b>	<b>3.7%</b>	<b>737</b>	<b>3.2%</b>	<b>(4)</b>	<b>-0.6%</b>
30	<b>Profit (loss) for the year (26+29)</b>	<b>(3,695)</b>	<b>-18.6%</b>	<b>6,946</b>	<b>30.1%</b>	<b>(10,641)</b>	<b>n.m.</b>

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

Gross revenue decreased by 14.3% to Euro 21,025 thousand from the prior year figure of Euro 24,538 thousand as a result of a significant drop in sales of Yu-Gi-Oh! trading cards. 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.

Inventories decreased by Euro 1,712 thousand. Cost of sales came to Euro 15,480 thousand, representing a drop of 15.3% that was slightly higher than the decrease in net revenue. Gross profit, which amounted to Euro 4,389 thousand, decreased by Euro 392 thousand and, as a percentage of net revenue, it came to 22.1% compared to the prior year figure of 17.7%.

Other income amounted to Euro 3,439 thousand, representing an increase of Euro 1,615 thousand, as a result of an increase in recharges to subsidiaries of organisation, management, human resources, finance and business development services performed specifically for the subsidiary 505 Games S.p.A., which as of 1 July 2015 became the sub-holding company for Premium Games and Free to Play operations following a reorganisation of the Group. The increase was also attributable to a higher level of costs incurred on behalf of subsidiaries and that were then recharged thereto.

Operating costs fell by 3.4% in the year to Euro 352 thousand. This decrease was mainly attributable to a fall in labour costs of Euro 590 thousand caused by a drop in the average number of employees and a decrease in allocations to provisions for the variable component of remuneration payable to employees and directors. Cost of services increased by Euro 267 thousand primarily due to higher costs incurred on behalf of subsidiaries that were then recharged thereto.

The gross operating margin (EBITDA) amounted to a loss of Euro 2,270 thousand compared to the prior year loss of Euro 3,845 thousand, representing an improvement of Euro 1,575 thousand.

Net operating (costs) income have gone from net income recognised last year of Euro 8,736 thousand to net costs of Euro 3,374 thousand for the year just ended with a change that adversely affected profit or loss by Euro 12,110 thousand.

Impairment losses recognised on assets of Euro 3,001 thousand consist of the following:

- the impairment of the investment in Game Network S.r.l. of Euro 1,991 thousand;
- the impairment of the investment in Digital Bros Game Academy S.r.l. of Euro 372 thousand;
- the impairment of specific receivable balances of Euro 638 thousand that may not be possible to collect.

Last year's figure for reversal of impairment losses had benefited from the payment of dividends by subsidiaries of an amount of Euro 7,460 thousand that was not repeated during the course of the year just ended and from a revaluation of the investment in 505 Games S.p.A. of Euro 5,460 thousand.

The operating margin (EBIT) decreased by Euro 10,535 thousand from the prior year figure of Euro 4,891 thousand to a loss of Euro 5,644 thousand for the year just ended.



Net finance income amounted to Euro 1,216 thousand compared to the prior year figure of Euro 1,318 thousand.

The loss before tax for the year ended 30 June 2016 came to Euro 4,428 thousand compared to the prior year profit before tax of Euro 6,209 thousand. The loss for the year amounts to Euro 3,695 thousand compared to the prior year profit figure of Euro 6,946 thousand.

## 5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

The Company's statement of financial position at 30 June 2016 is shown below together with comparative figures at 30 June 2015:

	Euro thousand	30 June 2016	30 June 2015	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,357	3,335	22	0.6%
2	Investment property	0	0	0	n.m.
3	Intangible assets	399	322	77	23.8%
4	Equity investments	13,948	13,931	17	0.1%
5	Non-current receivables and other assets	644	644	0	n.m.
6	Deferred tax assets	531	517	14	2.8%
	<b>Total non-current assets</b>	<b>18,879</b>	<b>18,749</b>	<b>130</b>	<b>0.7%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(495)	(442)	(53)	12.0%
8	Non-current provisions	(36)	(171)	135	-79.0%
9	Other non-current payables and liabilities	(252)	(133)	(119)	0.0%
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>(746)</b>	<b>(37)</b>	<b>5.0%</b>
	<b>Net working capital</b>				
10	Inventories	7,013	9,266	(2,253)	-24.3%
11	Trade receivables	3,166	5,445	(2,279)	-41.9%
12	Receivables due from subsidiaries	33,155	14,131	19,024	n.m.
13	Current tax assets	741	471	270	57.3%
14	Other current assets	510	499	11	2.2%
15	Trade payables	(1,939)	(2,104)	165	-7.8%
16	Payables due to subsidiaries	(5,407)	(2,031)	(3,376)	n.m.
17	Current tax liabilities	(3,965)	(286)	(3,679)	n.m.
18	Current provisions	(3,808)	(1,491)	(2,317)	n.m.
19	Other current liabilities	(797)	(907)	110	-12.1%
	<b>Total net working capital</b>	<b>28,669</b>	<b>22,993</b>	<b>5,676</b>	<b>24.7%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(20,129)	(18,172)	(1,957)	10.8%
22	Treasury shares	390	1,199	(809)	-67.5%
23	Retained earnings (accumulated losses)	(3,323)	(7,214)	3,891	n.m.
	<b>Total equity</b>	<b>(28,706)</b>	<b>(29,831)</b>	<b>1,125</b>	<b>-3.8%</b>
	<b>Total net assets</b>	<b>18,059</b>	<b>11,165</b>	<b>6,894</b>	<b>61.7%</b>
24	Cash and cash equivalents	577	1,780	(1,203)	-67.6%
25	Current bank debt	(22,900)	(12,727)	(10,173)	79.9%
26	Other current financial assets and liabilities	5,877	1,401	4,476	n.m.
	<b>Current net debt</b>	<b>(16,446)</b>	<b>(9,546)</b>	<b>(6,900)</b>	<b>72.3%</b>
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
29	Other non-current financial liabilities	(55)	0	(55)	n.m.
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>(1,619)</b>	<b>6</b>	<b>-0.4%</b>
	<b>Total net debt</b>	<b>(18,059)</b>	<b>(11,165)</b>	<b>(6,894)</b>	<b>61.7%</b>

An analysis of net working capital together with comparative figures at 30 June 2015 is provided below:

	30 June 2016	30 June 2015	Change	
<b>Net working capital</b>				
Inventories	7,013	9,266	(2,253)	-24.3%
Trade receivables	3,166	5,445	(2,279)	-41.9%
Receivables due from subsidiaries	33,155	14,131	19,024	n.m.
Current tax assets	741	471	270	57.3%
Other current assets	510	499	11	2.2%
Trade payables	(1,939)	(2,104)	165	-7.8%
Payables due to subsidiaries	(5,407)	(2,031)	(3,376)	n.m.
Current tax liabilities	(3,965)	(286)	(3,679)	n.m.
Current provisions	(3,808)	(1,491)	(2,317)	n.m.
Other current liabilities	(797)	(907)	110	-12.1%
<b>Total net working capital</b>	<b>28,669</b>	<b>22,993</b>	<b>5,676</b>	<b>24.7%</b>

Net working capital at 30 June 2016 amounted to Euro 28,669 thousand, having increased by Euro 5,676 thousand compared to the balance at 30 June 2015 of Euro 22,993 thousand. The most significant change related to receivables due from subsidiaries that increased by Euro 19,024 thousand mainly due to an increase in receivables due from 505 Games S.p.A. and 505 Mobile S.r.l. All the other significant components decreased in line with the fall in revenue.

Total net debt increased by Euro 6,894 thousand with respect to 30 June 2015. The increase is mainly attributable to a rise in the year of current bank debt of Euro 10,173 thousand.

For further details, reference should be made to the statement of cash flows attached to these financial statements.

## **6. INTERCOMPANY AND RELATED PARTY TRANSACTIONS AND ATYPICAL/UNUSUAL TRANSACTIONS**

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All sales and purchases of goods and services between Digital Bros S.p.A. and other Group companies and related parties are conducted at arm's length.

Digital Bros S.p.A. bills 505 Games S.p.A. an amount equating to 15% of digital revenue that the subsidiary achieves in Italy as recognition of the indirect marketing and public relations services performed that are not directly attributable to individual products.

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

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 company's operational headquarters.

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 Digital Bros S.p.A. in accordance with domestic tax group arrangements.

### **Transactions with other related parties**

Transactions with related parties consist of legal counsel provided by the director Dario Treves and the lease of property by Matov Imm. S.r.l., (owned by the Galante family) to Digital Bros S.p.A.

The impact of related party transactions is disclosed in Note 10.

### **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.

## **7. TREASURY SHARES**

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As at 30 June 2016, the Company held 130,247 treasury shares compared to 400,247 shares held at 30 June 2015.

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.

## **8. RESEARCH AND DEVELOPMENT**

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The Company did not engage in any research and development activity during the period.

## **9. MANAGEMENT OF OPERATIONAL RISK, FINANCIAL RISK AND FINANCIAL INSTRUMENTS**

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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 Risk 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;
- 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.

#### *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 price 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:

- Current account 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 notes.

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

<b>Euro thousand</b>	<b>Facilities</b>	<b>Drawn down</b>	<b>Available</b>
Current account overdrafts	1,200	59	1,141
Import financing	20,250	18,131	2,119
Advances on invoices and bank receipts subject to collection	15,002	1,399	13,603
Factoring	1,000	108	892
Endorsement credits	1,000	0	1,000
<b>Total</b>	<b>38,452</b>	<b>19,697</b>	<b>18,755</b>

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.

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.

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 Company 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's exposure in US dollars due to the operations of the United States subsidiary is mitigated by the fact that it has many game development contracts in that currency, so any negative changes in the EUR/USD exchange rate would cause 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 by the parent company).

#### *Credit risk*

The Company 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.



## 10. CONTINGENT ASSETS AND LIABILITIES

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At 30 June 2016, there were no contingent assets and liabilities.

## 11. SUBSEQUENT EVENTS

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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.

## 12. BUSINESS OUTLOOK

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The fall in turnover reported in recent years is expected to continue. However, the Company should be able to benefit from a reduction in overheads that has already been enacted and from an increase in activities carried out on behalf of subsidiaries. The Company will benefit from dividends from subsidiaries and from the gain that arose on the sale of Starbreeze A shares.

It is expected that the Company will return to profit in the coming financial year.

## 13. OTHER INFORMATION

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### EMPLOYEES

Below are the details of the workforce 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	52	51	1
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>61</b>	<b>60</b>	<b>1</b>

The average headcount for the year ended 30 June 2016, 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	5	4	1
Office workers	52	55	(3)
Blue-collar workers and apprentices	4	6	(2)
<b>Total employees</b>	<b>61</b>	<b>65</b>	<b>(4)</b>

The Company adheres to the current Confindustria 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 Company's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

## **14. ALLOCATION OF RESULT FOR THE YEAR**

The year closed with a loss of Euro 3,695 thousand the proposed coverage of which will be by prior year retained earnings.

## FINANCIAL STATEMENTS

Digital Bros S.p.A

Statement of financial position at 30 June 2016

	Euro thousand	30 June 2016	30 June 2015	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,357	3,335	22	0.6%
2	Investment property	0	0	0	n.m.
3	Intangible assets	399	322	77	23.8%
4	Equity investments	13,948	13,931	17	0.1%
5	Non-current receivables and other assets	644	644	0	n.m.
6	Deferred tax assets	531	517	14	2.8%
	<b>Total non-current assets</b>	<b>18,879</b>	<b>18,749</b>	<b>130</b>	<b>0.7%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(495)	(442)	(53)	12.0%
8	Non-current provisions	(36)	(171)	135	-79.0%
9	Other non-current payables and liabilities	(252)	(133)	(119)	0.0%
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>(746)</b>	<b>(37)</b>	<b>5.0%</b>
	<b>Net working capital</b>				
10	Inventories	7,013	9,266	(2,253)	-24.3%
11	Trade receivables	3,166	5,445	(2,279)	-41.9%
12	Receivables due from subsidiaries	33,155	14,131	19,024	n.m.
13	Current tax assets	741	471	270	57.3%
14	Other current assets	510	499	11	2.2%
15	Trade payables	(1,939)	(2,104)	165	-7.8%
16	Payables due to subsidiaries	(5,407)	(2,031)	(3,376)	n.m.
17	Current tax liabilities	(3,965)	(286)	(3,679)	n.m.
18	Current provisions	(3,808)	(1,491)	(2,317)	n.m.
19	Other current liabilities	(797)	(907)	110	-12.1%
	<b>Total net working capital</b>	<b>28,669</b>	<b>22,993</b>	<b>5,676</b>	<b>24.7%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(20,129)	(18,172)	(1,957)	10.8%
22	Treasury shares	390	1,199	(809)	-67.5%
23	Retained earnings (losses)	(3,323)	(7,214)	3,891	n.m.
	<b>Total equity</b>	<b>(28,706)</b>	<b>(29,831)</b>	<b>1,125</b>	<b>-3.8%</b>
	<b>Total net assets</b>	<b>18,059</b>	<b>11,165</b>	<b>6,894</b>	<b>61.7%</b>
24	Cash and cash equivalents	577	1,780	(1,203)	-67.6%
25	Current bank debt	(22,900)	(12,727)	(10,173)	79.9%
26	Other current financial assets and liabilities	5,877	1,401	4,476	n.m.
	<b>Current net debt</b>	<b>(16,446)</b>	<b>(9,546)</b>	<b>(6,900)</b>	<b>72.3%</b>
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
29	Other non-current financial liabilities	(55)	0	(55)	n.m.
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>(1,619)</b>	<b>6</b>	<b>-0.4%</b>
	<b>Total net debt</b>	<b>(18,059)</b>	<b>(11,165)</b>	<b>(6,894)</b>	<b>61.7%</b>

**Digital Bros S.p.A.**
**Separate 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	Revenue	21,025	105.8%	24,538	106.4%	(3,513)	-14.3%
2	Revenue adjustments	(1,156)	-5.8%	(1,485)	-6.4%	330	-22.2%
3	<b>Net revenue</b>	<b>19,869</b>	<b>100.0%</b>	<b>23,053</b>	<b>100.0%</b>	<b>(3,184)</b>	<b>-13.8%</b>
4	Purchase of products for resale	(13,227)	-66.6%	(17,731)	-76.9%	4,502	-25.4%
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	(2,253)	-11.3%	(541)	-2.3%	(1,712)	n.m.
8	<b>Total cost of sales</b>	<b>(15,480)</b>	<b>-77.9%</b>	<b>(18,272)</b>	<b>-79.3%</b>	<b>2,792</b>	<b>-15.3%</b>
9	<b>Gross profit (3+8)</b>	<b>4,389</b>	<b>22.1%</b>	<b>4,781</b>	<b>20.7%</b>	<b>(392)</b>	<b>-8.2%</b>
10	Other income	3,439	17.3%	1,824	7.9%	1,615	88.5%
11	Cost of services	(3,752)	-18.9%	(3,484)	-15.1%	(267)	7.7%
12	Lease and rental charges	(779)	-3.9%	(825)	-3.6%	47	-5.6%
13	Labour costs	(4,884)	-24.6%	(5,474)	-23.7%	590	-10.8%
14	Other operating costs	(683)	-3.4%	(667)	-2.9%	(18)	2.5%
15	<b>Total operating costs</b>	<b>(10,098)</b>	<b>-50.8%</b>	<b>(10,450)</b>	<b>-45.3%</b>	<b>352</b>	<b>-3.4%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(2,270)</b>	<b>-11.4%</b>	<b>(3,845)</b>	<b>-16.7%</b>	<b>1,575</b>	<b>n.m.</b>
17	Depreciation and amortisation	(373)	-1.9%	(359)	-1.6%	(14)	3.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(3,001)	-15.1%	(3,825)	7.1%	824	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	12,920	32.4%	(12,920)	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(3,374)</b>	<b>-17.0%</b>	<b>8,736</b>	<b>37.9%</b>	<b>(12,110)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(5,644)</b>	<b>-28.4%</b>	<b>4,891</b>	<b>21.2%</b>	<b>(10,535)</b>	<b>n.m.</b>
23	Interest and finance income	2,132	10.7%	2,353	10.2%	(221)	-9.4%
24	Interest expense and finance costs	(916)	-4.6%	(1,035)	-4.5%	119	-11.5%
25	<b>Net finance income (costs)</b>	<b>1,216</b>	<b>6.1%</b>	<b>1,318</b>	<b>5.7%</b>	<b>(102)</b>	<b>n.m.</b>
26	<b>Profit (loss) before tax (22+25)</b>	<b>(4,428)</b>	<b>-22.3%</b>	<b>6,209</b>	<b>26.9%</b>	<b>(10,637)</b>	<b>n.m.</b>
27	Current tax	820	4.1%	1,144	5.0%	(324)	-28.3%
28	Deferred tax	(87)	-0.4%	(407)	-1.8%	319	-78.6%
29	<b>Total income tax income (expense)</b>	<b>733</b>	<b>3.7%</b>	<b>737</b>	<b>3.2%</b>	<b>(4)</b>	<b>-0.6%</b>
30	<b>Profit (loss) for the year (26+29)</b>	<b>(3,695)</b>	<b>-18.6%</b>	<b>6,946</b>	<b>30.1%</b>	<b>(10,641)</b>	<b>n.m.</b>

**Statement of comprehensive income for the year ended 30 June 2016**

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>
<b>Profit (loss) for the period (A)</b>	<b>(3,695)</b>	<b>6,946</b>	<b>(10,641)</b>
<b>Items that will not be reclassified subsequently to profit or loss (B)</b>			
Actuarial gain (loss)	(45)	30	(75)
Income tax relating to the actuarial gain (loss)	11	(9)	20
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	(755)	(90)	(665)
<b>Items that may be reclassified subsequently to profit or loss (C)</b>	<b>1,957</b>	<b>261</b>	<b>1,696</b>
<b>Total other comprehensive income D = (B)+(C)</b>	<b>1,956</b>	<b>261</b>	<b>1,695</b>
<b>Total comprehensive income (loss) (A)+(D)</b>	<b>(1,738)</b>	<b>7,207</b>	<b>(8,945)</b>
Attributable to:			
Owners of the Company	(1,738)	7,207	(8,945)
Non-controlling interests	0	0	0

**Digital Bros S.p.A.****Statement of cash flows for the year ended 30 June 2016**

	<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
<b>A. Opening net debt</b>		<b>(11,165)</b>	<b>(20,498)</b>
<b>B. Cash flows from operating activities</b>			
Profit (loss) for the year		(3,695)	6,946
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment losses		639	407
Amortisation of intangible assets		146	95
Depreciation of property, plant and equipment		227	264
Net change in other provisions		(135)	(34)
Net change in employee benefit provisions		53	(59)
Net change in other non-current liabilities		119	0
<b>SUBTOTAL B.</b>		<b>(2,646)</b>	<b>7,621</b>
<b>C. Change in net working capital</b>			
Inventories		2,253	541
Trade receivables		1,640	1,117
Receivables due from subsidiaries		(19,024)	11,262
Current tax assets		(270)	1,734
Other current assets		(11)	112
Trade payables		(165)	193
Payables due to subsidiaries		3,376	(5,969)
Current tax liabilities		3,679	(634)
Current provisions		2,317	(7,028)
Other current liabilities		(110)	(218)
<b>SUBTOTAL C.</b>		<b>(6,315)</b>	<b>1,109</b>
<b>D. Cash flows from investing activities</b>			
Net payments for intangible assets		(223)	(219)
Net payments for property, plant and equipment		(249)	(98)
Net payments for non-current financial assets		(31)	1,210
<b>SUBTOTAL D.</b>		<b>(503)</b>	<b>892</b>
<b>E. Cash flows from financing activities</b>			
Proceeds from capital increases		0	0
<b>SUBTOTAL E.</b>		<b>0</b>	<b>0</b>
<b>F. Changes in equity</b>			
Dividends distributed		(1,818)	(960)
Changes in treasury shares held		809	375
Increases (decreases) in other equity components		3,579	296
<b>SUBTOTAL F.</b>		<b>2,570</b>	<b>(289)</b>
<b>G. Cash flow for the period (B+C+D+E+F)</b>		<b>(6,894)</b>	<b>9,333</b>
<b>H. Closing net debt (A+G)</b>		<b>(18,059)</b>	<b>(11,165)</b>

**Details of cash flow by maturity:**

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Increase (decrease) in securities and cash and cash equivalents	(1,203)	1,290
Decrease (increase) in current bank debt	(10,173)	6,814
Decrease (increase) in other current financial liabilities	4,476	2,829
Cash flow for the period pertaining to current net debt	(6,900)	10,933
Cash flow for the period pertaining to non-current net debt	6	(1,600)
<b>Cash flow for the period</b>	<b>(6,894)</b>	<b>9,333</b>

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

**Statement of changes in equity**

<b>Euro thousand</b>	<b>Share capital (A)</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Reserve for actuarial gains and losses</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the year</b>	<b>Total retained earnings (D)</b>	<b>Equity (A+B+C+D)</b>
<b>As at 1 July 2014</b>	<b>5,644</b>	16,954	1,129	(142)	(86)	21	<b>17,876</b>	<b>(1,574)</b>	1,843	(615)	<b>1,228</b>	<b>23,174</b>
Allocation of result for the year							<b>0</b>		(615)	615	<b>0</b>	<b>0</b>
Purchase of treasury shares							<b>0</b>		(960)		<b>(960)</b>	<b>(960)</b>
Comprehensive income (loss)						35	<b>35</b>	<b>375</b>			<b>0</b>	<b>410</b>
Comprehensive income (loss)					22	239	<b>261</b>			6,946	<b>6,946</b>	<b>7,207</b>
<b>As at 1 July 2015</b>	<b>5,644</b>	16,954	1,129	(142)	(64)	295	<b>18,172</b>	<b>(1,199)</b>	268	6,946	<b>7,214</b>	<b>29,831</b>
Allocation of result for the year							<b>0</b>		6,946	(6,946)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,818)		<b>(1,818)</b>	<b>(1,818)</b>
Purchase of treasury shares							<b>0</b>	<b>809</b>	1,622		<b>1,622</b>	<b>2,431</b>
Comprehensive income (loss)					(34)	1,991	<b>1,957</b>			(3,695)	<b>(3,695)</b>	<b>(1,738)</b>
<b>As at 30 June 2016</b>	<b>5,644</b>	16,954	1,129	(142)	(98)	2,286	<b>20,129</b>	<b>(390)</b>	7,018	(3,695)	<b>3,323</b>	<b>28,706</b>

A) not available;

B) available - can be used to cover losses but is not distributable;

D) available - can be used to cover losses, capital increases and pay dividends.



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

**Separate 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	21,025	0	24,538	0
2	Revenue adjustments	(1,156)	0	(1,485)	0
<b>3</b>	<b>Net revenue</b>	<b>19,869</b>	<b>0</b>	<b>23,053</b>	<b>0</b>
4	Purchase of products for resale	(13,227)	0	(17,731)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(2,253)	0	(541)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(15,480)</b>	<b>0</b>	<b>(18,272)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>4,389</b>	<b>0</b>	<b>4,781</b>	<b>0</b>
10	Other income	3,439	0	1,824	0
11	Cost of services	(3,752)	(254)	(3,484)	(200)
12	Lease and rental charges	(779)	(717)	(825)	(754)
13	Labour costs	(4,884)	0	(5,474)	0
14	Other operating costs	(683)	0	(667)	0
<b>15</b>	<b>Total operating costs</b>	<b>(10,098)</b>	<b>(971)</b>	<b>(10,450)</b>	<b>(954)</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(2,270)</b>	<b>(971)</b>	<b>(3,845)</b>	<b>(954)</b>
17	Depreciation and amortisation	(373)	0	(359)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(3,001)	0	1,635	0
20	Reversal of impairment losses and non-monetary income	0	0	7,460	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(3,374)</b>	<b>0</b>	<b>8,736</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(5,644)</b>	<b>(971)</b>	<b>4,891</b>	<b>(954)</b>
23	Interest and finance income	2,132	0	2,353	0
24	Interest expense and finance costs	(916)	0	(1,035)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>1,216</b>	<b>0</b>	<b>1,318</b>	<b>0</b>
<b>26</b>	<b>Profit (loss) before tax (22+25)</b>	<b>(4,428)</b>	<b>(971)</b>	<b>6,209</b>	<b>(954)</b>
27	Current tax	820	0	1,144	0
28	Deferred tax	(87)	0	(407)	0
<b>29</b>	<b>Total income tax income (expense)</b>	<b>733</b>	<b>0</b>	<b>737</b>	<b>0</b>
<b>30</b>	<b>Profit (loss) for the year (26+29)</b>	<b>(3,695)</b>	<b>(971)</b>	<b>6,946</b>	<b>(954)</b>

**Digital Bros S.p.A.**
**Statement of financial position prepared in accordance with Consob Resol. 15519 of 27 July 2006**

	Euro thousand	30 June 2016		30 June 2015	
		Total	Of which with related parties	Total	Of which with related parties
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,357	0	3,335	0
2	Investment property	0	0	0	0
3	Intangible assets	399	0	322	0
4	Equity investments	13,948	0	13,931	0
5	Non-current receivables and other assets	644	635	644	635
6	Deferred tax assets	531	0	517	0
	<b>Total non-current assets</b>	<b>18,879</b>	<b>635</b>	<b>18,749</b>	<b>635</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(495)	0	(442)	0
8	Non-current provisions	(36)	0	(171)	0
9	Other non-current payables and liabilities	(252)	0	(133)	0
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>0</b>	<b>(746)</b>	<b>0</b>
	<b>Net working capital</b>				
10	Inventories	7,013	0	9,266	0
11	Trade receivables	3,166	0	5,445	0
12	Receivables due from subsidiaries	33,155		14,131	
13	Current tax assets	741	0	471	0
14	Other current assets	510	0	499	0
15	Trade payables	(1,939)	(25)	(2,204)	(18)
16	Payables due to subsidiaries	(5,407)		(2,031)	
17	Current tax liabilities	(3,965)	0	(286)	0
18	Current provisions	(3,808)	0	(1,491)	0
19	Other current liabilities	(797)	0	(807)	0
	<b>Total net working capital</b>	<b>28,669</b>	<b>(25)</b>	<b>22,993</b>	<b>(18)</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,644)	0	(5,644)	0
21	Reserves	(20,129)	0	(18,172)	0
22	Treasury shares	390	0	1,199	0
23	Retained earnings (accumulated losses)	(3,323)	0	(7,214)	0
	<b>Total equity</b>	<b>(28,706)</b>	<b>0</b>	<b>(29,831)</b>	<b>0</b>
	<b>Total net assets</b>	<b>18,059</b>	<b>610</b>	<b>11,165</b>	<b>617</b>
24	Cash and cash equivalents	577	0	1,780	0
25	Current bank debt	(22,900)	0	(12,727)	0
26	Other current financial assets and liabilities	5,877	0	1,401	0
	<b>Current net debt</b>	<b>(16,446)</b>	<b>0</b>	<b>(9,546)</b>	<b>0</b>
27	Non-current financial assets	0	0	0	0
28	Non-current bank debt	(1,558)	0	(1,619)	0
29	Other non-current financial liabilities	(55)	0	0	0
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>0</b>	<b>(1,619)</b>	<b>0</b>
	<b>Total net debt</b>	<b>(18,059)</b>	<b>0</b>	<b>(11,165)</b>	<b>0</b>

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

**Separate statement of profit or loss prepared in accordance with Consob Resol 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	21,025	0	24,538	0
2	Revenue adjustments	(1,156)	0	(1,485)	0
<b>3</b>	<b>Net revenue</b>	<b>19,869</b>	<b>0</b>	<b>23,053</b>	<b>0</b>
4	Purchase of products for resale	(13,227)	0	(17,731)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(2,253)	0	(541)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(15,480)</b>	<b>0</b>	<b>(18,272)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>4,389</b>	<b>0</b>	<b>4,781</b>	<b>0</b>
10	Other income	3,439	0	1,824	0
11	Cost of services	(3,752)	0	(3,484)	(181)
12	Lease and rental charges	(779)	0	(825)	0
13	Labour costs	(4,884)	0	(5,474)	0
14	Other operating costs	(683)	0	(667)	0
<b>15</b>	<b>Total operating costs</b>	<b>(10,098)</b>	<b>0</b>	<b>(10,450)</b>	<b>(181)</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(2,270)</b>	<b>0</b>	<b>(3,845)</b>	<b>(181)</b>
17	Depreciation and amortisation	(373)	0	(359)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(3,001)	0	1,635	0
20	Reversal of impairment losses and non-monetary income	0	0	7,460	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(3,374)</b>	<b>0</b>	<b>8,736</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(5,644)</b>	<b>0</b>	<b>4,891</b>	<b>(181)</b>
23	Interest and finance income	2,132	0	2,353	0
24	Interest expense and finance costs	(916)	0	(1,035)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>1,216</b>	<b>0</b>	<b>1,318</b>	<b>0</b>
<b>26</b>	<b>Profit (loss) before tax (22+25)</b>	<b>(4,428)</b>	<b>0</b>	<b>6,209</b>	<b>(181)</b>
27	Current tax	820	0	1,144	0
28	Deferred tax	(87)	0	(407)	0
<b>29</b>	<b>Total income tax income (expense)</b>	<b>733</b>	<b>0</b>	<b>737</b>	<b>0</b>
<b>30</b>	<b>Profit (loss) for the year (26+29)</b>	<b>(3,695)</b>	<b>0</b>	<b>6,946</b>	<b>(181)</b>



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

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

The activities carried out by Digital Bros S.p.A. are described in the directors' report.

The financial statements for the year ended 30 June 2016 have been prepared on a going concern basis. The Company 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 separate financial statements of Digital Bros S.p.A. 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 separate financial statements for the year ended 30 June 2016 are stated in thousands of euros, unless otherwise specified.

### ***Reporting formats***

The separate 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 separate financial statements for the year ended 30 June 2015.

The financial statements are comprised of:

- statement of financial position at 30 June 2016 with comparative figures at 30 June 2015 (the annual reporting date for the previous separate financial statements);
- 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;
- statement of comprehensive income from 1 July 2015 to 30 June 2016 together with comparative figures for the period from 1 July 2014 to 30 June 2015;
- statement of cash flows for the year just ended together with comparative figures for the previous year;
- 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 statement of cash flows together with comparative figures for the previous year;
- statement of profit or loss and statement of financial position prepared in accordance with Consob Resolution 15519 of 27 July 2006.

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 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 and receivables that fall due in subsequent periods. They also include investment property and 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.

Net working capital comprises current assets and liabilities. Due to the commercial nature of the Company's operations, net working capital is particularly significant, as it represents the amount the Company 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 debt is split into current and non-current debt and corresponds to total net assets.

The first column of the statement of financial position 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 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 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

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The separate 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 financial statements were prepared on the basis of the Company's accounting records as at 30 June 2016.

The measurement criteria used to prepare the separate financial statements for the year ended 30 June 2016 are consistent with those used to prepare the separate 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 separate 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	3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%

Assets held under finance leases, whereby all of the risks and benefits of ownership are transferred to the Company, 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: 10%
- 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, the amortisation method of which must reasonably and reliably reflect the correlation between costs and income. If that correlation cannot be objectively determined, the Company 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.

### *Equity investments*

Equity investments in subsidiaries and 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 Company’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 subsidiaries and 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 Company’s share of an investee’s losses exceeds the carrying amount of the equity investment and if the Company is obliged to cover this loss, the

carrying amount of the investment is reduced to zero and the Company'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 accounting policies for financial assets, reference should be made to the relevant note ("Financial Assets").

#### *Impairment of assets*

At each reporting date the Company reviews the carrying amount of its tangible and intangible assets and investments in subsidiaries and associates to determine if there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or of a cash-generating unit) is estimated to be lower than its book value, it is reduced to the lower recoverable amount. The reversal of an impairment loss is immediately recognised in profit or loss. In particular, when assessing the existence of any impairment losses pertaining to investments in subsidiaries and associates, when these entities are not listed or if a reliable market value (fair value less costs to sell) is not determinable, the recoverable amount is deemed to be the value in use. Value in use is the portion attributable to the Company of the present value of estimated cash flows from operations or dividends to be received in respect of each subsidiary and the amount that is expected to be received from the ultimate disposal of the asset in line with the provisions of IAS 28 and IAS 36 for the part referred to by IAS 28.

When it is no longer necessary to maintain an impairment, the carrying value of the asset (or cash-generating unit), with the exception of goodwill, is increased to the new value deriving from the estimate of its recoverable value, but not exceeding the net book value that the asset would have had if it had not

been written down for impairment. The reversal of an impairment loss is recognised 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 Company 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 separate 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 separate 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 Company makes provisions against legal or constructive obligations to third parties whose exact amount and/or timing are unknown and/or it is likely that the Company's resources will have to be employed to 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 recorded in profit or loss for the period in which the changes are made.

#### *Financial assets and liabilities*

Current financial assets, non-current financial assets and current and non-current financial liabilities are 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 liabilities hedged by derivatives are measured at fair value, according to hedge accounting rules as applicable to fair value hedges: gains and losses from subsequent fair value recognition measurement, due to changes in interest rates and/or exchange rates, are recognised in profit or loss and offset by the effective portion of the loss or gain deriving from the subsequent fair value measurement of the instrument hedged.

#### *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.

#### *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 Company 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.

### *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 value of the equity investment.

### *Interest income and expense*

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 taxes*

Income tax includes all taxes computed on the Company's 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 taxes*

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 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 IFRS standards, amendments and interpretations were applied for the first time by the Company with effect 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate financial statements;

- on 25 May 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 Company's separate 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:
    - Giving prominence to those that are most relevant to an understanding of the financial position (e.g. by combining all information on particular assets);
    - Disclosing related information together in cohesive sections (e.g. assets measured at fair value);
    - 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 Company's separate 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 Company's separate 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 Company's separate financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Company 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate financial statements.



### 3. USE OF ESTIMATES

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#### *Critical accounting judgements*

The preparation of the separate financial statements and notes for the year ended 30 June 2016 required the Company to make certain critical accounting judgements. These judgements were used to prepare estimates and assumptions that affect the amounts of assets and liabilities recognised in the separate 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, 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 and revenue adjustments.

#### *Credit risk*

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 Company's credit collection procedure, receivables not paid within 45 days of falling due are passed on to the legal advisor for collection. Frequent meetings between the legal advisor and the credit manager and frequent updates of the legal advisor's collectibility forecasts, make the estimate of doubtful accounts reliable over time.

#### *Measurement of inventories*

The Company 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 Company uses revenue forecasts for the subsequent four quarters, produced by the sales department. Any differences found between the market value of a product held in inventory, taking account of its platform/price category and its historical cost, are recognised in profit or loss in the quarter they are revealed.

#### *Employee benefits*

The Company 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 from the Company, in relation to their seniority and the revaluation rates these benefits enjoy by law.

The TFR system underwent significant changes during the year ended 30 June 2006. Estimating the liability is still complex, due to a small portion of benefits that have remained with the Company. To arrive at this estimate, the Company 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 Company has adopted suitable procedures.

Revenue adjustments are made up of two kinds of cost. The first, which consist of discounts granted to customers at the end of the normally annual contractual period (year end bonuses), are easier to determine. The second are difficult to estimate and consist of potential credit notes that the Company will have to issue to customers as a result of unsold products. To estimate this amount, management uses calculations based on an analysis by individual customer as well as an analysis by individual product, in which the risk is shown separately for price cuts and potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to retailers with the volumes they have sold to end consumers. The availability of sales figures by country makes the estimate reliable over time and inventory figures by product can be used for certain customers to simplify calculations.

#### 4. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The 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	
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,357	3,335	22	0.6%
2	Investment property	0	0	0	n.m.
3	Intangible assets	399	322	77	23.8%
4	Equity investments	13,948	13,931	17	0.1%
5	Non-current receivables and other assets	644	644	0	n.m.
6	Deferred tax assets	531	517	14	2.8%
	<b>Total non-current assets</b>	<b>18,879</b>	<b>18,749</b>	<b>130</b>	<b>0.7%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(495)	(442)	(53)	12.0%
8	Non-current provisions	(36)	(171)	135	-79.0%
9	Other non-current payables and liabilities	(252)	(133)	(119)	0.0%
	<b>Total non-current liabilities</b>	<b>(783)</b>	<b>(746)</b>	<b>(37)</b>	<b>5.0%</b>
	<b>Net working capital</b>				
10	Inventories	7,013	9,266	(2,253)	-24.3%
11	Trade receivables	3,166	5,445	(2,279)	-41.9%
12	Receivables due from subsidiaries	33,155	14,131	19,024	n.m.
13	Current tax assets	741	471	270	57.3%
14	Other current assets	510	499	11	2.2%
15	Trade payables	(1,939)	(2,104)	165	-7.8%
16	Payables due to subsidiaries	(5,407)	(2,031)	(3,376)	n.m.
17	Current tax liabilities	(3,965)	(286)	(3,679)	n.m.
18	Current provisions	(3,808)	(1,491)	(2,317)	n.m.
19	Other current liabilities	(797)	(907)	110	-12.1%
	<b>Total net working capital</b>	<b>28,669</b>	<b>22,993</b>	<b>5,676</b>	<b>24.7%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,644)	(5,644)	0	0.0%
21	Reserves	(20,129)	(18,172)	(1,957)	10.8%
22	Treasury shares	390	1,199	(809)	-67.5%
23	Retained earnings (accumulated losses)	(3,323)	(7,214)	3,891	n.m.
	<b>Total equity</b>	<b>(28,706)</b>	<b>(29,831)</b>	<b>1,125</b>	<b>-3.8%</b>
	<b>Total net assets</b>	<b>18,059</b>	<b>11,165</b>	<b>6,894</b>	<b>61.7%</b>
24	Cash and cash equivalents	577	1,780	(1,203)	-67.6%
25	Current bank debt	(22,900)	(12,727)	(10,173)	79.9%
26	Other current financial assets and liabilities	5,877	1,401	4,476	n.m.
	<b>Current net debt</b>	<b>(16,446)</b>	<b>(9,546)</b>	<b>(6,900)</b>	<b>72.3%</b>
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank debt	(1,558)	(1,619)	61	-3.7%
29	Other non-current financial liabilities	(55)	0	(55)	n.m.
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>(1,619)</b>	<b>6</b>	<b>-0.4%</b>
	<b>Total net debt</b>	<b>(18,059)</b>	<b>(11,165)</b>	<b>(6,894)</b>	<b>61.7%</b>

## NON-CURRENT ASSETS

### 1. Property, plant and equipment

The balance of this line item went from Euro 3,335 thousand to Euro 3,357 thousand. Movements during this and the previous year were as follows:

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Use of accum. deprec.</b>	<b>30 June 2016</b>
Industrial buildings	2,374	67	0	(101)	0	<b>2,340</b>
Land	600	0	0	0	0	<b>600</b>
Plant and machinery	106	147	0	(45)	0	<b>208</b>
Other assets	255	30	0	(80)	0	<b>205</b>
Leasehold improvements	0	5	0	(1)	0	<b>4</b>
<b>Total</b>	<b>3,335</b>	<b>249</b>	<b>0</b>	<b>(227)</b>	<b>0</b>	<b>3,357</b>

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Use of accum. deprec.</b>	<b>30 June 2015</b>
Industrial buildings	2,010	455	0	(91)	0	<b>2,374</b>
Land	600	0	0	0	0	<b>600</b>
Plant and machinery	96	92	0	(82)	0	<b>106</b>
Other assets	340	6	(27)	(91)	27	<b>255</b>
Leasehold improvements	0	0	0	(0)	0	<b>0</b>
<b>Total</b>	<b>3,046</b>	<b>553</b>	<b>(27)</b>	<b>(264)</b>	<b>27</b>	<b>3,335</b>

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

Industrial buildings relate to the warehouse in Trezzano sul Naviglio, while the balance of land amounting to Euro 600 thousand relates to the land on which the warehouse is located. These assets were acquired by the Group under a finance lease and are recognised in the statement of financial position in accordance with IAS 17.

Capital expenditure made in the year is as follows:

- Euro 67 thousand relating to the refurbishment of the freehold property used as offices and laboratories in Via Labus, Milan, which is the operational headquarters of Digital Bros Game Academy S.r.l. and which is included in industrial buildings;
- Euro 48 thousand for equipment to be used in the property to render it suitable for the activity undertaken by Digital Bros Game Academy S.r.l. and Euro 99 thousand for the purchase of office automation equipment that has been included in plant and machinery;
- Euro 30 thousand relating to the purchase of a motor car that has been included in other assets;
- Euro 5 thousand on leasehold improvements.

Movements in the gross carrying amount of property, plant and equipment and in accumulated depreciation in the current year and in the previous year, were as follows:

### *Current year*

#### *Gross carrying amount of property, plant and equipment*

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2016</b>
Industrial buildings	3,191	67	0	<b>3,258</b>
Land	600	0	0	<b>600</b>
Plant and machinery	1,987	147	0	<b>2,134</b>
Other assets	1,303	30	0	<b>1,333</b>
Leasehold improvements	312	5	0	<b>317</b>
<b>Total</b>	<b>7,393</b>	<b>249</b>	<b>0</b>	<b>7,642</b>

#### *Accumulated depreciation*

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2016</b>
Industrial buildings	(817)	(101)	0	<b>(918)</b>
Land	0	0	0	<b>0</b>
Plant and machinery	(1,881)	(45)	0	<b>(1,926)</b>
Other assets	(1,048)	(80)	0	<b>(1,128)</b>
Leasehold improvements	(312)	(1)	0	<b>(313)</b>
<b>Total</b>	<b>(4,058)</b>	<b>(227)</b>	<b>0</b>	<b>(4,285)</b>

### *Previous year*

#### *Gross carrying amount of property, plant and equipment*

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2015</b>
Industrial buildings	2,736	455	0	<b>3,191</b>
Land	600	0	0	<b>600</b>
Plant and machinery	1,895	92	0	<b>1,987</b>
Other assets	1,324	6	(27)	<b>1,303</b>
Leasehold improvements	312	0	0	<b>312</b>
<b>Total</b>	<b>6,867</b>	<b>553</b>	<b>(27)</b>	<b>7,393</b>

#### *Accumulated depreciation*

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2015</b>
Industrial buildings	(726)	(91)	0	<b>(817)</b>
Land	0	0	0	<b>0</b>
Plant and machinery	(1,799)	(82)	0	<b>(1,881)</b>
Other assets	(984)	(91)	27	<b>(1,048)</b>
Leasehold improvements	(312)	(0)	0	<b>(312)</b>
<b>Total</b>	<b>(3,821)</b>	<b>(264)</b>	<b>27</b>	<b>(4,058)</b>

The Group's property, plant and equipment are unencumbered by liens, mortgages or other collateral.

### 3. Intangible assets

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

Additions to intangible assets amounted to Euro 223 thousand, while accumulated amortisation amounted to Euro 146 thousand. The following table shows movements for the current year and the previous year by asset category:

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Amortisation</b>	<b>30 June 2016</b>
Concessions and licences	296	219	0	(135)	<b>380</b>
Trademarks and similar rights	4	4	0	(2)	<b>6</b>
Other assets	22	0	0	(9)	<b>13</b>
<b>Total</b>	<b>322</b>	<b>223</b>	<b>0</b>	<b>(146)</b>	<b>399</b>

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Amortisation</b>	<b>30 June 2015</b>
Concessions and licences	154	207	0	(65)	<b>296</b>
Trademarks and similar rights	4	2	0	(2)	<b>4</b>
Other assets	40	10	0	(28)	<b>22</b>
<b>Total</b>	<b>198</b>	<b>219</b>	<b>0</b>	<b>(95)</b>	<b>322</b>

Concessions and licences increased in the year by Euro 219 thousand due to expenditure on ERP systems. During the year the Company started using the 2015 version of Microsoft Dynamics Navision ERP software.

Movements in intangible assets and accumulated amortisation in the current year and in the previous year were as follows:

#### *Current year*

##### *Gross carrying amount of intangible assets*

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2016</b>
Concessions and licences	2,442	219	0	<b>2,661</b>
Trademarks and similar rights	1,508	4	0	<b>1,512</b>
Other assets	73	0	0	<b>73</b>
<b>Total</b>	<b>4,023</b>	<b>223</b>	<b>0</b>	<b>4,246</b>

##### *Accumulated amortisation*

<b>Euro thousand</b>	<b>1 July 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2016</b>
Concessions and licences	(2,146)	(135)	0	<b>(2,281)</b>
Trademarks and similar rights	(1,504)	(2)	0	<b>(1,506)</b>
Other assets	(51)	(9)	0	<b>(60)</b>
<b>Total</b>	<b>(3,701)</b>	<b>(146)</b>	<b>0</b>	<b>(3,847)</b>

### **Previous year**

#### *Gross carrying amount of intangible assets*

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2015</b>
Concessions and licences	2,235	207	0	<b>2,442</b>
Trademarks and similar rights	1,506	2	0	<b>1,508</b>
Other assets	63	10	0	<b>73</b>
<b>Total</b>	<b>3,804</b>	<b>219</b>	<b>0</b>	<b>4,023</b>

#### *Accumulated amortisation*

<b>Euro thousand</b>	<b>1 July 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2015</b>
Concessions and licences	(2,081)	(65)	0	<b>(2,146)</b>
Trademarks and similar rights	(1,502)	(2)	0	<b>(1,504)</b>
Other assets	(23)	(28)	0	<b>(51)</b>
<b>Total</b>	<b>(3,606)</b>	<b>(95)</b>	<b>0</b>	<b>(3,701)</b>

The Company did not capitalise any costs relating to start up and expansion costs, research and development and advertising.

All of the intangible assets recognised by the Company have indefinite useful lives.

## **4. Equity investments**

Equity investments increased by Euro 17 thousand in the year to Euro 13,948 thousand.

Equity investments at 30 June 2016 consist of the following:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
505 Games S.p.A.	10,100	10,100	0
Game Service S.r.l.	85	85	0
Pipeworks Inc.	2,412	2,412	0
Digital Bros Game Academy S.r.l.	300	50	250
Game Network S.r.l.	10	10	0
Digital Bros Game China	100	0	100
Digital Bros Holdings Ltd.	125	0	125
133 W. Broadway Inc.	91	0	91
<b>Total subsidiaries</b>	<b>13,223</b>	<b>12,657</b>	<b>566</b>
Games Analytics Ltd.	60	60	0
Ebooks S.r.l.	200	200	0
Cityglance S.r.l.	45	45	0
Ovosonico S.r.l.	420	0	420
<b>Total associates</b>	<b>725</b>	<b>305</b>	<b>420</b>
Starbreeze A shares	0	969	(969)
<b>Total other investments</b>	<b>0</b>	<b>969</b>	<b>(969)</b>
<b>Total equity investments</b>	<b>13,948</b>	<b>13,931</b>	<b>17</b>

The main changes in investments in subsidiaries were are follows:

- 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;
- on 8 January 2016 a company named 133 W. Broadway, Inc was set up., located in the United States and in February it purchased the property from which Pipeworks Inc. conducts its operations;
- on 13 January 2016 Digital Bros Holdings Ltd. was set up., located in the United Kingdom and which will act as a sub-holding company for the equity interests held by the Group in all the UK companies;
- on 18 January 2016 the company subscribed to the capital increase of Digital Bros Games Academy S.r.l. and the sum involved was Euro 250 thousand.

The only change in investments in associated companies relates to an agreement entered into on 11 September 2015 that envisages the subscription to a capital increase of the Italian video games developer, Ovosonico S.r.l., involving an amount of 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. The company is based in Varese and employs approximately 25 persons. 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.

The change in other investments relates to the reclassification of the Starbreeze AB A shares to net cash/debt given that they were disposed of on 1 July 2016.

At the close of the year, the carrying amount of equity investments in comparison to the Company'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	Difference d=c-a
505 Games S.p.A.	Milan	10,100	1,000	29,215	16,553	19,115
Game Service S.r.l.	Milan	85	50	242	13	157
Pipeworks Inc.	Milan	921	1,442	1,304	376	383
Digital Bros Game Academy S.r.l.	Milan	129	300	129	(226)	0
Game Network S.r.l.	Milan	(1,291)	10	(1,290)	(1,900)	1
Digital Bros Game China	Shenzhen	100	100	79	(17)	(21)
Digital Bros Holdings Ltd.	Milton Keynes	125	125	121	0	(4)
133 W. Broadway Inc.	Eugene	91	90	74	(17)	(17)
<b>Total subsidiaries</b>		<b>10,260</b>				
Games Analytics Ltd. <sup>(1)</sup>	Edinburgh	60	3	17	(1,222)	(43)
Ebooks S.r.l. <sup>(1)</sup>	Milan	200	26	65	(62)	(135)
Cityglance S.r.l. <sup>(2)</sup>	Milan	46	10	5	43	(41)
Ovosonico S.r.l. <sup>(1)</sup>	Varese	420	69	80	(52)	(340)
<b>Total associates</b>		<b>725</b>				

<sup>(1)</sup> Figures taken from financial statements for period ended 31 December 2015

<sup>(2)</sup> Figures taken from financial statements for year ended 30 June 2015

<sup>(3)</sup> Company set up in February 2016

The carrying amounts of Pipeworks Inc., Digital Bros Game Academy S.r.l. and Game Network S.r.l. are net of writedowns of the investments, which amount to Euro 1,491 thousand for Pipeworks Inc., Euro 1,301 thousand for Game Network S.r.l. and Euro 171 thousand for Digital Bros Game Academy S.r.l.

## 5. Non-current receivables and other assets

This line item, which has remained unchanged since 30 June 2015, amounts to Euro 644 thousand and consists exclusively of cautionary deposits pertaining to contractual obligations. The most significant component relates to an amount of Euro 635 thousand deposited with Matov Imm. S.r.l. as a cautionary deposit for the rental of premises at Via Tortona 37, Milan, where the Company's head office is located.

## 6. Deferred tax assets

Deferred tax assets at 30 June 2016 amounted to Euro 531 thousand, up Euro 517 thousand with respect to 30 June 2015.

Deferred tax assets are calculated on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis and 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 rates applied are 27.5% for IRES and 3.9% for IRAP. The following table provides details of temporary differences at 30 June 2016 and 30 June 2015:

<b>Euro thousand</b>	<b>Temporary differences at 30 June 2015</b>	<b>Changes in temporary differences in the year</b>	<b>Temporary differences at 30 June 2016</b>
Taxed provision for doubtful debts	1,483	(345)	1,138
Non-deductible interest expense	0	0	0
Provision for risks associated with derivatives	41	0	41
Provision for agents' indemnities	41	(41)	0
Directors' fees not attributable to period	307	(18)	289
Employee termination indemnities	21	46	67
Provision for inventory obsolescence	292	40	332
Security revaluation reserve	(330)	330	0
Other	15	46	61
<b>Total</b>	<b>1,870</b>	<b>58</b>	<b>1,928</b>

The table below shows the calculation of deferred tax assets relating to IRES at 30 June 2016:



<b>Euro thousand</b>	<b>Temporary differences at 30 June 2016</b>	<b>Deferred tax assets (IRES) at 30 June 2016</b>
Taxed provision for doubtful debts	1,138	314
Provision for risks associated with derivatives	41	11
Directors' fees not attributable to period	289	79
Employee termination indemnity	67	18
Inventory obsolescence provision	332	92
Other	61	17
<b>Total</b>	<b>1,928</b>	<b>531</b>

There are no deferred tax assets relating to IRAP as was also the case at the previous year end.

## **NON-CURRENT LIABILITIES**

### **7. Employee benefits**

This provision reflects the actuarial value of the Company's actual employee liability, calculated by an independent actuary in accordance with IAS 19. It increased in the year by Euro 53 thousand.

For the IAS 19 actuarial valuation at 30 June 2016 the Company used 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 61 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 table below shows movements in the provision for employee termination indemnities in the year just ended and in the previous year:

<b>Euro thousand</b>	<b>FY 2015/16</b>	<b>FY 2014/15</b>
<b>Provision for employee termination indemnities at 1 July 2015</b>	<b>442</b>	<b>501</b>
Benefits paid on termination of service	(1)	(51)
Allocations to provision in the year	175	208
Measurement of supplementary pension schemes	(166)	(186)
Actuarial measurement	45	(30)
<b>Provision for employee termination indemnities at 30 June 2016</b>	<b>495</b>	<b>442</b>

The Company 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 137 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.

### **NET WORKING CAPITAL**

At 30 June 2016, there were no receivables or payables with a residual duration of more than five years and no payables secured by collateral on the Company's assets. There has been no significant impact from fluctuations in foreign exchange rates occurring since the close of the year. In addition, there are no receivables or payables linked to repurchase agreements.

The following table presents the geographical breakdown of working capital components at 30 June 2016:

	<b>Euro thousand</b>	<b>Italy</b>	<b>REST OF EU</b>	<b>NON-EU</b>	<b>Total</b>
10	Inventories	7,013	0	0	7,013
11	Trade receivables	2,849	283	34	3,166
12	Receivables due from subsidiaries	30,995	220	1,940	33,155
13	Current tax assets	741	0	0	741
14	Other current assets	510	0	0	510
15	Trade payables	(1,198)	(668)	(73)	(1,939)
16	Payables due to subsidiaries	(55)	(3,875)	(1,477)	(5,407)
17	Current tax liabilities	(3,965)	0	0	(3,965)
18	Current provisions	(2,317)	0	(1,491)	(3,808)
19	Other current liabilities	(797)	0	0	(797)
	<b>Total net working capital</b>	<b>33,776</b>	<b>(4,040)</b>	<b>(1,068)</b>	<b>28,669</b>

## 10. Inventories

Inventories consist of finished products for resale. Inventories went from Euro 9,266 thousand at 30 June 2015 to Euro 7,013 thousand at 30 June 2016, a decrease of Euro 2,253 thousand. The decrease in inventories is due to the pursuit of the Company's strategy of selling off games for older generation consoles thus systematically reducing the finished product inventories. Inventories are stated net of a provision for obsolescence that amounts to Euro 332 thousand compared to Euro 292 thousand at 30 June 2015.

## 11. Trade receivables

Changes in trade receivables in the period are summarised as follows:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Trade receivables - Italy	3,987	7,202	(3,215)
Trade receivables - EU	283	269	14
Trade receivables - rest of the world	34	33	1
Provision for doubtful debts	(1,138)	(2,059)	921
<b>Total trade receivables</b>	<b>3,166</b>	<b>5,445</b>	<b>(2,279)</b>

Total trade receivables at 30 June 2016 amounted to Euro 3,166 thousand, compared to Euro 5,445 thousand at 30 June 2015, representing a decrease of Euro 2,279 thousand. The Company's trade receivables are primarily due from Italian customers. The balance is stated net of the provision for doubtful debts.

Trade receivables are stated net of the estimated credit notes the Company may have to issue for price repositioning or returns that amounted to Euro 139 thousand, which was in line with the amount estimated at 30 June 2015 of Euro 142 thousand.

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

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>% of total</b>	<b>30 June 2015</b>	<b>% of total</b>
Not past due	2,084	66%	3,885	71%
0 > 30 days	420	13%	92	2%
30 > 60 days	12	0%	114	2%
60 > 90 days	3	0%	13	0%
> 90 days	647	21%	1,341	25%
<b>Total trade receivables</b>	<b>3,166</b>	<b>100%</b>	<b>5,445</b>	<b>100%</b>

The provision for doubtful debts reflects potential losses on receivables due to customer default. The estimated losses are based on an analysis of each customer's degree of solvency.

## 12. Receivables due from subsidiaries

Receivables due from subsidiaries amount to Euro 33,155 thousand and have increased by Euro 19,024 thousand mainly due to an increase in the receivables due from 505 Games S.p.A. and 505 Mobile S.r.l.

For further details, reference should be made to the section on related party transactions, which specifies the nature and amount of receivables due to Digital Bros S.p.A. from its subsidiaries.

## 13. Current tax assets

Current tax assets at 30 June 2015 amounted to Euro 741 thousand, having increased by Euro 270 thousand compared to the balance at 30 June 2015 of Euro 471 thousand. The balance at 30 June 2016 consisted of an IRES tax refund receivable of Euro 120 thousand relating to the deductibility of IRAP from labour costs, a VAT receivable of Euro 271 thousand and receivables for other refunds of Euro 350 thousand.

## 14. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They went from Euro 499 thousand at 30 June 2015 to Euro 510 thousand at 30 June 2016. Details of the balance are provided below:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Insurance refunds receivable	1	1	0
Trade payables	334	356	(22)
Advances to suppliers	0	10	(10)
Advances to employees	94	101	(7)
Advances to agents	13	0	13
Other receivables	68	31	37
<b>Total other current assets</b>	<b>510</b>	<b>499</b>	<b>11</b>

## 15. Trade payables

Trade payables due within 1 year decreased by an amount of Euro 165 thousand and consist mainly of payables to publishers for the purchase of finished products. Details of the balance are provided below:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Trade payables - Italy	(1,198)	(1,259)	61
Trade payables - EU	(668)	(806)	138
Trade payables - rest of the world	(73)	(39)	(34)
<b>Total trade payables</b>	<b>(1,939)</b>	<b>(2,104)</b>	<b>165</b>

#### **16. Payables due to subsidiaries**

Payables due to subsidiaries amount to Euro 5,407 thousand and increased in the year by Euro 3,376 thousand mainly due to an increase in the payable to 505 Games Ltd. of Euro 2,008 thousand and to Pipeworks Inc. of Euro 1,098 thousand.

For further details, see the section on related party transactions, which specifies the nature and amount of payables due by Digital Bros S.p.A. to its subsidiaries.

#### **17. Current tax liabilities**

Current tax liabilities went from Euro 286 thousand to Euro 4,337 thousand, having increased by Euro 3,679 thousand. Details of the balance are provided below:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Amounts due to tax authorities	(3,812)	(113)	(3,699)
Other tax liabilities	(153)	(173)	20
<b>Total current tax liabilities</b>	<b>(3,965)</b>	<b>(286)</b>	<b>(3,679)</b>

Amounts due to tax authorities relate to IRES that was computed at 30 June 2016 subsequent to all of the Italian companies having joined the domestic tax group. The balance at 30 June 2015 consisted entirely of VAT payable. Other tax liabilities relate to withholding taxes on remuneration paid in June.

#### **18. Current provisions**

These consist of equity investment provisions of Euro 2,963 thousand and a deferred tax liability of Euro 845 thousand relating to the difference between the purchase price paid for the Starbreeze A shares and the year end market value. The provisions increased by Euro 2,317 thousand compared to the balance at 30 June 2015 of Euro 1,491 thousand.

Changes in the period are summarised as follows:

<b>Euro thousand</b>	<b>30 June 2015</b>	<b>Allocations to provisions</b>	<b>Uses</b>	<b>30 June 2016</b>
Pipeworks Inc.	1,491	0	0	1,491
Digital Bros Game Academy S.r.l.	0	372	(201)	171
Game Network S.r.l.	0	1,991	(690)	1,301
<b>Total equity investment provisions</b>	<b>1,491</b>	<b>2,363</b>	<b>(891)</b>	<b>2,963</b>
Deferred tax liabilities	0	845	0	845
<b>Total current provisions</b>	<b>1,491</b>	<b>3,208</b>	<b>(891)</b>	<b>3,808</b>

The Company used the equity investments provision to cover the losses reported by the subsidiaries Digital Bros Game Academy S.r.l. and Game Network S.r.l. for the year ended 30 June 2015 of Euro 201 thousand and 690 thousand, respectively. The allocation to provisions in the year amounted to Euro 2,363 thousand, in line with the losses incurred by the two subsidiaries for the year ended 30 June 2016 of Euro 171 thousand and Euro 1,301 thousand, respectively.

## 19. Other current liabilities

Other current liabilities went from Euro 907 thousand at 30 June 2015 to Euro 797 thousand at 30 June 2016, a decrease of Euro 110 thousand as detailed below:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Amounts due to social security institutions	(229)	(262)	33
Amounts due to employees	(522)	(544)	22
Amounts due to contract staff	(37)	(40)	3
Commission due to agents	0	(35)	35
Other payables	(9)	(26)	18
<b>Total other current liabilities</b>	<b>(797)</b>	<b>(907)</b>	<b>110</b>

Amounts due to employees include accrued holiday pay and personal leave not taken by the end of the period, as well as the 13th monthly salary.

The decrease in amounts due to social security institutions and employees is due to a lower amount accrued for the variable component of remuneration compared to 30 June 2015.

## EQUITY

Details of changes in equity are reported in the statement of changes in equity, a summary of which is provided below:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Share capital	5,644	5,644	0
Treasury shares	(390)	(1,199)	809
Legal reserve	1,129	1,129	0
Share premium	16,954	16,954	0
IFRS adoption reserve	(142)	(142)	0
Reserve for actuarial gains and losses	(98)	(64)	(34)
Fair value reserve	2,231	240	1,991
Other reserves	55	55	0
Retained earnings	7,018	268	6,750
Result for the year	(3,695)	6,946	(10,641)
<b>Total equity</b>	<b>28,706</b>	<b>29,831</b>	<b>(1,125)</b>

Details of changes in equity are reported in the statement of changes in equity, a summary of which is provided below:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>
<b>Equity at beginning of year</b>	<b>29,831</b>	<b>23,174</b>	<b>6,657</b>
Payment of dividends	(1,818)	(960)	(858)
Change in treasury shares	809	375	434
Actuarial gains/(losses)	(34)	22	(56)
Change in fair value reserve	1,991	240	1,751
Other changes	1,622	34	1,588
Result for the period	(3,695)	6,946	(10,641)
<b>Equity at end of year</b>	<b>28,706</b>	<b>29,831</b>	<b>(1,125)</b>

Share capital, which has not changed in the year, consists of 14,110,837 issued and fully paid ordinary shares with a par value of Euro 0.40 each. There are no rights, liens or restrictions associated with the ordinary shares.

Treasury shares held at the year end consisted of 130,247 Digital Bros S.p.A. ordinary shares and amounted to Euro 390 thousand, equating to 0.92% of the share capital, as 270,000 shares were sold during the year for an amount of Euro 3,046 thousand.

The fair value reserve relates to the fair value measurement through equity of the difference between the carrying amount of Starbreeze A shares and the market value thereof at 30 June 2016, given that they were originally classified as available for sale.

Other changes relate to the difference, net of the related tax effect, between the market value of treasury shares and their carrying amount.

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

As of the approval date of this annual report, no dividends had been approved but not yet paid.

The Company has not issued any shares with dividend rights, convertible bonds, or securities of a similar nature.



## NET DEBT

Details are provided below of the components of net debt at 30 June 2016 with comparative figures at 30 June 2015:

	<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>	
24	Cash and cash equivalents	577	1,780	(1,203)	n.m.
25	Current bank debt	(22,900)	(12,727)	(10,173)	79.9%
26	Other current financial assets and liabilities	5,877	1,401	4,476	n.m.
	<b>Current net debt</b>	<b>(16,446)</b>	<b>(9,546)</b>	<b>(6,900)</b>	<b>72.3%</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current bank debt	(1,558)	(1,619)	61	n.m.
29	Other non-current financial liabilities	(55)	0	(55)	n.m.
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>(1,619)</b>	<b>6</b>	<b>n.m.</b>
	<b>Total net debt</b>	<b>(18,059)</b>	<b>(11,165)</b>	<b>(6,894)</b>	<b>61.8%</b>

At the year end, the carrying amounts of financial instruments held by the Company equated to their fair values.

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

<b>Euro thousand</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Bank overdrafts	(59)	0	0	(59)
Import and export financing	(18,131)	0	0	(18,131)
Advances on invoices subject to collection	(1,399)	0	0	(1,399)
Unsecured bank loans	(3,311)	(1,558)	0	(4,869)
<b>Total bank debt (A)</b>	<b>(22,900)</b>	<b>(1,558)</b>	<b>0</b>	<b>(24,458)</b>
<b>Other financial liabilities (B)</b>	<b>(123)</b>	<b>(55)</b>	<b>0</b>	<b>(178)</b>
<b>Total (A+B)</b>	<b>(23,023)</b>	<b>(1,613)</b>	<b>0</b>	<b>(24,636)</b>

### Current net debt

Current net debt consists of the following:

	<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>	
24	Cash and cash equivalents	577	1,780	(1,203)	n.m.
25	Current bank debt	(22,900)	(12,727)	(10,173)	79.9%
26	Other current financial assets and liabilities	5,877	1,401	4,476	n.m.
	<b>Current net debt</b>	<b>(16,446)</b>	<b>(9,546)</b>	<b>(6,900)</b>	<b>72.3%</b>

### 24. 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:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Cash on hand and current account deposits	577	1,459	(882)
Banca Toscana quadrant policy	0	321	(321)
<b>Total cash and cash equivalents</b>	<b>577</b>	<b>1,780</b>	<b>(1,203)</b>

The Company's cash and cash equivalents at 30 June 2016 amounted to Euro 577 thousand, having decreased in the year by Euro 1,203 thousand, of which Euro 882 thousand was due to a decrease in cash on hand and current account deposits. The balance at 30 June 2015 included a quadrant insurance policy issued by AXA MPS that had been taken out by Digital Bros S.p.A. on 21 October 2002 and which was paid in the period.

## 25. Current bank debt

Current bank debt consists of bank overdrafts, import and export financing, advances on invoices, advances subject to collection and the current portion of three loans. The increase in the year of current bank debt of Euro 10,173 thousand is mainly attributable to an increase in import and export financing, an increase in advances on invoices and subject to collection and an increase in loans payable within 12 months:

<b>Euro thousand</b>	<b>30 June 2015</b>	<b>30 June 2015</b>	<b>Change</b>
Bank overdrafts	(59)	(2)	(57)
Import and export financing	(18,131)	(10,529)	(7,602)
Advances on invoices and subject to collection	(1,399)	(859)	(540)
Loan instalments due within 12 months	(3,311)	(1,337)	(1,974)
<b>Total current bank debt</b>	<b>(22,900)</b>	<b>(12,727)</b>	<b>(10,173)</b>

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.

## 26. Other current financial assets and liabilities

Current financial assets and liabilities consist of the following:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Starbreeze AB A Shares	6,000	1,553	4,447
Advances against trade receivables under non-recourse factoring arrangements	(108)	(133)	25
Current lease obligations	(15)	(19)	4
<b>Total other current financial assets and liabilities</b>	<b>5,877</b>	<b>1,401</b>	<b>4,476</b>

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 classified as available for sale.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 108 thousand and have decreased in the year by Euro 25 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.

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

Non-current net debt consists of the following:

	<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
27	Non-current financial assets	0	0	0
28	Non-current bank debt	(1,558)	(1,619)	61
29	Other non-current financial liabilities	(55)	0	(55)
	<b>Non-current net debt</b>	<b>(1,613)</b>	<b>(1,619)</b>	<b>6</b>

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

There were no non-current financial assets at 30 June 2016, as was also the case at 30 June 2015.

### **28. 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 policies 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.

## **29. Other non-current financial liabilities**

The balance 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:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Due within 12 months	15	19	(4)
1-5 years	55	0	55
Beyond 5 years	0	0	0
<b>Total</b>	<b>70</b>	<b>19</b>	<b>(32)</b>

## COMMITMENTS AND RISKS

The Company's commitments are as follows:

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>Change</b>
Commitments for purchase of Starbreeze shares	0	(5,534)	5,534
Financial commitments	(5,450)	(5,450)	0
Commitment to subscribe to Ovosonico S.r.l.'s capital	(300)	0	(300)
<b>Total commitments</b>	<b>(5,750)</b>	<b>(10,984)</b>	<b>5,234</b>

The financial commitments relate to credit mandates on behalf of subsidiaries of Euro 5,450 thousand.

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.

## 5. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

### 3. Net revenue

Total net revenue went from Euro 23,053 thousand to Euro 19,869 thousand, a decrease of 13.8%.

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	
Gross sales - Italy	20,294	24,225	(3,931)	-16.2%
Gross sales - Abroad	731	313	418	n.m.
<b>Total gross revenue</b>	<b>21,025</b>	<b>24,538</b>	<b>(3,513)</b>	<b>-14.3%</b>
<b>Total revenue adjustments</b>	<b>(1,156)</b>	<b>(1,485)</b>	<b>329</b>	<b>-22.2%</b>
<b>Net revenue</b>	<b>19,869</b>	<b>23,053</b>	<b>(3,184)</b>	<b>-13.8%</b>

The geographical breakdown of gross revenue for the year ended 30 June 2016 is as follows:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	
Gross revenue - Italy	20,294	24,225	(3,931)	-16.2%
Gross revenue - EU	731	313	418	n.m.
Gross revenue - Non-EU	0	0	0	n.m.
<b>Total gross revenue</b>	<b>21,025</b>	<b>24,538</b>	<b>(3,513)</b>	<b>-14.3%</b>

### 8. Cost of sales

Cost of sales is detailed below:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Purchase of products for resale	(13,227)	(17,731)	4,504	-25.4%
Changes in inventories of finished products	(2,253)	(541)	(1,712)	n.m.
<b>Total cost of sales</b>	<b>(15,480)</b>	<b>(18,272)</b>	<b>2,792</b>	<b>-15.3%</b>

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

### 10. Other income

Other income mainly consists of income from activities performed on behalf of subsidiaries.

## 11. Cost of services

The following table provides details of the cost of services:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Advertising, marketing, trade fairs and exhibitions	(1,336)	(1,148)	(188)	16.4%
Transport and freight	(204)	(290)	86	-29.6%
Other sales related costs	0	0	0	0.0%
<b>Subtotal: sales related services</b>	<b>(1,540)</b>	<b>(1,438)</b>	<b>(102)</b>	<b>7.1%</b>
Miscellaneous insurance	(182)	(114)	(68)	59.7%
Legal and notary fees	(1,095)	(1,295)	199	-15.3%
Postal and telegraph	(106)	(55)	(50)	90.3%
Travel and subsistence allowances	(239)	(218)	(21)	9.8%
Utilities	(106)	(129)	23	-17.8%
Maintenance	(67)	(89)	23	-25.9%
Remuneration of corporate bodies	(74)	(74)	0	-0.2%
<b>Subtotal: general services</b>	<b>(1,869)</b>	<b>(1,974)</b>	<b>105</b>	<b>-5.3%</b>
Intercompany services	(342)	(72)	(270)	375.6%
<b>Subtotal</b>	<b>(2,212)</b>	<b>(2,046)</b>	<b>(166)</b>	<b>8.1%</b>
<b>Total cost of services</b>	<b>(3,752)</b>	<b>(3,484)</b>	<b>(268)</b>	<b>7.7%</b>

This line item, which amounts to Euro 3,752 thousand, has increased in the year by Euro 268 thousand compared to the figure for the year ended 30 June 2015 of Euro 3,484 thousand, mainly due to higher advertising expenses and intercompany services. Legal and notary fees, which decreased in the year, had risen in the prior year due to acquisition costs incurred.

## 12. Lease and rental charges

Lease and rental charges, which amounted to Euro 779 thousand, decreased in the year in line with a reduction in the rent payable for the property located at Via Tortona 37, Milan that took place on the renewal of the agreement for a further six years. The amount includes Euro 720 thousand related to the rental of the Company's offices at Via Tortona 37, Milan and Euro 59 thousand related to operating leases in connection with cars assigned to employees and with the lease of warehouse equipment.

## 13. Labour costs

Labour costs, including commissions paid to sales agents, 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 4,884 thousand and decreased by Euro 590 thousand in the year:



<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Wages and salaries	(2,624)	(2,975)	351	-11.8%
Social contributions	(955)	(1,004)	49	-4.8%
Employee termination indemnity	(186)	(208)	22	-10.5%
Directors' remuneration	(1,013)	(1,094)	81	-7.4%
Temporary workers and contract staff	(17)	(80)	63	-78.1%
Agents' commission	(60)	(99)	39	-39.5%
Other labour costs	(30)	(14)	(16)	n.m.
<b>Total labour costs</b>	<b>(4,884)</b>	<b>(5,474)</b>	<b>590</b>	<b>-10.8%</b>

The decrease in directors's remuneration of Euro 81 thousand takes account of the fact that, in the year just ended, unlike the previous year, the variable component of the managing directors's remuneration that is linked to the results achieved by the Group had not been completely vested.

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 fell in the year by Euro 422 thousand:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Wages and salaries	(2,624)	(2,975)	352	-11.8%
Social contributions	(955)	(1,004)	49	-4.8%
Employee termination indemnity	(186)	(208)	22	-10.5%
<b>Total labour costs</b>	<b>(3,765)</b>	<b>(4,188)</b>	<b>422</b>	<b>-10.1%</b>
Average number of employees	61	65	(4)	-6.2%
<b>Average cost per employee</b>	<b>(62)</b>	<b>(64)</b>	<b>3</b>	<b>-4.2%</b>

The average cost per employee decreased by 4.2%.

The breakdown of the Company'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:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Purchase of miscellaneous materials	(40)	(33)	(7)	19.9%
General and administrative costs	(446)	(483)	37	-7.6%
Entertainment costs	(25)	(56)	33	-58.3%
Miscellaneous bank charges	(172)	(95)	(77)	80.5%
<b>Total other operating costs</b>	<b>(683)</b>	<b>(667)</b>	<b>(14)</b>	<b>2.1%</b>

Operating costs increased in the year by 2.1% from Euro 667 thousand to Euro 683 thousand mainly due to a decrease in general and administrative costs and entertainment costs more than offset by an increase in bank charges.

## 21. Depreciation and amortisation, provisions and impairment

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
Depreciation and amortisation	(373)	(359)	(14)	3.8%
Allocations to provisions	0	0	0	0.0%
Impairment losses recognised on assets	(3,001)	(3,825)	824	-21.6%
Reversal of impairment losses	0	12,920	(12,920)	n.m.
<b>Total non-monetary income and operating costs</b>	<b>(3,374)</b>	<b>8,736</b>	<b>(12,110)</b>	<b>n.m.</b>

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

Net operating (costs) income have gone from net income recognised last year of Euro 8,736 thousand to net costs of Euro 3,374 thousand for the year just ended with a change that adversely affected profit or loss by Euro 12,110 thousand.

Impairment losses recognised on assets of Euro 3,001 thousand consist of the following:

- the impairment of the investment in Game Network S.r.l. of Euro 1,991 thousand;
- the impairment of the investment in Digital Bros Game Academy S.r.l. of Euro 372 thousand;
- the impairment of specific receivable balances of Euro 638 thousand that may not be possible to collect.

Last year's figure for reversal of impairment losses had benefited from the payment of dividends by subsidiaries of an amount of Euro 7,460 thousand that was not repeated during the course of the year just ended and from a revaluation of the investment in 505 Games S.p.A. of Euro 5,460 thousand.

## 25. Net finance income (costs)

Net finance income amounted to Euro 1,216 thousand compared to the prior year figure of Euro 1,318 thousand.

This consists of:

	Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
23	Interest and finance income	2,132	2,353	(221)	-9.4%
24	Interest expense and finance costs	(916)	(1,035)	119	-11.5%
<b>25</b>	<b>Net finance income (costs)</b>	<b>1,216</b>	<b>1,318</b>	<b>(102)</b>	<b>n.m.</b>

Details of interest and finance income are provided below:

Euro thousand	Year ended 30 June 2016	Year ended 30 June 2015	Change	%
Finance income	1,496	744	752	n.m.
Exchange gains	636	1,609	(973)	-60.4%
<b>Total interest and financial income</b>	<b>2,132</b>	<b>2,353</b>	<b>(221)</b>	<b>-9.4%</b>

Interest and finance income decreased by Euro 221 thousand. It consists mainly of finance income of Euro 1,496 thousand relating to gains arising from the sale of Starbreeze B shares in comparison to the prior year

figure of 744 thousand and a foreign exchange gain of Euro 636 thousand that compares to the gain reported for the year ended 30 June 2015 of Euro 1,609 thousand.

Details of interest expense and finance costs are provided below:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Interest charged by banks on current accounts trade finance	(467)	(830)	362	-43.7%
Other interest expense	0	0	0	n.m.
Interest on loans and leases	(104)	(13)	(91)	n.m.
Factoring interest	(11)	(10)	(1)	7.1%
<b>Total interest expense payable to lenders</b>	<b>(582)</b>	<b>(853)</b>	<b>271</b>	<b>-31.7%</b>
Exchange losses	(334)	(182)	(152)	83.4%
<b>Total interest expense and finance costs</b>	<b>(916)</b>	<b>(1,035)</b>	<b>119</b>	<b>-11.5%</b>

Interest expense and finance costs have improved by an amount of Euro 119 thousand, having decreased to Euro 916 thousand. Interest expense payable to lenders decreased by Euro 271 thousand in line with improved conditions agreed with the lenders, whereas in the year ended 30 June 2016 exchange losses rose by Euro 152 thousand to Euro 334 thousand.

The implied cost of debt, computed based on the average net debt at each quarter end has gone from 5.9% in the year ended 30 June 2015 to 3.4% in the year ended 30 June 2016:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Average debt	17,328	14,524
Net interest expense	(582)	(853)
<b>Cost of debt</b>	<b>3.4%</b>	<b>5.9%</b>

## 29. Taxation

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

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
Current tax	820	1,144	(324)	-28.3%
Deferred tax	(87)	(407)	320	n.m.
<b>Total income tax income (expense)</b>	<b>733</b>	<b>737</b>	<b>(4)</b>	<b>-0.5%</b>

Below is the breakdown of current taxes between IRES and IRAP:

<b>Euro thousand</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>	<b>%</b>
IRES	820	1,144	(324)	-28.3%
IRAP	0	0	0	n.m.
<b>Total current taxes</b>	<b>820</b>	<b>1,144</b>	<b>(324)</b>	<b>-28.3%</b>

IRES for the period was determined as follows:

<i>Euro thousand</i>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>	<b>Change</b>
IRES taxable income	(1,935)	(1,320)	(615)
IRES tax rate	27.5%	27.5%	0
IRES for the period	532	363	169
Effect of tax consolidation	144	763	(619)
Taxes on prior year income	144	18	126
<b>IRES for the period</b>	<b>820</b>	<b>1,144</b>	<b>(324)</b>

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

<i>Euro thousand</i>	<b>Year ended 30 June 2016</b>		<b>Year ended 30 June 2015</b>	
<b>Pre-tax result of the Company</b>	<b>(4,428)</b>		<b>6,209</b>	
<b>IRES tax rate</b>	<b>27.5%</b>		<b>27.5%</b>	
<b>Theoretical tax charge</b>	1,218	-27.5%	(1,707)	-27.5%
Tax effect of non-deductible costs	(873)	20%	2,066	33%
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		5	
Effect of tax consolidation	144		763	
Taxes on prior year income	144		18	
<b>Tax charge for the year and effective tax rate</b>	<b>820</b>	<b>-18.5%</b>	<b>1,144</b>	<b>18.4%</b>

No IRAP tax charge was recognised in the year just ended nor in the previous year.

## **6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (IFRS 7)**

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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 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.

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.

In the following tables, the disclosures required by IFRS 7 regarding the significance of financial instruments for the Company'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

<b>Financial instruments – Assets at 30 June 2016 (in Euro thousand)</b>	Fair value assets held for trading	Investments held to maturity	Receivables and loans	Assets held for sale	Carrying amount at 30 June 2016	Notes
Equity investments			-	13,948	13,948	4
Non-current receivables and other assets			644	-	644	5
Trade receivables	-	-	3,166	-	3,166	11
Receivables due from subsidiaries	-	-	33,155	-	33,155	12
Other current assets	-	-	510	-	510	22
Cash and cash equivalents	-	-	577	-	577	24
Other current financial assets	6,000	-	-	-	6,000	26
<b>Total</b>	<b>6,000</b>	<b>-</b>	<b>38,052</b>	<b>13,948</b>	<b>58,000</b>	

### Category of financial liabilities pursuant to IAS 39

<b>Financial instruments – Liabilities at 30 June 2016 (in Euro thousand)</b>	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2016	Notes
Trade payables	-	1,939	1,939	15
Payables due to subsidiaries	-	5,407	5,407	16
Other current liabilities	-	797	797	19
Current bank debt	-	22,900	22,900	25
Other current financial liabilities	-	123	123	26
Non-current bank debt	-	1,558	1,558	28
Other non-current financial liabilities	-	55	55	29
<b>Total</b>	<b>-</b>	<b>32,779</b>	<b>32,779</b>	

## Financial instruments: statement of financial position at 30 June 2015

### Category of financial assets pursuant to IAS 39

<b>Financial instruments – Assets at 30 June 2015 (in Euro thousand)</b>	Fair value assets held for trading	Investments held to maturity	Receivables and loans	Assets held for sale	Carrying amount at 30 June 2015	Notes
Equity investments			-	13,931	13,931	4
Non-current receivables and other assets			644	-	644	5
Trade receivables	-	-	5,445	-	5,445	11
Receivables due from subsidiaries	-	-	14,131	-	14,131	12
Other current assets	-	-	499	-	499	22
Cash and cash equivalents	-	-	1,780	-	1,780	24
Other current financial assets	1,553	-	-	-	1,553	26
<b>Total</b>	<b>1,553</b>	<b>-</b>	<b>22,499</b>	<b>13,931</b>	<b>37,983</b>	

### Category of financial liabilities pursuant to IAS 39

<b>Financial instruments – Liabilities at 30 June 2015 (in Euro thousand)</b>	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2015	Notes
Trade payables	-	2,204	2,204	15
Payables due to subsidiaries	-	2,031	2,031	16
Other current liabilities	-	940	940	19
Current payables to banks	-	19,528	19,528	25
Other current financial liabilities	-	152	152	26
Non-current bank debt	-	-	-	28
Other non-current financial liabilities	-	1,619	1,619	29
<b>Total</b>	<b>-</b>	<b>26,474</b>	<b>26,474</b>	

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 Company 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.

Given the results of short- and medium/long-term planning, 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 financial requirements sufficiently ahead of time.



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

<b>Financial liabilities at 30 June 2016 (Euro thousand)</b>	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	22,900	22,900						12,727	23
Other current financial liabilities	123	123						152	24
Non-current bank debt	1,558		1,558					1,619	26
Other non-current financial liabilities	55		15	15	16	9		55	27
<b>Total</b>	<b>24,636</b>	<b>23,023</b>	<b>1,573</b>	<b>15</b>	<b>16</b>	<b>9</b>	<b>-</b>	<b>24,636</b>	

  

<b>Financial liabilities at 30 June 2015 (Euro thousand)</b>	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	12,727	12,727						12,727	23
Other current financial liabilities	152	152						152	24
Non-current bank debt	1,619		913	706				1,619	26
Other non-current financial liabilities									27
<b>Total</b>	<b>14,498</b>	<b>12,879</b>	<b>913</b>	<b>706</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,498</b>	

The Company 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 19 million and cash flows from core operations.

### *Exchange rate risk*

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

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 by the parent company).

### *Credit risk*

The Company 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.

Receivables are stated in the financial statements net of the provision for doubtful debts; it is believed this amount represents the fair value of trade receivables.

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

<b>Euro thousand</b>	<b>30 June 2016</b>	<b>% of total</b>	<b>30 June 2015</b>	<b>% of total</b>
Not past due	2,084	66%	3,885	71%
0 > 30 days	420	13%	92	2%
30 > 60 days	12	0%	114	2%
60 > 90 days	3	0%	13	0%
> 90 days	647	21%	1,341	25%
<b>Total trade receivables</b>	<b>3,166</b>	<b>100%</b>	<b>5,445</b>	<b>100%</b>

**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 their carrying amount.

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.

<b>Euro thousand</b>	<b>Carrying amount at 30 June 2016</b>	<b>Mark to market Fair value</b>	<b>Mark to model Fair value</b>	<b>Total fair value</b>	<b>Note</b>
Cash and cash equivalents	577	577		577	24
Current bank debt	22,900	22,900		22,900	25
Other current financial assets and liabilities	5,877	5,877		5,877	26
Non-current bank debt	1,558	1,558		1,558	28
Other non-current financial liabilities	55	55		55	29

<b>Euro thousand</b>	<b>Carrying amount at 30 June 2015</b>	<b>Mark to market Fair value</b>	<b>Mark to model Fair value</b>	<b>Total fair value</b>	<b>Note</b>
Cash and cash equivalents	1,780	1,780		1,780	24
Current bank debt	12,727	12,727		12,727	25
Other current financial assets and liabilities	1,401	1,401		1,401	26
Non-current bank debt	1,619	1,619		1,619	28

### 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 Company was not exposed to additional risks, such as equity or commodity risk.

For the sensitivity analysis on 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.

These financial instruments are subject to gains or losses in value as a result of movements in interest rates:

- instruments with floating interest rates
- instruments with fixed interest rates but measured at fair value.

The table below shows the impact on net 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 debt	Impact on pre-tax profit
+10% Dollar	768	(645)
-10% Dollar	(938)	789

Also, given the absolute value of the Company's unhedged, variable-rate borrowings, it is estimated that a 1-point change in annual interest rates would affect net debt and the pre-tax profit by around Euro 150 thousand.

### 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 Company uses various measurement and valuation models, as summarised below for 2015 and 2014:

<b>Balances at 30 June 2016</b>	<b>Instrument</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Note</b>
Other current financial assets	Listed shares	6,000			6,000	24

  

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

## 7. NON-RECURRING INCOME AND EXPENSES

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

## 8. CONTINGENT ASSETS AND LIABILITIES

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At 30 June 2016, there were no contingent assets and liabilities.

## 9. RELATED PARTY TRANSACTIONS

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In accordance with Consob Resolution 17221 of 12 March 2010, it is hereby disclosed that all commercial and financial transactions between Digital Bros S.p.A. and its direct subsidiaries and associates have been conducted at arm's length and do not qualify as atypical or unusual transactions.

### Subsidiaries

Commercial and financial transactions between Digital Bros S.p.A. and other Group companies in the year ended 30 June 2016 were settled at arm's length. Such transactions are summarised below:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
505 Games S.p.A.	1,850	16,313	0	0	2,936	(342)
505 Mobile S.r.l.	0	8,610	0	0	5	0
Digital Bros Game Academy S.r.l.	0	0	0	55	124	0
Game Entertainment S.r.l.	0	2,073	0	0	2,598	(168)
Game Network S.r.l.	0	1,741	0	0	274	0
Game Service S.r.l.	0	407	0	0	0	0
505 Games France S.a.s.	0	0	0	75	1	0
505 Games Ltd.	0	0	0	2,778	7	0
505 Games Iberia Slu	0	172	0	0	0	0
505 Games (US) Inc.	0	1,614	0	0	31	0
505 Games GmbH	0	0	0	136	0	0
505 Games Interactive	0	0	0	184	0	0
505 Games Mobile (US)	0	0	0	152	0	0
DR Studios Ltd.	0	0	0	886	7	0
Pipeworks Inc.	0	0	0	1,141	0	0
Digital Bros China (Shenzen Ltd.)	0	10	0	0	0	0
Digital Bros Holdings Ltd.	0	48	0	0	0	0
133 W. Broadway Inc.	0	317	0	0	0	0
<b>Total</b>	<b>1,850</b>	<b>31,305</b>	<b>0</b>	<b>5,407</b>	<b>5,983</b>	<b>(510)</b>

Transactions in the year ended 30 June 2015 are summarised below:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
505 Games S.r.l.	600	4,108	0	0	1,671	(549)
505 Mobile S.r.l.	0	5,582	0	0	11	0
Digital Bros Game Academy S.r.l.	0	124	0	0	84	0
Game Entertainment S.r.l.	0	0	0	(100)	0	0
Game Network S.r.l.	0	598	0	0	11	0
Game Service S.r.l.	0	428	0	0	0	0
505 Games France S.a.s.	0	120	0	0	0	0
505 Games Ltd.	0	0	0	(771)	0	0
505 Games Iberia Slu	0	516	0	0	0	0
505 Games (US) Inc.	0	1,518	0	0	13	0
505 Games GmbH	0	537	0	0	0	0
505 Games Interactive	0	0	0	(180)	0	0
505 Games Mobile (US)	0	0	0	(170)	0	0
DR Studios Ltd.	0	0	0	(767)	0	0
Pipeworks Inc.	0	0	0	(43)	0	0
<b>Total</b>	<b>600</b>	<b>13,531</b>	<b>0</b>	<b>(2,031)</b>	<b>1,790</b>	<b>(549)</b>

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. The accounts do not bear interest.

#### *Other related parties*

Transactions with related parties consist of legal counsel provided by the director Dario Treves and the lease of property by Matov Imm. S.r.l., which is owned by the Galante family.

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	(22)	0	0	(254)
Matov Imm. S.r.l.	0	635	(3)	0	0	(717)
<b>Total</b>	<b>0</b>	<b>635</b>	<b>(25)</b>	<b>0</b>	<b>0</b>	<b>(971)</b>

Transactions in the year ended 30 June 2015 are summarised below:

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	(754)
<b>Total</b>	<b>0</b>	<b>635</b>	<b>(18)</b>	<b>0</b>	<b>0</b>	<b>(954)</b>

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.



### *Tax consolidation*

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for tax consolidation allowed by Italian law with the companies 505 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.

## **10. ATYPICAL OR UNUSUAL TRANSACTIONS**

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There were no atypical or unusual transactions in this or the previous year, as defined by Consob Communication DEM 6064293 of 28 July 2006.

## **11. OTHER INFORMATION**

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### **INCOME FROM EQUITY INVESTMENTS OTHER THAN DIVIDENDS**

Pursuant to Art. 2425 (15) of the Italian Civil Code, the Company did not receive any income from equity investments other than dividends.

### **DIRECTORS' FEES**

Remuneration paid to members of the Board of Directors amounted to Euro 963 thousand.

### **STATUTORY AUDITORS' FEES**

During the year ended 30 June 2016, a total of Euro 74 thousand was paid to the members of the Board of Statutory Auditors.

### **FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY**

The Company has not issued any financial instruments.

### **LOANS FROM SHAREHOLDERS WITH SUBORDINATION CLAUSES**

The Company has not taken out loans with subordination clauses from its shareholders.

### **CAPITAL EARMARKED FOR A SPECIFIC USE**

The Company has not earmarked any capital for a specific use.

### **LOANS EARMARKED FOR A SPECIFIC USE**

The Company has not taken out any loans earmarked for a specific use.

### **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

## **12. Information on ownership structure (pursuant to Art. 123-bis of the Consolidated Finance Act)**

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### **STRUCTURE OF SHARE CAPITAL**

Share capital at 30 June 2016 consists of 14,110,83 issued and fully paid ordinary shares with a par value of Euro 0.4 each. The Company has not issued different classes of shares or other financial instruments entitling the holder to subscribe to newly issued shares. There are no share-based incentive plans in course that entail increasing the share capital against payment or free of charge.

### **RESTRICTIONS ON THE TRANSFER OF SECURITIES**

There are no statutory restrictions on the transfer of securities, such as limits on the possession of shares or the need to obtain permission from the issuer or from other shareholders.

### **SHARES CARRYING SPECIAL RIGHTS**

No shares have been issued that grant special rights of control.

### **EMPLOYEE SHARE OWNERSHIP: MEANS OF EXERCISE OF VOTING RIGHTS**

The Company is not party to any employee share ownership schemes.

### **VOTING RESTRICTIONS**

There are no restrictions on the right to vote.

### **SHAREHOLDER AGREEMENTS**

There are no shareholder agreements in place.

### **ELECTION AND REPLACEMENT OF DIRECTORS AND BY-LAW AMENDMENTS**

Please see the Corporate Governance section of the consolidated annual report, available in the investors section at [www.digitalbros.com](http://www.digitalbros.com).

### **AUTHORISATION TO INCREASE THE SHARE CAPITAL AND/OR PURCHASE TREASURY SHARES**

The Board of Directors has not been authorised to increase the share capital pursuant to Art. 2443 of the Italian Civil Code or to issue equity based financial instruments.

The board has been authorized to purchase treasury shares as described in the Corporate Governance and Ownership Structure section of the consolidated annual report, available in the investors section at [www.digitalbros.com](http://www.digitalbros.com).

### **CHANGE OF CONTROL PROVISIONS**

There are no change of control provisions.

### **DIRECTORS' INDEMNITIES IN CASE OF RESIGNATION, DISMISSAL OR DEPARTURE AS A RESULT OF A TAKEOVER BID**

No agreements are in place that provide for indemnities in the event of dismissal, resignation and/or departure from office, even if a takeover bid is the cause of termination.

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

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

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

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

### **15. EXTERNAL AUDIT FEES**

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Pursuant to Art. 149- duodecies of the Listing Rules, the external auditors, Deloitte & Touche, were paid fees of Euro 175 thousand.

## **Statement pursuant to Art. 154- BIS 5) OF THE CONSOLIDATED FINANCE ACT**

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We, the undersigned, Abramo Galante as chairman of the Board of Directors and Stefano Salbe as financial reporting manager of Digital Bros S.p.A., 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 financial statements of Digital Bros S.p.A. 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 issuer's results and financial position;
2. the directors' report includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which the Company is exposed.

Milan, 13 September 2016

Signed

Chairman of the Board of Directors

Financial Reporting Manager

Abramo Galante

Stefano Salbe