



**Half-yearly financial report
for the six months ended 31 December 2016**

(1st half of financial year 2016/2017)

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milan, Italy

VAT No. and tax code 09554160151

Authorised share capital: Euro 5,964,334.80

Milan Companies Register No. 290680 - Vol. 7394 Chamber of Commerce

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

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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

Guido Guetta (Chairman)
Elena Morini
Bruno Soresina

Remuneration committee

Guido Guetta (Chairman)
Elena Morini
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 half-yearly financial report of Digital Bros S.p.A. Group for the six months ended 31 December 2016 was authorised by resolution of the Board of Directors on 28 February 2017. 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 it has been decided to focus on the type of games, namely 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 initially limited to the Apple and Google marketplaces, while the Sony and Microsoft console marketplaces offered solely traditional Premium games. From the moment it became possible to publish Free to Play games for Sony Playstation 4 and Microsoft Xbox One consoles, 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. During the course of the period, the liquidation process concerning the Swedish company 505 Games Nordic AB was completed. 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.

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 internal consulting services, the UK company DR Studios Ltd., which is a developer of Free to Play games and the newly formed company Hawken Entertainment Inc., which is the developer of the Hawken video game.

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.

Business operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand and by the subsidiary Game Entertainment S.r.l., which handles distribution via the newsstand distribution channel.

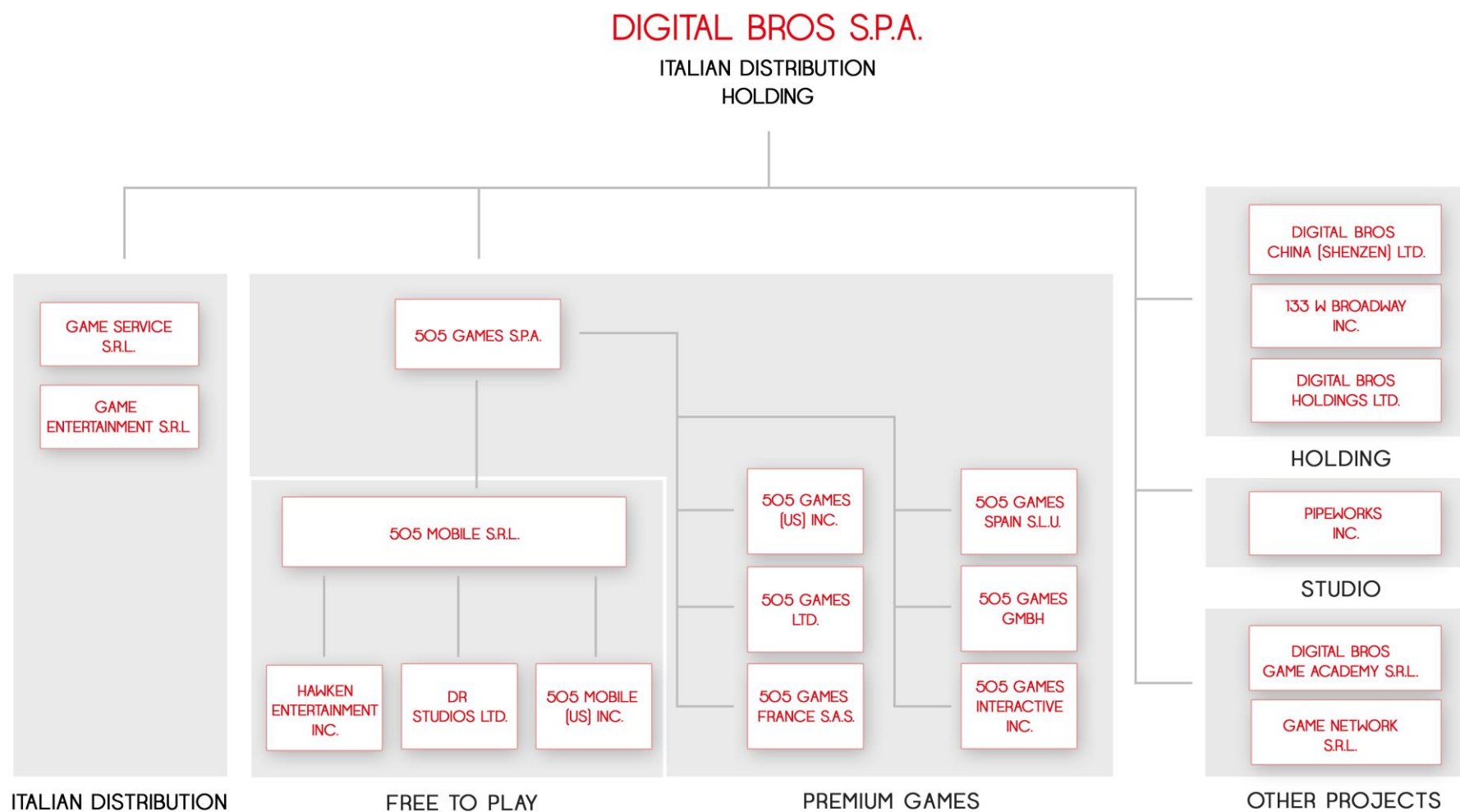
The Group also distributes the Yu-Gi-Oh! trading card game in Italy.

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 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 31 December 2016. All the investee companies shown are 100% held

GROUP STRUCTURE AT 31 DECEMBER 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
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
Game Network S.r.l.	Via Tortona 37, Milan	Offices
Game Service S.r.l.	Via Tortona 37, Milan	Offices
Hawken Entertainment Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
Pipeworks Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, 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

Hawken Entertainment Inc., which is based in the United States and which was set up on 28 September 2016, commenced operations in the second quarter of the financial year.

At 31 December 2016 the Group had equity investments in the associates listed below:

Name	Location	Holding	Carrying amount
Delta DNA Ltd.	Edinburgh, UK	1.04%	60
Ebooks&Kids S.r.l.	Milan	16%	200
Cityglance S.r.l. in liquidation	Milan	42.5%	45
Ovosonico S.r.l.	Varese	36.75%	540
Seekhana Ltd.	Milton Keynes, UK	31.57%	435
Total equity investments			1,280

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 that is also suitable for adults and females.

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 in the value chain when it comes to completing the game, enhancing its reputation and distributing it internationally 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 purchases of games on digital platforms 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. The Group has 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 significantly extend the lifespan of each video game. In fact, a product's availability is not strictly limited to the launch period, as is the case with the retail market, but it remains available in individual marketplaces thereafter, thus, ensuring a continuous flow of sales that may be significantly affected by temporary promotional policies.

3. MARKET SEASONALITY

Seasonality is influenced by the launch of successful products. 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 publication and distribution of video games in the digital marketplace mitigates 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.;
- 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 versions thereof. The guaranteed minimum payable by the Group to the developer amounts to 4.4 million U.S. dollars. Its release is planned for the coming financial year;
- on 7 October 2016, Digital Bros S.p.A. sold 1,275,000 Starbreeze B shares for a total amount of Euro 3,097 thousand resulting in a gain of Euro 28 thousand;
- in October 2016, Digital Bros S.p.A. sold its entire holding of 130,247 treasury shares for a total amount of Euro 1,241 thousand;
- 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 and also approved the distribution of a dividend to Digital Bros S.p.A. of Euro 6 million.

5. ANALYSIS OF RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2016

	Euro thousand	Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	65,143	105.6%	45,290	105.6%	19,853	43.8%
2	Revenue adjustments	(3,453)	-5.6%	(2,396)	-5.6%	(1,057)	44.1%
3	Net revenue	61,690	100.0%	42,894	100.0%	18,796	43.8%
4	Purchase of products for resale	(15,687)	-25.4%	(12,091)	-28.2%	(3,596)	29.7%
5	Purchase of services for resale	(4,053)	-6.6%	(3,286)	-7.7%	(767)	23.4%
6	Royalties	(17,913)	-29.0%	(7,969)	-18.6%	(9,944)	n.m.
7	Changes in inventories of finished products	1,147	1.9%	(1,685)	-3.9%	2,832	n.m.
8	Total cost of sales	(36,506)	-59.2%	(25,031)	-58.4%	(11,475)	45.8%
9	Gross profit (3+8)	25,184	40.8%	17,863	41.6%	7,321	41.0%
10	Other income	883	1.4%	2,764	6.4%	(1,881)	-68.0%
11	Cost of services	(6,216)	-10.1%	(6,744)	-15.7%	528	-7.8%
12	Lease and rental charges	(728)	-1.2%	(784)	-1.8%	56	-7.1%
13	Labour costs	(10,403)	-16.9%	(9,836)	-22.9%	(567)	5.8%
14	Other operating costs	(1,209)	-2.0%	(766)	-1.8%	(443)	57.8%
15	Total operating costs	(18,556)	-30.1%	(18,130)	-42.3%	(426)	2.4%
16	Gross operating margin (EBITDA) (9+10+15)	7,511	12.2%	2,497	5.8%	5,014	n.m.
17	Depreciation and amortisation	(3,195)	-5.2%	(1,791)	-4.2%	(1,404)	78.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(405)	-0.7%	(425)	-1.0%	20	-4.6%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	1.4%	(588)	0.0%
21	Total non-monetary income and operating costs	(3,600)	-5.8%	(1,628)	-3.8%	(1,972)	n.m.
22	Operating margin (EBIT) (16+21)	3,911	6.3%	869	2.0%	3,042	n.m.
23	Interest and finance income	8,725	14.1%	1,972	4.6%	6,753	n.m.
24	Interest expense and finance costs	(1,963)	-3.2%	(865)	-2.0%	(1,098)	n.m.
25	Net finance income (costs)	6,762	11.0%	1,107	2.6%	5,655	n.m.
26	Profit before tax (22+25)	10,673	17.3%	1,976	4.6%	8,697	n.m.
27	Current tax	(3,429)	-5.6%	(1,665)	-3.9%	(1,764)	n.m.
28	Deferred tax	152	0.2%	938	2.2%	(786)	n.m.
29	Total income tax expense	(3,277)	-5.3%	(727)	-1.7%	(2,550)	n.m.
30	Profit for the period (26+29)	7,396	12.0%	1,249	2.9%	6,147	n.m.
	Earnings per share:						
33	Basic earnings per share (in euros)	0.53		0.09		0.44	n.m.
34	Diluted earnings per share (in euros)	0.53		0.09		0.44	n.m.

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

Gross consolidated revenue for the half-year amounted to Euro 65,143 thousand, up by 43.8% on the figure for the first half of the previous financial year of Euro 45,290 thousand. The launch in the half-year of the Assetto Corsa video game and the continuous revenue stream arising from sales of the Rocket League video game, launched at the end of the prior year, were determinants of the Group's performance in the half-year.

In addition to the positive trend in revenue reported by the Premium Games operating segment that grew by Euro 19,317 thousand, the period benefited from growth in revenue reported by the Free to Play and Development operating segments that was up by Euro 1,983 thousand and Euro 1,947 thousand, respectively. The Italian Distribution operating segment reported a falling trend with a loss in turnover in the half-year of Euro 3,462 thousand.

A breakdown is provided below of revenue by operating segment for the periods ended 31 December 2016 and 2015:

Euro thousand	Gross revenue				Net revenue			
	2016	2015	Change		2016	2015	Change	
Premium Games	47,535	28,218	19,317	68.5%	45,201	26,890	18,311	68.1%
Italian Distribution	10,475	13,937	(3,462)	-24.8%	9,580	12,913	(3,333)	-25.8%
Free to Play	3,866	1,883	1,983	n.m.	3,866	1,883	1,983	n.m.
Development	2,863	916	1,947	n.m.	2,863	916	1,947	n.m.
Other Activities	404	336	68	20.2%	180	292	(112)	-38.4%
Total gross revenue	65,143	45,290	19,853	43.8%	61,690	42,894	18,796	43.8%

Revenue reported by the Premium Games operating segment amounted to Euro 47,535 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of revenue by video game:

Amounts in Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change
Rocket League	13,927	0	13,927
Assetto Corsa	9,119	0	9,119
PAYDAY 2	7,519	11,146	(3,627)
Terraria	7,448	9,204	(1,756)
Sniper Elite V3	2,916	4,124	(1,208)
Abzu	2,865	0	2,865
Other products	1,271	878	393
How to Survive	865	806	59
Portal Knights	855	0	855
Brothers	406	2,060	(1,654)
Virginia	344	0	344
Total Premium Games gross revenue	47,535	28,218	19,317

The operating segment's revenue was substantially boosted by sales of products launched in the half-year, namely Assetto Corsa (Euro 9,119 thousand) and Abzu (Euro 2,865 thousand). However, the product that generated the highest volumes during the period was Rocket League (retail versions for the Sony

Playstation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 13,927 thousand. The video game was launched in June 2016 and has remained in the video games sales charts throughout the period.

The video games, which have been drivers of the Group's results in recent years, that is, PAYDAY 2 and Terraria, generated revenue in the half-year of Euro 7,519 thousand and Euro 7,448 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that video games may now count on following the digitalisation of the market.

Of note, especially with a view to the future, is the trend in sales of Portal Knights, a video game for which the intellectual property pertaining thereto is fully held by the Group. During the half-year, only an Early Access PC version of the game was available on the Steam marketplace and it generated revenue of Euro 855 thousand. The final PC version of the video game, together with the brand new console versions, shall be available as from the fourth quarter.

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 and in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative half-year the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the half-year just ended.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than doubled from Euro 1,883 thousand reported in the comparative half-year to Euro 3,866 thousand in the period just ended. This operating segment also benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which was launched in November 2014 and which generated revenue in the half-year of Euro 1,502 thousand.

The focus of the U.S. subsidiary Pipeworks' operations almost entirely on job orders for non-Group third party customers made it possible to more than triple revenue achieved by the Development operating segment that went from Euro 916 thousand for the comparative half-year to Euro 2,863 thousand for the period ended 31 December 2016.

The Other Activities operating segment's revenue amounted to Euro 404 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.

Cost of sales in the half-year amounted to Euro 36,506 thousand, with the increase therein having been 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 2,764 thousand to Euro 883 thousand in the first half 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., in line with a lower use of resources by the latter on Group products.

Operating costs increased by Euro 426 thousand, which was significantly lower than the turnover trend. In addition to the natural effect of operating leverage triggered by revenue growth, there was also a decrease in advertising expenditure on the Daily Fantasy Sport Fantasfida that had characterised the first half of the last financial year.

The gross operating margin (EBITDA) amounted to Euro 7,511 thousand in the half-year just ended and has more than tripled compared to the figure for the period ended 31 December 2015 of Euro 2,497 thousand.

Non-monetary operating costs, net of non-monetary income, increased by Euro 1,972 thousand due to an increase in amortisation relating to intellectual property acquired by the Group and in line with expenditure by the Group on intellectual property.

The operating margin (EBIT) increased by Euro 3,042 thousand, having gone from Euro 869 thousand for the period ended 31 December 2015 to Euro 3,911 thousand for the period just ended.

Net finance income amounted to Euro 6,762 thousand, compared to Euro 1,107 thousand for the comparative prior year period. Interest and finance income increased by Euro 6,753 thousand compared to the comparative prior year period. This mainly consisted of gains recognised in the half-year on the sale and purchase of Starbreeze shares of Euro 7,598 thousand and exchange gains of Euro 1,045 thousand. Interest expense and finance costs amounted to Euro 1,963 thousand, representing an increase of Euro 1,098 thousand compared to the figure reported for the period ended 31 December 2015, attributable to losses recognised in the half-year on the sale and purchase of Starbreeze shares and higher exchange losses.

Profit before tax for the period ended 31 December 2016 came to Euro 10,673 thousand, up by Euro 8,697 thousand compared to the amount reported for the period ended 31 December 2015 of Euro 1,976 thousand.

Profit for the period amounted to Euro 7,396 thousand, having increased by Euro 6,147 thousand compared to the profit for the period ended 31 December 2015 of Euro 1,249 thousand.

Basic and diluted earnings per share came to Euro 0.53, compared to earnings per share for the comparative prior year period of Euro 0.09.

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 31 DECEMBER 2016

	Euro thousand	31 December 2016	30 June 2016	Change	
	Non-current assets				
1	Property, plant and equipment	6,999	7,032	(33)	-0.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	17,461	10,458	7,003	67.0%
4	Equity investments	1,280	898	382	42.5%
5	Non-current receivables and other assets	1,056	1,056	0	0.0%
6	Deferred tax assets	2,794	2,619	175	6.7%
	Total non-current assets	29,590	22,063	7,527	34.1%
	Non-current liabilities				
7	Employee benefits	(544)	(529)	(15)	2.8%
8	Non-current provisions	(26)	(36)	10	-26.4%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	(570)	(817)	247	-30.2%
	Net working capital				
10	Inventories	13,080	11,933	1,147	9.6%
11	Trade receivables	32,086	34,840	(2,754)	-7.9%
12	Current tax assets	2,709	2,019	690	34.2%
13	Other current assets	4,431	5,034	(603)	-12.0%
14	Trade payables	(24,704)	(21,712)	(2,992)	13.8%
15	Current tax liabilities	(6,878)	(6,211)	(667)	10.8%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,005)	(2,312)	307	-13.3%
	Total net working capital	18,719	23,591	(4,872)	-20.7%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,797)	(20,804)	2,006	-9.6%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,364)	(22,290)	(7,074)	31.7%
	Total equity	(53,805)	(48,348)	(5,457)	11.3%
	Total net assets	(6,066)	(3,511)	(2,555)	72.8%
22	Cash and cash equivalents	6,756	2,785	3,971	n.m.
23	Current bank debt	(3,474)	(25,929)	22,455	-86.6%
24	Other current financial assets and liabilities	1,759	28,913	(27,154)	-93.9%
	Current net cash/debt	5,041	5,769	(728)	-12.6%
25	Non-current financial assets	1,310	1,195	115	9.6%
26	Non-current bank debt	(237)	(1,558)	1,321	-84.8%
27	Other non-current financial liabilities	(48)	(1,895)	1,847	-97.5%
	Non-current net debt	1,025	(2,258)	3,283	n.m.
	Total net cash/debt	6,066	3,511	2,555	72.8%

Non-current assets increased with respect to the balance at 30 June 2016 by Euro 7,527 thousand mainly due to net expenditure on intangible assets of Euro 7,003 thousand relating to the acquisition and production of intellectual property and an increase in deferred tax assets of Euro 175 thousand. Equity investments increased by Euro 382 thousand due to the subscription to further portions of the capital of Seekhana Ltd. and Ovosonico S.r.l. for amounts of Euro 262 thousand and Euro 120 thousand, respectively. The equity interests held in the two companies at the period end were 31.57% and 36.75%, respectively.

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 decreased in the period by Euro 4,872 thousand. An analysis of net working capital together with comparative figures at 30 June 2016 is provided below:

Euro thousand	31 December 2016	30 June 2016	Change	
Inventories	13,080	11,933	1,147	9.6%
Trade receivables	32,086	34,840	(2,754)	-7.9%
Current tax assets	2,709	2,019	690	34.2%
Other current assets	4,431	5,034	(603)	-12.0%
Trade payables	(24,704)	(21,712)	(2,992)	13.8%
Current tax liabilities	(6,878)	(6,211)	(667)	10.8%
Current provisions	0	0	0	n.m.
Other current liabilities	(2,005)	(2,312)	307	-13.3%
Total net working capital	18,719	23,591	(4,872)	-20.7%

Net cash amounted to Euro 6,066 thousand, representing an improvement of Euro 2,555 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	31 December 2016	30 June 2016	Change	
Cash and cash equivalents	6,756	2,785	3,971	n.m.
Current bank debt	(3,474)	(25,929)	22,455	-86.6%
Other current financial assets and liabilities	1,759	28,913	(27,154)	-93.9%
Current net cash/debt	5,041	5,769	(728)	-12.6%
Non-current financial assets	1,310	1,195	115	9.6%
Non-current bank debt	(237)	(1,558)	1,321	-84.8%
Other non-current financial liabilities	(48)	(1,895)	1,847	-97.5%
Non-current net debt	1,025	(2,258)	3,283	n.m.
Total net cash/debt	6,066	3,511	2,555	72.8%

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 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	2,863	100.0%	916	100.0%	1,947	n.m.
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	2,863	100.0%	916	100.0%	1,947	n.m.
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(313)	-10.9%	(342)	-37.3%	29	-8.2%
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	(313)	-10.9%	(342)	-37.3%	29	-8.2%
9	Gross profit (3+8)	2,550	89.1%	574	62.7%	1,976	n.m.
10	Other income	351	12.3%	2,188	239.0%	(1,837)	-84.0%
11	Cost of services	(191)	-6.7%	(124)	-13.6%	(67)	53.8%
12	Lease and rental charges	0	0.0%	(69)	-7.6%	69	n.m.
13	Labour costs	(2,009)	-70.1%	(2,422)	-264.5%	413	-17.1%
14	Other operating costs	(68)	-2.4%	(98)	-10.7%	30	-30.5%
15	Total operating costs	(2,268)	-79.2%	(2,713)	-296.3%	445	-16.4%
16	Gross operating margin (EBITDA) (9+10+15)	633	22.1%	49	5.4%	584	n.m.
17	Depreciation and amortisation	(296)	-10.4%	(301)	-32.9%	5	-1.5%
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	(296)	-10.4%	(301)	-32.9%	5	-1.5%
22	Operating margin (EBIT) (16+21)	337	11.8%	(252)	-27.5%	589	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.

The focus of the U.S. subsidiary Pipeworks' operations almost entirely on job orders for non-Group third party customers made it possible to more than triple revenue achieved by the Development operating segment that went from Euro 916 thousand for the comparative half-year to Euro 2,863 thousand for the period ended 31 December 2016. However, other income fell from Euro 2,188 thousand to Euro 351 thousand in the first half of the current financial year. In fact, during the period, Pipeworks Inc. solely performed services for the Group, consisting of quality assurance and live support for the Prominence Poker video game that was created thereby in the prior year.

Labour costs were the most significant component of operating costs and amounted to Euro 2,009 thousand compared to Euro 2,422 thousand for the period ended 31 December 2015.

Depreciation and amortisation expense consists of the amortisation of intangible assets of Euro 77 thousand and the amortisation of development contracts allocated upon acquisition of Euro 219 thousand.

Higher margins generated by non-Group job orders in comparison to the favourable conditions pertaining to intercompany contracts enabled the operating segment to recognise a positive net operating margin of Euro 337 thousand compared to the negative margin of Euro 252 thousand reported for the comparative half-year.

Premium Games

Financial highlights (reclassified)

Amounts in Euro thousand		Premium Games					
		Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	47,535	105.2%	28,218	104.9%	19,317	68.5%
2	Revenue adjustments	(2,334)	-5.2%	(1,328)	-4.9%	(1,006)	75.7%
3	Net revenue	45,201	100.0%	26,890	100.0%	18,311	68.1%
4	Purchase of products for resale	(9,067)	-20.1%	(3,895)	-14.5%	(5,172)	n.m.
5	Purchase of services for resale	(2,144)	-4.7%	(2,372)	-8.8%	228	-9.6%
6	Royalties	(17,667)	-39.1%	(7,553)	-28.1%	(10,114)	n.m.
7	Changes in inventories of finished products	646	1.4%	(484)	-1.8%	1,130	n.m.
8	Total cost of sales	(28,232)	-62.5%	(14,304)	-53.2%	(13,928)	97.4%
9	Gross profit (3+8)	16,969	37.5%	12,586	46.8%	4,383	34.8%
10	Other income	14	0.0%	38	0.1%	(24)	-63.9%
11	Cost of services	(3,346)	-7.4%	(2,289)	-8.5%	(1,058)	46.2%
12	Lease and rental charges	(293)	-0.6%	(251)	-0.9%	(42)	16.8%
13	Labour costs	(3,612)	-8.0%	(3,368)	-12.5%	(244)	7.2%
14	Other operating costs	(247)	-0.5%	(257)	-1.0%	11	-3.9%
15	Total operating costs	(7,498)	-16.6%	(6,165)	-22.9%	(1,333)	21.6%
16	Gross operating margin (EBITDA) (9+10+15)	9,485	21.0%	6,459	24.0%	3,026	46.9%
17	Depreciation and amortisation	(1,214)	-2.7%	(575)	-2.1%	(639)	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	(1,214)	-2.7%	(575)	-2.1%	(639)	n.m.
22	Operating margin (EBIT) (16+21)	8,271	18.3%	5,884	21.9%	2,387	40.6%

Revenue reported by the Premium Games operating segment amounted to Euro 47,535 thousand, having increased by 68.7%, that is, by Euro 19,317 thousand with respect to the amount reported for the period ended 31 December 2015 of Euro 28,218 thousand.

Details are provided below of gross revenue by video game:

Amounts in Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change
Rocket League	13,927	0	13,927
Assetto Corsa	9,119	0	9,119
PAYDAY 2	7,519	11,146	(3,627)
Terraria	7,448	9,204	(1,756)
Sniper Elite V3	2,916	4,124	(1,208)
Abzu	2,865	0	2,865
Other products	1,271	878	393
How to Survive	865	806	59
Portal Knights	855	0	855
Brothers	406	2,060	(1,654)
Virginia	344	0	344
Total Premium Games gross revenue	47,535	28,218	19,317

The operating segment's revenue was substantially boosted by sales of products launched in the half-year, namely Assetto Corsa (Euro 9,119 thousand) and Abzu (Euro 2,865 thousand). However, the product that generated the highest volumes during the period was Rocket League (retail versions for the Sony Playstation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 13,927 thousand. The video game was launched in June 2016 and has remained in the video games sales charts throughout the period.

The video games, which have been drivers of the Group's results in recent years, that is, PAYDAY 2 and Terraria, generated revenue in the half-year of Euro 7,519 thousand and Euro 7,448 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that video games may now count on following the digitalisation of the market.

Of note, especially with a view to the future, is the trend in sales of Portal Knights, a video game for which the intellectual property pertaining thereto is fully held by the Group. During the half-year, only an Early Access PC version of the game was available on the Steam marketplace and it generated revenue of Euro 855 thousand. The final PC version of the video game, together with the brand new console versions, shall be available as from the fourth quarter.

In line with the positive trend of the Rocket league video game, for which the Group holds the publishing rights for the retail version thereof, the revenue generated by retail distribution made it the best performing distribution channel in the half-year. Details are provided below of revenue by distribution channel together with comparative prior year figures:

Revenue (in Euro thousand)	Period ended 31 December 2016	Period ended 31 December 2015	Change	
Retail distribution revenue	28,672	11,017	17,655	n.m.
Digital distribution revenue	17,260	17,066	194	1.1%
Sub-licensing revenue	1,603	135	1,468	n.m.
Total Premium Games revenue	47,535	28,218	19,317	68.5%

Details are provided below of digital distribution revenue by digital marketplace for the period ended 31 December 2016:

Revenue (in Euro thousand)	Period ended 31 December 2016	Period ended 31 December 2015	Change
Sony Playstation Network	7,108	4,604	2,504
Microsoft Xbox Live	4,573	4,388	185
Steam	3,295	5,018	(1,723)
iTunes	982	1,735	(753)
Google	474	642	(168)
Other marketplaces	828	679	149
Total digital distribution revenue	17,260	17,066	194

Sub-licensing revenue grew significantly by Euro 1,468 thousand and arose mainly from the sale of exploitation rights for the Terraria video game for China.

Revenue adjustments have gone from Euro 1,328 thousand to Euro 2,334 thousand for the period ended 31 December 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 5.2% is in line with market trends, especially following the launch of new products, and is also in line with the prior year figure of 4.9%. The operating segment's net revenue grew by 68.1%.

The significant increase in royalty costs of Euro 10,114 thousand, which have more than doubled compared to prior year, is attributable to an increased weighting of revenue from products, which, due to the nature of the contracts entered into and the lower risks that the Group assumes, have higher than average royalty percentages applied thereto. This increase led to a rise in cost of sales of 97.4%, thus reducing growth in the operating segment's gross profit to 34.8%, with gross profit for the period having amounted to Euro 16,969 thousand.

Operating costs increased by Euro 1,333 thousand, mainly due to an increase in cost of services of Euro 1,058 thousand, which was attributable to higher advertising expenditure following the launch of two new products, whereas the other cost components remained broadly in line with the comparative prior year period.

The gross operating margin amounted to Euro 9,485 thousand and increased by 46.9%.

Non-monetary operating costs rose by Euro 639 thousand due to an increase in amortisation of intellectual property acquired by the Group, bringing the operating margin to Euro 8,271 thousand, representing an increase of 40.6% and equating to 18.3% of net revenue.

Free to Play

Financial highlights (reclassified)

	Amounts in Euro thousand	Free to Play					
		Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	3,866	100.0%	1,883	100.0%	1,983	n.m.
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	3,866	100.0%	1,883	100.0%	1,983	n.m.
4	Purchase of products for resale	(0)	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(1,252)	-32.4%	(533)	-28.3%	(719)	n.m.
6	Royalties	(207)	-5.4%	(360)	-19.1%	153	-42.4%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(1,459)	-37.8%	(893)	-47.4%	(566)	63.5%
9	Gross profit (3+8)	2,407	62.3%	990	52.6%	1,417	n.m.
10	Other income	496	12.8%	401	21.3%	95	23.6%
11	Cost of services	(474)	-12.3%	(473)	-25.1%	(1)	0.2%
12	Lease and rental charges	(33)	-0.9%	(39)	-2.1%	6	-16.0%
13	Labour costs	(2,247)	-58.1%	(1,472)	-78.2%	(775)	52.7%
14	Other operating costs	(34)	-0.9%	(37)	-2.0%	3	-6.3%
15	Total operating costs	(2,788)	-72.1%	(2,021)	-107.3%	(767)	38.0%
16	Gross operating margin (EBITDA) (9+10+15)	115	3.0%	(630)	-33.5%	745	n.m.
17	Depreciation and amortisation	(1,290)	-33.4%	(659)	-35.0%	(631)	95.9%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	(425)	-22.6%	425	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	31.2%	(588)	0.0%
21	Total non-monetary income and operating costs	(1,290)	-33.4%	(496)	-26.3%	(794)	n.m.
22	Operating margin (EBIT) (16+21)	(1,175)	-30.4%	(1,126)	-59.8%	(49)	4.4%

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than doubled from Euro 1,883 thousand reported in the comparative half-year to Euro 3,866 thousand in the period just ended. This operating segment also benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which was launched in November 2014 and which generated revenue in the half-year of Euro 1,502 thousand.

Details are provided below of revenue for the period together with comparative prior year figures:

Revenue (in Euro thousand)	Period ended 31 December 2016	Period ended 31 December 2015	Change
Gems of War	1,502	363	1,139
Battle Ages	633	3	630
Battle Islands	620	1,350	(730)
Prominence Poker	547	0	547
Hawken	497	0	497
Other products	63	166	(100)
Total Free to Play revenue	3,866	1,883	1,983

The Battle Ages and Battle Islands video games, which were developed by the subsidiary DR Studios Ltd., contributed revenue for the period of Euro 633 thousand and Euro 620 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 Islands, Battle Islands Commander, which will be released in February 2017. The capitalisation of internal development costs incurred for the game in the half-year has been recognised as other income.

The impact on revenue for the half-year arising from the two recently launched games was limited to Euro 547 thousand and Euro 497 thousand for Prominence Poker and Hawken, respectively. With specific reference to the latter, in view of the potential that the video game is deemed to have, a new organisational unit, Hawken Entertainment Inc., has been set up and which is entirely held by the Group, through which the exploitation rights for the intellectual property have been purchased. Simultaneously, skills have been acquired that will make it possible, by revising the game's mechanics, to better exploit the potential thereof, including via an assessment of the release of a completely revised second version of the game.

Cost of sales solely consists of purchases of services and royalties. The former, which amounted to Euro 1,252 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 31 December 2016	Period ended 31 December 2015	Change
Live support	548	203	345
Programming	13	24	(11)
Quality assurance	83	143	(60)
Hosting	531	94	437
Other	77	69	8
Total	1,252	533	719

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 mainly consist of advertising costs incurred to acquire new gamers, as well as labour costs. The former remained broadly constant in the half-year, whereas the latter increased by Euro 775 thousand (52.7%), compared to comparative prior year figures, in line with the increase in the number of

the operating segment's employees, partially impacted by professional staff hired by the newly formed Hawken Entertainment Inc.

Depreciation and amortisation increased by Euro 631 thousand and consisted of the following:

Amounts in Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change
Amortisation of Battle Islands	219	388	(169)
Amortisation of intangible assets	1,055	245	810
Depreciation of property, plant and equipment	16	26	(10)
Total	1,290	659	631

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 current financial year.

The operating loss for the period amounted to Euro 1,175 thousand, in line with the operational loss for the period ended 31 December 2015 of Euro 1,126 thousand.

Italian Distribution

Financial highlights (reclassified)

Amounts in Euro thousand		Italian Distribution					
		Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	10,475	109.3%	13,937	107.9%	(3,462)	-24.8%
2	Revenue adjustments	(895)	-9.3%	(1,024)	-7.9%	129	-12.7%
3	Net revenue	9,580	100.0%	12,913	100.0%	(3,333)	-25.8%
4	Purchase of products for resale	(6,620)	-69.1%	(8,196)	-63.5%	1,576	-19.2%
5	Purchase of services for resale	(252)	-2.6%	0	0.0%	(252)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	501	5.2%	(1,201)	-9.3%	1,702	n.m.
8	Total cost of sales	(6,371)	-66.5%	(9,397)	-72.8%	3,026	-32.2%
9	Gross profit (3+8)	3,209	33.5%	3,516	27.2%	(307)	-8.7%
10	Other income	22	0.2%	18	0.1%	4	25.6%
11	Cost of services	(854)	-8.9%	(1,204)	-9.3%	350	-29.1%
12	Lease and rental charges	(23)	-0.2%	(31)	-0.2%	8	-26.8%
13	Labour costs	(767)	-8.0%	(895)	-6.9%	128	-14.3%
14	Other operating costs	(92)	-1.0%	(120)	-0.9%	28	-23.7%
15	Total operating costs	(1,736)	-18.1%	(2,250)	-17.4%	514	-22.8%
16	Gross operating margin (EBITDA) (9+10+15)	1,495	15.6%	1,284	9.9%	211	16.5%
17	Depreciation and amortisation	(102)	-1.1%	(86)	-0.7%	(16)	19.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(405)	-4.2%	0	0.0%	(405)	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	(507)	-5.3%	(86)	-0.7%	(421)	n.m.
22	Operating margin (EBIT) (16+21)	988	10.3%	1,198	9.3%	(210)	-17.5%

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 and in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative half-year the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the half-year just ended.

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

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change	
Distribution of video games for consoles	7,564	10,106	(2,542)	-25.2%
Distribution of video games for PC	573	399	174	43.7%
Distribution of trading cards	2,085	3,021	(936)	-31.0%
Distribution of other products and services	267	436	(169)	-38.8%
Cash discounts	(14)	(25)	11	-45.4%
Total gross Italian Distribution revenue	10,475	13,937	(3,462)	-24.8%

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 31 December 2016		Period ended 31 December 2015		Change	
	Units	Revenue	Units	Revenue	Units	Revenue
Sony Playstation 4	133,618	5,043	129,272	5,417	3.4%	-6.9%
Sony Playstation 3	33,646	1,045	89,326	2,303	-62.3%	-54.6%
Microsoft Xbox One	24,698	936	26,077	1,030	-5.3%	-9.2%
Microsoft Xbox 360	20,223	472	48,557	1,148	-58.4%	-58.9%
Other consoles	32,526	68	22,505	208	44.5%	-67.3%
Total console revenue	244,711	7,564	315,737	10,106	-22.5%	-25.2%

The operating segment reported a decrease in revenue arising from the distribution of video games for consoles of Euro 2,542 thousand. Sales of Yu-Gi-Oh! trading cards decreased by Euro 936 thousand.

Net revenue amounted to Euro 9,580 thousand, down by 25.8% on the corresponding prior year period, in line with the gross revenue trend.

The 32.2% decrease in cost of sales exceeds the percentage fall in revenue and has limited the drop in the operating segment's gross profit in the half-year to 8.7%.

As a result of cost savings policies implemented during the course of the prior financial year, operating costs fell by 22.8% (Euro 514 thousand). The decrease was mainly due to a reduction in cost of services of Euro 350 thousand and in labour costs of Euro 128 thousand.

Non-monetary operating costs rose by Euro 421 thousand mainly due to the impact of the allocation to the provision for doubtful debts, to take account of potential losses arising from the bankruptcy of certain customers.

The operating margin decreased by Euro 210 thousand, having gone from the figure reported for the period ended 31 December 2015 of Euro 1,198 thousand to Euro 988 thousand for the period just ended.

Other Activities

Financial highlights (reclassified)

Amounts in Euro thousand		Other Activities					
		Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	404	225.0%	336	115.0%	68	20.3%
2	Revenue adjustments	(224)	-124.4%	(44)	-15.0%	(180)	n.m.
3	Net revenue	180	100.0%	292	100.0%	(112)	-38.5%
4	Purchase of products for resale	0	0.2%	0	0.0%	0	0.0%
5	Purchase of services for resale	(92)	-51.3%	(39)	-13.3%	(53)	n.m.
6	Royalties	(39)	-21.9%	(56)	-19.0%	17	-29.1%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(131)	-73.0%	(95)	-32.4%	(36)	n.m.
9	Gross profit (3+8)	49	27.0%	197	67.3%	(148)	-75.3%
10	Other income	0	0.0%	119	40.9%	(119)	0.0%
11	Cost of services	(631)	-351.2%	(2,013)	-688.8%	1,382	-68.6%
12	Lease and rental charges	(6)	-3.3%	(11)	-3.9%	5	-47.6%
13	Labour costs	(349)	-194.4%	(265)	-90.8%	(84)	31.7%
14	Other operating costs	(22)	-12.5%	(25)	-8.7%	3	-11.3%
15	Total operating costs	(1,008)	-560.9%	(2,314)	-791.8%	1,306	-56.4%
16	Gross operating margin (EBITDA) (9+10+15)	(959)	-533.3%	(1,998)	-683.6%	1,039	-52.0%
17	Depreciation and amortisation	(187)	-104.2%	(112)	-38.3%	(75)	67.3%
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	(187)	-104.2%	(112)	-38.3%	(75)	67.3%
22	Operating margin (EBIT) (16+21)	(1,146)	-637.5%	(2,110)	-721.9%	964	-45.7%

The Other Activities operating segment's revenue amounted to Euro 404 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 2,314 thousand to Euro 1,008 thousand given that the cost of services incurred in the comparative prior year first half were significantly influenced by costs incurred for the Italian launch of Fantasfida.

The negative operating margin amounted to Euro 1,146 thousand compared to the negative operating margin of Euro 2,110 thousand reported for the period ended 31 December 2015, representing an improvement of Euro 964 thousand.

Holding

Financial highlights (reclassified)

	Amounts in Euro thousand	Holding					
		Period ended 31 December 2016		Period ended 31 December 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	(720)	0.0%	(641)	0.0%	(79)	12.3%
12	Lease and rental charges	(373)	0.0%	(383)	0.0%	10	-2.7%
13	Labour costs	(1,419)	0.0%	(1,414)	0.0%	(5)	0.3%
14	Other operating costs	(746)	0.0%	(229)	0.0%	(517)	n.m.
15	Total operating costs	(3,258)	0.0%	(2,667)	0.0%	(591)	22.1%
16	Gross operating margin (EBITDA) (9+10+15)	(3,258)	0.0%	(2,667)	0.0%	(591)	22.1%
17	Depreciation and amortisation	(106)	0.0%	(58)	0.0%	(48)	82.6%
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	(106)	0.0%	(58)	0.0%	(48)	82.6%
22	Operating margin (EBIT) (16+21)	(3,364)	0.0%	(2,725)	0.0%	(639)	23.5%

Business activity is carried out by the parent company Digital Bros S.p.A. and by 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 its operations.

Operating costs amounted to Euro 3,258 thousand, representing an increase compared to the comparative prior year figure of Euro 591 thousand. The increase is mainly due to fees of Euro 516 thousand incurred by 505 Games S.p.A. in connection with the sale and purchase of Starbreeze shares during the course of the half-year.

Depreciation and amortisation increased by Euro 48 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 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 half-yearly financial report for the six months ended 31 December 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 31 December 2016 Digital Bros S.p.A. did not hold any treasury shares, given that the 130,247 treasury shares held at 30 June 2016 were sold during the period just ended.

10. RESEARCH AND DEVELOPMENT

During the period, the Group incurred research expenses of Euro 143 thousand and development expenses of Euro 1,586 thousand. The amounts incurred in the period ended 31 December 2015 were Euro 19 thousand and Euro 3,136 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. RECONCILIATION OF RESULT FOR THE PERIOD AND EQUITY OF PARENT COMPANY TO THOSE OF GROUP

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

	Profit for the period ended		Capital and reserves	
	31 December 2016	December 2015	31 December 2016	31 December 2015
Profit (loss) for the period and equity of Digital Bros S.p.A.	1,350	2	27,842	32,174
Profit for the period and equity of subsidiaries	7,435	2,006	50,720	27,983
Carrying amount of equity investments	0	0	(25,244)	(24,684)
Consolidation adjustments				
Impairment of investments in subsidiaries	332	0	1,491	1,491
Elimination of intercompany profits	(197)	(437)	(1,693)	(854)
Other adjustments	(1,524)	(322)	689	1,359
Profit (loss) and equity of the Group	7,396	1,249	53,805	37,469

Details are provided below of other adjustments for the periods ended 31 December 2016 and 2015:

	Profit for the period ended		Capital and reserves	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	303	0	0	0
Impairment of Digital Bros S.p.A.'s investment in 505 Digital Bros Game Academy S.r.l.	29	0	0	0
Impairment of Digital Bros S.p.A.'s investment in Pipeworks Inc.	0	0	1,491	1,491
Total impairment of investments in subsidiaries	332	0	1,491	1,491
Profits in inventory	(144)	20	(352)	(108)
DR Studios Ltd. and Pipeworks Inc. margin on intercompany sales	(53)	(457)	(1,341)	(746)
Total elimination of intercompany profits	(197)	(437)	(1,693)	(854)
Dividends from 505 Games Ltd.	(1,108)	0	0	0
Amortisation/depreciation/allocation of purchase price of DR Studios Ltd., net of the related tax effect	(158)	(281)	245	598
Amortisation/depreciation/allocation of purchase price of Pipeworks Inc., net of the related tax effect	(159)	(159)	210	529
Reversal of DR Studios Ltd earn-out payable.	0	427	0	0
Impairment of investment in DR Studios Ltd.	0	(309)	0	0
Other adjustments	(99)	0	234	232
Total other adjustments	(1,524)	(322)	689	1,359

12. CONTINGENT ASSETS AND LIABILITIES

One of the key financial terms of the sale of PAYDAY2 rights by the Group in May 2016 provided the Group with the chance to earn a maximum of 40 million U.S. dollars to be computed as 33% of net revenue that Starbreeze shall recognise on sales of PAYDAY3. On 16 February 2017, upon the approval of Starbreeze's financial statements, its CEO officially announced that the game had entered into its production phase, without specifying the timing of its release.

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 financial year end.

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

13. SUBSEQUENT EVENTS

Details of key subsequent events are as follows:

- on 11 January 2017, the shareholders of Digital Bros Group in ordinary general meeting approved the “2016-2026 Stock Option Plan” (the "Plan") aimed at a limited number of directors and managers of the Company and of the Group that had been identified by the Board of Directors. The duration of the Plan shall be until 30 June 2026 and it provides for the assignment of a maximum number of 800,000 options as follows:
 - 240,000 options on 1 July 2019;
 - 240,000 options on 1 July 2022;
 - 320,000 options on 1 July 2025.

The exercise price of the options shall equate to the average reference price of Digital Bros shares recorded on the STAR segment of the MTA market in the six months prior to the grant date, it being understood that the price shall not be lower than € 6.64, equating to the reference price for Digital Bros shares on 1 July 2016, the date on which the Plan became effective. The shareholders in extraordinary general meeting then granted a mandate to the Board of Directors to increase the capital, in various tranches, with the disapplication of pre-emption rights pursuant to Art. 2441, paragraph 8, of the Italian Civil Code, up to a total maximum nominal amount of Euro 320,000.00, via the issue, which may be in one or more lots, of a maximum number of 800,000 Digital Bros ordinary shares with a par value of Euro 0.40 each, to be reserved for the beneficiaries of the Plan;

- on 20 January 2017, the Board of Directors of Digital Bros S.p.A., in accordance with the mandate granted thereto by the general meeting of shareholders held on 11 January 2017, approved the assignment of 744,000 options to 14 beneficiaries of the Plan, the number of options assigned, the exercise windows and the unitary subscription price. The duration of the Plan shall be until 30 June 2026 and, following the assignment, 744,000 Digital Bros ordinary

shares may be subscribed at a price of Euro 10.61 per share, as follows:

- 223,200 shares as from 1 July 2019;
- 223,200 shares as from 1 July 2022;
- 297,600 shares as from 1 July 2025.

Subscription shall take place upon the payment of Euro 10.61 per share, equating to the average reference price of Digital Bros shares in the previous six months.

The assignees of the option rights are:

- the Chairman of the Board of Directors, Abramo Galante, who has been assigned 200,000 options;
 - the Managing Director, Raffaele Galante, who has been assigned 200,000 options;
 - the Executive Director, Stefano Salbe, who has been assigned 200,000 options;
 - the Executive Director, Dario Treves, who has been assigned 50,000 options;
 - 10 Group employees, who have been assigned 174,000 options.
- on 20 January 2017, the Board of Directors of Digital Bros S.p.A. approved the execution of an agreement for the acquisition of a 100% equity interest in Kunos Simulazioni S.r.l., the Italian developer of Assetto Corsa. Kunos Simulazioni S.r.l. is an Italian company based in Formello (RM) with many years of experience in the construction of simulators for Italy's leading car manufacturers. Taking advantage of this experience, in 2014 it developed and launched Assetto Corsa, a video game, the Steam PC, Sony Playstation 4 and Microsoft Xbox One versions of which were well received by critics and the public, with more than 1.4 million copies sold globally to date. In 2015, 505 Games, the Digital Bros Group division that handles international publishing of video games, entered into an agreement for the console versions. The transaction envisages the acquisition by Digital Bros S.p.A. of 100% of the quotas of Kunos Simulazioni S.r.l., which is held equally by the two founding owners Stefano Casillo and Marco Massarutto, for a total nominal consideration of Euro 4,341,500 that shall be paid as follows:
 - Euro 1,375,000 entirely in cash on the closing date;
 - Euro 1,375,000 entirely in cash within one year from the closing date;
 - Euro 1,591,500 via the issue of 150,000 new Digital Bros ordinary shares, with a par value of Euro 0.40 each, at a price of Euro 10.61 each, equating to the average reference price of Digital Bros shares in the previous six months. The issue shall be subject to approval by the shareholders in general meeting on 13 March 2017;
 - on 3 February 2017, the Group announced it had entered into, through the subsidiary 505 Games S.p.A., an agreement with Starbreeze AB for the global distribution of the console versions for the retail market, with the exclusion of the Scandinavian and Asian markets, of the Dead by Daylight video game. The agreement provides for the payment of a guaranteed minimum of 2.5 million dollars and the release date is planned for the last quarter of the current year.

14. BUSINESS OUTLOOK

The investment plan that the Group embarked upon over the last two years and which has led to the simultaneous development of numerous new products has started to generate revenues as from the first half of the financial year, with the release of Assetto Corsa and Abzu by the Premium Games operating segment and Hawken and Prominence Poker by the Free to Play operating segment. Over the remainder of the financial year, the PC and console versions of Portal Knights will be launched by the Premium Games operating segment as well as the evolution of the successful Battle Islands, Battle Islands Commander, which is available as from February via the Free to Play operating segment only on the console and PC marketplaces.

In the Premium Games operating segment, the Group, on the back of the excellent performance achieved by the Rocket League video game in the retail distribution channel, has accelerated its search for potential products that have already been successfully launched in digital marketplaces and which may be capable of replicating their performance in international retail markets, having identified products such as Stardew Valley, Redout and Dead by Daylight, the counterparty of which is Starbreeze. The speed with which this type of product can be brought to market will generate significant revenue as early as the fourth quarter of the financial year.

The focus of the U.S. subsidiary Pipeworks Inc.'s operations almost entirely on job orders for non-Group third party customers is expected to continue in the second half of the financial year leading to a significant improvement in the Development operating segment's earnings compared to prior year.

An improvement in earnings is also expected to be achieved by the Italian Distribution operating segment due to the impact of cost containment policies, as well as by the Free to Play operating segment due to revenue growth, which is expected to confirm what has been achieved in the first half of the financial year.

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

As a consequence of the foregoing, the outlook at consolidated level is even more optimistic than that previously communicated, with an expectation of turnover growth by the financial year end and an improvement in forecast profit, although the result will not replicate that achieved in the prior year, which had benefited from the sale of PAYDAY2 rights.

Net cash/debt will be affected by net working capital investment needed for the global distribution of retail products, particularly in the last quarter of the financial year, but also by investment in new products, specifically Overkill's The Walking Dead and Bloodstained, which will be released next year. Due to the impact of the foregoing, it is expected that there will be a slight deterioration in net cash over the remainder of the financial year, but with a significant improvement expected in the first quarter of the coming financial year.

15. OTHER INFORMATION

EMPLOYEES

Below are details of the workforce at 31 December 2016 with comparative figures at 31 December 2015:

Category	31 December 2016	31 December 2015	Change
Managers	10	10	0
Office workers	231	213	18
Blue-collar workers and apprentices	4	4	0
Total employees	245	227	18

The same details for employees of the Group's foreign companies at 31 December 2016 with comparative figures at 31 December 2015 are as follows:

Category	31 December 2016	31 December 2015	Change
Managers	5	5	0
Office workers	167	160	7
Total employees abroad	172	165	7

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	227	212	15
Blue-collar workers and apprentices	4	4	0
Total employees	241	226	15

The average headcount at foreign companies is as follows:

Category	2016 average	2015 average	Change
Managers	5	5	0
Office workers	168	157	11
Total employees abroad	173	162	11

The increase in the number of employees abroad is due to growth in the international structure of the Premium Games and Free to Play operating segments.

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

ENVIRONMENT

At 31 December 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 31 December 2016**

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position as at 31 December 2016

	Euro thousand	31 December 2016	30 June 2016	Change	
	Non-current assets				
1	Property, plant and equipment	6,999	7,032	(33)	-0.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	17,461	10,458	7,003	67.0%
4	Equity investments	1,280	898	382	42.5%
5	Non-current receivables and other assets	1,056	1,056	0	0.0%
6	Deferred tax assets	2,794	2,619	175	6.7%
	Total non-current assets	29,590	22,063	7,527	34.1%
	Non-current liabilities				
7	Employee benefits	(544)	(529)	(15)	2.8%
8	Non-current provisions	(26)	(36)	10	-26.4%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	(570)	(817)	247	-30.2%
	Net working capital				
10	Inventories	13,080	11,933	1,147	9.6%
11	Trade receivables	32,086	34,840	(2,754)	-7.9%
12	Current tax assets	2,709	2,019	690	34.2%
13	Other current assets	4,431	5,034	(603)	-12.0%
14	Trade payables	(24,704)	(21,712)	(2,992)	13.8%
15	Current tax liabilities	(6,878)	(6,211)	(667)	10.8%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,005)	(2,312)	307	-13.3%
	Total net working capital	18,719	23,591	(4,872)	-20.7%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,797)	(20,804)	2,006	-9.6%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,364)	(22,290)	(7,074)	31.7%
	Total equity	(53,805)	(48,348)	(5,457)	11.3%
	Total net assets	(6,066)	(3,511)	(2,555)	72.8%
22	Cash and cash equivalents	6,756	2,785	3,971	n.m.
23	Current bank debt	(3,474)	(25,929)	22,455	-86.6%
24	Other current financial assets and liabilities	1,759	28,913	(27,154)	-93.9%
	Current net cash/debt	5,041	5,769	(728)	-12.6%
25	Non-current financial assets	1,310	1,195	115	9.6%
26	Non-current bank debt	(237)	(1,558)	1,321	-84.8%
27	Other non-current financial liabilities	(48)	(1,895)	1,847	-97.5%
	Non-current net debt	1,025	(2,258)	3,283	n.m.
	Total net cash/debt	6,066	3,511	2,555	72.8%

Digital Bros Group

Consolidated statement of profit or loss for the period ended 31 December 2016

	Euro thousand	Period ended 31 December 2016		Period ended 31 December 2015		Change	
1	Gross revenue	65,143	105.6%	45,290	105.6%	19,853	43.8%
2	Revenue adjustments	(3,453)	-5.6%	(2,396)	-5.6%	(1,057)	44.1%
3	Net revenue	61,690	100.0%	42,894	100.0%	18,796	43.8%
4	Purchase of products for resale	(15,687)	-25.4%	(12,091)	-28.2%	(3,596)	29.7%
5	Purchase of services for resale	(4,053)	-6.6%	(3,286)	-7.7%	(767)	23.4%
6	Royalties	(17,913)	-29.0%	(7,969)	-18.6%	(9,944)	n.m.
7	Changes in inventories of finished products	1,147	1.9%	(1,685)	-3.9%	2,832	n.m.
8	Total cost of sales	(36,506)	-59.2%	(25,031)	-58.4%	(11,475)	45.8%
9	Gross profit (3+8)	25,184	40.8%	17,863	41.6%	7,321	41.0%
10	Other income	883	1.4%	2,764	6.4%	(1,881)	-68.0%
11	Cost of services	(6,216)	-10.1%	(6,744)	-15.7%	528	-7.8%
12	Lease and rental charges	(728)	-1.2%	(784)	-1.8%	56	-7.1%
13	Labour costs	(10,403)	-16.9%	(9,836)	-22.9%	(567)	5.8%
14	Other operating costs	(1,209)	-2.0%	(766)	-1.8%	(443)	57.8%
15	Total operating costs	(18,556)	-30.1%	(18,130)	-42.3%	(426)	2.4%
16	Gross operating margin (EBITDA) (9+10+15)	7,511	12.2%	2,497	5.8%	5,014	n.m.
17	Depreciation and amortisation	(3,195)	-5.2%	(1,791)	-4.2%	(1,404)	78.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(405)	-0.7%	(425)	-1.0%	20	-4.6%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	1.4%	(588)	0.0%
21	Total non-monetary income and operating costs	(3,600)	-5.8%	(1,628)	-3.8%	(1,972)	n.m.
22	Operating margin (EBIT) (16+21)	3,911	6.3%	869	2.0%	3,042	n.m.
23	Interest and finance income	8,725	14.1%	1,972	4.6%	6,753	n.m.
24	Interest expense and finance costs	(1,963)	-3.2%	(865)	-2.0%	(1,098)	n.m.
25	Net finance income (costs)	6,762	11.0%	1,107	2.6%	5,655	n.m.
26	Profit before tax (22+25)	10,673	17.3%	1,976	4.6%	8,697	n.m.
27	Current tax	(3,429)	-5.6%	(1,665)	-3.9%	(1,764)	n.m.
28	Deferred tax	152	0.2%	938	2.2%	(786)	n.m.
29	Total income tax expense	(3,277)	-5.3%	(727)	-1.7%	(2,550)	n.m.
30	Profit for the period (26+29)	7,396	12.0%	1,249	2.9%	6,147	n.m.
Earnings per share:							
33	Basic earnings per share (in euros)	0.53		0.09		0.44	n.m.
34	Diluted earnings per share (in euros)	0.53		0.09		0.44	n.m.

Digital Bros Group**Consolidated statement of comprehensive income for the period ended 31 December 2016**

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change
Profit (loss) for the period (A)	7,396	1,249	6,147
Items that will not be reclassified subsequently to profit or loss (B)			
Actuarial gain (loss)	8	(4)	12
Income tax relating to the actuarial gain (loss)	(2)	1	(3)
Exchange differences on translation of foreign operations	273	70	203
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)	1,540	(4,615)
Income tax relating to the fair value measurement of shares designated as available for sale	845	(423)	1,268
Items that may be reclassified subsequently to profit or loss (C)	(1,951)	1,184	(3,135)
Total other comprehensive income D = (B)+(C)	(1,951)	1,184	(3,135)
Total comprehensive income (loss) (A)+(D)	5,445	2,433	3,012
Attributable to:			
Owners of the Company	5,445	2,433	3,012
Non-controlling interests	0	0	0

Digital Bros Group
Consolidated statement of cash flows for the period ended 31 December 2016

	Euro thousand	Period ended 31 December 2016	Period ended 31 December 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	7,396	1,249
	<i>Depreciation, amortisation and non-monetary costs:</i>		
	Provisions and impairment losses	0	0
	Amortisation of intangible assets	2,817	1,450
	Depreciation of property, plant and equipment	378	341
	Net change in other provisions	(10)	(43)
	Net change in employee benefit provisions	15	(7)
	Net change in other non-current liabilities	(252)	(589)
	SUBTOTAL B.	10,344	2,401
C.	Change in net working capital		
	Inventories	(1,147)	1,685
	Trade receivables	2,754	525
	Current tax assets	(690)	(1,121)
	Other current assets	603	1,688
	Trade payables	2,992	(6,609)
	Current tax liabilities	667	280
	Current provisions	0	0
	Other current liabilities	(307)	161
	SUBTOTAL C.	4,872	(3,391)
D.	Cash flows from investing activities		
	Net payments for intangible assets	(9,820)	(2,548)
	Net payments for property, plant and equipment	(345)	(568)
	Net payments for non-current financial assets	(557)	(3,950)
	SUBTOTAL D.	(10,721)	(7,066)
E.	Cash flows from financing activities		
	Proceeds from capital increases	0	0
	SUBTOTAL E.	0	0
F.	Changes in consolidated equity		
	Dividends distributed	(1,834)	(1,818)
	Changes in treasury shares held	390	809
	Increases (decreases) in other equity components	(495)	3,420
	SUBTOTAL F.	(1,939)	2,411
G.	Cash flow for the period (B+C+D+E+F)	2,555	(5,645)
H.	Closing net cash/debt (A+G)	6,066	(13,978)

Notes to the statement of cash flows

Details of cash flow by maturity:

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015
Increase (decrease) in securities and cash and cash equivalents	3,971	(291)
Decrease (increase) in current bank debt	22,455	(4,081)
Decrease (increase) in other current financial assets and liabilities	(27,154)	(1,892)
Cash flow for the period pertaining to current net cash/debt	(728)	(6,264)
Cash flow for the period pertaining to non-current net cash/debt	3,283	619
Cash flow for the period	2,555	(5,645)

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
Payment of dividends									(1,818)		(1,818)	(1,818)
Other changes							0	809	2,236		2,236	3,045
Comprehensive income (loss)					70	1,114	1,184			1,249	1,249	2,433
As at 31 December 2015	5,644	16,954	1,129	1,367	(174)	1,325	20,601	(390)	6,517	5,097	11,614	37,469
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		16,387	(16,387)	0	0
Payment of dividends									(1,834)		(1,834)	(1,834)
Other changes						(56)	(56)	390	1,512		1,512	1,846
Comprehensive income (loss)					273	(2,224)	(1,951)			7,396	7,396	5,445
As at 31 December 2016	5,644	16,954	1,129	1,367	(540)	(113)	18,797	0	21,968	7,396	29,364	53,805



**Notes to the condensed consolidated
financial statements for the period ended
31 December 2016**

1. INTRODUCTORY NOTE

The half-yearly consolidated financial report includes the condensed half-yearly consolidated financial statements prepared in accordance with IAS 34 and Art. 154 ter of the Consolidated Finance Act, and accordingly, does not include all the disclosures required for annual financial statements and should thus be read together with the Group's consolidated financial statements for the year ended 30 June 2016.

Digital Bros Group's condensed half-yearly consolidated financial statements have been prepared on a going concern basis and by applying the same accounting policies used for the preparation of the annual financial statements for the year ended 30 June 2016.

For information concerning form, content and other general information, as well as the use of estimates, reference should be made to the notes to the consolidated financial statements for the year ended 30 June 2016.

2. BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are companies the Group controls. Control exists when the Group has the power, directly or indirectly, to influence the financial and operating policies of a subsidiary in such a way as to obtain benefits from its operations. The financial statements of subsidiaries are included in the condensed consolidated financial statements for the period ended 31 December 2016 from the date control is obtained until the date control ceases to exist.

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

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

Translation of foreign currency financial statements

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

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

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

Transactions eliminated in the consolidation process

In preparing the condensed consolidated financial statements for the period ended 31 December 2016, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies have been eliminated, as well as unrealised profits and losses on intragroup transactions.

Scope of consolidation

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

Companies consolidated on a line-by-line basis:

Name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W. Broadway	Eugene	USA	\$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,964,334.80	Parent company
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 50,000	100%
Digital Bros Holdings Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
505 Games S.p.A.	Milan	Italy	€ 100,000	100%
505 Games France S.a.s.	Franchiseville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	\$ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 100,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc.	Mission Viejo	USA	\$ 100,000	100%
Pipeworks Inc.	Eugene (OR)	USA	\$ 61,929	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%

Associated companies carried at cost:

Name	Operational headquarters	Capital	% held directly	% held indirectly
Delta DNA Ltd.	Edinburgh, UK	£ 3,005	1.04%	0%
Ebooks&Kids S.r.l.	Milan	€ 26,366	16%	0%
Cityglance S.r.l. in liquidation	Milan	€ 10,000	42.5%	0%
Ovosonico S.r.l.	Milan	€ 100,000	36.75%	0%
Seekhana Ltd.	Milton Keynes, UK	£ 10,814	31.57%	0%

3. EQUITY INVESTMENTS IN ASSOCIATES AND OTHER ENTITIES

Equity investments held by the Group companies as at 31 December 2016 are as follows:

- an equity interest of 1.04% in Delta DNA Ltd., acquired on 3 July 2013 and recognised at cost, equating to Euro 60 thousand (50 thousand pounds);
- an equity interest of 16% in Ebooks&Kids S.r.l., recognised at cost, equating to Euro 200 thousand. The investment was acquired via a first subscription on 7 July 2013 of Euro 70 thousand, of which Euro 68.7 thousand was paid as share premium and a subsequent subscription to a capital increase on 13 February 2014 of Euro 130 thousand, of which Euro 127.1 thousand was paid as share premium;
- an equity interest of 42.5% in Cityglance S.r.l., the carrying amount of which is Euro 46 thousand. This amount includes Euro 4,250 relating to the capital subscribed and approximately Euro 41 thousand relating to costs incurred by Digital Bros S.p.A. to develop the company's operations and which was therefore added to the carrying amount of the investment: The company was put into liquidation during the period;
- an equity interest of 36.75% in Ovostonico S.r.l., the carrying amount of which is Euro 540 thousand, of which Euro 36,750 thousand equated to the par value and Euro 503,250 was paid as share premium;
- an equity interest of 31.57% in Seekhana Ltd. the carrying amount of which is Euro 435 thousand (372 thousand pounds) of which Euro 4 thousand equated to the par value and Euro 431 thousand was paid as share premium.

4. BUSINESS COMBINATIONS

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

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

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

5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 31 December 2016 is set out below together with comparative figures at 30 June 2016:

	Euro thousand	31 December 2016	30 June 2016	Change	
	Non-current assets				
1	Property, plant and equipment	6,999	7,032	(33)	-0.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	17,461	10,458	7,003	67.0%
4	Equity investments	1,280	898	382	42.5%
5	Non-current receivables and other assets	1,056	1,056	0	0.0%
6	Deferred tax assets	2,794	2,619	175	6.7%
	Total non-current assets	29,590	22,063	7,527	34.1%
	Non-current liabilities				
7	Employee benefits	(544)	(529)	(15)	2.8%
8	Non-current provisions	(26)	(36)	10	-26.4%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	Total non-current liabilities	(570)	(817)	247	-30.2%
	Net working capital				
10	Inventories	13,080	11,933	1,147	9.6%
11	Trade receivables	32,086	34,840	(2,754)	-7.9%
12	Current tax assets	2,709	2,019	690	34.2%
13	Other current assets	4,431	5,034	(603)	-12.0%
14	Trade payables	(24,704)	(21,712)	(2,992)	13.8%
15	Current tax liabilities	(6,878)	(6,211)	(667)	10.8%
16	Current provisions	0	0	0	n.m.
17	Other current liabilities	(2,005)	(2,312)	307	-13.3%
	Total net working capital	18,719	23,591	(4,872)	-20.7%
	Capital and reserves				
18	Share capital	(5,644)	(5,644)	0	n.m.
19	Reserves	(18,797)	(20,804)	2,006	-9.6%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,364)	(22,290)	(7,074)	31.7%
	Total equity	(53,805)	(48,348)	(5,457)	11.3%
	Total net assets	(6,066)	(3,511)	(2,555)	72.8%
22	Cash and cash equivalents	6,756	2,785	3,971	n.m.
23	Current bank debt	(3,474)	(25,929)	22,455	-86.6%
24	Other current financial assets and liabilities	1,759	28,913	(27,154)	-93.9%
	Current net cash/debt	5,041	5,769	(728)	-12.6%
25	Non-current financial assets	1,310	1,195	115	9.6%
26	Non-current bank debt	(237)	(1,558)	1,321	-84.8%
27	Other non-current financial liabilities	(48)	(1,895)	1,847	-97.5%
	Non-current net debt	1,025	(2,258)	3,283	n.m.
	Total net cash/debt	6,066	3,511	2,555	72.8%

NON-CURRENT ASSETS

1. Property, plant and equipment

The balance of this line item went from Euro 7,032 thousand to Euro 6,999 thousand. Movements during the year were as follows:

Euro thousand	1 July 2016	Additions	Disposals	Foreign currency translation differences	Depreciation	Use of accum. deprec.	31 December 2016
Industrial buildings	4,598	0	0	167	(81)	0	4,684
Land	600	0	0	0	0	0	600
Industrial and commercial equipment	1,013	65	0	0	(178)	0	900
Other assets	821	113	0	0	(119)	0	815
Total	7,032	178	0	167	(378)	0	6,999

Movements during the corresponding prior year period were as follows:

Euro thousand	1 July 2015	Additions	Disposals	Foreign currency translation differences	Depreciation	Use of accum. deprec.	31 December 2015
Industrial buildings	2,375	0	0	0	(50)	0	2,325
Land	600	0	0	0	0	0	600
Industrial and commercial equipment	746	204	(6)	0	(157)	6	793
Other assets	1,120	364	0	0	(134)	0	1,350
Total	4,841	568	(6)	0	(341)	6	5,068

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

Industrial buildings include the Trezzano sul Naviglio warehouse, the freehold building used as office and laboratory premises located in Via Labus, Milan, which is used by Digital Bros Game Academy S.r.l. as its operational headquarters, and the property located in Eugene, Oregon, which is owned by 133 W. Broadway and which is used by Pipeworks Inc. as its operational headquarters.

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

Additions in the period came to Euro 178 thousand, as detailed below:

Euro thousand	31 December 2016	31 December 2015
Improvements made to new building used by 505 Games (US) Inc.	0	350
Office automation equipment	65	188
Furnishings	52	3
Improvements made to building used by 505 Games Ltd.	61	0
Other	0	27
Total capital expenditure in the half-year	178	568

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

Current half-year

Gross carrying amount of property, plant and equipment

Euro thousand	1 July 2016	Additions	Foreign currency translation differences	31 December 2016
Industrial buildings	5,539	0	167	5,706
Land	600	0	0	600
Plant and machinery	24	0	0	24
Industrial and commercial equipment	4,205	65	0	4,270
Other assets	2,276	113	0	2,389
Total	12,644	178	167	12,989

Accumulated depreciation

Euro thousand	1 July 2016	Additions	Disposals	31 December 2016
Industrial buildings	(941)	(81)	0	(1,022)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(3,192)	(178)	0	(3,370)
Other assets	(1,455)	(119)	0	(1,574)
Total	(5,612)	(378)	0	(5,990)

Comparative half-year

Gross carrying amount of property, plant and equipment

Euro thousand	1 July 2015	Additions	Disposals	31 December 2015
Industrial buildings	3,191	0	0	3,191
Land	600	0	0	600
Plant and machinery	24	0	0	24
Industrial and commercial equipment	3,667	204	(6)	3,865
Other assets	2,360	364	0	2,724
Total	9,842	568	(6)	10,404

Accumulated depreciation

Euro thousand	1 July 2015	Additions	Disposals	31 December 2015
Industrial buildings	(816)	(50)	0	(866)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(2,921)	(157)	6	(3,072)
Other assets	(1,240)	(134)	0	(1,374)
Total	(5,001)	(341)	6	(5,336)

3. Intangible assets

All of the intangible assets recognised by the Group have finite useful lives. During the period, the Group recognised an amount of Euro 849 thousand of costs incurred for internal development as intangible assets.

The following table shows movements in the period just ended and in the comparative prior year period:

Euro thousand	1 July 2016	Additions	Disposals	Amortisation	31 December 2016
Concessions and licences	3,419	8,215	0	(2,272)	9,362
Trademarks and similar rights	786	0	0	(318)	468
Other assets	538	0	0	(227)	311
Internally developed assets	5,715	5,699	(4,094)	0	7,320
Total	10,458	13,914	(4,094)	(2,817)	17,461

Euro thousand	1 July 2015	Additions	Disposals	Amortisation	31 December 2015
Concessions and licences	2,750	1,612	0	(715)	3,647
Trademarks and similar rights	2,334	3	(694)	(489)	1,154
Other assets	1,033	0	0	(246)	787
Internally developed assets	1,829	2,241	(614)	0	3,456
Total	7,946	3,856	(1,308)	(1,450)	9,044

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

Expenditure on intangible assets during the period was as follows:

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015
Hawken PC version usage rights	1,012	0
Portal Knight PC version usage rights	1,340	0
How to Survive 2 PC version usage rights	614	0
Virginia PC version usage rights	399	0
Superfight usage rights	778	0
Expenditure on development of ERP systems	76	106
Poker usage rights	3,188	0
Acquisition of Hawken Entertainment Inc.	759	0
Fantasfida	49	489
Brothers usage rights	0	356
Gems of War usage rights	0	300
Other usage rights	0	361
Total additions to concessions and licences	8,215	1,612
Total additions to trademarks and similar rights	0	3
Internal development contracts in progress	849	2,241
Drive Home usage rights	750	0
Portal Knight console version usage rights	1,009	0
How to Survive 2 console version usage rights	1,320	0
Hawken console version usage rights	291	0
Quarantine usage rights	1,480	0
Total additions to internally developed assets	5,699	2,241
Total additions to intangible assets	13,914	3,856

Part of the additions in the half-year, amounting to Euro 5,913 thousand, relate to the classification as intangible assets of certain video games that constitute intellectual property of the Group and, accordingly, they have been more correctly stated as non-current assets. The video games in question were classified as trade receivables at 30 June 2016.

Movements in intangible assets and in accumulated amortisation in the period just ended and in the comparative prior year period were as follows:

Current half-year

Gross carrying amount of intangible assets

Euro thousand	1 July 2016	Additions	Disposals	31 December 2016
Concessions and licences	9,025	8,215	0	17,240
Trademarks and similar rights	4,486	0	0	4,486
Other	1,678	0	0	1,678
Internally developed assets	5,715	5,699	(4,094)	7,319
Total	20,904	13,914	(4,094)	30,724

Accumulated amortisation

Euro thousand	1 July 2016	Additions	Disposals	31 December 2016
Concessions and licences	(5,606)	(2,272)	0	(7,878)
Trademarks and similar rights	(3,700)	(318)	0	(4,018)
Other assets	(1,140)	(227)	0	(1,367)
Total	(10,446)	(2,817)	0	(13,263)

*Comparative half-year**Gross carrying amount of intangible assets*

Euro thousand	1 July 2015	Additions	Disposals	31 December 2015
Concessions and licences	6,594	1,612	0	8,206
Trademarks and similar rights	5,175	3	(694)	4,484
Other assets	1,678	0	0	1,678
Internally developed assets	1,829	2,241	(614)	3,456
Total	15,276	3,856	(1,308)	17,824

Accumulated amortisation

Euro thousand	1 July 2015	Additions	Disposals	31 December 2015
Concessions and licences	(3,844)	(715)	0	(4,559)
Trademarks and similar rights	(2,841)	(489)	0	(3,330)
Other assets	(645)	(246)	0	(891)
Internally developed assets	0	0	0	0
Total	(7,330)	(1,450)	0	(8,780)

4. Equity investments

Equity investments held by the Group at 31 December 2016 and at 30 June 2015 were:

Euro thousand	31 December 2016	30 June 2016	Change
Delta Dna Ltd.	60	60	0
Ebooks&Kids S.r.l.	200	200	0
Cityglance S.r.l. in liquidation	45	45	0
Ovosonico S.r.l.	540	420	120
Seekhana Ltd.	435	173	262
Total equity investments	1,280	898	382

Changes in the period concerning associated companies are detailed in paragraph 6 of the directors' report "Analysis of the statement of financial position as at 31 December 2016".

5. Non-current receivables and other assets

Non-current receivables and other assets at 31 December 2016 amounted to Euro 1,056 thousand.

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

Euro thousand	31 December 2016	30 June 2015	Change
Cautionary deposits for the rental of office premises used by Italian companies	635	635	0
Cautionary deposits for the rental of office premises used by foreign companies	196	192	4
Cautionary deposits for utilities	1	5	(4)
Cautionary deposits for the AAMS and Bingo concessions	220	220	0
Other cautionary deposits	4	4	0
Total non-current receivables and other assets	1,056	1,056	0

6. Deferred tax assets

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

The balance at 31 December 2016 amounted to Euro 2,794 thousand, up Euro 175 thousand on the balance at 30 June 2016.

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

Euro thousand	31 December 2016	30 June 2016	Change
Italian companies	648	(195)	843
Foreign companies	1,618	2,493	(875)
Consolidation adjustments	528	321	207
Total deferred tax assets	2,794	2,619	175

NON-CURRENT LIABILITIES

7. Employee benefits

This provision reflects the actuarial value of the Group's actual employee liability, calculated by an independent actuary in accordance with IAS 19. It increased in the year by Euro 15 thousand.

For the IAS 19 actuarial valuation at 31 December 2016 use was made of a discount rate based on the Iboxx Corporate A 10y+ index, consistent with the rate used at the end of the previous period. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on a period end workforce at the Italian companies of 72 employees.

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

- annual interest rate: 1.31%;
- annual rise in real pay: 1%;
- annual inflation rate of 1.50%, 1.80% for 2017, 1.70% for 2018, 1.60% for 2019 and of 2% from 2020 onwards.

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

Euro thousand	Period ended 31 December 2016	Period ended 30 June 2016
Provision for employee termination indemnities at 1 July	544	486
Benefits paid on termination of service	(2)	(15)
Allocations to provision in the year	88	179
Measurement of supplementary pension schemes	(78)	(166)
Actuarial measurement	(8)	45
Provision for employee termination indemnities at 31 December 2016	544	529

The Group is not party to any integrated pension plans.

8. Non-current provisions

These consist entirely of the provision for agents' indemnities. The balance at 31 December 2016 of Euro 26 thousand was Euro 10 thousand lower than the balance at 30 June 2016 of Euro 36 thousand. The change was attributable to uses of the provision of Euro 14 thousand and allocations to the provision in the period of Euro 4 thousand.

9. Other non-current payables and liabilities

Other non-current payables and liabilities had a nil balance at 31 December 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

10. Inventories

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

Euro thousand	31 December 2016	30 June 2016	Change
Italian Distribution inventories (A)	5,305	4,804	501
505 Games S.p.A. inventories	800	769	31
Foreign subsidiaries' inventories	6,975	6,360	615
Premium Games inventories (B)	7,775	7,129	646
Total inventories (A+B)	13,080	11,933	1,147

Inventories went from Euro 11,933 thousand at 30 June 2016 to Euro 13,080 thousand at 31 December 2016, being an increase of Euro 1,147 thousand.

11. Trade receivables

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

Euro thousand	31 December 2016	30 June 2016	Change
Receivables from customers - Italy	4,957	4,414	543
Receivables from customers - EU	5,196	2,490	2,706
Receivables from customers - rest of the world	9,274	9,207	67
Provision for doubtful debts	(647)	(1,148)	501
Total receivables from customers	18,780	14,963	3,817
Receivables pertaining to video game user licenses	13,306	19,877	(6,571)
Total trade receivables	32,086	34,840	(2,754)

Receivables from customers at 31 December 2016 of Euro 18,780 thousand were Euro 3,817 thousand higher than the balance at 30 June 2016 of Euro 14,963 thousand, in line with the growth in turnover.

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

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

Euro thousand	31 December 2016	30 June 2016	Change
Credit notes for price repositioning	2,381	1,758	623
Credit notes for returned goods	6,204	3,870	2,334
Total credit notes to be issued	8,585	5,628	2,957

Credit notes to be issued for price repositioning increased with respect to the balance at 30 June 2016 by Euro 623 thousand, whereas credit notes to be issued for returned goods increased by Euro 2,334 thousand due to sales of trading cards by Game Entertainment S.r.l., as from April 2016, through newsstands that contractually provide for the return of all unsold goods.

The provision for doubtful debts decreased in the period by Euro 501 thousand, having gone from Euro 1,148 thousand to Euro 647 thousand at the reporting date. The estimated losses are based on an analytical analysis of each customer's degree of solvency. The change was attributable to an allocation to the provision of Euro 405 thousand to take account of potential losses arising from the bankruptcy of certain customers and uses thereof of Euro 906 thousand with respect to specifically identified balances.

Receivables pertaining to video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They decreased in the period by Euro 6,571 thousand to Euro 13,306 thousand. Details are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Advances to developers for licences not yet used	8,177	14,883	(6,706)
Advances to developers for licences partially used	5,129	4,994	135
Total receivables pertaining to video game user licenses	13,306	19,877	(6,571)

The decrease in the period is mainly due to the classification as intangible assets of an amount of Euro 5,913 thousand of video games that constitute intellectual property of the Group and, accordingly, they have been more correctly stated as non-current assets.

12. Current tax assets

Details of current tax assets are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Receivable under domestic tax group arrangements	1	1	0
VAT receivable	995	613	382
Tax credit for foreign income tax withholdings	863	403	460
IRES refund for IRAP deductibility	119	119	0
Other receivables	731	883	(152)
Total current tax assets	2,709	2,019	690

Current tax assets went from Euro 2,019 thousand at 30 June 2016 to Euro 2,709 thousand at 31 December 2016, being an increase of Euro 690 thousand.

The increase in the VAT receivable of Euro 382 thousand relates to VAT for the month of December attributable to the Italian companies under domestic tax group arrangements.

The increase of Euro 460 thousand in the tax credit for foreign income tax withholdings is due to withholding tax suffered by the subsidiary 505 Games S.p.A. on royalty income payments received.

13. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They went from Euro 5,034 thousand at 30 June 2016 to Euro 4,431 thousand at 31 December 2016. Details of the balance are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Advances to suppliers	4,226	4,826	(600)
Advances to employees	97	92	5
Advances to agents	4	13	(9)
Other receivables	104	103	1
Total other current assets	4,431	5,034	(603)

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

Euro thousand	31 December 2016	30 June 2016	Change
Advertising	47	32	15
Insurance	79	57	22
Rent	200	167	33
Programming	1,694	2,799	(1,105)
Other operating costs	1,917	1,666	251
Other prepaid expenses	54	105	(51)
Production advances	235	0	235
Total other current assets	4,226	4,826	(600)

The decrease in the period in programming advances of Euro 1,105 thousand is mainly due to a reduction in advances for the PAYDAY 2 video game of Euro 804 thousand.

14. Trade payables

Trade payables, which amounted to Euro 24,704 thousand at 31 December 2016, increased in the period by Euro 2,992 thousand and were mostly due to publishers for the purchase of finished products and to developers. Details are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Trade payables - Italy	(4,640)	(2,267)	(2,373)
Trade payables - EU	(5,257)	(7,610)	(5,257)
Trade payables - rest of the world	(14,807)	(11,835)	(2,972)
Total trade payables	(24,704)	(21,712)	(2,992)

The increase in total trade payables is attributable to higher royalties payable and the physical production of video games by 505 Games S.p.A. in line with the rise in sales throughout the entire half-year experienced by the Premium Games operating segment.

15. Current tax liabilities

Current tax liabilities went from Euro 6,211 thousand at 30 June 2016 to Euro 6,878 thousand at 31 December 2016, representing an increase of Euro 667 thousand. Details are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Income tax	(4,987)	(5,085)	98
VAT payable	(756)	(236)	(520)
Other tax liabilities	(1,135)	(890)	(245)
Total current tax liabilities	(6,878)	(6,211)	(667)

The increase in the period is mainly due to a higher VAT payable balance attributable to 505 Games Ltd. relating to sales reported in the second quarter of the financial year.

16. Current provisions

There were no current provisions at 31 December 2016, as was also the case at 30 June 2016.

17. Other current liabilities

Other current liabilities amounted to Euro 2,005 thousand, having decreased in the period by Euro 307 thousand. Details are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Amounts due to social security institutions	(446)	(367)	(79)
Amounts due to employees	(806)	(838)	32
Amounts due to contract staff	(54)	(52)	(2)
Other payables	(699)	(1,055)	356
Total other current liabilities	(2,005)	(2,312)	307

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the period as well as the future payment of the 14th monthly salary, in addition to accrued variable remuneration pertaining to the half-year that is expected to be paid in September 2017.

The decrease in other payables is mainly due to a reduction in the balance relating to registration fees for training courses already received by Digital Bros Game Academy S.r.l., but which are not attributable to the period due to the timing of the training courses.

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		16,387	(16,387)	0	0
Payment of dividends									(1,834)		(1,834)	(1,834)
Other changes						(56)	(56)	390	1,512		1,512	1,846
Comprehensive income (loss)					273	(2,224)	(1,951)			7,396	7,396	5,445
As at 31 December 2016	5,644	16,954	1,129	1,367	(540)	(113)	18,797	0	21,968	7,396	29,364	53,805

As at 31 December 2016, 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.

As indicated in paragraph 13 “Subsequent events”, on 11 January 2017, as part of the approval process for the “2016-2026 Stock Option Plan”, Digital Bros Group's shareholders in extraordinary general meeting granted a mandate to the Board of Directors to increase the capital, in various tranches, with the disapplication of pre-emption rights pursuant to Art. 2441, paragraph 8, of the Italian Civil Code, up to a total maximum nominal amount of Euro 320,000.00, via the issue, which may be in one or more lots, of a maximum number of 800,000 ordinary shares with a par value of Euro 0.40 each, to be reserved for the beneficiaries of the plan. Accordingly, to date, share capital amounts to Euro 5,964,334.80 of which Euro 5,644,334.80 has been paid.

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:

- a decrease of Euro 56 thousand relating to the treasury shares reserve that was reduced to zero following the sale of all the treasury shares held at 30 June 2016 and the reclassification of the amount to other changes in retained earnings;
- an increase of Euro 273 thousand relating to the currency translation reserve;
- an increase of Euro 6 thousand relating to a change in the IAS 19 reserve;
- a decrease of Euro 2,230 thousand relating to a change in the fair value reserve. 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 half-year 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 31 December 2016 with comparative figures at 30 June 2016:

	Euro thousand	31 December 2016	30 June 2016	Change
22	Cash and cash equivalents	6,756	2,785	3,972
23	Current bank debt	(3,474)	(25,929)	22,455
24	Other current financial assets and liabilities	1,759	28,913	(27,154)
	Current net cash/debt	5,041	5,769	(727)
25	Non-current financial assets	1,310	1,195	115
26	Non-current bank debt	(237)	(1,558)	1,321
27	Other non-current financial liabilities	(48)	(1,895)	1,847
	Non-current net debt	1,025	(2,258)	3,283
	Total net cash/debt	6,066	3,511	2,555

Net cash increased in the period by Euro 2,555 thousand mainly due to an increase in cash and cash equivalents of Euro 3,972 thousand, a decrease in current bank debt of Euro 22,455 thousand, a decrease in non-current bank debt of Euro 1,321 thousand and in other non-current financial liabilities of Euro 1,847 thousand, only partially offset by a decrease in other current financial assets and liabilities of Euro 27,154 thousand.

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 31 December 2016, grouped by maturity:

Euro thousand	Within 1 year	1 - 5 years	Beyond 5 years	Total
Bank overdrafts	(1)	0	0	(1)
Import and export financing	(192)	0	0	(192)
Advances on invoices subject to collection	(299)	0	0	(299)
Unsecured bank loans	(2,982)	(237)	0	(3,219)
Total bank debt (A)	(3,474)	(237)	0	(3,711)
Other financial liabilities (B)	(48)	0	0	(48)
Total financial liabilities (A) + (B)	(3,522)	(237)	0	(3,759)

Current net cash/debt

Current net cash/debt consists of the following:

	Euro thousand	31 December 2016	30 June 2016	Change
22	Cash and cash equivalents	6,756	2,785	3,972
23	Current bank debt	(3,474)	(25,929)	22,455
24	Other current financial assets and liabilities	1,759	28,913	(27,154)
	Total current net cash/debt	5,041	5,769	(727)

22. Cash and cash equivalents

Cash and cash equivalents at 31 December 2016, which are entirely unrestricted, amounted to Euro 6,756 thousand, representing an increase in the period of Euro 3,972 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 22,455 thousand is attributable to a decrease in import and export financing of Euro 20,945 thousand, to a decrease in advances on invoices and subject to collection of Euro 1,100 and a decrease in loan instalments due within 12 months of Euro 329 thousand.

Details are provided below:

Euro thousand	31 December 2016	30 June 2016	Change
Bank overdrafts	(1)	(82)	81
Import and export financing	(192)	(21,137)	20,945
Advances on invoices and subject to collection	(299)	(1,399)	1,100
Loan instalments due within 12 months	(2,982)	(3,311)	329
Total current bank debt	(3,474)	(25,929)	22,455

Loan instalments due within 12 months at 31 December 2016 consist of Euro 929 thousand 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 entire residual loan granted by Monte dei Paschi di Siena S.p.A. due to mature in September 2017 and Euro 1,053 thousand relating to the entire residual loan granted by the Credito Bergamasco division of Banco Popolare due to mature in September 2017.

The Monte Paschi di Siena S.p.A. loan was granted to the parent company on 23 November 2015 and amounted to 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, or the 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.

The unsecured loan provided by the Credito Bergamasco division of Banco Popolare was granted to the parent company on 22 June 2016 and amounted to Euro 1.75 million. The loan has to be repaid in 15 monthly instalments, the first of which fell due on 31 July 2016 and the last falls due 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.

24. Other current financial liabilities

Current financial assets and liabilities consist of the following:

Euro thousand	31 December 2016	30 June 2016	Change
Starbreeze A shares	0	6,000	(6,000)
Starbreeze B shares	4,042	22,972	(18,930)
Fair value of derivatives expiring within 12 months	0	136	(136)
Advances against trade receivables under non-recourse factoring arrangements	(302)	(128)	(174)
Current lease obligations	(15)	(15)	0
Loan for purchase of property located in Eugene	(1,966)	(52)	(1,914)
Total other current financial assets and liabilities	1,759	28,913	(27,154)

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 represents the market value at 31 December 2016 of 2,000,532 Starbreeze B shares (listed on Nasdaq Stockholm First North Premier) entirely held 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 half-year.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 302 thousand, having increased in the period by Euro 174 thousand, in line with the growth in turnover in the half-year.

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 Euro 1,966 thousand relates to the entire residual loan granted by Spring Properties Inc. for the purchase of the Eugene property, 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.

Non-current net debt

Non-current net debt consists of the following:

	Euro thousand	31 December 2016	30 June 2016	Change
25	Non-current financial assets	1,310	1,195	115
26	Non-current bank debt	(237)	(1,558)	1,321
27	Other non-current financial liabilities	(48)	(1,895)	1,847
	Non-current net debt	1,025	(2,258)	3,283

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 the non-current portion of a loan granted to the parent company by Unicredit S.p.A.

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

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

other collateral or unsecured guarantees, for any other loans, unless the security being granted to third parties is extended to the Bank.

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

The agreement also contains the following financial covenants:

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

27. Other non-current financial liabilities

The residual amount of Euro 48 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 30 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 18 thousand. Interest is payable at a floating rate of 1.41%.

The following table shows finance lease payments by maturity:

Euro thousand	31 December 2016	30 June 2016	Change
Due within 12 months	15	15	0
1-5 years	48	55	(7)
Beyond 5 years	0	0	0
Total	63	70	(7)

COMMITMENTS AND RISKS

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

Euro thousand	31 December 2016	30 June 2016	Change
Commitments assumed under executed contracts	(22,007)	(27,921)	5,914
Commitment to subscribe to Ovosonico S.r.l.'s capital	(180)	(300)	120
Commitment to subscribe to Seekhana Ltd.'s capital	(1,423)	(1,621)	198
Total commitments	(23,610)	(29,842)	(6,232)

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

The commitment to subscribe to Ovosonico S.r.l.'s capital relates to an agreement executed on 11 September 2015 for the subscription of an amount of Euro 720 thousand of which Euro 540 thousand was paid on 31 December 2016.

The commitment to subscribe to Seekhana Ltd.'s capital relates to an agreement executed on 18 January 2016 for the subscription of an amount of Euro 2,000,000 million U.S. dollars, as well as an initial subscription of 2,600 British pounds, of which 500 thousand U.S. dollars was paid on 31 December 2016.

6. 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	2,863	3,866	47,535	10,475	404	65,143
2	Revenue adjustments	0	0	(2,334)	(895)	(224)	(3,453)
3	Net revenue	2,863	3,866	45,201	9,580	180	61,690

The same details for the period ended 31 December 2015 are as follows:

	Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	916	1,883	28,218	13,937	336	45,290
2	Revenue adjustments	0	0	(1,328)	(1,024)	(44)	(2,396)
3	Net revenue	916	1,883	26,890	12,913	292	42,894

Gross consolidated revenue for the half-year amounted to Euro 65,143 thousand, up by 43.8% on the figure for the first half of the previous financial year of Euro 45,290 thousand. The launch in the half-year of the Assetto Corsa video game and the continuous revenue stream arising from sales of the Rocket League video game, launched at the end of the prior year, were determinants of the Group's performance in the half-year.

In addition to the positive trend in revenue reported by the Premium Games operating segment that grew by Euro 19,317 thousand, the period benefited from growth in revenue reported by the Free to Play and Development operating segments that was up by Euro 1,983 thousand and Euro 1,947 thousand, respectively. The Italian Distribution operating segment reported a falling trend with a loss in turnover in the half-year of Euro 3,462 thousand.

A breakdown is provided below of revenue by operating segment for the periods ended 31 December 2016 and 2015:

Euro thousand	Gross revenue				Net revenue			
	2016	2015	Change		2016	2015	Change	
Premium Games	47,535	28,218	19,317	68.5%	45,201	26,890	18,311	68.1%
Italian Distribution	10,475	13,937	(3,462)	-24.8%	9,580	12,913	(3,333)	-25.8%
Free to Play	3,866	1,883	1,983	n.m.	3,866	1,883	1,983	n.m.
Development	2,863	916	1,947	n.m.	2,863	916	1,947	n.m.
Other Activities	404	336	68	20.2%	180	292	(112)	-38.4%
Total gross revenue	65,143	45,290	19,853	43.8%	61,690	42,894	18,796	43.8%

Revenue reported by the Premium Games operating segment amounted to Euro 47,535 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of revenue by video game:

Amounts in Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change
Rocket League	13,927	0	13,927
Assetto Corsa	9,119	0	9,119
PAYDAY 2	7,519	11,146	(3,627)
Terraria	7,448	9,204	(1,756)
Sniper Elite V3	2,916	4,124	(1,208)
Abzu	2,865	0	2,865
Other products	1,271	878	393
How to Survive	865	806	59
Portal Knights	855	0	855
Brothers	406	2,060	(1,654)
Virginia	344	0	344
Total Premium Games gross revenue	47,535	28,218	19,317

The operating segment's revenue was substantially boosted by sales of products launched in the half-year, namely Assetto Corsa (Euro 9,119 thousand) and Abzu (Euro 2,865 thousand). However, the product that generated the highest volumes during the period was Rocket League (retail versions for the Sony Playstation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 13,927 thousand. The video game was launched in June 2016 and has remained in the video games sales charts throughout the period.

The video games, which have been drivers of the Group's results in recent years, that is, PAYDAY 2 and Terraria, generated revenue in the half-year of Euro 7,519 thousand and Euro 7,448 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that video games may now count on following the digitalisation of the market.

Of note, especially with a view to the future, is the trend in sales of Portal Knights, a video game for which the intellectual property pertaining thereto is fully held by the Group. During the half-year, only an Early Access PC version of the game was available on the Steam marketplace and it generated revenue of Euro 855 thousand. The final PC version of the video game, together with the brand new console versions, shall be available as from the fourth quarter.

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 and in revenue arising from the sale of Yu-gi-oh! trading cards. In the comparative half-year the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid, which was not replicated in the half-year just ended.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that more than doubled from Euro 1,883 thousand reported in the comparative half-year to Euro 3,866 thousand in the period just ended. This operating segment also benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of

revenue was Gems of War, which was launched in November 2014 and which generated revenue in the half-year of Euro 1,502 thousand.

The focus of the U.S. subsidiary Pipeworks' operations almost entirely on job orders for non-Group third party customers made it possible to more than triple revenue achieved by the Development operating segment that went from Euro 916 thousand for the comparative half-year to Euro 2,863 thousand for the period ended 31 December 2016

The Other Activities operating segment's revenue amounted to Euro 404 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 31 December 2016	Period ended 31 December 2015	Change	%
23	Interest and finance income	8,725	1,972	6,753	n.m.
24	Interest expense and finance costs	(1,963)	(865)	(1,098)	n.m.
25	Net finance income (costs)	6,762	1,107	5,655	n.m.

Net finance income amounted to Euro 6,762 thousand, compared to Euro 1,107 thousand for the comparative prior year period.

Details of interest and finance income are provided below:

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change	%
Exchange gains	1,045	522	523	n.m.
Finance income	7,608	1,447	6,161	n.m.
Other	73	3	70	n.m.
Total interest and financial income	8,725	1,969	6,683	n.m.

Interest and finance income increased by Euro 6,753 thousand compared to the comparative prior year period. This mainly consisted of gains recognised on the sale and purchase of Starbreeze shares of Euro 7,599 thousand and exchange gains of Euro 1,045 thousand.

Interest expense and finance costs amounted to Euro 1,963 thousand, representing an increase of Euro 1,098 thousand compared to the figure reported for the period ended 31 December 2015, attributable to finance costs of Euro 736 thousand relating to losses recognised on the sale and purchase of Starbreeze shares and an increase in exchange losses of Euro 222 thousand.

Details are provided below of interest expense:

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change	%
Interest charged by banks on current accounts and trade finance	(310)	(225)	(85)	37.9%
Interest on loans and leases	(115)	(54)	(60)	n.m.
Factoring interest	(4)	(10)	6	58.5%
Total interest expense payable to lenders	(429)	(289)	(139)	48.2%
Exchange losses	(798)	(576)	(222)	38.4%
Finance costs	(736)	0	(736)	n.m.
Total interest expense	(1,963)	(865)	(1,098)	n.m.

29. Taxation

Details of current and deferred taxes for the period ended 31 December 2016 are provided below:

Euro thousand	Period ended 31 December 2016	Period ended 31 December 2015	Change	%
Current tax	(3,429)	(1,665)	(1,764)	n.m.
Deferred tax	152	938	(786)	n.m.
Total income tax expense	(3,277)	(727)	(2,550)	n.m.

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

7. 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.

8. INFORMATION CONCERNING OPERATING SEGMENTS

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 it has been decided to focus on the type of games, namely 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 initially limited to the Apple and Google marketplaces, while the Sony and Microsoft console marketplaces offered solely traditional Premium games. From the moment it became possible to publish Free to Play games for Sony Playstation 4 and Microsoft Xbox One consoles, 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.

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

Accordingly, the Group is organised into five operating segments:

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

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

The results by operating segment for the periods ended 31 December 2016 and 2015 are set out below. Reference should be made to paragraph 7 of the directors' report for comments thereon.

Consolidated statement of profit or loss by operating segment for the period ended 31 December 2016

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	2,863	3,866	47,535	10,475	404	(0)	65,143
2	Revenue adjustments	0	0	(2,334)	(895)	(224)	0	(3,453)
3	Total revenue	2,863	3,866	45,201	9,580	180	(0)	61,690
4	Purchase of products for resale	0	(0)	(9,067)	(6,620)	0	0	(15,687)
5	Purchase of services for resale	(313)	(1,252)	(2,144)	(252)	(92)	0	(4,053)
6	Royalties	0	(207)	(17,667)	0	(39)	0	(17,913)
7	Changes in inventories of finished products	0	0	646	501	0	0	1,147
8	Total cost of sales	(313)	(1,459)	(28,232)	(6,371)	(131)	0	(36,506)
9	Gross profit (3+8)	2,550	2,407	16,969	3,209	49	(0)	25,184
10	Other income	351	496	14	22	0	(0)	883
11	Cost of services	(191)	(474)	(3,346)	(854)	(631)	(720)	(6,216)
12	Lease and rental charges	0	(33)	(293)	(23)	(6)	(373)	(728)
13	Labour costs	(2,009)	(2,247)	(3,612)	(767)	(349)	(1,419)	(10,403)
14	Other operating costs	(68)	(34)	(247)	(92)	(22)	(746)	(1,209)
15	Total operating costs	(2,268)	(2,788)	(7,498)	(1,736)	(1,008)	(3,258)	(18,556)
16	Gross operating margin (EBITDA) (9+10+15)	633	115	9,485	1,495	(959)	(3,258)	7,511
17	Depreciation and amortisation	(296)	(1,290)	(1,214)	(102)	(187)	(106)	(3,195)
18	Allocations to provisions	0	0	0	0	0	0	0
19	Impairment losses recognised on assets	0	0	0	(405)	0	0	(405)
20	Reversal of impairment losses and non-monetary income	0	0	0	0	0	0	0
21	Total non-monetary income and operating costs	(296)	(1,290)	(1,214)	(507)	(187)	(106)	(3,600)
22	Operating margin (EBIT) (16+21)	337	(1,175)	8,271	988	(1,146)	(3,364)	3,911

Consolidated statement of profit or loss by operating segment for the period ended 31 December 2015

	Amounts in Euro thousand	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	916	1,883	28,218	13,937	336	0	45,290
2	Revenue adjustments	0	0	(1,328)	(1,024)	(44)	0	(2,396)
3	Total revenue	916	1,883	26,890	12,913	292	0	42,894
4	Purchase of products for resale	0	0	(3,895)	(8,196)	0	0	(12,091)
5	Purchase of services for resale	(342)	(533)	(2,372)	0	(39)	0	(3,286)
6	Royalties	0	(360)	(7,553)	0	(56)	0	(7,969)
7	Changes in inventories of finished products	0	0	(484)	(1,201)	0	0	(1,685)
8	Total cost of sales	(342)	(893)	(14,304)	(9,397)	(95)	0	(25,031)
9	Gross profit (3+8)	574	990	12,586	3,516	197	0	17,863
10	Other income	2,188	401	38	18	119	0	2,764
11	Cost of services	(124)	(473)	(2,289)	(1,204)	(2,013)	(641)	(6,744)
12	Lease and rental charges	(69)	(39)	(251)	(31)	(11)	(383)	(784)
13	Labour costs	(2,422)	(1,472)	(3,368)	(895)	(265)	(1,414)	(9,836)
14	Other operating costs	(98)	(37)	(257)	(120)	(25)	(229)	(766)
15	Total operating costs	(2,713)	(2,021)	(6,165)	(2,250)	(2,314)	(2,667)	(18,130)
16	Gross operating margin (EBITDA) (9+10+15)	49	(630)	6,459	1,284	(1,998)	(2,667)	2,497
17	Depreciation and amortisation	(301)	(659)	(575)	(86)	(112)	(58)	(1,791)
18	Allocations to provisions	0	0	0	0	0	0	0
19	Impairment losses recognised on assets	0	(425)	0	0	0	0	(425)
20	Reversal of impairment losses and non-monetary income	0	588	0	0	0	0	588
21	Total non-monetary income and operating costs	(301)	(496)	(575)	(86)	(112)	(58)	(1,628)
22	Operating margin (EBIT) (16+21)	(252)	(1,126)	5,884	1,198	(2,110)	(2,725)	869

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. During the course of the period, the liquidation process concerning the Swedish company 505 Games Nordic AB was completed. 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.

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 internal consulting services, the UK company DR Studios Ltd., which is a developer of Free to Play games and the newly formed company Hawken Entertainment Inc., which is the developer of the Hawken video game.

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.

Business operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand and by the subsidiary Game Entertainment S.r.l., which handles distribution via the newsstand distribution channel.

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 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.

9. OTHER INFORMATION

Information on geographical segments

Details are provided below of gross revenue by geographical segment:

Euro thousand	Period ended		Period ended		Change	
	31 December 2016		31 December 2015			
Europe	19,382	30%	8,820	17%	10,562	119.8%
The Americas	31,456	48%	21,445	44%	10,011	46.7%
Rest of the world	3,426	5%	752	2%	2,674	n.m.
Total foreign revenue	54,264	83%	31,017	63%	23,247	74.9%
Italy	10,879	17%	14,273	37%	(3,394)	-23.8%
Total gross consolidated revenue	65,143	100%	45,290	100%	19,853	43.8%

Foreign revenue accounted for 83% of gross consolidated revenue compared to the comparative prior year figure of 63%.

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 47,535 thousand, accounting for 87.6% of total foreign revenue.

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

Euro thousand	Period ended		Period ended		Change	
	31 December 2016		31 December 2015			
Free to Play	3,866	7%	1,883	15%	1,983	n.m.
Premium Games	47,535	88%	28,218	83%	19,317	68.5%
Development	2,863	5%	916	2%	1,947	n.m.
Total gross foreign revenue	54,264	100%	31,017	100%	23,247	74.9%

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

10. 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 31 December 2016 are summarised below:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(22)	0	0	(131)
Matov Imm. S.r.l.	0	635	0	0	0	(376)
Matov LLC	0	140	0	0	0	(206)
Total	0	775	(22)	0	0	(713)

Transactions in the period ended 31 December 2015 were as follows:

Euro thousand	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(22)	0	0	(124)
Matov Imm. S.r.l.	0	635	0	0	0	(395)
Matov LLC	0	136	0	0	0	(138)
Total	0	771	(22)	0	0	(657)

The financial receivable due to Digital Bros S.p.A. by Matov Imm. S.r.l. relates to a cautionary deposit paid for the office premises 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 353 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 23 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.

11. ATYPICAL OR UNUSUAL TRANSACTIONS

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

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 half-yearly financial report for the six months ended 31 December 2016.

We also confirm that:

1. Digital Bros Group's half-yearly financial report for the six months ended 31 December 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 half-yearly financial report for the six months ended 31 December 2016 contains information about key events that occurred during the period and their impact on the half-yearly financial report for the six months ended 31 December 2016, along with a description of the main risks and uncertainties. The half-yearly financial report for the six months ended 31 December 2016 also contains information about significant transactions with related parties.

Milan, 28 February 2017

Signed

Chairman of the Board of Directors

Financial Reporting Manager

Abramo Galante

Stefano Salbe