Interim Management Report
for the period ended 30 September 2016

(1st quarter of financial year 2016/2017)

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

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

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BOARD OF DIRECTORS AND SUPERVISORY BODIES

Board of Directors

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

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

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

Board of statutory auditors

Emanuela Maria Conti	Acting auditor
Simone Luigi Dalledonne	Acting auditor
Paolo Villa	Chairman
Vincenzo Miceli	Alternate auditor
Patrizia Riva	Alternate auditor

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

On 28 October 2016 the shareholders in general meeting approved the appointment of Paolo Villa as Chairman of the Board of Statutory Auditors and the appointment of Emanuela Maria Conti and Simone Luigi Dalledonne as acting auditors up to the end of the Board of Statutory Auditors' mandate. At the same time, the shareholders appointed Vincenzo Miceli and Patrizia Riva as alternate auditors and they shall remain in office up to the end of the Board of Statutory Auditors' mandate.

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

External auditors

Deloitte & Touche S.p.A.

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

Other information

Publication of the interim management report of Digital Bros Group for the period ended 30 September 2016 was authorised by resolution of the Board of Directors on 10 November 2016. Digital Bros S.p.A. is a company limited by shares incorporated and domiciled in Italy. It is listed on the STAR segment of the MTA market managed by Borsa Italiana S.p.A.

DIRECTORS' REPORT

1. GROUP STRUCTURE

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

During the course of the previous financial year, the Group's organisational structure and operating segments were revised. The previous organisation was structured based on its distribution channels, International Publishing and Mobile, whereas the current structure is based on the type of games published: Premium Games and Free to Play. The structure of the Development, Italian Distribution, Other Activities and Holding operating segments has remained unchanged.

The change made to the organisational structure was needed to reflect the differences that exist between Premium and Free to Play games in terms of production, product positioning, marketing and financial planning. The publishing of Free to Play games was originally limited to the Apple and Google marketplaces, while the Sony and Microsoft console marketplaces offered solely traditional Premium games and, with the expansion of the console market to Free to Play, there was no longer a need for a distribution channel based organisation as opposed to an organisation that is predominantly based on the type of games published.

Accordingly, the Group is organised into five operating segments:

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

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

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

Premium Games' operations were conducted during the period by the subsidiary 505 Games S.p.A., which coordinates the operating segment, together with 505 Games France S.a.s., 505 Games Ltd., 505 Games (US) Inc., 505 Games Spain Slu and 505 Games GmbH, which operate in the French, UK, U.S., Spanish and German markets, respectively. 505 Games Interactive (US) Inc. provides consulting services on behalf of 505 Games S.p.A. The Swedish company 505 Games Nordic AB remained dormant during the period and was put into liquidation during the course of the previous financial year. Digital Bros China Ltd. operated in the period as a business developer for the Asian markets.

Free to Play: Its operations consist of the development and the publishing of video games that are made available to the public free of charge, but which allow the gamer to purchase credits to use subsequently during the various stages of the game. With respect to Premium video games, Free to Play games are generally simpler and have a longer lifespan, since the video game is continuously developed and improved subsequent to its launch, in order to encourage the public to continue playing and to spend money on the game, thus generating cash for the business.

The operating segment is coordinated by the subsidiary 505 Mobile S.r.l. together with the U.S. company 505 Mobile (US) Inc., which provides consulting services to Group companies, the UK company DR Studios Ltd., which is a developer of Free to Play games and the subsidiary Game Entertainment S.r.l., which publishes Free to Play games that do not cost anything to play but which generate advertising income.

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

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

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

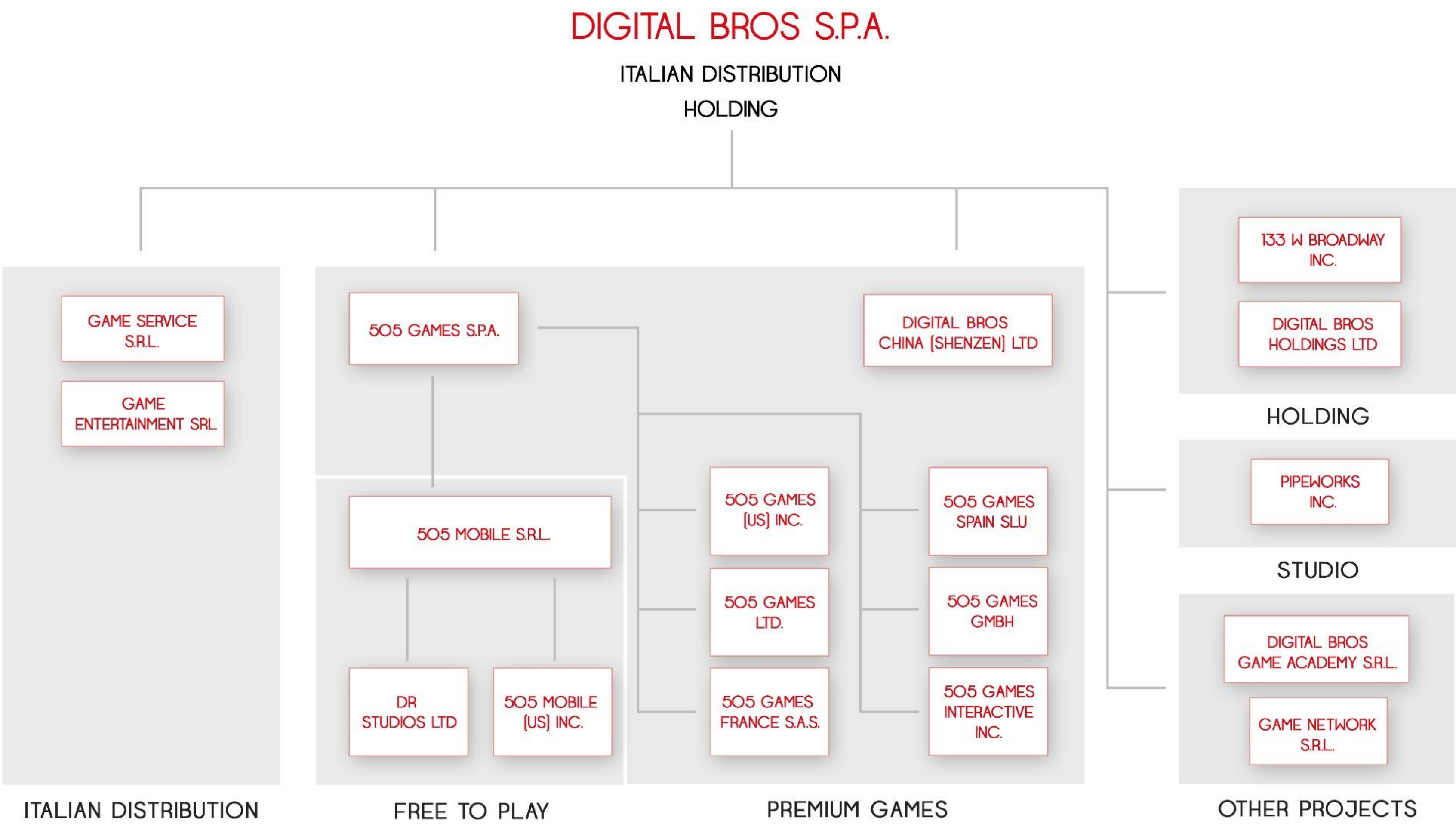
The Group also distributes the Yu-Gi-Oh! trading card game in Italy.

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

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

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

GROUP STRUCTURE AT 30 SEPTEMBER 2016



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

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

505 Games Nordic AB, which is based in Stockholm, has been put into liquidation.

Hawken Entertainment Inc., which is based in the United States and which was set up on 28 September 2016, did not commence operations in the period.

At 30 September 2016 the Group had equity investments in the associates listed below:

Name	Location	Holding	Carrying amount
Delta DNA Ltd. (1)	Edinburgh, UK	1.12%	60
Ebooks&Kids S.r.l.	Milan	16%	200
Cityglance S.r.l.	Milan	42.5%	46
Ovosonico S.r.l.	Varese	28.58%	420
Seekhana Ltd.	Milton Keynes, UK	30.52%	341
Total equity investments			**1,067**

(1) formerly Games Analytics Ltd.

2. THE VIDEO GAMES MARKET

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

The market is in constant flux and its growth rate is driven by non-stop technological advances. Gaming is no longer limited to traditional consoles, such as the various iterations of Sony Playstation and Microsoft Xbox, but has expanded to mobile phones and tablets. Widespread connectivity at increasingly lower costs and the availability of fibre optic networks and high speed mobile phones enable video games to become increasingly diversified, sophisticated and interactive. The widespread use of smartphones by the population, of all ages and walks of life, has led to creativity being expressed in a completely innovative manner, while also 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 a simultaneous increase in the quality of the video games. The video games market of 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 key players when it comes to completing the game, raising its awareness, enhancing its reputation and distributing it internationally.

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

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

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

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

Consumers are moving more towards digital purchases of games and, accordingly, 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).

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.

Digital distribution has made it possible to extend the lifespan of a game. In fact, a video game remains on the marketplace once the product has been released, whereas it would be unlikely to remain on the shelf in the case of physical distribution, making it possible to generate an ongoing sales curve that is significantly affected by temporary promotional pricing policies.

3. MARKET SEASONALITY

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

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

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

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

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

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 cash/debt until such time as the related sales revenue is collected. This factor is accentuated by the launch of Premium products, which also require net working capital investment for the physical production of a game.

4. SIGNIFICANT EVENTS DURING THE PERIOD

The main events during the period were as follows:

- on 1 July 2016, Digital Bros S.p.A. sold 2,841,321 Starbreeze A shares for a total amount of Euro 6,059 thousand, resulting in a gain of Euro 3,136 thousand and, at the same time, purchased 2,841,321 Starbreeze B ordinary shares for the same total amount;

- on 26 August 2016, 505 Games S.p.A. sold 2,000,000 Starbreeze B ordinary shares for a total amount of Euro 4,805 thousand, arising in a gross gain of Euro 602 thousand, granting a right to the purchaser to purchase the same quantity of shares at the same price to be exercised by 30 June 2017.

- on 23 September 2016, 505 Games S.p.A. sold 8,500,000 Starbreeze B ordinary shares for a total amount of Euro 20,846 thousand, arising in a gross gain of Euro 2,988 thousand;

- on 27 September 2016, the Group announced it had entered into, through the subsidiary 505 Games S.p.A., an agreement with Starbreeze AB for the exclusive global distribution of the console versions for the retail market of the RAID: World War II video game with an investment by the Group of 4 million U.S. dollars. Its launch is planned for summer 2017;

- on 28 September 2016, the Group set up Hawken Entertainment Inc., a subsidiary of 505 Mobile S.r.l., and which remained dormant during the period.

5. ANALYSIS OF RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

	Euro thousand	Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	35,811	107.2%	26,247	103.6%	9,564	36.4%
2	Revenue adjustments	(2,394)	-7.2%	(908)	-3.6%	(1,486)	n.m.
3	**Net revenue**	**33,417**	**100.0%**	**25,339**	**100.0%**	**8,078**	**31.9%**
4	Purchase of products for resale	(9,204)	-27.5%	(8,684)	-34.3%	(520)	6.0%
5	Purchase of services for resale	(2,148)	-6.4%	(2,457)	-9.7%	309	-12.6%
6	Royalties	(9,415)	-28.2%	(3,651)	-14.4%	(5,764)	n.m.
7	Changes in inventories of finished products	1,276	3.8%	(154)	-0.6%	1,430	n.m.
8	**Total cost of sales**	**(19,491)**	**-58.3%**	**(14,946)**	**-59.0%**	**(4,545)**	**30.4%**
9	**Gross profit (3+8)**	**13,926**	**41.7%**	**10,393**	**41.0%**	**3,533**	**34.0%**
10	Other income	401	1.2%	1,299	5.1%	(898)	-69.1%
11	Cost of services	(3,501)	-10.5%	(3,266)	-12.9%	(235)	7.2%
12	Lease and rental charges	(357)	-1.1%	(388)	-1.5%	31	-8.0%
13	Labour costs	(5,061)	-15.1%	(4,894)	-19.3%	(167)	3.4%
14	Other operating costs	(766)	-2.3%	(391)	-1.5%	(375)	96.1%
15	**Total operating costs**	**(9,685)**	**-29.0%**	**(8,939)**	**-35.3%**	**(746)**	**8.3%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**4,642**	**13.9%**	**2,753**	**10.9%**	**1,889**	**68.6%**
17	Depreciation and amortisation	(1,237)	-3.7%	(890)	-3.5%	(347)	39.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(1,237)**	**-3.7%**	**(890)**	**-3.5%**	**(347)**	**39.0%**
22	**Operating margin (EBIT) (16+21)**	**3,405**	**10.2%**	**1,863**	**7.4%**	**1,542**	**82.7%**
23	Interest and finance income	8,345	25.0%	1,045	4.1%	7,300	n.m.
24	Interest expense and finance costs	(715)	-2.1%	(363)	-1.4%	(352)	97.1%
25	**Net finance income (costs)**	**7,630**	**22.8%**	**682**	**2.7%**	**6,948**	**n.m.**
26	**Profit before tax (22+25)**	**11,035**	**33.0%**	**2,545**	**10.0%**	**8,490**	**n.m.**
27	Current tax	(3,256)	-9.7%	(922)	-3.6%	(2,334)	n.m.
28	Deferred tax	95	0.3%	(55)	-0.2%	150	n.m.
29	**Total income tax expense**	**(3,161)**	**-9.5%**	**(977)**	**-3.9%**	**(2,184)**	**n.m.**
30	**Profit for the period (26+29)**	**7,874**	**23.6%**	**1,568**	**6.2%**	**6,306**	**n.m.**
	Earnings per share:						
33	**Basic earnings per share (in euros)**	**0.56**		**0.11**		**0.45**	**n.m.**
34	**Diluted earnings per share (in euros)**	**0.56**		**0.11**		**0.45**	**n.m.**

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

The Group's gross revenue for the quarter amounted to Euro 35,811 thousand, with the release in the period of two new video games, Assetto Corsa and Abzu, having made it possible to achieve significant growth in gross revenue of 36.4%, equating to Euro 9,564 thousand. Net revenue increased by 31.9% to Euro 33,417 thousand from the amount reported for the period ended 30 September 2015 of Euro 25,339 thousand.

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

Euro thousand	**Gross revenue**				**Net revenue**			
	2016	**2015**	**Change**		**2016**	**2015**	**Change**	
Premium Games	25,711	15,400	10,311	66.9%	23,904	15,260	8,644	56.6%
Italian Distribution	6,883	9,493	(2,610)	-27.5%	6,304	8,755	(2,451)	-28.0%
Free to Play	2,180	622	1,558	n.m.	2,180	622	1,558	2,180
Development	866	627	239	38.1%	866	627	239	38.1%
Other Activities	171	105	66	62.9%	163	75	88	n.m.
Total gross revenue	**35,811**	**26,247**	**9,564**	**36.4%**	**33,417**	**25,339**	**8,078**	**31.9%**

Revenue growth was attributable to a significant increase in sales reported by the Premium Games operating segment, driven by positive results achieved from the launch of new products, and from sales reported by the Free to Play operating segment, which also benefited from the launch of new video games, in this case, Hawken and Prominence Poker. There was a fall in revenue reported by the Italian Distribution operating segment.

Revenue reported by the Premium Games operating segment amounted to Euro 25,711 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of gross revenue by video game:

Amounts in Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**	**Change**
Assetto Corsa	7,896	0	7,896
Rocket League	4,654	0	4,654
PAYDAY 2	4,470	6,726	(2,256)
Terraria	3,237	4,248	(1,011)
Abzu	2,051	0	2,051
Sniper Elite V3	1,433	2,253	(820)
How to Survive	478	441	37
Portal Knights	420	0	420
Brothers	151	1,333	(1,182)
Other products	921	399	522
Total Premium Games gross revenue	**25,711**	**15,400**	**10,311**

The operating segment's revenue was substantially boosted by sales of products launched in the quarter: Assetto Corsa (Euro 7,896 thousand) and Abzu (Euro 2,051 thousand). Significant sales were achieved by the Rocket League video game that amounted to Euro 4,654 thousand. This game, which was launched at the end of the previous financial year, remained in the video games sales charts throughout the period.

A significant contribution was made by products launched in prior years, with PAYDAY2 having achieved revenue in the period of Euro 4,470 thousand and Terraria, which, even though it was launched three years ago, achieved sales in the quarter of Euro 3,237 thousand.

The decrease in revenue reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the distribution of video games partially offset by an increase in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative first quarter the operating segment benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the period just ended.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than tripled from Euro 622 thousand reported in the comparative first quarter to Euro 2,180 thousand in the period just ended. The Free to Play operating segment also benefited from the launch of new products that had been postponed in the previous financial year, such as Hawken and Prominence Poker, even though the product that generated the largest portion of revenue was Gems of War, which is also available in console versions.

The Development operating segment’s revenue for the period amounted to Euro 866 thousand, up by 38.1%, and related to sales that the U.S. developer Pipeworks Inc. generated from development contracts with non-Group customers.

The Other Activities operating segment's revenue amounted to Euro 171 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by courses organised by Digital Bros Game Academy S.r.l.

Gross profit which came to Euro 13,926 thousand, increased by 34% in line with the revenue trend.

There was a notable decrease compared to the prior year comparative period in other income, which fell from Euro 1,299 thousand to Euro 401 thousand in the first quarter of the current financial year and which consists of the capitalisation of internal development costs for video games in a development phase by the subsidiaries DR Studios Ltd. and Pipeworks Inc.

Operating costs increased by Euro 746 thousand, but less than proportionally to the increase in revenue, partially due to cost savings achieved by the Italian Distribution operating segment.

The gross operating margin (EBITDA) came to Euro 4,642 thousand, compared to the figure reported for the period ended 30 September 2015 of Euro 2,753 thousand, representing an increase of 68.6%.

Non-monetary operating costs, net of non-monetary income, increased by Euro 347 thousand due to an increase in amortisation relating to intellectual property acquired by the Group.

The operating margin increased by Euro 1,542 thousand (82.7%), having gone from Euro 1,863 thousand for the period ended 30 September 2015 to Euro 3,405 thousand for the period just ended.

Net finance income amounted to Euro 7,630 thousand, compared to Euro 682 thousand for the comparative prior year period. Interest and finance income increased by Euro 7,300 thousand compared to the comparative prior year period. This mainly consisted of gains recognised in the quarter on the sale and purchase of Starbreeze shares of Euro 7,570 thousand and exchange gains of Euro 716 thousand. Interest expense and finance costs amounted to Euro 715 thousand, representing an increase of Euro 352 thousand compared to the figure reported for the period ended 30 September 2015, attributable to higher exchange losses.

Profit before tax for the period ended 30 September 2016 came to Euro 11,035 thousand, up by Euro 8,490 thousand compared to the amount reported for the period ended 30 September 2015 of Euro 2,545 thousand.

Profit for the period amounted to Euro 7,874 thousand, having increased by Euro 6,306 thousand compared to the profit for the period ended 30 June 2015 of Euro 1,568 thousand.

Basic and diluted earnings per share came to Euro 0.56, compared to earnings per share for the comparative prior year period of Euro 0.11.

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

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

	Euro thousand	30 September 2016	30 June 2016	Change	
	Non-current assets				
1	Property, plant and equipment	6,956	7,032	(76)	-1.1%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,983	10,458	525	5.0%
4	Equity investments	1,067	898	169	0.0%
5	Non-current receivables and other assets	1,053	1,056	(3)	-0.3%
6	Deferred tax assets	3,299	2,619	680	26.0%
	Total non-current assets	**23,358**	**22,063**	**1,295**	**5.9%**
	Non-current liabilities				
7	Employee benefits	(534)	(529)	(5)	0.9%
8	Non-current provisions	(36)	(36)	0	0.0%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	**(570)**	**(817)**	**247**	**-30.3%**
	Net working capital				
10	Inventories	13,209	11,933	1,276	10.7%
11	Trade receivables	47,276	34,840	12,436	35.7%
12	Current tax assets	2,147	2,019	128	6.3%
13	Other current assets	5,357	5,034	323	6.4%
14	Trade payables	(27,698)	(21,712)	(5,986)	27.6%
15	Current tax liabilities	(9,715)	(6,211)	(3,504)	56.4%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,258)	(2,312)	54	-2.3%
	Total net working capital	**28,318**	**23,591**	**4,727**	**20.0%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,346)	(20,804)	2,458	-11.8%
20	Treasury shares	390	390	0	0.0%
21	Retained earnings (accumulated losses)	(30,779)	(22,290)	(8,489)	38.1%
	Total equity	**(54,379)**	**(48,348)**	**(6,031)**	**12.5%**
	Total net assets	***(3,273)***	***(3,511)***	***238***	**-6.8%**
22	Cash and cash equivalents	13,632	2,785	10,847	n.m.
23	Current bank debt	(16,638)	(25,929)	9,291	-35.8%
24	Other current financial assets and liabilities	7,477	28,913	(21,436)	-74.1%
	Current net cash/debt	**4,471**	**5,769**	**(1,298)**	**-22.5%**
25	Non-current financial assets	1,406	1,195	211	17.6%
26	Non-current bank debt	(723)	(1,558)	835	-53.6%
27	Other non-current financial liabilities	(1,881)	(1,895)	14	-0.7%
	Non-current net debt	**(1,198)**	**(2,258)**	**1,060**	**-46.9%**
	Total net cash/debt	***3,273***	***3,511***	***(238)***	**-6.8%**

Non-current assets increased with respect to the balance at 30 June 2016 by Euro 1,295 thousand due to net expenditure on intangible assets of Euro 525 thousand and an increase in deferred tax assets of Euro 680 thousand. Equity investments increased by Euro 169 thousand due to the subscription to a further portion of Seekhana Ltd.'s capital by the subsidiary Digital Bros Holdings Ltd. An equity interest of 30.52% was held in the UK company at the period end.

Non-current liabilities decreased by Euro 247 thousand due to the classification within working capital payables of the variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid in September 2017.

Net working capital increased with respect to the balance at 30 June 2016 by Euro 4,727 thousand. An analysis of net working capital together with comparative figures at 30 June 2016 is provided below:

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**	
Inventories	13,209	11,933	1,276	10.7%
Trade receivables	47,276	34,840	12,436	35.7%
Current tax assets	2,147	2,019	128	6.3%
Other current assets	5,357	5,034	323	6.4%
Trade payables	(27,698)	(21,712)	(5,986)	27.6%
Current tax liabilities	(9,715)	(6,211)	(3,504)	56.4%
Current provisions	0	0	0	n.m.
Other current liabilities	(2,258)	(2,312)	54	-2.3%
Total net working capital	**28,318**	**23,591**	**4,727**	**20.0%**

Net cash amounted to Euro 3,273 thousand, representing a decrease of Euro 258 thousand compared to net cash of Euro 3,511 thousand at 30 June 2016.

An analysis of net cash/debt together with comparative figures at 30 June 2016 is provided below:

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**	
Cash and cash equivalents	13,632	2,785	10,847	n.m.
Current bank debt	(16,638)	(25,929)	9,291	-35.8%
Other current financial assets and liabilities	7,477	28,913	(21,436)	-74.1%
Current net cash/debt	**4,471**	**5,769**	**(1,298)**	**-22.5%**
Non-current financial assets	1,406	1,195	211	17.6%
Non-current bank debt	(723)	(1,558)	835	-53.6%
Other non-current financial liabilities	(1,881)	(1,895)	14	-0.7%
Non-current net debt	**(1,198)**	**(2,258)**	**1,060**	**-46.9%**
Total net cash/debt	***3,273***	***3,511***	***(238)***	**-6.8%**

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

7. RESULTS OF OPERATING SEGMENTS

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

Development

Financial highlights (reclassified)

	Amounts in Euro thousand	**Development**					
		Period ended 30 September 2016		**Period ended 30 September 2015**		**Change**	
1	Gross revenue	866	100.0%	627	100.0%	239	38.1%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**866**	**100.0%**	**627**	**100.0%**	**239**	**38.1%**
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(78)	-9.0%	(219)	-34.9%	141	-64.5%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	n.m.
8	**Total cost of sales**	**(78)**	**-9.0%**	**(219)**	**-34.9%**	**141**	**-64.5%**
9	**Gross profit (3+8)**	**788**	**91.0%**	**408**	**65.1%**	**380**	**93.3%**
10	Other income	170	19.6%	1,056	168.4%	(886)	-83.9%
11	Cost of services	(104)	-12.0%	(68)	-10.9%	(35)	52.1%
12	Lease and rental charges	0	0.0%	(35)	-5.5%	35	n.m.
13	Labour costs	(856)	-98.9%	(1,062)	-169.4%	206	-19.4%
14	Other operating costs	(30)	-3.4%	(44)	-7.1%	15	-33.4%
15	**Total operating costs**	**(990)**	**-114.3%**	**(1,209)**	**-192.8%**	**219**	**-18.1%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(32)**	**-3.7%**	**255**	**40.6%**	**(287)**	**n.m.**
17	Depreciation and amortisation	(148)	-17.1%	(149)	-23.8%	1	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(148)**	**-17.1%**	**(149)**	**-23.8%**	**1**	**n.m.**
22	**Operating margin (EBIT) (16+21)**	**(180)**	**-20.8%**	**106**	**16.9%**	**(286)**	**n.m.**

This operating segment comprises the business operations of the U.S. company Pipeworks Inc.

The Development operating segment’s revenue relates to development contracts that the subsidiary has entered into with non-Group customers, whereas revenue consisting of the capitalisation of internal development costs for video games on behalf of the Group is classified as other income, net of realised intercompany margins.

Revenue from non-Group customers in the period amounted to Euro 866 thousand compared to the prior year amount of Euro 627 thousand, whereas internal job orders amounted to Euro 170 thousand compared to the prior year amount of Euro 1,056 thousand. This difference is due to the fact that, during the course of the prior year first quarter, most of the subsidiary's resources were dedicated to the development of the Prominence Poker video game versions for the next generation consoles and for the Steam personal computer video games platform for the Free to Play operating segment that was launched in the first quarter of the current financial year. During the course of the first quarter the company mainly performed quality assurance and live support for video games that had already been launched.

Labour costs were the most significant component of operating costs and amounted to Euro 856 thousand compared to Euro 1,062 thousand for the period ended 30 September 2015.

Depreciation and amortisation expense consists of amortisation of Euro 38 thousand relating to intangible assets that Pipeworks Inc. contributed to the Group and amortisation of Euro 110 thousand relating to intangible assets allocated upon acquisition.

Premium Games

Financial highlights (reclassified)

	Amounts in Euro thousand	Premium Games					
		Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	25,711	107.6%	15,400	100.9%	10,311	66.9%
2	Revenue adjustments	(1,807)	-7.6%	(140)	-0.9%	(1,667)	n.m.
3	**Net revenue**	**23,904**	**100.0%**	**15,260**	**100.0%**	**8,644**	**56.6%**
4	Purchase of products for resale	(4,861)	-20.3%	(2,463)	-16.1%	(2,398)	97.3%
5	Purchase of services for resale	(1,131)	-4.7%	(2,007)	-13.2%	876	-43.7%
6	Royalties	(9,300)	-38.9%	(3,471)	-22.7%	(5,829)	n.m.
7	Changes in inventories of finished products	824	3.4%	(106)	-0.7%	930	n.m.
8	**Total cost of sales**	**(14,468)**	**-60.5%**	**(8,047)**	**-52.7%**	**(6,421)**	**79.8%**
9	**Gross profit (3+8)**	**9,436**	**39.5%**	**7,213**	**47.3%**	**2,223**	**30.8%**
10	Other income	18	0.1%	33	0.2%	(15)	-45.3%
11	Cost of services	(1,915)	-8.0%	(1,298)	-8.5%	(617)	47.5%
12	Lease and rental charges	(152)	-0.6%	(125)	-0.8%	(27)	21.2%
13	Labour costs	(1,818)	-7.6%	(1,752)	-11.5%	(66)	3.7%
14	Other operating costs	(107)	-0.4%	(143)	-0.9%	36	-24.8%
15	**Total operating costs**	**(3,992)**	**-16.7%**	**(3,319)**	**-21.7%**	**(673)**	**20.3%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**5,462**	**22.9%**	**3,928**	**25.7%**	**1,535**	**39.1%**
17	Depreciation and amortisation	(236)	-1.0%	(292)	-1.9%	56	-19.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(236)**	**-1.0%**	**(292)**	**-1.9%**	**56**	**-19.0%**
22	**Operating margin (EBIT) (16+21)**	**5,226**	**21.9%**	**3,635**	**23.8%**	**1,591**	**43.8%**

Revenue reported by the Premium Games operating segment amounted to Euro 25,711 thousand, having increased by Euro 10,311 with respect to the amount reported for the period ended 30 September 2015 of Euro 15,400 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years.

Details are provided below of gross revenue by video game:

Amounts in Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change
Assetto Corsa	7,896	0	7,896
Rocket League	4,654	0	4,654
PAYDAY 2	4,470	6,726	(2,256)
Terraria	3,237	4,248	(1,011)
Abzu	2,051	0	2,051
Sniper Elite V3	1,433	2,253	(820)
How to Survive	478	441	37
Portal Knights	420	0	420
Brothers	151	1,333	(1,182)
Other products	921	399	522
Total Premium Games gross revenue	**25,711**	**15,400**	**10,311**

The operating segment's revenue was substantially boosted by sales of products launched in the quarter: Assetto Corsa (Euro 7,896 thousand) and Abzu (Euro 2,051 thousand). Significant sales were achieved by the Rocket League video game that amounted to Euro 4,654 thousand. This game, which was launched at the end of the previous financial year, remained in the video games sales charts throughout the period.

A significant contribution was made by products launched in prior years, with PAYDAY2 having achieved revenue of Euro 4,470 thousand and Terraria, which, even though it was launched three years ago, achieved sales in the quarter of Euro 3,237 thousand.

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

Revenue (in Euro thousand)	Period ended 30 September 2016	Period ended 30 September 2015	Change	
Retail distribution revenue	15,460	6,483	8,977	n.m.
Digital distribution revenue	9,834	8,832	1,002	11.3%
Sub-licensing revenue	417	85	332	n.m.
Total Premium Games revenue	**25,711**	**15,400**	**10,311**	**66.9%**

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

Revenue (in Euro thousand)	Period ended 30 September 2016	Period ended 30 September 2015	Change
Sony Playstation Network	4,291	2,706	1,585
Microsoft Xbox Live	2,564	2,792	(228)
Steam	1,762	2,114	(352)
iTunes	513	753	(240)
Google	243	314	(71)
Other marketplaces	461	153	308
Total digital distribution revenue	**9,834**	**8,832**	**1,002**

Revenue adjustments have gone from Euro 140 thousand to Euro 1,807 thousand for the period ended 30 September 2016. This line item includes an estimate of credit notes for unsold products that the Group has forecast that it will have to issue to customers in the near future. Expressed as a percentage of retail distribution revenue, the figure for the period of 11.7% is in line with market trends, especially following the launch of new products, whereas the prior year figure of 1.5% was particularly low. The increase in this component has thus reduced the growth of the operating segment's net revenue by 56.6%.

Cost of sales increased by 79.8%, having gone from Euro 8,047 thousand to Euro 14,468 thousand, with royalty expense having increased due to a higher weighting in percentage terms of sales generated by products subject to royalties, thus reducing the increase in gross profit in percentage terms to 30.8% from Euro 7,213 thousand for the period ended 30 September 2015 to Euro 9,436 thousand for the period ended 30 September 2016.

Operating costs increased by Euro 673 thousand, mainly due to an increase in cost of services of Euro 617 thousand attributable to higher advertising expenditure following the launch of two new products, whereas the other cost components remained broadly in line with the prior year reported amounts.

The gross operating margin amounted to Euro 5,462 thousand and increased by 39.1%.

Non-monetary operating costs decreased by Euro 56 thousand, bringing the operating margin to Euro 5,226 thousand, representing an increase of 43.8% and equating to 21.9% of net revenue.

Free to Play

Financial highlights (reclassified)

	Amounts in Euro thousand	Free to Play					
		Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	2,180	100.0%	622	100.0%	1,558	n.m.
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**2,180**	**100.0%**	**622**	**100.0%**	**1,558**	**n.m.**
4	Purchase of products for resale	(0)	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(745)	-34.2%	(224)	-36.1%	(520)	n.m.
6	Royalties	(97)	-4.5%	(161)	-25.9%	63	-39.8%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**(842)**	**-38.6%**	**(385)**	**-62.0%**	**(457)**	**n.m.**
9	**Gross profit (3+8)**	**1,338**	**61.4%**	**237**	**38.0%**	**1,101**	**n.m.**
10	Other income	205	9.4%	146	23.4%	59	40.9%
11	Cost of services	(321)	-14.7%	(164)	-26.4%	(157)	95.3%
12	Lease and rental charges	(18)	-0.8%	(18)	-3.0%	0	n.m.
13	Labour costs	(1,164)	-53.4%	(776)	-124.7%	(388)	50.0%
14	Other operating costs	(9)	-0.4%	(19)	-3.0%	9	-49.1%
15	**Total operating costs**	**(1,512)**	**-69.4%**	**(977)**	**-157.1%**	**(535)**	**54.7%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**31**	**1.4%**	**(594)**	**-95.5%**	**625**	**n.m.**
17	Depreciation and amortisation	(659)	-30.3%	(339)	-54.4%	(320)	94.7%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(659)**	**-30.3%**	**(339)**	**-54.4%**	**(320)**	**94.7%**
22	**Operating margin (EBIT) (16+21)**	**(628)**	**-28.8%**	**(933)**	**-149.9%**	**305**	**-32.7%**

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than tripled from Euro 622 thousand reported in the comparative first quarter to Euro 2,180 thousand in the period just ended. The Free to Play operating segment benefited from the launch of new products that had been postponed in the previous financial year, such as Hawken and Prominence Poker, even though the product that generated the largest portion of revenue was Gems of War, which is also available in console versions. Details are provided below of the operating segment's revenue:

Revenue (in Euro thousand)	Period ended 30 September 2016	Period ended 30 September 2015	Change
Gems of War	705	63	642
Hawken	419	0	419
Battle Ages	399	0	399
Battle Islands	339	465	(126)
Prominence Poker	293	0	293
Other products	25	94	(69)
Total Free to Play revenue	**2,180**	**622**	**1,558**

The extraordinary growth in sales of the Gems of War video game is due in part to the fact that the console versions have been particularly successful.

Revenue generated in the quarter by the two new games, Hawken and Prominence Poker, amounted to Euro 419 thousand and Euro 293 thousand, respectively. Expectations were high for both games, particularly for the former and, accordingly, during the period the Hawken video game rights were purchased, a new U.S. company was set up named Hawken Entertainment Inc., which is 100% controlled by the Group and which will provide live support for the game in order to control all the production processes and to make it possible to benefit exclusively from the game's potential. In contrast to what occurs in the Premium Games operating segment, the game release phases in the Free to Play operating segment are used as a preliminary stage for the refinement of a game that is then constantly improved via live support in order to maximise the game's potential based on feedback received from gamers.

The Battle Ages and Battle Islands video games, which were developed by the subsidiary DR Studios Ltd., contributed revenue for the period of Euro 399 thousand and Euro 339 thousand, respectively. During the period, the subsidiary provided live support for the above mentioned games and continued with the development process for the new version of Battle Island, Battle Island Commander, which will be released in January 2017. The capitalisation of internal development costs incurred for the game in the quarter has been recognised as other income.

Cost of sales solely consists of purchases of services and royalties. The former, which amounted to Euro 745 thousand in the period, consist of localisation, ratings and quality assurance costs, as well as costs incurred for live support services. Details are provided below of cost of services by category:

Amounts in Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change
Live support	318	118	200
Programming	11	0	11
Quality assurance	76	74	2
Hosting	310	20	290
Other	30	12	18
Total	**745**	**224**	**521**

The significant increase in hosting costs is due to the fact that the two recently launched games have a greater need for game server capacity to be made available to gamers.

Operating costs include services, which are mostly advertising costs incurred to promote products, as well as labour costs. The significant increase in the latter is attributable to live support costs incurred following the launch of the two new games.

Depreciation and amortisation increased by Euro 320 thousand and consisted of the following:

Amounts in Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**	**Change**
Amortisation of Battle Islands	109	261	(152)
Amortisation of intangible assets	541	66	475
Depreciation of property, plant and equipment	9	12	(3)
Total	**659**	**339**	**320**

The increase in amortisation of intangible assets occurred as a result of having put into production the Battle Ages video game in the second half of the prior financial year and Prominence Poker and Hawken during the first quarter of the financial year.

The operating loss for the period fell to Euro 628 thousand compared to an operating loss of Euro 933 thousand reported for the period ended 30 September 2015.

Italian Distribution

Financial highlights (reclassified)

	Amounts in Euro thousand	Italian Distribution					
		Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	6,883	109.2%	9,493	108.4%	(2,610)	-27.5%
2	Revenue adjustments	(579)	-9.2%	(738)	-8.4%	159	-21.6%
3	**Net revenue**	**6,304**	**100.0%**	**8,755**	**100.0%**	**(2,451)**	**-28.0%**
4	Purchase of products for resale	(4,343)	-68.9%	(6,221)	-71.1%	1,878	-30.2%
5	Purchase of services for resale	(131)	-2.1%	0	0.0%	(131)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	452	7.2%	(48)	-0.5%	500	n.m.
8	**Total cost of sales**	**(4,022)**	**-63.8%**	**(6,269)**	**-71.6%**	**2,247**	**-35.8%**
9	**Gross profit (3+8)**	**2,282**	**36.2%**	**2,486**	**28.4%**	**(204)**	**-8.2%**
10	Other income	8	0.1%	4	0.0%	4	87.7%
11	Cost of services	(462)	-7.3%	(727)	-8.3%	265	-36.5%
12	Lease and rental charges	(10)	-0.2%	(12)	-0.1%	2	-12.5%
13	Labour costs	(373)	-5.9%	(488)	-5.6%	115	-23.6%
14	Other operating costs	(46)	-0.7%	(69)	-0.8%	23	-33.5%
15	**Total operating costs**	**(891)**	**-14.1%**	**(1,296)**	**-14.8%**	**405**	**-31.2%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**1,399**	**22.2%**	**1,194**	**13.6%**	**205**	**17.2%**
17	Depreciation and amortisation	(50)	-0.8%	(47)	-0.5%	(3)	6.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(50)**	**-0.8%**	**(47)**	**-0.5%**	**(3)**	**6.0%**
22	**Operating margin (EBIT) (16+21)**	**1,349**	**21.4%**	**1,147**	**13.1%**	**202**	**17.6%**

The decrease in revenue reported by the Italian Distribution operating segment of Euro 2,610 thousand was attributable to a fall in revenue generated by the distribution of video games and a simultaneous increase in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative first quarter the operating segment benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the period just ended.

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

Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change	
Distribution of video games for consoles	4,567	7,505	(2,938)	-39.1%
Distribution of video games for PC-CDRom	89	209	(120)	-57.5%
Distribution of trading cards	2,044	1,437	607	42.3%
Distribution of other products and services	192	356	(164)	-46.2%
Cash discounts	(9)	(14)	5	-35.8%
Total gross Italian Distribution revenue	**6,883**	**9,493**	**(2,610)**	**-27.5%**

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

Euro thousand	Period ended 30 September 2016		Period ended 30 September 2015		Change	
	Units	**Revenue**	**Units**	**Revenue**	**Units**	**Revenue**
Sony Playstation 4	77,918	2,896	102,074	4,437	-23.7%	-34.7%
Sony Playstation 3	24,019	732	50,731	1,550	-52.7%	-52.8%
Microsoft Xbox One	15,452	575	17,459	754	-11.5%	-23.7%
Microsoft Xbox 360	14,412	350	25,179	733	-42.8%	-52.3%
Other consoles	4,656	14	5,736	31	-18.8%	-55.2%
Total console revenue	**136,457**	**4,567**	**201,179**	**7,505**	**-32.2%**	**-39.1%**

The operating segment reported a decrease in revenue arising from the distribution of video games for consoles of Euro 2,938 thousand. Sales of Yu-Gi-Oh! trading cards, however, increased by Euro 607 thousand.

Net revenue amounted to Euro 6,304 thousand, down by 28% on the prior year figure.

Gross profit fell with respect to the comparative period by 8.2% caused by a decrease in cost of sales of 35.8% that exceeded the decrease in net revenue.

As a result of cost savings policies implemented during the course of the prior financial year, operating costs fell by 31.2%, which exceeded the drop in revenue and which amounted to Euro 405 thousand. The decrease was mainly due to a reduction in cost of services of Euro 265 thousand and in labour costs of Euro 115 thousand.

The improvement in the operating cost structure made it possible to improve the operating margin, which increased by Euro 202 thousand, from Euro 1,147 thousand reported for the period ended 30 September 2015 to Euro 1,349 thousand reported for the current period, regardless of the drop in turnover.

Other Activities

Financial highlights (reclassified)

	Amounts in Euro thousand	Other Activities					
		Period ended 30 September 2016		**Period ended 30 September 2015**		**Change**	
1	Gross revenue	171	104.5%	105	139.3%	66	62.4%
2	Revenue adjustments	(8)	-5.1%	(30)	-39.3%	22	-71.9%
3	**Net revenue**	**163**	**100.0%**	**75**	**100.0%**	**88**	**n.m.**
4	Purchase of products for resale	0	0.2%	0	0.0%	0	0.0%
5	Purchase of services for resale	(63)	-38.6%	(7)	-9.6%	(56)	n.m.
6	Royalties	(18)	-11.2%	(19)	-24.6%	1	-1.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**(81)**	**-49.6%**	**(26)**	**-34.2%**	**(55)**	**n.m.**
9	**Gross profit (3+8)**	**82**	**50.4%**	**49**	**64.5%**	**33**	**69.3%**
10	Other income	0	0.0%	60	80.0%	(60)	0.0%
11	Cost of services	(296)	-181.2%	(687)	-911.1%	391	-56.9%
12	Lease and rental charges	(3)	-2.0%	(6)	-8.1%	3	-46.7%
13	Labour costs	(162)	-99.3%	(126)	-167.5%	(36)	28.3%
14	Other operating costs	(16)	-9.6%	(11)	-15.0%	(5)	39.2%
15	**Total operating costs**	**(477)**	**-292.1%**	**(830)**	**-1100.5%**	**353**	**-42.5%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(395)**	**-241.6%**	**(721)**	**-956.0%**	**326**	**-45.3%**
17	Depreciation and amortisation	(92)	-56.6%	(35)	-46.0%	(57)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(92)**	**-56.6%**	**(35)**	**-46.0%**	**(57)**	**n.m.**
22	**Operating margin (EBIT) (16+21)**	**(487)**	**-298.2%**	**(756)**	**-1002.0%**	**269**	**-35.6%**

The Other Activities operating segment's revenue amounted to Euro 171 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by courses organised by Digital Bros Game Academy S.r.l.

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

Operating costs decreased from Euro 830 thousand to Euro 477 thousand given that the cost of services incurred in the comparative prior year first quarter were significantly influenced by costs incurred for the Italian launch of Fantasfida.

The negative operating margin amounted to Euro 487 thousand compared to the negative operating margin of Euro 756 thousand reported for the period ended 30 September 2015, representing an improvement of Euro 269 thousand.

Holding

Financial highlights (reclassified)

	Amounts in Euro thousand	Holding					
		Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
9	**Gross profit (3+8)**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(403)	0.0%	(322)	0.0%	(81)	25.0%
12	Lease and rental charges	(174)	0.0%	(192)	0.0%	18	-9.4%
13	Labour costs	(688)	0.0%	(690)	0.0%	2	-0.4%
14	Other operating costs	(558)	0.0%	(105)	0.0%	(453)	n.m.
15	**Total operating costs**	**(1,823)**	**0.0%**	**(1,309)**	**0.0%**	**(514)**	**39.2%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(1,823)**	**0.0%**	**(1,309)**	**0.0%**	**(514)**	**39.2%**
17	Depreciation and amortisation	(52)	0.0%	(28)	0.0%	(24)	88.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(52)**	**0.0%**	**(28)**	**0.0%**	**(24)**	**88.0%**
22	**Operating margin (EBIT) (16+21)**	**(1,875)**	**0.0%**	**(1,337)**	**0.0%**	**(538)**	**40.2%**

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

Operating costs amounted to Euro 1,823 thousand, representing an increase compared to the comparative prior year figure of Euro 514 thousand. The increase is mainly due to fees of Euro 424 thousand incurred by 505 Games S.p.A. in connection with the sale and purchase of Starbreeze shares during the course of the quarter.

Depreciation and amortisation increased by Euro 24 thousand due to the depreciation of the Eugene property, which is used by the subsidiary Pipeworks Inc., and the amortisation of expenditure incurred by the Group on ERP systems in the second half of the last financial year.

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

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

Intercompany transactions

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

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

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

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

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

Prior to its acquisition, DR Studios Ltd. was party to development and live support contracts for various video games with the subsidiaries 505 Games S.p.A. and 505 Mobile S.r.l., which have remained unchanged. Development contracts executed subsequently have been regulated by a framework agreement that envisages the rebilling of direct project costs incurred plus a percentage mark-up.

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

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

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

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

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

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

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

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

On preparing the interim management report for the period ended 30 September 2016, the impact of intercompany transactions on the results and financial position has been eliminated.

Related party transactions

Related party transactions consist of:

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

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

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

Atypical transactions

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

9. TREASURY SHARES

Pursuant to Art. 2428, paragraph 2.3 of the Italian Civil Code, it is hereby disclosed that, at 30 September 2016, Digital Bros S.p.A. held 130,247 treasury shares, the number of which has remained unchanged with respect to those held at 30 June 2015.

10. RESEARCH AND DEVELOPMENT

During the period, the Group incurred research expenses of Euro 46 thousand and development expenses of Euro 620 thousand. The amounts incurred in the period ended 30 September 2015 were Euro 5 thousand and Euro 729 thousand, respectively.

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

11. CONTINGENT ASSETS AND LIABILITIES

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

No contingent liabilities exist, as was the case at the prior period end.

12. SUBSEQUENT EVENTS

Details of key subsequent events are as follows:

- on 5 October 2016 Digital Bros Group, via its subsidiary 505 Games S.p.A., entered into an agreement with ArtPLay Inc. for the exclusive publication of all formats of the Bloodstained video game with the exclusion of the mobile and tablet versions. The guaranteed minimum payable by the Group amounts to 4.4 million U.S. dollars. Its release is planned for the financial year 2018;
- in October 2016, Digital Bros S.p.A. sold 130,247 treasury shares for a total amount of Euro 1,241 thousand. As of today, Digital Bros S.p.A. does not hold any treasury shares;
- on 28 October 2016 an extraordinary general meeting of the shareholders of 505 Games S.p.A. approved a bonus capital increase of Euro 9 million from Euro 1 million to Euro 10 million, by means of the issue of 9,000,000 shares with a par value of Euro 1.00 each, via the partial use of retained earnings.

13. BUSINESS OUTLOOK

The investment plan that the Group embarked upon over the last twenty four months and which has led to the simultaneous development of numerous new products has started to generate revenues as from the first quarter of the financial year, especially with the release of Assetto Corsa and Abzu by the Premium Games operating segment as well as Hawken and Prominence Poker by the Free to Play operating segment. Over the remainder of the financial year, the personal computer and console versions of Portal Knights will be launched by the Premium Games operating segment as well as the evolution of the successful Battle Island, Battle Island Commander, which will be made available in January 2017 for consoles and on Mobile platforms by the Free to Play operating segment.

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

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

The Daily Fantasy Sport, Fantasfida, will continue to generate negative margins, but decidedly lower than those recognised last year.

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

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

14. OTHER INFORMATION

EMPLOYEES

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

Category	30 September 2016	30 September 2015	Change
Managers	10	10	0
Office workers	225	214	21
Blue-collar workers and apprentices	4	4	0
Total employees	**239**	**228**	**21**

The same details for employees of the Group’s foreign companies at 30 September 2016 with comparative figures at 30 September 2015 are as follows:

Category	30 September 2016	30 September 2015	Change
Managers	5	5	0
Office workers	169	160	9
Total employees abroad	**174**	**165**	**9**

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

Category	2016 average	2015 average	Change
Managers	10	10	0
Office workers	225	210	15
Blue-collar workers and apprentices	4	4	0
Total employees	**239**	**224**	**15**

The average headcount at foreign companies is as follows:

Category	2016 average	2015 average	Change
Managers	5	5	0
Office workers	169	156	13
Total employees abroad	**174**	**161**	**13**

The increase in the number of employees abroad is due to growth in the international structure of the Premium Games operating segment.

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

ENVIRONMENT

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

Condensed consolidated financial statements for the period ended 30 September 2016

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position as at 30 September 2016

	Euro thousand	**30 September 2016**	**30 June 2016**	**Change**	
	Non-current assets				
1	Property, plant and equipment	6,956	7,032	(76)	-1.1%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,983	10,458	525	5.0%
4	Equity investments	1,067	898	169	0.0%
5	Non-current receivables and other assets	1,053	1,056	(3)	-0.3%
6	Deferred tax assets	3,299	2,619	680	26.0%
	Total non-current assets	**23,358**	**22,063**	**1,295**	**5.9%**
	Non-current liabilities				
7	Employee benefits	(534)	(529)	(5)	0.9%
8	Non-current provisions	(36)	(36)	(0)	0.0%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	**(570)**	**(817)**	**247**	**-30.3%**
	Net working capital				
10	Inventories	13,209	11,933	1,276	10.7%
11	Trade receivables	47,276	34,840	12,436	35.7%
12	Current tax assets	2,147	2,019	128	6.3%
13	Other current assets	5,357	5,034	323	6.4%
14	Trade payables	(27,698)	(21,712)	(5,986)	27.6%
15	Current tax liabilities	(9,715)	(6,211)	(3,504)	56.4%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,258)	(2,312)	54	-2.3%
	Total net working capital	**28,318**	**23,591**	**4,727**	**20.0%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,346)	(20,804)	2,458	-11.8%
20	Treasury shares	390	390	0	0.0%
21	Retained earnings (accumulated losses)	(30,779)	(22,290)	(8,489)	38.1%
	Total equity	**(54,379)**	**(48,348)**	**(6,031)**	**12.5%**
	Total net assets	***(3,273)***	***(3,511)***	***238***	**-6.8%**
22	Cash and cash equivalents	13,632	2,785	10,847	n.m.
23	Current bank debt	(16,638)	(25,929)	9,291	-35.8%
24	Other current financial assets and liabilities	7,477	28,913	(21,436)	-74.1%
	Current net cash/debt	**4,471**	**5,769**	**(1,298)**	**-22.5%**
25	Non-current financial assets	1,406	1,195	211	17.6%
26	Non-current bank debt	(723)	(1,558)	835	-53.6%
27	Other non-current financial liabilities	(1,881)	(1,895)	14	-0.7%
	Non-current net debt	**(1,198)**	**(2,258)**	**1,060**	**-46.9%**
	Total net cash/debt	***3,273***	***3,511***	***(238)***	**-6.8%**

Digital Bros Group

Consolidated statement of profit or loss for the period ended 30 September 2016

	Euro thousand	Period ended 30 September 2016		Period ended 30 September 2015		Change	
1	Gross revenue	35,811	107.2%	26,247	103.6%	9,564	36.4%
2	Revenue adjustments	(2,394)	-7.2%	(908)	-3.6%	(1,486)	n.m.
3	**Net revenue**	**33,417**	**100.0%**	**25,339**	**100.0%**	**8,078**	**31.9%**
4	Purchase of products for resale	(9,204)	-27.5%	(8,684)	-34.3%	(520)	6.0%
5	Purchase of services for resale	(2,148)	-6.4%	(2,457)	-9.7%	309	-12.6%
6	Royalties	(9,415)	-28.2%	(3,651)	-14.4%	(5,764)	n.m.
7	Changes in inventories of finished products	1,276	3.8%	(154)	-0.6%	1,430	n.m.
8	**Total cost of sales**	**(19,491)**	**-58.3%**	**(14,946)**	**-59.0%**	**(4,545)**	**30.4%**
9	**Gross profit (3+8)**	**13,926**	**41.7%**	**10,393**	**41.0%**	**3,533**	**34.0%**
10	Other income	401	1.2%	1,299	5.1%	(898)	-69.1%
11	Cost of services	(3,501)	-10.5%	(3,266)	-12.9%	(235)	7.2%
12	Lease and rental charges	(357)	-1.1%	(388)	-1.5%	31	-8.0%
13	Labour costs	(5,061)	-15.1%	(4,894)	-19.3%	(167)	3.4%
14	Other operating costs	(766)	-2.3%	(391)	-1.5%	(375)	96.1%
15	**Total operating costs**	**(9,685)**	**-29.0%**	**(8,939)**	**-35.3%**	**(746)**	**8.3%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**4,642**	**13.9%**	**2,753**	**10.9%**	**1,889**	**68.6%**
17	Depreciation and amortisation	(1,237)	-3.7%	(890)	-3.5%	(347)	39.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary income and operating costs**	**(1,237)**	**-3.7%**	**(890)**	**-3.5%**	**(347)**	**39.0%**
22	**Operating margin (EBIT) (16+21)**	**3,405**	**10.2%**	**1,863**	**7.4%**	**1,542**	**82.7%**
23	Interest and finance income	8,345	25.0%	1,045	4.1%	7,300	n.m.
24	Interest expense and finance costs	(715)	-2.1%	(363)	-1.4%	(352)	97.1%
25	**Net finance income (costs)**	**7,630**	**22.8%**	**682**	**2.7%**	**6,948**	**n.m.**
26	**Profit before tax (22+25)**	**11,035**	**33.0%**	**2,545**	**10.0%**	**8,490**	**n.m.**
27	Current tax	(3,256)	-9.7%	(922)	-3.6%	(2,334)	n.m.
28	Deferred tax	95	0.3%	(55)	-0.2%	150	n.m.
29	**Total income tax expense**	**(3,161)**	**-9.5%**	**(977)**	**-3.9%**	**(2,184)**	**n.m.**
30	**Profit for the period (26+29)**	**7,874**	**23.6%**	**1,568**	**6.2%**	**6,306**	**n.m.**
	Earnings per share:						
33	**Basic earnings per share (in euros)**	**0.56**		**0.11**		**0.45**	**n.m.**
34	**Diluted earnings per share (in euros)**	**0.56**		**0.11**		**0.45**	**n.m.**

Digital Bros Group

Consolidated statement of comprehensive income for the period ended 30 September 2016

Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**	**Change**
Profit (loss) for the period (A)	**7,874**	**1,568**	**6,306**
Items that will not be reclassified subsequently to profit or loss (B)			
Exchange differences on translation of foreign operations	(228)	(155)	(73)
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as available for sale	(3,075)	290	(3,365)
Income tax relating to the fair value measurement of shares designated as available for sale	845	(80)	925
Items that may be reclassified subsequently to profit or loss (C)	**(2,458)**	**55**	**(2,513)**
Total other comprehensive income D = (B)+(C)	**(2,458)**	**55**	**(2,513)**
Total comprehensive income (loss) (A)+(D)	**5,416**	**1,623**	**3,793**
Attributable to:			
Owners of the Company	5,416	1,623	3,793
Non-controlling interests	0	0	0

Digital Bros Group

Consolidated statement of cash flows for the period ended 30 September 2016

	Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015
A.	**Opening net cash/debt**	**3,511**	**(8,333)**
B.	**Cash flows from operating activities**		
	Profit (loss) for the period attributable to the Group	7,874	1,568
	Depreciation, amortisation and non-monetary costs:		
	Provisions and impairment losses	0	0
	Amortisation of intangible assets	1,054	726
	Depreciation of property, plant and equipment	183	164
	Net change in other provisions	0	(33)
	Net change in employee benefit provisions	5	(13)
	Net change in other non-current liabilities	(252)	(589)
	SUBTOTAL B.	**8,864**	**1,823**
C.	**Change in net working capital**		
	Inventories	(1,276)	154
	Trade receivables	(12,436)	91
	Current tax assets	(128)	(817)
	Other current assets	(323)	(3,236)
	Trade payables	5,986	(3,615)
	Current tax liabilities	3,504	1,034
	Current provisions	0	0
	Other current liabilities	(54)	318
	SUBTOTAL C.	**(4,727)**	**(6,071)**
D.	**Cash flows from investing activities**		
	Net payments for intangible assets	(1,579)	(1,421)
	Net payments for property, plant and equipment	(107)	(190)
	Net payments for non-current financial assets	(846)	(834)
	SUBTOTAL D.	**(2,532)**	**(2,446)**
E.	**Cash flows from financing activities**		
	Proceeds from capital increases	0	0
	SUBTOTAL E.	**0**	**0**
F.	**Changes in consolidated equity**		
	Dividends distributed	0	0
	Changes in treasury shares held	0	809
	Increases (decreases) in other equity components	(1,843)	2,291
	SUBTOTAL F.	**(1,843)**	**3,100**
G.	**Cash flow for the period (B+C+D+E+F)**	**(238)**	**(3,593)**
H.	**Closing net cash/debt (A+G)**	**3,273**	**(11,926)**

Notes to the statement of cash flows

Details of cash flow by maturity:

Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**
Increase (decrease) in securities and cash and cash equivalents	10,847	(147)
Decrease (increase) in current bank debt	9,291	(1,832)
Decrease (increase) in other current financial assets and liabilities	(21,436)	(1,863)
Cash flow for the period pertaining to current net cash/debt	(1,298)	(3,842)
Cash flow for the period pertaining to non-current net cash/debt	1,060	249
Cash flow for the period	**(238)**	**(3,593)**

Digital Bros Group

Consolidated statement of changes in equity

Euro thousand	**Share capital (A)**	Share premium	Legal reserve	IAS transition reserve	Currency translation reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (accumulated losses)	Profit (loss) for the period	**Total retained earnings (D)**	**Consolidated equity attributable to Group (A+B+C+D)**
As at 1 July 2015	**5,644**	16,954	1,129	1,367	(244)	211	**19,417**	**(1,199)**	(3,006)	12,953	**9,947**	**33,809**
Allocation of profit							**0**		9,105	(9,105)	**0**	**0**
Other changes							**0**	**809**	2,236		**2,236**	**3,045**
Comprehensive income (loss)					(155)	210	**55**			1,568	**1,568**	**1,623**
As at 30 September 2015	**5,644**	16,954	1,129	1,367	(399)	421	**19,472**	**(390)**	8,335	5,416	**13,751**	**38,477**
As at 1 July 2016	**5,644**	16,954	1,129	1,367	(813)	2,167	**20,804**	**(390)**	5,903	16,387	**22,290**	**48,348**
Allocation of profit							**0**				**0**	**0**
Payment of dividends							**0**				**0**	**0**
Other changes							**0**		615		**615**	**615**
Comprehensive income (loss)					(228)	(2,230)	**(2,458)**			7,874	**7,874**	**5,416**
As at 30 September 2016	**5,644**	16,954	1,129	1,367	(1,041)	(63)	**18,346**	**(390)**	6,518	24,261	**30,779**	**54,379**

Notes to the condensed consolidated financial statements for the period ended 30 September 2016

1. INTRODUCTORY NOTE

For information concerning form, content and other general information, accounting policies, the use of estimates, basis of consolidation, investments in associates and other entities and business combinations, reference should be made to the notes to the consolidated financial statements for the year ended 30 June 2016.

2. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

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

	Euro thousand	30 September 2016	30 June 2016	Change	
	Non-current assets				
1	Property, plant and equipment	6,956	7,032	(76)	-1.1%
2	Investment property	0	0	0	0.0%
3	Intangible assets	10,983	10,458	525	5.0%
4	Equity investments	1,067	898	169	0.0%
5	Non-current receivables and other assets	1,053	1,056	(3)	-0.3%
6	Deferred tax assets	3,299	2,619	680	26.0%
	Total non-current assets	**23,358**	**22,063**	**1,295**	**5.9%**
	Non-current liabilities				
7	Employee benefits	(534)	(529)	(5)	0.9%
8	Non-current provisions	(36)	(36)	(0)	0.0%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	**(570)**	**(817)**	**247**	**-30.3%**
	Net working capital				
10	Inventories	13,209	11,933	1,276	10.7%
11	Trade receivables	47,276	34,840	12,436	35.7%
12	Current tax assets	2,147	2,019	128	6.3%
13	Other current assets	5,357	5,034	323	6.4%
14	Trade payables	(27,698)	(21,712)	(5,986)	27.6%
15	Current tax liabilities	(9,715)	(6,211)	(3,504)	56.4%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,258)	(2,312)	54	-2.3%
	Total net working capital	**28,318**	**23,591**	**4,727**	**20.0%**
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,346)	(20,804)	2,458	-11.8%
20	Treasury shares	390	390	0	0.0%
21	Retained earnings (accumulated losses)	(30,779)	(22,290)	(8,489)	38.1%
	Total equity	**(54,379)**	**(48,348)**	**(6,031)**	**12.5%**
	Total net assets	***(3,273)***	***(3,511)***	***238***	**-6.8%**
22	Cash and cash equivalents	13,632	2,785	10,847	n.m.
23	Current bank debt	(16,638)	(25,929)	9,291	-35.8%
24	Other current financial assets and liabilities	7,477	28,913	(21,436)	-74.1%
	Current net cash/debt	**4,471**	**5,769**	**(1,298)**	**-22.5%**
25	Non-current financial assets	1,406	1,195	211	17.6%
26	Non-current bank debt	(723)	(1,558)	835	-53.6%
27	Other non-current financial liabilities	(1,881)	(1,895)	14	-0.7%
	Non-current net debt	**(1,198)**	**(2,258)**	**1,060**	**-46.9%**
	Total net cash/debt	***3,273***	***3,511***	***(238)***	**-6.8%**

NON-CURRENT ASSETS

Capital expenditure in the period amounted to Euro 107 thousand on property, plant and equipment and Euro 1,579 thousand on intangible assets.

Expenditure on property, plant and equipment during the year was as follows:

Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**
Improvements made to building used by 505 Games Ltd.	60	0
Improvements made to new building used by 505 Games (US) Inc.	0	93
Office automation equipment	6	93
Furniture and fittings	41	4
Total capital expenditure in the period	**107**	**190**

Capital expenditure on intangible assets consisted mainly of the purchase of Hawken video game rights as well as job orders developed by the subsidiaries DR Studios Ltd. and Pipeworks Inc. Details are provided below:

Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**
Hawken usage rights	1,297	0
Battle Island Commanders usage rights	205	0
Internal contracts in progress - Pipeworks Inc.	170	1,056
Fantasfida	0	119
Battle Islands	0	67
Brothers usage rights	0	53
Battle Ages usage rights	0	42
How to Survive 1.5 usage rights	0	30
Expenditure on development of ERP systems	29	29
Other	5	25
Reclassification from intangible assets to other current assets	(127)	0
Total intangible assets	**1,579**	**1,421**

Equity investments increased by Euro 169 thousand due to the subscription to a further portion of Seekhana Ltd.'s capital by the subsidiary Digital Bros Holdings Ltd. An equity interest of 30.52% was held in the UK company at the period end.

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

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**
Cautionary deposits for the rental of office premises used by Italian companies	635	635	0
Cautionary deposits for the rental of office premises used by foreign companies	192	192	0
Cautionary deposits for utilities	5	5	0
Cautionary deposits for the AAMS and Bingo concessions	220	220	0
Other cautionary deposits	1	4	(3)
Total non-current receivables and other assets	**1,053**	**1,056**	**(3)**

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

NON-CURRENT LIABILITIES

Employee benefits reflects the actuarial value of the Group's actual employee liability, calculated by an independent actuary in accordance with IAS 19.

Non-current provisions consist entirely of the provision for agents' indemnities.

Other non-current payables and liabilities had a nil balance at 30 September 2016, whereas the balance at the 2016 year end consisted entirely of variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid in September 2017. Accordingly, the payable has been classified within working capital payables.

NET WORKING CAPITAL

Net working capital increased with respect to the balance at 30 June 2016 by Euro 4,727 thousand, in line with the turnover trend for the quarter that led to an increase in trade receivables of Euro 12,436 thousand, only partially offset by an increase in trade payables of Euro 5,986 thousand and in current tax liabilities of Euro 3,504 thousand.

An analysis of net working capital together with comparative figures at 30 June 2016 is provided below:

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**	
Inventories	13,209	11,933	1,276	10.7%
Trade receivables	47,276	34,840	12,436	35.7%
Current tax assets	2,147	2,019	128	6.3%
Other current assets	5,357	5,034	323	6.4%
Trade payables	(27,698)	(21,712)	(5,986)	27.6%
Current tax liabilities	(9,715)	(6,211)	(3,504)	56.4%
Current provisions	0	0	0	n.m.
Other current liabilities	(2,258)	(2,312)	54	-2.3%
Total net working capital	**28,318**	**23,591**	**4,727**	**20.0%**

As shown by the following table, in addition to an increase in receivables due from customers, in line with the growth in turnover, there has been an increase in receivables pertaining to advances for video games user licences. The significant investment by the Group in recent months in new products and which started to generate revenue in the current quarter, has in fact significantly impacted this component of trade receivables. Details of trade receivables are provided below:

Euro thousand	30 September 2016	30 June 2016	Change
Receivables due from customers	25,062	14,963	10,099
Receivables pertaining to video game user licenses	22,214	19,877	2,337
Total trade receivables	**47,082**	**34,840**	**12,436**

EQUITY

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

Euro thousand	**Share capital (A)**	Share premium	Legal reserve	IAS transition reserve	Currency translation reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (accumulated losses)	Profit (loss) for the period	**Total retained earnings (D)**	**Consolidated equity attributable to Group (A+B+C+D)**
As at 1 July 2016	**5,644**	16,954	1,129	1,367	(813)	2,167	**20,804**	**(390)**	5,903	16,387	**22,290**	**48,348**
Allocation of profit							**0**				**0**	**0**
Payment of dividends							**0**				**0**	**0**
Other changes							**0**		615		**615**	**615**
Comprehensive income (loss)					(228)	(2,230)	**(2,458)**			7,874	**7,874**	**5,416**
As at 30 September 2016	**5,644**	16,954	1,129	1,367	(1,041)	(63)	**18,346**	**(390)**	6,518	24,261	**30,779**	**54,379**

Share capital, which has not changed since 30 June 2016, consists of 14,110,837 ordinary shares with a par value of Euro 0.4 each, amounting to Euro 5,644,334.8. No other types of shares are outstanding. There are no rights, liens or restrictions associated with the ordinary shares.

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

Changes in reserves in the period were:

Euro thousand	Period ended 30 September 2016
Change in currency translation reserve	(228)
Change in fair value reserve	(2,230)
Total changes in reserves	**2,458**

The change in fair value reserve is attributable to the difference between the prior period end market value and the purchase cost of the Starbreeze A ordinary shares held at 30 June 2016 and originally classified amongst equity investments and designated as available for sale. These shares were all sold during the quarter and, accordingly, the relevant reserve has been completely reduced to zero.

NET CASH/DEBT

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

	Euro thousand	30 September 2016	30 June 2016	Change
22	Cash and cash equivalents	13,632	2,785	10,847
23	Current bank debt	(16,638)	(25,929)	9,291
24	Other current financial assets and liabilities	7,477	28,913	(21,436)
	Current net cash/debt	**4,471**	**5,769**	**(1,298)**
25	Non-current financial assets	1,406	1,195	211
26	Non-current bank debt	(723)	(1,558)	835
27	Other non-current financial liabilities	(1,881)	(1,895)	14
	Non-current net debt	**(1,198)**	**(2,258)**	**1,060**
	Total net cash/debt	***3,273***	***3,511***	***(238)***

Net cash decreased in the period by Euro 238 thousand mainly due to a decrease in other current financial assets of Euro 21,436 thousand, partially offset by a decrease in current bank debt of Euro 9,291 thousand, an increase in cash and cash equivalents of Euro 10,847 thousand and a decrease in non-current bank debt of Euro 835 thousand.

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

The following table shows the Group's financial liabilities at 30 September 2016, grouped by maturity:

Euro thousand	Within 1 year	1 - 5 years	Beyond 5 years	Total
Bank overdrafts	(41)	0	0	(41)
Import and export financing	(9,458)	0	0	(9,458)
Advances on invoices subject to collection	(3,816)	0	0	(3,816)
Unsecured bank loans	(3,323)	(723)	0	(4,046)
Total bank debt (A)	**(16,638)**	**(723)**	**0**	**(17,361)**
Other financial liabilities (B)	**(51)**	**(1,830)**	**0**	**(1,881)**
Total financial liabilities (A) + (B)	**(16,689)**	**(2,553)**	**0**	**(19,242)**

Current net cash/debt

Current net cash/debt consists of the following:

	Euro thousand	30 September 2016	30 June 2016	Change
22	Cash and cash equivalents	13,632	2,785	10,847
23	Current bank debt	(16,638)	(25,929)	9,291
24	Other current financial assets and liabilities	7,477	28,913	(21,436)
	Total current net cash/debt	**4,471**	**5,769**	**(1,298)**

22. Cash and cash equivalents

Cash and cash equivalents at 30 September 2016, which are entirely unrestricted, amounted to Euro 13,632 thousand, representing an increase in the period of Euro 10,847 thousand, and consisted solely of current account sight deposits.

23. Current bank debt

Current bank debt consists of bank overdrafts, import and export financing, advances on invoices, advances subject to collection and current loan instalments. The decrease in the period of current bank debt of Euro 9,291 thousand is attributable to a decrease in import and export financing of Euro 11,679 thousand only partially offset by an increase in advances on invoices subject to collection of Euro 2,417 thousand.

Details of the balance are provided below:

Euro thousand	30 September 2016	30 June 2016	Change
Bank overdrafts	(41)	(82)	41
Import and export financing	(9,458)	(21,137)	11,679
Advances on invoices and subject to collection	(3,816)	(1,399)	(2,417)
Loan instalments due within 12 months	(3,323)	(3,311)	(12)
Total current bank debt	**(16,638)**	**(25,929)**	**9,291**

Loan instalments due within 12 months at 30 September 2016 consist of Euro 921 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 1,402 relating to the current portion of a loan granted by the Credito Bergamasco division of Banco Popolare.

24. Other current financial liabilities

Current financial assets and liabilities consist of the following:

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**
Starbreeze A shares	0	6,000	(6,000)
Starbreeze B shares	7,815	22,972	(15,157)
Fair value of derivatives expiring within 12 months	0	136	(136)
Advances against trade receivables under non-recourse factoring arrangements	(279)	(128)	(151)
Current lease obligations	(15)	(15)	0
Loan for purchase of property located in Eugene	(44)	(52)	8
Total other current financial assets and liabilities	**7,477**	**28,913**	**(21,436)**

The Starbreeze A shares held by Digital Bros at 30 June 2016 were all sold on 1 July 2016.

The amount of Starbreeze B shares at 30 September 2016 represents the market value of 3,275,532 Starbreeze B shares (listed on Nasdaq Stockholm First North Premier), of which 434,211 shares were held by 505 Games S.p.A. and 2,841,321 by Digital Bros S.p.A.

The synthetic forward contract for 100 million Swedish Krona that was entered into to hedge foreign exchange risk on 1 June by the subsidiary 505 Games S.p.A. with Unicredit S.p.A. was completely utilised during the quarter.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 279 thousand, having increased in the period by Euro 151 thousand, in line with the growth in turnover in the quarter.

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

The loan for the purchase of property located in Eugene of 49 thousand U.S. dollars relates to the current portion of a loan received by Spring Properties Inc. for the purchase of the property used by Pipeworks Inc.

Non-current net debt

Non-current net debt consists of the following:

	Euro thousand	30 September 2016	30 June 2016	Change
25	Non-current financial assets	1,406	1,195	211
26	Non-current bank debt	(723)	(1,558)	835
27	Other non-current financial liabilities	(1,881)	(1,895)	14
	Non-current net debt	**(1,198)**	**(2,258)**	**1,060**

25. Non-current financial assets

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

26. Non-current bank debt

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

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

- the maintenance of accounting policies in such a manner that, for the entire loan term, the accounting polices applied for the preparation of the separate financial statements and the consolidated financial statements (if prepared) are consistent with the criteria followed in prior years, without prejudice to any changes required by law;

- negative pledge not to grant or allow the granting of liens, pledges or mortgage charges over its assets (those already owned and those to be purchased) or any pre-emption right and/or preferential right in connection with its receivables, current or future, with the exception of security granted for the loan or granted in accordance with the provisions of the law, already in place at the date the loan was granted and except for the sale of trade receivables under factoring arrangements for working capital financing purposes (including the sale of VAT receivables);

- undertaking to inform the bank in advance in writing of the intention to apply for other medium-long term loans from credit institutions or individuals and, in any event, not to grant to third parties, subsequent to the date of the present agreement, mortgage charges over its assets and/or other collateral or unsecured guarantees, for any other loans, unless the security being granted to third parties is extended to the Bank.

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

The agreement also contains the following financial covenants:

- leverage (net debt/equity) lower than or equal to 1.50 to be verified annually with reference to the Company's consolidated financial statements effective as of those for the year ended 30 June 2016;

- 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 2016.

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;

b) 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 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; 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;

c) 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 July 2016 and the last on 30 September 2017. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 1.2 percentage points. The agreement does not include any covenants of commitment or financial covenants.

27. Other non-current financial liabilities

The main component of the balance consists of an amount of Euro 1,830 thousand relating to the non-current portion of a loan granted by Spring Properties, Inc. for the purchase of the property located in Eugene, which is used by Pipeworks Inc. The loan, which amounts to 2,125 thousand U.S. dollars, is repayable in 21 monthly instalments of 15 thousand U.S. dollars, inclusive of interest at an annual rate of 6% plus a final instalment of 2,023 thousand U.S. dollars.

The residual amount of Euro 51 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 32 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 19 thousand. Interest is payable at a floating rate of 1.41%.

The following table shows finance lease payments by maturity:

Euro thousand	**30 September 2016**	**30 June 2016**	**Change**
Due within 12 months	15	15	0
1-5 years	51	55	(4)
Beyond 5 years	0	0	0
Total	**66**	**70**	**(4)**

3. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

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

	Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	866	2,180	25,711	6,883	171	35,811
2	Revenue adjustments	0	0	(1,807)	(579)	(8)	(2,394)
3	**Net revenue**	**866**	**2,180**	**23,904**	**6,304**	**163**	**33,417**

The same details for the period ended 30 September 2015 are as follows:

	Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	627	622	15,400	9,493	105	26,247
2	Revenue adjustments	0	0	(140)	(738)	(30)	(908)
3	**Net revenue**	**627**	**622**	**15,260**	**8,755**	**75**	**25,339**

The Group's gross revenue for the quarter amounted to Euro 35,811 thousand, with the release in the period of two new video games, Assetto Corsa and Abzu, having made it possible to achieve significant growth in gross revenue of 36.4%, equating to Euro 9,564 thousand. Net revenue increased by 31.9% to Euro 33,417 thousand from the amount reported for the period ended 30 September 2015 of Euro 25,339 thousand.

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

Euro thousand	Gross revenue				Net revenue			
	2016	2015	Change		2016	2015	Change	
Premium Games	25,711	15,400	10,311	66.9%	23,904	15,260	8,644	56.6%
Italian Distribution	6,883	9,493	(2,610)	-27.5%	6,304	8,755	(2,451)	-28.0%
Free to Play	2,180	622	1,558	n.m.	2,180	622	1,558	2,180
Development	866	627	239	38.1%	866	627	239	38.1%
Other Activities	171	105	66	62.9%	163	75	88	n.m.
Total gross revenue	**35,811**	**26,247**	**9,564**	**36.4%**	**33,417**	**25,339**	**8,078**	**31.9%**

Revenue growth was attributable to a significant increase in sales reported by the Premium Games operating segment, driven by positive results achieved from the launch of new products, and from sales reported by the Free to Play operating segment, which also benefited from the launch of new video games, in this case, Hawken and Prominence Poker. There was a fall in revenue reported by the Italian Distribution operating segment.

Revenue reported by the Premium Games operating segment amounted to Euro 25,711 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of gross revenue by video game:

Amounts in Euro thousand	**Period ended 30 September 2016**	**Period ended 30 September 2015**	**Change**
Assetto Corsa	7,896	0	7,896
Rocket League	4,654	0	4,654
PAYDAY 2	4,470	6,726	(2,256)
Terraria	3,237	4,248	(1,011)
Abzu	2,051	0	2,051
Sniper Elite V3	1,433	2,253	(820)
How to Survive	478	441	37
Portal Knights	420	0	420
Brothers	151	1,333	(1,182)
Other products	921	399	522
Total Premium Games gross revenue	**25,711**	**15,400**	**10,311**

The operating segment's revenue was substantially boosted by sales of products launched in the quarter: Assetto Corsa (Euro 7,896 thousand) and Abzu (Euro 2,051 thousand). Significant sales were achieved by the Rocket League video game that amounted to Euro 4,654 thousand. This game, which was launched at the end of the previous financial year, remained in the video games sales charts throughout the period.

A significant contribution was made by products launched in prior years, with PAYDAY2 having achieved revenue in the period of Euro 4,470 thousand and Terraria, which, even though it was launched three years ago, achieved sales in the quarter of Euro 3,237 thousand.

The decrease in revenue reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the distribution of video games partially offset by an increase in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative first quarter the operating segment benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the period just ended.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than tripled from Euro 622 thousand reported in the comparative first quarter to Euro 2,180 thousand in the period just ended. The Free to Play operating segment also benefited from the launch of new products that had been postponed in the previous financial year, such as Hawken and Prominence Poker, even though the product that generated the largest portion of revenue was Gems of War, which is also available in console versions.

The Development operating segment’s revenue for the period amounted to Euro 866 thousand, up by 38.1%, and related to sales that the U.S. developer Pipeworks Inc. generated from development contracts with non-Group customers.

The Other Activities operating segment's revenue amounted to Euro 171 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by courses organised by Digital Bros Game Academy S.r.l.

25. Net finance income (costs)

This consists of:

	Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change	%
23	Interest and finance income	8,345	1,045	7,300	n.m.
24	Interest expense and finance costs	(715)	(363)	(352)	97.1%
25	**Net finance income (costs)**	**7,630**	**682**	**6,948**	**n.m.**

Net finance income amounted to Euro 7,630 thousand, compared to Euro 682 thousand for the comparative prior year period.

Details are provided below of interest income:

Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change	%
Exchange gains	716	203	513	n.m.
Finance income	7,629	842	6,787	n.m.
Total interest income	**8,345**	**1,045**	**7,300**	**n.m.**

Interest and finance income increased by Euro 7,300 thousand compared to the comparative prior year period. This mainly consisted of gains recognised on the sale and purchase of Starbreeze shares of Euro 7,570 thousand and exchange gains of Euro 716 thousand.

Interest expense and finance costs amounted to Euro 715 thousand, representing an increase of Euro 352 thousand compared to the figure reported for the period ended 30 September 2015, attributable to higher interest charged by banks on current accounts and trade finance and higher exchange losses.

Details are provided below of interest expense:

Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change	%
Interest charged by banks on current accounts and trade finance	(251)	(109)	(142)	n.m.
Interest on loans and leases	(61)	(31)	(30)	96.7%
Factoring interest	(1)	(3)	2	- 82.0%
Total interest expense payable to lenders	**(313)**	**(143)**	**(170)**	**n.m.**
Exchange losses	(402)	(220)	(182)	82.6%
Total interest expense	**(715)**	**(363)**	**(352)**	**96.7%**

29. Taxation

Details of current and deferred taxes for the period ended 30 September 2016 are provided below:

Euro thousand	Period ended 30 September 2016	Period ended 30 September 2015	Change	%
Current tax	(3,256)	(922)	(2,334)	n.m.
Deferred tax	95	(55)	150	n.m.
Total income tax expense	**(3,161)**	**(977)**	**(2,184)**	**n.m.**

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

4. NON-RECURRING INCOME AND EXPENSES

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

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

5. OTHER INFORMATION

Information on geographical segments

Details are provided below of gross revenue by geographical segment:

Euro thousand	Period ended 30 September 2016		Period ended 30 September 2015		Change	
Europe	11,169	31%	4,532	17%	6,637	146.4%
The Americas	15,767	44%	11,675	44%	4,092	35.0%
Rest of the world	1,821	5%	442	2%	1,379	312.0%
Total foreign revenue	**28,757**	**80%**	**16,649**	**63%**	**12,108**	**72.7%**
Italy	7,054	20%	9,598	37%	(2,544)	-26.5%
Total gross consolidated revenue	**35,811**	**100%**	**26,247**	**100%**	**9,564**	**36.4%**

Foreign revenue accounted for 80% of gross consolidated revenue compared to the comparative prior year figure of 63% and increased with respect thereto by 72.7%.

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

The most significant portion of foreign revenue is generated by the Premium Games operating segment, which generated foreign revenue of Euro 25,711 thousand, accounting for 89.4% of total foreign revenue.

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

Euro thousand	**Period ended 30 September 2016**		**Period ended 30 September 2015**		**Change**	
Free to Play	2,180	8%	15,400	15%	(13,220)	-85.8%
Premium Games	25,711	89%	622	83%	25,089	4033.6 %
Development	866	3%	627	2%	239	38.1%
Total gross foreign revenue	**28,757**	**100%**	**16,649**	**100%**	**12,108**	**72.7%**

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

6. RELATED PARTY TRANSACTIONS

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

Intercompany transactions

Intercompany transactions have been described in section 8 of the directors' report on intercompany and related party transactions and atypical/unusual transactions, to which reference should be made.

Other related parties

Related party transactions consist of:

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

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

Transactions in the period ended 30 September 2016 are summarised below:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(22)	0	0	(65)
Matov Imm. S.r.l.	0	635	0	0	0	(184)
Matov LLC	0	133	0	0	0	(101)
Total	**0**	**768**	**(22)**	**0**	**0**	**(350)**

Those in the period ended 30 September 2015 were:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(18)	0	0	(54)
Matov Imm. S.r.l.	0	635	0	0	0	(200)
Matov LLC	0	133	0	0	0	(67)
Total	**0**	**768**	**(18)**	**0**	**0**	**(321)**

The financial receivable due to Digital Bros S.p.A. by Matov Imm. S.r.l. relates to a cautionary deposit paid against lease obligations for the offices located at Via Tortona 37, Milan.

The financial receivable due to 505 Games (US) Inc. by Matov LLC relates to a cautionary deposit paid against lease obligations for the Calabasas offices, which are located in California and which are used by a number of U.S. subsidiaries.

Lease instalments for the Milan offices paid during the period by Digital Bros S.p.A. to Matov Imm. S.r.l. amount to Euro 173 thousand. As from December 2015, on the occasion of contract renewal for a further six years, the annual lease charge was reduced by Euro 60 thousand.

Lease instalments for the Francheville offices paid during the period by 505 Games France S.as. amount to Euro 11 thousand.

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

Tax consolidation

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

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the interim management report for the period ended 30 September 2016.

We also confirm that:

1. the interim management report of Digital Bros Group for the period ended 30 September 2016:
   a) has 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) corresponds to the books and accounting records;
   c) gives a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;

2. the interim management report for the period ended 30 September 2016 contains information about key events that occurred during the period and their impact on the interim management report for the period in question, along with a description of the main risks and uncertainties. The interim management report for the period ended 30 September 2016 also contains information about significant transactions with related parties.

Milan, 10 November 2016

Signed

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