



## **Report on corporate governance and ownership structure**

**pursuant to Art. 123-bis of the Consolidated Finance Act**

**(traditional governance model)**

**(Financial year 2016-2017)**

Date of approval: 12 September 2017

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

Via Tortona, 37 – 20144 Milan, Italy

VAT No. and tax code 09554160151

Share capital: Euro 6,024,334.80 of which Euro 5,704,334.80 subscribed  
Milan Companies Register No. 290680 - Vol. 7394 Chamber of Commerce No.  
1302132

This report is available in the investors section at [www.digitalbros.com](http://www.digitalbros.com)

**(this page intentionally left blank)**

## Contents

### Report on corporate governance and ownership structure

	Glossary	4
1.	Profile of the issuer	5
2.	Information on the ownership structure	6
3.	Compliance	9
4.	Board of Directors	9
	4.1 Appointment and replacement of directors	10
	4.2 Composition of the Board of Directors	12
	4.3 Role of the Board of Directors	15
	4.4 Governance bodies	21
	4.5 Other executive directors	22
	4.6 Independent directors	22
	4.7 Lead independent director	23
5.	Handling of corporate information	23
6.	Internal Board committees	24
7.	Nomination committee	25
8.	Remuneration committee	25
9.	Directors' remuneration	26
10.	Control and risks committee	28
11.	Internal control and risk management system	29
	11.1 Executive director in charge of the internal control system	33
	11.2 Head of internal audit department	33
	11.3 Organisational model pursuant to Legislative Decree 231/2001	35
	11.4. External auditors	36
	11.5 Financial Reporting Manager	36
	11.6 Coordination of individuals involved in the internal control and risk management system	37
12.	Directors' interests and related party transactions	37
13.	Appointment of statutory auditors	38
14.	Composition and functioning of the Board of Statutory Auditors	41
15.	Shareholder relations	42
16.	General meetings of shareholders	43
17.	Additional corporate governance practices	45
18.	Changes since the end of the reporting year	45
19.	Summary tables	45

## GLOSSARY

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved in July 2015 by the corporate governance committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, ANIA, Assogestioni, Assonime and Confindustria.

**Civil Code:** the Italian Civil Code.

**Board of Directors:** the Board of Directors of Digital Bros S.p.A.

**Issuer:** the issuer of the securities to which the Report refers.

**Financial year:** the financial year to which the Report refers.

**Group or Digital Bros Group:** collectively, the Issuer and its subsidiaries, as defined in Art. 93 of the Consolidated Finance Act.

**Issuers' Regulation:** a Regulation issued by Consob by means of resolution 11971 of 1999 concerning issuers and subsequent amendments thereto.

**Markets Regulation:** a Regulation issued by Consob by means of resolution 16191 of 2007 concerning markets and subsequent amendments thereto.

**Related Party Regulation:** a regulation issued by Consob by means of resolution 17221 of 12 March 2010 (and subsequent amendments) concerning transactions with related parties.

**CFA or Consolidated Finance Act:** Legislative Decree 58 of 24 February 1998 (Consolidated Finance Act) and subsequent amendments.

**Report/Report on Corporate Governance:** the report on corporate governance and ownership structure prepared pursuant to articles 123-bis and 89-bis of the Consolidated Finance Act.

**Remuneration Report:** the remuneration report provided for by Art. 123-ter of the Consolidated Finance Act and approved by the Board of Directors in conjunction with the Report on Corporate Governance.

**Articles of Association:** the Articles of Association of Digital Bros S.p.A.

**Director in charge of internal control:** the director in charge of the internal control and risk management system pursuant to Art. 7.P.3 of the Corporate Governance Code.

## 1. PROFILE OF THE ISSUER

---

The Company's objects are the development, production, marketing and wholesale and retail distribution, directly and/or indirectly, including through subsidiaries and/or investees, in Italy and worldwide, of entertainment products and services, including video games for personal computers and consoles, pertinent accessories and multimedia products in general.

Our corporate mission has been pursued via a process of internationalisation with the incorporation and acquisition of fully-owned subsidiaries to market the Group's products in major international markets and to develop new video games.

The Company, which has been formed under Italian law, is listed on the STAR segment of Borsa Italiana's MTA market and has complied with the implementation of the Corporate Governance Code. The Company has adopted a traditional governance model.

Its corporate bodies are:

- General meetings of shareholders
- Board of Directors
- Board of Statutory Auditors and internal control and audit committee;
- External auditors.

General meetings of shareholders express the will of the shareholders through the resolutions adopted thereby. Resolutions passed in accordance with the law or the Articles of Association are binding on all shareholders, including absent or dissenting shareholders, without prejudice to the right of withdrawal for dissenting shareholders, where permitted. General meetings of shareholders are convened in accordance with laws and regulations applicable to companies with securities listed on regulated markets in order to deliberate upon matters within its purview according to law.

The Board of Directors is vested with all powers of ordinary and extraordinary management and thus plays a permanent role in the governance of the Company, founded on the transparency and propriety of management decisions within the Company and with respect to the market.

The Board of Statutory Auditors and the internal control and audit committee supervise compliance with the law and the Articles of Association and perform a management control function, particularly with regard to principles of sound management and the adequacy of the Group's organisational structure. With effect from 7 April 2010, following the entry into force of Legislative Decree 39/2010 as a result of the transposition of Directive 200/43/EC, the Board of Statutory Auditors is responsible for certain tasks assigned by Art. 19 of the legislative decree to the internal control and audit committee, and, more specifically, the supervision of:

- the financial reporting process;
- the effectiveness of internal control and risk management systems;
- the audit of the separate and consolidated financial statements;

- the independence of the external auditors.

In accordance with the law, the external auditors are appointed by the shareholders in general meeting, having been selected from audit firms enrolled in a register kept by Consob. The external auditors verify that the accounts have been properly kept, that operating events have been duly recorded and that the separate and consolidated financial statements match the accounting records.

In addition, an internal control and risks committee, a remuneration committee, a standing committee of unrelated independent directors as envisaged by the Code and a supervisory committee as envisaged by Legislative Decree 231/2001 have been set up and are operational.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE** **(pursuant to Art. 123-bis (1) of the CFA)**

In this section, information is provided concerning the Company's ownership structure, in accordance with Art. 123-bis of the Consolidated Finance Act, to the extent applicable. The information is up to date as of 12 September 2017.

The information required by Article 123-bis (1) (l) concerning the appointment and replacement of directors is set forth in section 4.1, whereas the information required by subsection (i) is presented in the Remuneration Report.

### *a) Capital structure (pursuant to Art. 123-bis (1) (a) of the Consolidated Finance Act)*

Subscribed and paid-in share capital amounts to Euro 5,704,334.80.

The subscribed share capital consists of 14,260,837 ordinary shares with a par value of Euro 0.4 each.

	No. of shares	% of capital	Listed/unlisted	Rights and obligations
Ordinary shares	14,260,837	100%	Listed on STAR segment of MTA	The shares are registered, freely transferable and indivisible and each share grants the right to one vote in all of the Company's ordinary and extraordinary shareholders' meetings.

No shares have been issued with limited voting rights or without voting rights.

At the reporting date, Digital Bros S.p.A. had not issued any other classes of shares or financial instruments that confer the right to subscribe for newly issued shares.

On 11 January 2017, the shareholders in general meeting approved the "2016-2026 Stock Option 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 Plan will terminate on 30 June 2026 and it envisages the allotment 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 half-year prior to the grant date.

The options have been fully assigned, whereby 744,000 were assigned on 29 January 2017 at Euro 10.61 per share and 56,000 were assigned on 12 May 2017 at Euro 12.95 per share.

Further information on the “2016-2026 Stock Option Plan” and on the capital increase to service the Plan is provided in the notes to the separate financial statements of the Company for the year ended 30 June 2017 and in the information document which may be found in the Investors section of the website at [www.digitalbros.com](http://www.digitalbros.com), as well as in the Remuneration Report.

*b) Restrictions on the transfer of securities (pursuant to Art. 123-bis (1) (b) of the Consolidated Finance Act)*

There are no restrictions of any kind on the transfer of securities.

*c) Significant holdings (pursuant to Art. 123-bis (1) (c) of the Consolidated Finance Act)*

The Company qualifies as an SME, as defined in Art. 1 (1) (w-quater) (1) of the Consolidated Finance Act, inasmuch as it meets the requirements laid down therein. Accordingly, the threshold for the disclosure of significant holdings pursuant to Art. 120 of the Consolidated Law is 5% of share capital with voting rights. According to the shareholder's register, and considering the notices received pursuant to Art. 120 of the Consolidated Finance Act, as of the date of this report, the following parties hold, directly or indirectly, shares in the Company with voting rights, equating to or exceeding 5% of the share capital:

Declarant	Direct shareholder	Declared shares	% of ordinary share capital	% of voting capital
Abramo Galante	YES	4,904,307	32.56%	34.39%
Raffaele Galante	YES	4,678,736	31.07%	32.81%

*d) Shares with special rights (pursuant to Art. 123-bis (1) (d) of the Consolidated Finance Act)*

The Company has not issued any securities that confer special control rights.

*e) Employee share ownership: mechanism for exercise of voting rights (pursuant to Art. 123-bis (1) (e) of the Consolidated Finance Act)*

The Company has not approved any employee share ownership schemes and employees do not directly exercise voting rights.

*f) Restrictions on voting rights (pursuant to Art. 123-bis (1) (f) of the Consolidated Finance Act)*

There are no restrictions of any kind on voting rights.

*g) Shareholder agreements (pursuant to Art. 123-bis (1) (g) of the Consolidated Finance Act)*

The Company is not aware of any shareholder agreements pursuant to Art. 122 of the Consolidated Finance Act.

*h) Change-of-control provisions (pursuant to Art. 123-bis, paragraph 1 (h) of the Consolidated Finance Act) and provisions contained in the Articles of Association concerning takeover bids (pursuant to Arts. 104 paragraph 1-ter and 104-bis paragraph 1)*

Neither the Company nor its subsidiaries have entered into agreements that might enter into force, be terminated and/or be amended as a result of a change of control of the Issuer.

The Company has not entered into any agreements with directors providing for indemnities for directors in the event of resignations, dismissal or removal without cause, or in the event of termination of employment following a public takeover bid.

The Articles of Association do not derogate from the passivity rule provided for in Art. 104 (1) and (2) of the Consolidated Finance Act and, since there are no limitations on the transfer of shares or limitations on voting rights, the Articles of Association do not provide for the application of the neutralisation rules envisaged in Art. 104-bis (2) and (3) of the Consolidated Finance Act.

*i) Delegated powers regarding share capital increases and powers to authorise the purchase of treasury shares (pursuant to Art. 123-bis (1) (m) of the Consolidated Finance Act)*

No powers to authorise share capital increases have been granted to the Board of Directors.

Pursuant to Art. 6 of the Articles of Association, share capital may be increased or reduced by resolution of an extraordinary shareholders' meeting in accordance with the law. In the event of capital increases, contributions may be made in cash, in kind or via accounts receivable, in accordance with Article 2342 of the Civil Code. In the event of a share capital increase or the issuance of convertible bonds, the shareholders have the right of pre-emption in accordance with the law and Articles of Association.

An extraordinary shareholders' meeting may grant the directors the power to increase share capital, on one or more occasions, for a maximum of five years from the date of the resolution, up to the amount determined in the resolution. Such power may also extend to the adoption of the resolutions provided for in Arts. 2441 (4) and (5) of the Civil Code and in accordance with Art. 2441 (6). Without prejudice to all other provisions governing share capital increases, share capital may be increased



without the right of pre-emption, in accordance with article 2441 (4) of the Civil Code, by the shareholders' meeting or the Board of Directors, provided that such power has been delegated to the latter, within the limits of 5% of pre-existing share capital, including by cash contribution, on condition that the issue price corresponds to the market value of the shares, as confirmed by a specific report by the external auditors. Pursuant to Art. 2349 (1) of the Civil Code, an extraordinary shareholders' meeting may authorise the allocation of profits and/or profit reserves to employees of the Company and its subsidiaries by issuing special classes of shares, of an amount corresponding to those profits and/or profit reserves.

On 28 October 2016, the shareholders in general meeting granted the right to the Board of Directors to purchase treasury shares up to 10% of capital, by the date of approval of the financial statements for the year ended 30 June 2017, up to a maximum of 1,000,000 shares, pursuant to Art. 2357 of the Civil Code, for no less than Euro 0.40 per share and no more than Euro 20.00 per share. The purchase of treasury shares has been authorised in accordance with Art. 144-bis of the Issuers' Regulation.

As at 30 June 2017, the Company did not hold any treasury shares and none had been traded subsequent to that data.

*l) Management control and coordination (pursuant to Art. 2497 of the Civil Code)*

The Company is not subject to management control and coordination by other companies.

### **3. COMPLIANCE (pursuant to Art. 123-bis (2) (a) of the Consolidated Finance Act)**

---

The Company has adopted the Corporate Governance Code.

The governance model adopted by the Issuer takes account of the Company's size, shareholder structure, business segment and the complexity of its operations. Any departures from the Code due to the foregoing variables are described in the various sections herein, together with an explanation as to why a different system has been adopted and by which corporate body.

The Corporate Governance Code is available on the website <http://www.borsaitaliana.it>.

The governance structure adopted is not influenced by non-Italian provisions of law, as is the case for the parent company, Digital Bros S.p.A. and its Italian and international subsidiaries.

### **4. BOARD OF DIRECTORS**

---

By resolution of the shareholders' meeting of 28 October 2013, the Company amended its Articles of Association to reflect the changes required by Legislative Decree 27 of January 2010 and Law 120/2011.

#### **4.1 Appointment and replacement of directors (pursuant to Art. 123-bis (1) (l) of the Consolidated Finance Act)**

Pursuant to Art. 16 of the Articles of Association, the Board of Directors may be composed of a minimum of five to a maximum of eleven members, as determined by the shareholders' meeting, provided that a number of independent directors consistent with the law is ensured.

The shareholders' meeting held on 28 October 2014 set the number of the members of the administrative body at nine. Unless otherwise established upon appointment, the members of the Board of Directors remain in office for three financial years and their mandates shall expire on the date of the shareholders' meeting convened to approve the financial statements for the year ended 30 June 2017.

In order to ensure that the minority is able to elect a member of the Company's Board of Directors, pursuant to Art. 16 of the Articles of Association, the Board of Directors is appointed on the basis of lists submitted by shareholders, in which the candidates are listed with sequential numbers. Shareholders who, at the time of submission, hold an equity interest of no less than the amount established by applicable legislation and in accordance with the Issuers' Regulation, may submit a list for the appointment of directors. Each shareholder, or shareholders who are members of a voting syndicate, may not submit more than one list nor vote for more than one list, including through nominees or a fiduciary company. Each candidate may be presented on a single list on pain of ineligibility.

The lists submitted must be signed by the shareholders and filed with the Company's registered office by the deadlines established by applicable legislation. The following must be filed along with each list, by the deadlines indicated above:

- statements in which individual candidates accept their candidacy and certify, under their own responsibility, that they are not subject to any cause of ineligibility or incompatibility and that they meet the requirements prescribed by the law and the Articles of Association for their respective offices;
- curricula vitae containing each candidate's personal and professional characteristics, with an indication, where appropriate, that the candidate qualifies as independent;
- certification must be issued by an authorised broker in accordance with the law attesting to ownership of the number of shares required to submit a list. This documentation may be submitted subsequently, but prior to the deadline laid down by the Consolidated Finance Act.

Lists for which the foregoing requirements have not been met will be disregarded.

Directors are elected as follows:

- all members of the Board of Directors, in the number determined by the shareholders' meeting from time to time, except for one, are drawn from the list that has obtained the greatest number of

votes in the shareholders' meeting, in accordance with applicable gender balance provisions, in the sequential order in which they are presented in the list;

- one member of the Board of Directors, and specifically the first candidate who satisfies the independence requirements established by applicable legislation, in the sequential order in which the candidates are presented in the list, is drawn from the list that has obtained the second-greatest number of votes in the shareholders' meeting. However, for this purpose, lists that have not obtained a percentage of votes equal to at least half that required to submit a list will not be considered.

If the candidates elected per the above procedure do not lead to a composition of the Board of Directors that is compliant with applicable gender balance provisions, the candidate of the less represented gender elected as the last in sequential order in the majority list will be replaced by the first candidate of the less represented gender not elected from the majority list according to the sequential order. This procedure will be applied until the composition of the Board of Directors is compliant with applicable gender balance provisions. If the foregoing procedure does not lead to a composition of the Board of Directors that is compliant with applicable gender balance provisions, the last substitution will be made by resolution passed by the shareholders' meeting by relative majority, following the nomination of candidates of the less represented gender.

If only a single list of candidates is submitted in accordance with applicable gender balance provisions, all directors will be elected from that list. If no lists are submitted, or if, for any reason, the directors are not appointed according to the procedure envisaged herein, the shareholders' meeting will see to the appointment of the directors by resolution passed with the legal majorities, in accordance with applicable gender balance provisions. In particular, when appointing directors in cases other than the election of the entire Board of Directors, the shareholders' meeting shall pass resolutions with the majorities required by the law and Articles of Association, without following the above procedure, but without prejudice to compliance with applicable gender balance provisions.

The list of candidates for office is also published on the Company's website.

Pursuant to Art. 17 of the Articles of Association, if the shareholders' meeting has failed to do so, the Board of Directors shall elect a Chairman from among its members.

The Board of Directors may delegate part or all of its powers to one or more managing directors and/or an executive committee, without prejudice to the limits established by law and the Articles of Association.

Pursuant to Art. 16 of the Articles of Association, if the majority of the directors appointed by the shareholders' meeting leaves office, the entire Board of Directors is dismissed. In this case, the directors who have left office must promptly convene a shareholders' meeting to appoint the entire Board of Directors. The Board of Directors remains in office until the new board is elected.

There are no appropriate mechanisms for ensuring the election of the minimum number of independent directors. There are mechanisms in place to ensure that the directors to be elected are allocated according to a criterion that ensures gender balance, in accordance with Art. 147-ter (1) of the Consolidated Finance Act.

The Articles of Association do not establish additional independence requirements beyond those imposed on members of the Board of Statutory Auditors by Art. 148 of the Consolidated Finance Act, where not provided for by the Code.

The Company is not subject to additional legislation beyond the Consolidated Finance Act with regard to the composition of the Board of Directors.

With respect to application criterion 5.C.2 of the Corporate Governance Code, the Board of Directors of Digital Bros S.p.A., in view of the Company's particular shareholder structure, has decided not to adopt specific succession plans for executive directors.

#### **4.2 Composition of the Board of Directors (pursuant to Art. 123-bis (2) (d) of the Consolidated Finance Act)**

Art. 16 of the Articles of Association states that the Company is to be managed by a Board of Directors composed of a minimum of five up to a maximum of eleven members. Before appointing the members, the shareholders in general meeting determine their number and term of office.

Directors must satisfy the requirements established by applicable legislation. A number corresponding to the minimum established by legislation must satisfy independence requirements.

Reference should be made to the appended Table 1, which presents the composition of the Board of Directors and committees at the end of the financial year.

##### *Composition of the Board of Directors*

The current Board of Directors, composed of nine members, was appointed by the shareholders in general meeting on 28 October 2014 and will remain in office until the approval of the financial statements for the year ended 30 June 2017. A single list was submitted to the shareholders in general meeting by Abramo Galante and Raffaele Galante. The list of candidates was as follows:

<b>Forename and surname</b>	<b>Office</b>
Lidia Florean	Non-executive director
Abramo Galante	Chairman and managing director
Raffaele Galante	Managing Director
Davide Galante	Non-executive director

Guido Guetta	Non-executive/independent director
Elena Morini	Non-executive/independent director
Stefano Salbe	Executive director
Bruno Soresina	Non-executive/independent director
Dario Treves	Executive director

The candidates were elected with 100% of voting capital.

The independent directors satisfy the independence requirements established by Art. 147-ter of the Consolidated Finance Act, as well as the additional requirements laid down in the Corporate Governance Code.

The composition of the Board of Directors was unchanged at the end of the financial year.

The following is a brief account of the personal and professional characteristics of individual members of the Board of Directors:

**Lidia Florean**

Born in Portogruaro (VE) on 26 September 1951. Italian.

Has served Digital Bros Group since 1990.

**Abramo Galante**

Born in Beirut on 20 April 1963. Italian.

With his brother, Raffaele Galante, he founded Digital Bros S.p.A., which has become one of Italy's foremost video game distributors. He heads Digital Bros Group's Business Development Department.

He holds offices in Digital Bros Group companies: Chairman and managing director of 505 Games S.p.A., and Game Network S.r.l., Director of 505 Games Ltd., Sole director of 505 Mobile S.r.l., Game Entertainment S.r.l. and Kunos Simulazioni S.r.l., Director of Digital Bros Game Academy S.r.l., 505 Games (US) Inc., 505 Games Interactive Inc., Pipeworks Inc., Dr Studio Ltd., 133 W. Broadway Inc., Matov LLC and Hawken Entertainment Inc.

**Raffaele Galante**

Born in Beirut on 7 May 1965. Italian.

With his brother, Abramo Galante, he founded Digital Bros S.p.A., which has become one of Italy's foremost video game distributors. He is responsible for Digital Bros Group's sales activities and marketing policies.

He holds offices in Digital Bros Group companies: Director of 505 Games S.p.A. and 505 Games Ltd., Sole director of Game Service S.r.l., Director of Game Network S.r.l., 505 Games US Inc., 505 Games Interactive Inc., 505 Games Mobile Inc., Pipeworks Inc., Dr Studio Ltd., 133 W. Broadway Inc., Matov LLC and Hawken Entertainment Inc., Sole director of 505 Games Spain Slu and 505 Games France S.a.s., Chairman and managing director of Digital Bros Game Academy S.r.l.

Director of the associated company Ebooks&Kids S.r.l.

Davide Galante

Born in Damascus, Syria, on 11 January 1933. Italian.

With his sons, Abramo and Raffaele Galante, he founded Digital Bros S.p.A., while continuing to carry out entrepreneurial and commercial activity in the textile sector.

Guido Guetta

Born in Milan, Italy, on 18 November 1969. Italian.

Holder of a degree in Business Economics from Università Bocconi, Milan.

He is registered in the Roll of Chartered Accountants and is a founding associate of the tax and legal consulting firm Pirola Pennuto Zei & Associati, where he has worked since 1994.

Member of the Civil Law Commission of the OIC (Italian National Accounting Standard Setter) and the Scientific Committee of AIAF, he is a lecturer in the IPSOA Masters Degree Programme in Taxation.

Elena Morini

Born in Rome on 9 March 1980. Italian.

Holder of a degree in Law from Università Cattolica del Sacro Cuore, Milan.

She began her career as a lawyer in leading law firms and after several years of experience with Piaggio & C. S.p.A., since 2013 she has acted as General Counsel to Moleskine S.p.A., a company which, up to 2017, had been listed on the STAR segment of Borsa Italiana.

Stefano Salbe

Born in Milan, Italy, on 10 March 1965. Italian.

Holder of a degree in Business Economics from Università Bocconi, Milan.

He began his career in 1990 as an auditor with Deloitte & Touche. In 1995 he became Group Financial Analyst at Eaton Automotive. From 1996 to 2000 he served as Chief Administrative Officer of Austin Italia Group. He has held the position of CFO of Digital Bros Group since 2000. Sole director of 505 Games GmbH, Director of 505 Games S.p.A., Game Network S.r.l., 505 Games Interactive Inc. and 505 Games Mobile US Inc. and general manager of 505 Games Spain Slu.

Bruno Soresina

Born in Parma, Italy, on 1 January 1944. Italian.

Holder of a degree in Economics.

He began his career as a university researcher in 1969 and then in 1971 he joined the GTE group, where he occupied various senior positions. From 1986 to 1992 with Siemens he served as General Manager and Executive Member, Siemens Group Private Telecommunications. From 1992 to 1996 he served as Managing Director and General Manager of Federmeccanica. From 1997 to 2007 he was with ATM Milano, where he acted as Chairman and Managing Director. He is Chairman of SIAM 1838 (Società d'Incoraggiamento d'Arti e Mestieri) and a consultant in strategy and organisation.

Dario Treves

Born in Milan, Italy, on 2 March 1968. Italian.

Holder of a degree in Law from Università degli Studi, Milan.  
Has served Digital Bros Group since 1999 and holds the position of General Counsel.  
Member of the Milan Bar Association and counsel to the Court of Cassation.  
Owner of a law firm with specific expertise in civil, procedural and bankruptcy law.  
Director of Game Network S.r.l. Liquidator of the associated company Cityglance S.r.l.

Each member of the Board of Directors is required to deliberate in an informed, autonomous manner, while pursuing the objective of creating value for the shareholders and is required to inform the Board of Directors of any positions as director or statutory auditor with companies listed on regulated markets in Italy or abroad, or with finance, banking, insurance companies or companies of significant size.

Directors may not hold positions with other listed companies, finance, banking or insurance companies, or companies of significant size.

#### *Maximum accumulation of offices that can be held in other companies*

In accordance with the provisions of the Code concerning the role of the Board of Directors and the effective performance of its functions, the Board of Directors, via a Board resolution, expressed its stance on the maximum number of directorships, establishing the limits that may be regarded as compatible with the effective fulfilment of the office of director. Directors may not serve as director of more than five other companies listed on regulated markets (in Italy and internationally), finance, banking or insurance companies, or companies of significant size, and must undertake, upon accepting the position of director, to dedicate the necessary time to the diligent performance of their duties, bearing in mind the other offices accepted. Group companies are not to be taken into account for the purposes of the maximum accumulation of offices held in other companies.

The current composition of the Board of Directors is consistent with the above general criteria.

#### *Induction Programme*

The Chairman of the Board of Directors has ensured that, after their appointment and during their term of office, directors may take part in initiatives aimed at increasing their knowledge of the Group's sector of operation, including through participation in company events, trade fairs, etc.

### **4.3 Role of the Board of Directors (pursuant to Art. 123-bis (2) (d) of the Consolidated Finance Act)**

The Board of Directors bears exclusive responsibility for managing the Company and undertakes the transactions required for the pursuit of the Company's objects.

Pursuant to Art. 18 of the Articles of Association, meetings of the Board of Directors - without prejudice to the powers of convocation reserved for the Board of Statutory Auditors in the cases provided for by law

- are convened by the Chairman of the Board of Directors, according to the conditions indicated therein, or at the written request of any member. That same Art. 18 of the Articles of Association also provides that there must be at least four days between the day on which the notice of the meeting is sent and the scheduled date of the meeting. However, in urgent cases, this period may be shorter, but never less than one day.

The calendar of meetings at which annual and interim results are examined was submitted to Borsa Italiana by the established deadline and is published on the Company's website.

The Board of Directors hold all powers of ordinary and extraordinary management of the Company, with the express prerogative of undertaking all acts deemed appropriate for the achievement of the Company's objects, as envisaged by Article 20 of the Articles of Association, excluding only those reserved peremptorily for the shareholders' meeting by the law and the Articles of Association. The following powers are reserved solely for the Board of Directors under the Company's Articles of Association:

- a) to appoint the executive committee, where applicable, and to establish the term of office, powers and remuneration of its members;
- b) to allocate the remuneration awarded to the Board of Directors to individual directors and managing directors, in consultation with the Board of Statutory Auditors;
- c) to institute any committees and commissions with a consultative role and to determine their powers, duties and operating procedures;
- d) to report to shareholders during the shareholders' meeting;
- e) to report to the Board of Statutory Auditors, at least quarterly, on the activity performed and the transactions deemed most significant.

As established by company practice and by a Board resolution, the Board of Directors is exclusively responsible for:

- a) examining and approving the strategic, business and financial plans of the Company and the Group, the corporate structure of the Group and the Company's corporate governance;
- b) determining the nature and level of risk compatible with the issuer's strategic objectives, taking account of all the risks that may prove to be significant in terms of medium to long term sustainability of the issuer's operations;
- c) verifying the adequacy of the organisational and administrative and accounting structure of the Company and the Group, with particular regard to the internal control system and conflict of interest management;
- d) granting and revoking delegated powers to the managing directors and establishing their limits and conditions of exercise; establishing the frequency (no more than quarterly) with which the managing directors must report to the Board of Directors concerning the activity performed;
- e) supervising general operating performance, with a particular focus on situations of conflict of interest, taking into account the information received from the managing directors and the internal control and risks committee and periodically comparing actual and planned results;



- f) examining and approving in advance the transactions of the Company and its subsidiaries of significant strategic and financial importance, with a particular focus on situations of potential conflict of interest and related party transactions;
- g) drafting and adopting the Group's corporate governance rules;
- h) establishing the frequency with which the managing directors report to the Board of Directors;
- i) conducting an assessment, at least once a year, of the size, composition and functioning of the Board of Directors and committees instituted. By virtue of this assessment, it expresses opinions for the shareholders of the professionals whose presence on the Board of Directors is deemed appropriate, prior to the appointment of the new Board of Directors;
- j) providing information in the corporate governance report concerning (1) its composition, with an indication for each member of his or her position, role within the Board of Directors, main characteristics and length of service; (2) the methods of application of Art. 1 of the Corporate Governance Code, the number and average duration of meetings of the Board of Directors and the attendance in percentage terms of each director; (3) the conditions of the process of evaluation of the functioning of the Board of Directors and committees instituted;
- k) adopting, by proposal of a managing director or the Chairman of the Board of Directors, a procedure for the internal management and disclosure of documents and information concerning the issuer, with particular regard to privileged information;
- l) expressing its stance on the maximum number of positions of director or statutory auditor at companies listed on regulated markets (Italian and abroad), at finance, banking or insurance companies, or companies of significant size, considering the participation of the directors in the committees instituted;
- m) approving undertakings of any nature with a duration of more than five years;
- n) approving undertakings that relate to leases with a term of more than two years and the purchase of real properties.

The Chairman of the Board of Directors ensures that the information and documents relevant to the decisions within the purview of the Board of Directors are made available to the members of the Board of Directors and the Board of Statutory Auditors, in the manner and with the timing deemed appropriate. Executives of the Company and the Group are allowed to participate in meetings of the Board of Directors to provide the appropriate clarification concerning items on the agenda.

The rules and procedures of the Board of Directors provide that the Chairman is to ensure that adequate information is provided to all Directors concerning the order of business on the agenda for each meeting suitably in advance. If the order of business relates to initiatives of an ordinary nature, the pertinent documents, where available, are normally forwarded two business days prior to the scheduled date of the meeting of the Board of Directors, unless particular confidentiality considerations urge otherwise, with especial regard to privileged data or information. The Chairman of the Board of Directors assesses initiatives of an extraordinary nature on a case-by-case basis. The deadlines were observed over the course of the financial year.

In the year ended 30 June 2017, the Board of Directors met 9 times, with an average duration of two hours and 4 minutes. For the financial year ending 30 June 2018, five meetings of the Board of Directors are scheduled, one of which has already been held.

The dates of meetings of the Board of Directors for the review of financial data are announced to the public in advance. The meeting of the Board of Directors held to approve the annual financial statements is also announced in advance. The financial calendar is available from the Company's website.

Prior information was not withheld for reasons of confidentiality from members of the Board of Directors concerning any matters discussed at meetings of the Board of Directors in the course of the financial year.

The Board of Directors evaluated and approved the organisational, administrative and accounting structure, with particular regard to the internal control system and conflict of interest management of the Issuer and Group companies. The evaluation was conducted with the aid of the internal control and risks committee, which, during its meetings, verified the effective functioning of the internal control system on an ongoing basis.

On 13 September 2016, the Board of Directors conducted its annual evaluation, pursuant to application criterion 1.C.1 g) of the Code and concluded that the size, composition and functioning of the Board of Directors and its committees were suited to the Company's management and organisational needs. The evaluation took account of the professional characteristics and managerial and professional experience of its members and acknowledged that the current Board of Directors is composed of nine directors, of whom six are non-executive directors, three of whom are independent directors, in accordance with the criteria set forth in Art. 148 (3) of the Consolidated Finance Act and the Code. In conducting this evaluation, it was assisted by the work done by the control and risks committee and the experience of its members. This analysis was carried out taking account of the complexity and size of the Company and the Group. As part of the tasks assigned thereto, the Board of Statutory Auditors verified the correct application of the criteria and procedures adopted by the Board of Directors in assessing the independence of its members.

On 12 September 2017, in view of the reappointment of the Board of Directors, it provided guidance to the shareholders on the managerial and professional experience deemed appropriate for membership of the Board.

On 28 October 2014, the shareholders in general meeting approved the annual remuneration for the entire Board of Directors of Euro 1,100,000.00. The remuneration of individual directors was approved by the Board of Directors, in consultation with the Board of Statutory Auditors and the Remuneration Committee. The Company implements a remuneration policy for governance bodies that provides for incentives tied to the satisfaction of objectives.

The amount of the remuneration received by members of the Board of Directors during the year ended 30 June 2017 is detailed in the Remuneration Report.

The Board of Directors assessed the general operating performance and conducted a quarterly comparison of actual and forecast results.

On 11 November 2010, the Board of Directors approved the procedure governing the undertaking of significant transactions in which a director has an interest. The procedure is available in the Corporate Governance section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

Transactions to be undertaken (including through the execution of binding preliminary agreements or master agreements) by the Company or by its subsidiaries falling into the following categories are subject to prior approval by the Company's Board of Directors inasmuch as they are deemed to be significant transactions:

- a) mergers, demergers, disposals, and acquisitions, in any form, of equity interests in companies, businesses or business units;
- b) investments in property, plant and equipment that exceed Euro 1,000,000 per transaction;
- c) leases (or sub-leases) for property or leases (or sub-leases) of businesses or business units with a term of more than nine years or for an amount that exceeds Euro 1,000,000 per transaction;
- d) settlements of disputes, in or out of court, involving amounts that exceed Euro 1,000,000 per transaction;
- e) disposals of operating assets with a total value of more than Euro 1,000,000 per transaction;
- f) the granting of loans or guarantees that exceed Euro 3,000,000 per transaction, where in the interest and/or for the benefit of companies (or associations, foundations, consortia or entities) directly or indirectly controlled by the Company, or Euro 500,000 where for or in the interest of third parties;
- g) undertakings to purchase goods or services and/or contracts to purchase, sell or supply, in any form, moveable property or to provide works or services, not relating to expenditure on property, plant and equipment, as well as the granting of loans. In all cases for which the joint signatures of two managing directors are required.

In order to avoid obstructing the ordinary management of the Company, the transactions indicated in points d) and g) may be undertaken by the managing directors on adequate information having been submitted to the directors and statutory auditors and may only be subsequently ratified by the Board of Directors.

In accordance with applicable laws, regulations and the Articles of Association, the Board of Directors is responsible for the examination and prior approval of Group transactions in which one or more directors have an interest, on their own account or on account of third parties.

Transactions with related parties entered into by Group companies are reserved for the examination and prior approval of the Board of Directors when such transactions are of strategic importance from the standpoint of financial performance or financial position. On 11 November 2010, the Board of Directors approved the procedure for related party transactions to reflect the amendments introduced by Consob resolution 17221 of 12 March 2010. General criteria have been established for the identification of

transactions with related parties of a significant nature. The procedure is available in the Corporate Governance section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

The shareholders in general meeting have authorised departures from the non-compete provision of Art. 2390 of the Civil Code. The Board of Directors has not had to examine any cases of this nature.

## **4.4 Governance bodies**

### ***Managing directors***

Abramo Galante and Raffaele Galante have been appointed to the position of managing director.

At the meeting held on 13 November 2014, in further pursuit of an efficient, flexible system for the management of the Company's operations, the Board of Directors granted the managing directors all powers of ordinary and extraordinary management, except for those reserved for the Board of Directors by law, the Articles of Association or express resolution of the Board of Directors.

In any event, all decision-making powers and powers of disposition in ordinary and extraordinary management in excess of Euro 5,000,000.00 must be exercised by the joint signature of both managing directors.

The interlocking directorate situation envisaged by criterion 2.C.5 of the Code does not apply.

### ***Chairman***

The Chairman convenes the Board of Directors at the Company's registered office, or in another location outside of Italy, but in a member state of the European Union and ensures that the members of the Board of Directors receive the documentation and information necessary to allow the Board of Directors to express its position, in an informed manner, on the subjects put before it for examination and approval, suitably in advance of the date of the meeting, except in cases of necessity and urgency.

Pursuant to the law and Articles of Association, the Chairman holds the power of legal representation of the Company and signing authority for all legal transactions. The Chairman has also received delegated management powers as managing director.

The Chairman is primarily responsible for the management of the Group and is not a controlling shareholder of the Company.

The Chairman ensures that all directors participate in initiatives to increase their knowledge of the sector of reference, the Company's situation and dynamics and the legislative framework of reference, so as to be able to exploit the various professional skills and allow his or her role to be performed effectively.

### ***Executive committee***

No executive committee has been instituted.

## ***Reporting to the Board of Directors***

During the year, at the first possible meeting and at least quarterly, the managing directors reported to the Board of Directors on the activity carried out in the exercise of the powers delegated to them and on the most significant transactions.

### **4.5 Other executive directors**

Pursuant to application criterion 2.C.1 of the Code, those deemed to be executive directors are Stefano Salbe, given that he serves the Issuer in an executive capacity and, in particular, he holds positions as Group Chief Financial Officer, as Executive Director in charge of internal control and risk management, as Chairman of the German subsidiary 505 Games GmbH, and as general manager of 505 Games Spain Slu, as well as Dario Treves, given that he acts as General Counsel to the Group.

### **4.6 Independent directors**

At the meeting held on 13 September 2016, the Board of Directors, acting on the basis of information disclosed by each director, verified that its members satisfied the independence requirements established by Art. 148 (3) of the Consolidated Finance Act and Art. 3 of the Corporate Governance Code and established the satisfaction of independence requirements by the directors Guido Guetta, Elena Morini and Bruno Soresina, who confirmed that they met the independence requirements laid down in Art. 148 (3) and (4) of the Consolidated Finance Act and that, pursuant to the Code, none of the circumstances envisaged in 3.C.1 and 3.C.2 of the Corporate Governance Code nor other situations undermined their qualification as independent directors. Bruno Soresina would not qualify as independent pursuant to application criterion 3.C.1 (e) of the Code. On 13 September 2016, the Board of Directors deemed Bruno Soresina to be independent on the basis of the de facto situation, in departure from the application criterion of the Code (which is not binding).

The independent directors undertook to remain independent for the duration of their terms of office and to inform the Board of Directors in a timely manner of any situations that might jeopardise their independence.

This assessment was conducted according to the application criteria laid down in the Code and the prudent view of the Board of Directors, with the director involved in each case abstaining. In particular, on the basis of the information made available by the interested parties and/or otherwise available, the Board of Directors assessed the relationships that normally undermine independence and concluded that the existing relationships are not such as to compromise the autonomy of judgement of the interested parties, in consideration of their high level of professionalism.

The Board of Statutory Auditors verified that the assessment criteria and procedures adopted by the Board of Directors in assessing the independence of its members had been properly applied and had no observations with regard to its actions.

The non-executive directors and independent directors are sufficient in terms of number and authority to ensure that their judgement may have a significant bearing on the Issuer's decision-making process. Non-executive directors and independent directors bring their specific expertise to bear on discussions within

the Board of Directors and thereby contribute to the decision-making process in a manner consistent with the Company's interest.

During the year ended 30 June 2017, the independent directors met once without the other directors. During such meetings, they analysed the structure of the Group's control system and the internal control activities.

The independent directors' contributions allow the Board of Directors to verify whether cases of potential conflict of interest involving the Company and its controlling shareholders have been examined in a suitably independent manner.

#### **4.7 Lead independent director**

The Board of Directors has not deemed it appropriate to appoint a lead independent director since the conditions laid down by the Code have not been met.

### **5. HANDLING OF CORPORATE INFORMATION**

---

The Chairman and managing director, along with the investor relations manager, supervise the disclosure to the public of events that occur within the Group's sphere of activity. The responsible parties are in charge of the external disclosure of documents and information, with particular regard to privileged information. Employees, directors, statutory auditors and independent contractors are required to treat as confidential documents and information obtained in the course of their duties.

The Company informs the supervisory authorities, market management company and the public, in the most appropriate forms and in accordance with regulations, of the events that occur within its sphere that are not in the public domain and may, if rendered public, significantly influence the price of the listed financial instruments issued by the Company.

Following the entry into force in July 2016 of Regulation (EU) No. 596/2014 (MAR - Market Abuse Regulation), despite the lack of completion/adaption of the national regulatory framework, on 13 September 2017, having acknowledged that the procedure for handling privileged information (adopted on 28 March 2017) and the internal dealing procedure (adopted on 13 September 2016) had been superseded, the Board of Directors approved a new privileged information and insider dealing procedure. Further measures introduced by the legislator and/or by Consob may require amendments to be made to the foregoing (even in the short term). Moreover, the document reflects guidance provided by Consob in its operational guideline, Handling of privileged information, dated April 2017. Specifically, the procedure for handling privileged information: (i) governs the identification of privileged information (by establishing relevant criteria and responsibilities/processes). In light of the new regulatory context, the process for the ongoing detection of privileged information in advance has been abandoned, but the safeguards to protect the confidentiality of privileged information have been extended to information that does not precisely qualify as privileged, but which could potentially qualify thereas; (ii) highlights the obligations and prohibitions arising from access to privileged information or from the potential to generate it (as would be the case for

insiders) and reaffirms the principle that awareness and the application of legislation applicable to informed persons and/or insiders is the personal responsibility of the respective recipients thereof; (iii) governs the communication to the public (as well as a delay in communication) of privileged information and clarifies the roles and responsibilities of the various parties involved; (iv) describes the procedure for compliance with the obligation to draw up lists of persons who have access to privileged information and includes an appropriate supplementary section reserved for those with permanent access to all Company information that qualifies as privileged.

On 13 September 2016, the Board of Directors approved the insider dealing procedure (amended on 12 September 2017) that: (a) sets out a series of operational references, application principles and interpretative criteria concerning insider dealing and the close period; (b) highlights the legal sanctions regime in the event of non-compliance with relevant regulations and also specifies the contractual liability for breach thereof (and the possible consequences).

In accordance with Art. 2.2.3, paragraph 3 (P) of the Borsa Italiana Regulations, applicable to companies with shares listed on the STAR Segment of the MTA market, pursuant to the internal dealing procedure, relevant persons and persons with close ties to relevant persons may not undertake transactions until disclosure to the public and in the 30 preceding days, of the outcome of meetings of the Company's Board of Directors examining mandatory periodic statements, proposals for the distribution of advances on dividends and preliminary results and, if disclosed in such venue, the proposal for the annual dividend to be submitted to the shareholders' meeting. The restriction does not apply to the purchase of shares through the exercise of rights awarded in the context of stock-option and stock-grant plans, without prejudice to the obligation not to proceed with the sale thereof in the periods indicated.

The procedures may be found in the Investors section of the website at [www.digitalbros.com](http://www.digitalbros.com).

## **6. INTERNAL BOARD COMMITTEES (pursuant to Art. 123-bis (2) (d) of the Consolidated Finance Act)**

---

In order to increase the efficacy of the work of the Board of Directors, an internal control and risks committee, a remuneration committee and a standing committee of unrelated independent directors have been instituted as subcommittees thereof.

Considering that the current list-based voting mechanism ensures a transparent appointment procedure and balanced composition for the Board of Directors and has always permitted the presence of an adequate number of independent directors, the Board of Directors did not deem it necessary to proceed with the institution of an internal Nomination Committee.

No committees have been instituted other than those envisaged by the Code. It should be noted that no committees have been instituted with the functions of two or more of the committees as provided for by the Code and that the functions of committees envisaged by the Code have not been reserved for the Board of Directors.



## **7. NOMINATION COMMITTEE**

---

Considering that the current list-based voting mechanism, which ensures a transparent appointment procedure and a balanced composition for the Board of Directors, has always permitted the presence of an adequate number of independent directors, the Board of Directors did not deem it necessary to proceed with the institution of an internal Nomination Committee.

## **8. REMUNERATION COMMITTEE**

---

*Composition and functioning of the remuneration committee (pursuant to Art. 123-bis (2) (d) of the Consolidated Finance Act)*

The Board of Directors has instituted an internal remuneration committee, composed of three non-executive, independent directors for the entire duration of the financial year: Guido Guetta, Elena Morini and Bruno Soresina.

The Board of Directors deemed the knowledge and experience possessed by Guido Guetta in accounting and financial matters to be adequate at the time of his appointment.

The composition of the remuneration committee did not undergo any change during the year.

No executive director participated in meetings of the remuneration committee during which proposals were formulated with respect to the remuneration of directors.

During the year ended 30 June 2017, the committee met 6 times, with an average duration of meetings of one hour and 38 minutes and with the participation of all of its members. The following were examined on these occasions: management incentive plans, directors' remuneration, the definition of "key manager" and the proper application thereof at Group level for the purposes of the Remuneration Report. Minutes were taken for the meetings.

The Committee has scheduled four meetings for the current year, one of which has been duly held.

*Functions of the remuneration committee*

In accordance with the Corporate Governance Code, the remuneration committee is entasked with:

- submitting proposals to the Board of Directors concerning the remuneration of managing directors and other directors who serve in particular offices, while monitoring the application of the decisions reached by the Board of Directors;
- periodically assessing the criteria adopted for the remuneration of key management personnel;
- supervising their application on the basis of the information provided by the managing directors;

- formulating general recommendations for the Board of Directors concerning remuneration, the determination of performance objectives correlated with the variable component of remuneration and verifying that such objectives have actually been achieved;
- reviewing the Remuneration Report pursuant to Art. 147-ter of the Consolidated Finance Act.

The institution of this Committee is a means of ensuring the fullest, most transparent information concerning the remuneration due to managing directors and senior executives and the methods for determining such remuneration. However, it is understood that, in accordance with Art. 2389 (3) of the Civil Code, the remuneration committee acts solely in a propositional capacity, whereas the power to determine the remuneration of directors assigned specific duties lies, in any event, with the Board of Directors, having sought the opinion of the Board of Statutory Auditors.

The Company has also approved rules and procedures for the operation of the committee, according to which the committee meets at least twice a year and always prior to the session of the Board of Directors entasked with establishing the remuneration of directors assigned specific duties and/or the Company's senior management.

During the year, the committee enjoyed access to all information and company functions necessary for the performance of its duties.

The committee did not make use of the services of external consultants.

No additional functions were assigned to the remuneration committee.

The Board of Directors provides the committee with the resources required to perform its functions from time to time, as may also be requested by the committee.

## **9. DIRECTORS' REMUNERATION**

### *General remuneration policy*

The Board of Directors has established a remuneration policy for executive directors, non-executive directors and key management personnel.

A significant portion, albeit balanced against the fixed portion, of the total remuneration of executive directors and key management personnel is linked to the financial results achieved by the Issuer and the achievement of predetermined objectives. The variable portion is commensurate in percentage terms to the fixed component and has an upper limit. In determining the variable component, the Board of Directors deemed the fixed component to be sufficient remuneration for the services of directors and key management personnel.

The short-term performance objective is linked to earnings generated during the financial year and is easily measurable, whereas the long-term objective is linked to strategic objectives contained in the three year plan. Performance objectives are amended from one year to the next based on the objectives pursued by the Group and as proposed by the remuneration committee. The variable component is paid after the draft financial statements are approved.

Directors' remuneration is determined by the Board of Directors based on a proposal submitted by the remuneration committee. On 28 October 2014, the shareholders in general meeting approved gross annual remuneration of Euro 1,100,000.00 for the three year period 2014-2017.

No indemnities are payable for early termination of office or employment.

The directors submit the Remuneration Report to the shareholders in general meeting.

#### *Share-based remuneration plans*

On 11 January 2017, the shareholders in general meeting approved the "2016-2026 Stock Option 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 options assigned under the 2016-2026 Stock Option Plan have an average vesting period of at least 3 years. Director beneficiaries are obliged to continuously hold, until the end of their mandate with respect to each vesting period, a number of shares equating to at least 20% of the shares subscribed upon the exercise of their options.

#### *Incentive schemes for the head of the internal audit department and the financial reporting manager.*

No incentives have been envisaged for the head of the internal audit department, given that they are not deemed necessary due to nature of the duties assigned thereto.

The incentive scheme for the financial reporting manager has been described above, given that this position is held by an executive director.

#### *Remuneration of non-executive directors*

The remuneration of non-executive directors is not tied to the Company's financial results. Non-executive directors are not awarded share-based incentive plans. The remuneration of non-executive directors is determined as a fixed amount at the time of the Board resolution that sets their remuneration.

#### *Directors' indemnities in case of resignation, dismissal or departure as a result of a takeover bid (pursuant to Art. 123-bis (1) (i) of the Consolidated Finance Act)*

No agreements have been entered into between the Company and directors establishing indemnities in the event of resignation, dismissal or departure without cause, or where the working relationship is severed following a public takeover bid.

## **10. CONTROL AND RISKS COMMITTEE**

---

The Board of Directors has instituted an internal control and risks committee, after having verified that non-executive, independence requirements had been met in accordance with the law and the application criteria of Art. 3 of the Code. The current committee, which was appointed by a resolution dated 13 November 2014, was composed of three non-executive, independent directors at the reporting date: Guido Guetta, Elena Morini and Bruno Soresina.

*Composition and functioning of the control and risks committee (pursuant to Art. 123-bis (2) (d) of the Consolidated Finance Act)*

The composition of the control and risks committee did not undergo any changes during the year and is composed as follows: Guido Guetta, Elena Morini and Bruno Soresina.

The control and risks committee established that Guido Guetta was a director with experience in accounting and financial matters deemed to be adequate by the Board of Directors upon his appointment.

During the year ended 30 June 2017, the committee met seven times, with an average duration of meetings of approximately one hour and 43 minutes and with the participation of all members and the presence of the Board of Statutory Auditors, of the internal control officer and director in charge of internal controls and risks. Minutes were taken for the meetings.

The committee has scheduled four meetings for the current year, one of which has already been held.

The committee did not make use of the services of external consultants as there was no need to do so.

*Functions assigned to the control and risks committee*

The control and risks committee performs the following functions:

- a) provision of preventive assistance to the Board of Directors in determining the guidelines for the internal control system and with the identification, monitoring and management of key risks, along with the verification of the degree of compatibility with the strategic objectives identified;
- b) issues binding opinions on the appointment and withdrawal of the head of the internal audit department, as well as on the adequacy of his/her remuneration;
- c) assesses, along with the financial reporting manager and the auditors, the adequacy of the accounting policies applied and their consistency for the purposes of preparation of the consolidated financial statements;

- d) prepares, upon the request of the director in charge of internal control, opinions concerning specific aspects relating to the identification of major company risks and the planning, implementation and management of the internal control system;
- e) reviews the periodic reports prepared by the internal audit department;
- f) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit department;
- g) requests the head of internal audit to audit specific operational areas;
- h) reports to the Board of Directors at least half-yearly in conjunction with the approval of the financial statements and interim financial report, on the activity and adequacy of the internal control system.
- i) supports the Board of Directors in the assessment of and in decisions relating to the management of key risks arising from any detrimental facts, inclusive of via appropriate investigation activities.

No additional functions have been assigned to the committee.

During the year, the control and risks committee analysed the work plan drawn up by the director in charge of internal control and verified the status thereof. It assessed the work plan drawn up by internal audit, it monitored the status thereof and worked with the financial reporting manager in assessing the proper application of accounting policies and the consistency of such policies for the purposes of preparing the consolidated financial statements. The Chairman of the Board of Statutory Auditors, or another member thereof appointed by the Chairman of the Board of Statutory Auditors, participated in the Committee's work.

In the performance of its functions, the control and risks committee may access company information and functions required to carry out its tasks and did not deem it necessary to draw on financial resources to perform its duties.

The Board of Directors provides the control and risks committee with the resources required to perform its functions from time to time, as may also be requested by the committee itself.

## **11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The internal control system is a set of processes aimed at monitoring the efficiency of company operations, the reliability of financial reporting, compliance with laws and regulations and the protection of company assets. In accordance with the principles and criteria established by the Code, the internal control system implemented by the Group involves:

- a) the Board of Directors, which sets the guidelines for the internal control system (so that the main risks affecting the Company and its subsidiaries are properly identified and adequately measured, managed and monitored) and periodically assesses the adequacy and effective functioning of that system through the appointment of the control and risks committee and periodic reporting;
- b) the Board of Directors determines the nature and level of risk compatible with the strategic objectives as part of the medium-long term planning process;

- c) each year the Board of Directors approves the internal audit plan, after having sought the opinion of the Board of Statutory Auditors and the director responsible for the internal control system;
- d) the managing director, who is responsible for implementing the guidelines established by the Board of Directors and in particular for identifying the main company risks, with the support of the director in charge of the internal control and risk management system;
- e) the director responsible for internal control, who verifies that the internal control system is constantly adequate, fully operational and functional and, where necessary, suggests that the control and risks committee and the Board of Directors adopt all measures aimed at eliminating risks of an operational and financial nature and at improving the efficiency and efficacy of company processes;
- f) the control and risks committee, which plays a consultative and propositional role, extending, inter alia, to assessment of the proper use of accounting policies and their consistency for the purposes of preparation of the consolidated financial statements;
- g) the head of internal audit, who, in coordination with the control and risks committee, plans risk-monitoring activities, prepares a work plan and informs the control and risks committee and director responsible for internal control of the main internal audit findings.

The control system is a set of rules, procedures and organisational structures aimed at allowing sound, fair management of the business in a manner consistent with the predetermined objectives through an adequate process of identification, measurement, management and monitoring of major risks. In relation to the financial reporting process, the internal control system is an integral part of the broader risk management system. The internal control system contributes to ensuring the safeguarding of company assets, the efficiency and efficacy of company operations, the reliability, trustworthiness, accuracy and timeliness of financial reporting and compliance with laws and regulations.

In carrying out its functions relating to the internal control system, the Board of Directors takes due account of the models of reference and best practices existing at national and international level, while adapting them to the complexity of the Group's processes and organisational structures.

In order to ensure the effective, proper application of such provisions and, more generally, all rules and procedures governing the processes for gathering, processing, presenting and disseminating company information, Digital Bros has implemented an internal control system as laid down in its internal control manual, which is periodically updated and submitted for the approval of the Board of Directors. The manual is then distributed subsequent to each amendment and approval by the Group's organisational structures.

The purpose of the internal control manual is to facilitate the consultation by the directors and/or key employees and/or employees in charge of lines of business of the procedures deemed essential by the Board of Directors to meet internal control needs.

The manual contains a description of all of the main tools created by the Group to meet control objectives:

- management planning and control: the structured system for the preparation of short- and/or medium-/long-term forecasting plans and the regular monitoring thereof;
- Legislative Decree 231/2001: the organisational model prepared for the purposes of the Decree in question and analysed in a specific section of the Report;
- the risk-identification procedure: it defines the roles, functions and methods whereby the Company identifies, assesses and monitors the main risks to which the Group is exposed so as to plan any corrective actions;
- procedure for identifying company events: this determines the criteria used to ensure the reliability, completeness and timeliness of financial reporting, including compliance with the requirements of Legislative Decree 262/2005;
- the Group's operating procedures manual, governing the main processes implemented by the Company and its subsidiaries.

*Existing steps of the risk management and internal control system in relation to the financial reporting process*

The process of identifying financial reporting risks is an integral part of the broader risk identification and management and internal control system implemented by the Group.

The identification of risks is an ongoing process that involves the Board of Directors together with level-one organisational structures in coordination meetings that are held periodically throughout the year. Their work is summarised in a risk matrix that is prepared and regularly reviewed by the director responsible for internal control, who attends the coordination meetings. Records are maintained for each risk that provide a description of the risk in question, the allocation of a substantiated gross risk rating based on a probability/impact matrix and the presence of any mitigating factors and/or safeguards put in place to reduce and monitor the risk, with the consequent allocation of a net risk rating. The director responsible for internal control is assisted in this task by the control and risks committee.

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

The thoroughness of the risk map and the allocation of net risk ratings are jointly assessed by the two managing directors and by the director responsible for internal control. The Board of Statutory Auditors supervises the efficacy of this process. The main risks, both of an operational nature and relating to financial reporting, are presented in a specific section of the consolidated financial statements.

Any deficiencies in and/or improvements to the risk management system, relating in particular to financial reporting risks and more generally to internal control systems, as identified during the process described above, represent the starting point for the work planned by the internal control function, in terms of both the implementation of control mechanisms aimed at safeguarding risks and monitoring activities. The approach taken depends on the significance of the potential impact on the Group's operating risk.

The assessment of controls in terms of both improvement and operations is formalised at least once every six months by the director responsible for internal control, who reports to the Board of Directors on the subject.

#### *Roles and functions involved*

The Group markets video games around the world through commercial subsidiaries that purchase products from Group companies and resell them locally. The phases of video game production and creation and the purchase of video games from third parties are carried out by the parent company and/or Italian subsidiaries and handled directly by two managing directors, within the limits of the powers delegated to them, jointly or separately, or by the Board of Directors in cases of larger amounts.

The relative homogeneity of the processes employed and the creation of a single ERP platform shared by all Group companies with automatic, advance processes of control of sales and service purchase processes allows for effective controls of the processes of individual units so as to maintain a relatively modest level of delegated powers for individual entities in terms of the potential impact of fraud and/or errors and thus on financial reporting. The payment authority granted to various individuals by the two managing directors is limited to amounts deemed below the threshold for significant misstatements in financial reporting.

The common ERP platform also permits:

1. the efficacy of the process of consolidation and standardisation of accounting policies, which is carried out at parent company level and is monitored by means of an appropriate procedure;
2. the expansion of the scope of relevant companies and processes for the purposes of Legislative Decree 262/2005 to all companies and processes, since it is easy to implement control mechanisms for all companies and processes employed.

Even though the information is available at any time, reports are nonetheless issued by the heads of the individual entities on a quarterly basis.

The Group's short-term planning and control processes envisage a structured calendar of activities on a quarterly basis and are prepared through a structured system of coordination meetings attended not only by the managing directors but also by individual heads of operating segments and/or functions. Plan progress during the quarter is monitored on an ongoing basis through business intelligence systems and at least one coordination meeting per quarter.

Medium-/long-term planning processes involve a smaller group of individuals (executive directors and heads of operating segments) on a half-yearly basis, through appropriate meetings aimed at verifying the status of the planning process and the analysis of deviations.



Short-term planning and the relative analysis of deviations are submitted for the attention of and approval by the Board of Directors on at least a quarterly basis, whereas this is done on a half-yearly basis for medium-/long-term planning and the related deviation analysis.

### **11.1 Director in charge of the internal control and risk management system**

The director responsible for the internal control and risk management system, Stefano Salbe: (i) has direct access to all information useful for the performance of the functions assigned thereto; (ii) reports on his actions to the control and risks committee and the Board of Statutory Auditors; (iii) is provided with the resources required to perform the tasks assigned to him; (iv) has the power to request the internal audit department to perform audit work on specific operational areas.

The director responsible for internal control:

- is responsible for identifying company risks, liaising with other company functions and periodically reporting to the Board of Directors;
- executes the guidelines set by the Board of Directors, plans, implements and manages the internal control system and verifies the adequacy and efficacy of its processes;
- is responsible for adapting the internal control system to market dynamics, the transactions undertaken and legislative and regulatory amendments;
- proposes the appointment and withdrawal of the head of the internal audit department.

### **11.2 Head of internal audit department**

On 10 November 2016, the Board of Directors withdrew the position of internal control officer and instituted the internal audit department and, as proposed by the director responsible for the internal control system, having obtained a favourable opinion from the control and risks committee and after having consulted the Board of Statutory Auditors: (i) appointed, as head of the internal audit department, Pierluigi Valentino, who has been entrusted with verifying that the internal control and risk management system is functional and adequate (ii) established the remuneration payable thereto in accordance with corporate policy and ensured that adequate resources would be available for the performance of the work. (iii) established the audit plan.

In compliance with the Corporate Governance Code, the internal audit department: 1) verifies, both on an ongoing basis and to meet specific needs, in compliance with International standards, whether the internal control system is functional and fit for purpose, via an audit plan, approved by the Board of Directors, based on a structured process involving the analysis and prioritisation of key risks; 2) is not responsible for any operational areas and reports hierarchically to the Board of Directors; 3) has direct access to all information useful for the performance of its duties; 4) prepares periodic reports containing information on the work performed, on the risk management process and on compliance with plans established for risk containment. The periodic reports include an assessment of whether the Internal Control System is fit for purpose; 5) promptly prepares reports on particularly significant events; 6) delivers the reports indicated in points 4) and 5) above to the chairmen of the control and risks committee and the Board of Statutory Auditors, as

well as to the chairman of the Board of Directors; 7) verifies, as part of its audit plan, the reliability of the information systems, including the accounting systems.

The Board of Directors provides the head of the internal audit department with financial resources commensurate with his organisational mandate, in order to meet the requirements for autonomy, adequacy, effectiveness and efficiency of the department laid down by stock exchange regulations.

During the year, the head of the internal audit department:

- a) prepared the annual work plan (“Audit Plan”), which was approved by the Board of Directors;
- b) scheduled and performed, in accordance with the Audit Plan, direct and specific audit procedures aimed at the Issuer and all other Group companies in order to detect any deficiencies in the internal control and risk management system with respect to various risk areas. The procedures were performed during the course of scheduled audits carried out at the Company's premises and the related findings were presented at periodic meetings of the control and risks and related parties committee.
- c) agreed with the Company, with this having been its first year of activity, to initially subject the Company's procedural framework to audit and, to this effect, he acquired the following documents:

Corporate Governance Code  
Code of ethics  
Articles of Association  
Regulations for general meetings  
Internal organisational model  
Procedure for related party transactions  
Procedure for significant transactions  
Internal dealing procedure  
Procedures covering privileged information and the register relating thereto; Market abuse; Anti-money laundering and anti-terrorism; Master file of financial transactions; Certified e-mail; Privacy.

- d) verified, as part of its audit plan, the reliability of information systems;
- e) instituted a register (the “Register”) to record all audit work performed in the period just ended (the “Period”) with an indication of the audit findings, suggestions and proposals made by internal audit, recommended steps to be taken to address the deficiencies found as well as a summary conclusion on the work done and on the findings thereof;
- f) drew up an outline of the internal audit report to be used to document the area subjected to audit, the scope of the work, the audit procedures performed, the length of the audit, the reference period, the audit findings and the proposals made;
- g) participated in 2 control and risks committee meetings during which a presentation was made of the status of the audit work being performed, as well as of any findings or malfunctions detected during the course of the work performed and action taken by the Company to address them.

The internal audit work has been outsourced to BDO Italia S.p.A., with the team headed up by Pierluigi Valentino, who has been deemed to meet the requirements of professionalism, independence and organisation.

BDO Italia S.p.A. does not have any links to the Company or the Group companies.

### 11.3 Organisational model pursuant to Legislative Decree 231/2001

On 30 March 2006, the Board of Directors approved the organisational model and code of ethics, which were subsequently updated on 11 May 2010, 13 September 2016 and 12 September 2017. The organisational model adopted by the Company is structured as follows:

- 1) a general section, which introduces the model and lays down governance rules, with particular regard to (i) the addressees; (ii) the composition, role and powers of the supervisory committee; (iii) the role of the Board of Directors; (iv) flow of information to the Supervisory Committee; and (vi) dissemination of the organisational model amongst the addressees;
- 2) a special section in which, with regard to each offence abstractly relevant to the Company, the processes at risk and the rules of conduct that each addressee is required to observe in carrying out his or her activities are identified and described.

In accordance with the organisational model, the following offences are abstractly relevant to the Issuer:

- offences against the public administration;
- corporate offences;
- financial offences and market abuse;
- offences against the individual and the offences of manslaughter and severe and very severe personal injury, committed in violation of accident prevention and workplace health and hygiene statutes;
- cybercrimes and illicit data processing;
- offences against industry and commerce;
- copyright infringement.
- terrorism or subversion of democracy as envisaged by the penal code and by special laws, as well as breaches of article 2 of the International Convention for the Suppression of the Financing of Terrorism (New York, 9.12.1999);
- possession of stolen goods, money laundering and the use of money, goods or profit from criminal activities;
- use of irregular foreign workers;

In light of the organisational characteristics of the Company and in accordance with the guidelines issued by Confindustria (the Company's trade association), the Board of Directors has set up a Supervisory Committee composed of three members and, specifically: a labour consultant and two individuals with law degrees, inasmuch as this composition was believed to satisfy the requirements of autonomy, independence, professionalism and continuity of action to ensure the effective performance of the functions which the Supervisory Committee has been tasked with. The foregoing documents are available in the Investors section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

During the year ended 30 June 2017, the Supervisory Committee conducted an analysis of sensitive activities and current management models in light of the gradual expansion of the scope of application of

Legislative Decree 231/2001. The supervisory committee was involved in updating and in the addition of content to the organisational, management and control model adopted by the Company and, specifically, to reflect the amendments introduced by the MAR and by Legislative Decree 38 of 15 March 2017, which has extensively revised private bribery offences by the introduction of the crime of instigation to private bribery. The updated model was approved on 12 September 2017.

#### **11.4 External auditors**

Deloitte & Touche S.p.A. was appointed as external auditors by the ordinary general meeting held on 26 October 2012 up to the approval of the financial statements for the year ended 30 June 2021.

#### **11.5 Financial reporting manager**

On 7 August 2008, the Board of Directors, with a favourable opinion from the Board of Statutory Auditors, appointed Stefano Salbe as the financial reporting manager and granted him adequate powers and resources to perform the tasks assigned to him under the laws and regulations in force from time to time.

The financial reporting manager is an expert in administration, finance and control. The financial reporting manager performs the functions envisaged by Art. 154-bis of the Consolidated Finance Act.

Art. 24 of the Articles of Association states that the Board of Directors shall grant the financial reporting manager adequate powers and resources to perform the tasks assigned to him under the laws and regulations in force from time to time.

The financial reporting manager must possess:

- many years of experience in administration, finance and control;
- the personal integrity requirements established by law for the office of director.

The financial reporting manager is subject to regulations governing the liability of directors in respect of the duties assigned thereto, without prejudice to suits that may be brought in respect of the employment relationship with the Company. In particular, the Board of Directors has granted the financial reporting manager all of the necessary powers envisaged by Art. 154 bis of Legislative Decree 58 of 24/2/1998, as introduced by Art. 14, paragraph 1 subsection 262, by way of example, but not limited to:

- a) the power to introduce adequate administrative and accounting procedures at the parent company and all Italian and international subsidiaries;
- b) the power to hire employees to assign to specific activities and determine their remuneration in accordance with Group policy and the power to dismiss such employees;

- c) the power to confer and revoke assignments to Italian and international professionals for the performance of specific assignments and to establish the duration and remuneration of such assignments;
- d) the power to proceed with the direct purchase of products and software required to perform financial reporting and related procedures, or to enter into lease agreements therefor;
- e) all necessary powers, including spending powers, for the proper execution of the duties assigned.

#### **11.6 Coordination of individuals involved in the internal control and risk management system**

In accordance with Principle 7.P.3 of the Corporate Governance Code and in compliance with best practices for listed companies, the Company has established methods of coordination between the various bodies involved in the internal control and risk management system. In particular, periodic meetings are held in joint session between the various bodies responsible for internal control and risk management (the control and risks committee, Board of Statutory Auditors and supervisory committee) with the aim of identifying areas of intervention and analysis pertinent to each body. This process facilitates the identification of any overlapping of functions and/or duplications of activities and helps to implement a sole compliance system within the Company and Digital Bros Group. The entire Board of Statutory Auditors, or at least its Chairman or another statutory auditor designated thereby, attends meetings of the control and risks committee. At least annually, the external auditors meet in joint session with the control and risks committee, Board of Statutory Auditors and financial reporting manager with the aim, inter alia, of assessing the proper use of accounting policies and their consistency for the purposes of preparation of the consolidated financial statements.

### **12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS**

---

Transactions with related parties entered into by Group companies are reserved for the examination and prior approval of the Board of Directors when such transactions are of strategic importance from the standpoint of financial performance or financial position. On 11 November 2010, the Board of Directors approved a new procedure for related party transactions to reflect the amendments introduced by Consob resolution 17221 of 12 March 2010. The general criteria for identifying transactions with related parties of a significant nature were determined. The procedure is available in the Corporate Governance section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

Related party transactions are compliant with criteria of substantive and procedural propriety in accordance with applicable provisions of laws and regulations. The Board of Directors is responsible for identifying the criteria suited to identifying related party transactions, taking account of the definitions laid down in international accounting standards and/or provided by supervisory authorities.

However, related party transactions are subject to review and approval by the Board of Directors. In all cases of prior approval by the Board of Directors, the latter must be adequately informed, in advance, concerning the nature of the relationship, the conditions, especially those of an economic nature, methods and timeframe for concluding and executing the transaction, the evaluation procedure followed, the interest

and reasons underlying that interest, in respect of the established strategic guidelines, any risks, current or prospective, for the Company and its subsidiaries and any more general implications for the Company's activities.

In particular, for related party transactions, the directors who have an interest, including a potential or indirect interest, in the transaction must inform the other directors and the Board of Statutory Auditors of all interests that they have in the transaction concerned, on their own account or on account of third parties, in addition to specifying the nature, terms, origin and extent of such interests. Such disclosure may be provided by any means, including verbally, during meetings of the Board of Directors, or by sending written notification to the Chairman of the Board of Statutory Auditors, with an obligation to report thereon during the next meeting of the Board of Directors.

For the definition of "related parties", express reference is made to the parties termed as such by the international accounting standard addressing disclosures concerning related party transactions, adopted according to the procedure laid down in article 6 of Regulation (EC) No. 1606/2002 (IAS 24).

When it identifies a relationship with one of the directors or with a related party through a director, the Board of Directors requests, in a timely manner, clarification concerning the existence of an interest, including a potential or indirect interest and the director with a direct or indirect interest has to leave the meeting when it is time for the Board resolution.

The Board of Directors has set up a standing committee of unrelated independent directors that is required to assess the nature, amount and other features of each related party transaction, to ensure that the transaction is entered into on an arm's length basis and to prevent the transaction from being subject to conditions other than those that would likely have been agreed to between unrelated parties. In this process, assistance may be provided by an appropriate number of experts of acknowledged professionalism and expertise in the subject matters of interest, so as to obtain their opinions concerning the economic conditions, lawfulness and technical aspects of the transaction.

### **13. APPOINTMENT OF STATUTORY AUDITORS**

Art. 25 of the Articles of Association states that acting and alternate members of the Board of Statutory Auditors are to be elected by a list-based voting procedure.

The Board of Statutory Auditors is composed of three acting auditors and two alternate auditors who remain in office for three financial years and may be re-elected. The following provisions apply to powers, remuneration and term of office.

The minority is entitled to elect one acting auditor and one alternate auditor.

The Board of Statutory Auditors is appointed in accordance with applicable gender balance provisions, on the basis of lists submitted by the shareholders in which candidates are presented with sequential numbers.

The list is divided into two sections: one for candidates for the office of acting auditor and the other for candidates for the office of alternate auditor.

Lists of candidates, signed by the shareholders submitting them, must be filed according to the terms and conditions of applicable legislation. Only shareholders who, separately or together with other shareholders, represent a percentage of shares with voting rights at the ordinary general meeting of no less than that envisaged by the provisions of laws or regulations in effect upon appointment are entitled to submit lists. This percentage interest is determined with regard to the shares registered to the shareholder on the day on which the lists are submitted to the Company.

Certification attesting to ownership of such interests may also be produced following filing, provided that it is done by the deadline envisaged for the publication of the lists by the Company.

Each candidate may be presented on a single list on pain of ineligibility.

Candidates subject to causes of ineligibility or disqualification set forth in laws or regulations, or who do not meet the necessary requirements, including those pertaining to concurrent positions established by applicable laws and regulations, may not be included in lists. Statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that they are not subject to any causes of ineligibility or incompatibility and that they meet the requirements established by law and the Articles of Association for their respective offices, in addition to a list of any positions on governance bodies filled at other companies, are filed along with each list, by the deadline indicated above. Certification must be issued by an authorised broker in accordance with the law attesting to ownership of the number of shares required to submit a list. Such certification must be submitted by the deadline and according to conditions established by law.

Lists containing a total number of candidates greater than or equal to three must be composed of candidates of both genders, so that each list includes a number (rounded up) of candidates for the office of acting auditor and a number (rounded up) of candidates for the office of alternate auditor of the less-represented gender equal to at least the percentage indicated in applicable laws and regulations.

Lists for which the foregoing requirements have not been met will be disregarded.

Statutory auditors are elected as follows, without prejudice to compliance with applicable laws and regulations concerning gender balance:

1. two acting auditors and one alternate auditor are drawn from the list that received the greatest number of votes by the shareholders in general meeting, according to the sequential order in which they are listed in the section of the list;
2. one acting auditor and one alternate auditor are drawn from the list that received the second-greatest number of votes by the shareholders in general meeting after the first list, according to the sequential order in which they are listed in the section of the list.

The first candidate from the list that received the second-greatest number of votes after the first becomes the Chairman of the Board of Statutory Auditors.

If the methods indicated above do not ensure the composition of the Board of Statutory Auditors, with respect to acting auditors, in a manner consistent with applicable gender balance provisions, the necessary substitutions will be made from amongst the candidates for the office of acting auditor included in the majority list, according to the sequential order in which the candidates are listed.

If a single list is submitted, the candidates for the offices of acting auditors and alternate auditors in that list will be elected and the first candidate on the list will become the Chairman of the Board of Statutory Auditors, without prejudice to compliance with applicable gender balance provisions. If a statutory auditor ceases to meet the requirements established by laws, regulations or the Articles of Association, he or she must leave office. When a statutory auditor is replaced, the alternate auditor from the same list as the outgoing auditor takes his or her place. The foregoing is without prejudice to the fact that the minority statutory auditor will remain Chairman of the Board of Statutory Auditors, without prejudice to applicable gender balance provisions.

The foregoing provisions concerning the election of statutory auditors do not apply to Shareholders' Meetings held to appoint acting auditors and/or alternate auditors and the Chairman in accordance with the law, as necessary to replenish the Board of Statutory Auditors following replacement or dismissal, without prejudice to observance of the principle set forth in paragraph 3, and, in any event, without prejudice to compliance with applicable gender balance provisions.

If there is a tie between the votes for two or more lists, other than the list that received the greatest number of votes, the youngest candidates from the minority lists will be elected statutory auditors, until the positions to be assigned have been filled, without prejudice to compliance with applicable gender balance provisions. Pursuant to Art. 8 of the Corporate Governance Code, the statutory auditors act autonomously and independently, inclusive of the shareholders who have elected them.

The statutory auditors are required to treat as highly confidential the documents and information they obtain in the course of their duties and must observe the procedure adopted for the external disclosure of documents and information regarding the Company.

In carrying out their duties, the statutory auditors may, individually or collectively, request information or clarification from the directors concerning the information submitted to them and, more generally, the status of company operations or certain transactions, as well as conduct inspections and controls at any time. The Board of Statutory Auditors and external auditors exchange the data and information relevant to the performance of their respective duties. The Board of Statutory Auditors must meet at least once every 90 days.



The members of the Board of Statutory Auditors have certified that they meet the independence requirements established by the Code when the lists were submitted and they accepted their candidacy.

When circumstances so require, the statutory auditors must provide timely information concerning transactions in which they have an interest, personally or on account of third parties.

#### **14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 223-bis (2) (d) of the Consolidated Finance Act)**

---

The Board of Statutory Auditors in office at the reporting date was appointed on the basis of the single list submitted at the shareholders' meeting held on 28 October 2014, for a term of three financial years, set to end on the approval of the financial statements for the year ended 30 June 2017.

During the year ended 30 June 2017, the Board of Statutory Auditors met eight times, with an average duration of two hours and 50 minutes per session, with all members in attendance. The Board of Statutory Auditors has scheduled seven meetings for the current year, one of which has already been held.

The Board of Statutory Auditors is composed of: Paolo Villa, chairman, Emanuela Maria Conti and Simone Luigi Dalledonne, acting statutory auditors and Vincenzo Miceli and Patrizia Riva, alternates.

For information concerning the composition of the Board of Statutory Auditors and each member's participation, reference should be made to the summary tables.

The following are brief biographical notes concerning the members of the Board of Statutory Auditors.

Acting statutory auditors:

Paolo Villa (born in Bergamo on 29 January 1965), a chartered accountant registered in Section A of the Roll of Chartered Accountants and Accounting Experts of Bergamo, registration No. 925/A, since 21 July 1993. Certified auditor.

Key positions: Kelly Services S.p.A. (Acting auditor) - Fine Food Pharmaceutical Ntm S.p.A. (Chairman of the Board of Statutory Auditors) - Eisai S.r.l. (Acting auditor) - 505 Games S.p.A. (Acting auditor) - Bomi Italia S.p.A. (Chairman of the Board of Statutory Auditors).

Emanuela Maria Conti (born in Milan on 8 May 1966), a chartered accountant registered in section A of the Roll of Chartered Accountants and Accounting Experts of Milan and in the Roll of Auditors.

Key positions: Industry and Innovation S.p.A. (Managing Director) – Red. Im. S.r.l. (Chairperson of the Board of Directors) – Agri Energia Perolla Società Agricola S.r.l. (Director) – S.C.M. Consulting S.r.l. (Director) – Coll'Energy S.r.l. (Sole director) – Almeco S.p.A. (Chairperson of the Board of Statutory Auditors) – Ameco Holding S.p.A. (Chairperson of the Board of Statutory Auditors) – A.SE.R. S.p.A. (Acting auditor) – Cartiera Alto Milanese S.p.A. (Acting auditor) – Gamma R3 S.r.l. (Acting auditor) – La

Rosa S.p.A. (Chairperson of the Board of Statutory Auditors) – O.T.A.M. S.r.l. (Acting auditor) -505 Games S.p.A. (Acting auditor) .

Simone Luigi Dalledonne (born in Cremona on 24 October 1978)

Holder of a degree in Economics and Business Studies from Università Cattolica del Sacro Cuore, Milan.

Registered in the Roll of Chartered Accountants and Accounting Experts of Milan and in the Roll of Auditors.

Partner in the firm known as CPAssociati.

Key positions: Emerisque Italia Group SpA (Acting auditor) - Industries Sportswear Company Srl (Acting auditor) - MCS Cavaliere Srl (Acting auditor) - Tecnovalore Srl (Chairman of the Board of Statutory Auditors.) - Milano Gas e Luce Srl (Chairman of the Board of Statutory Auditors)

On 8 September 2016, the Board of Statutory Auditors verified that its members had continued to meet independence requirements. In conducting this verification, it adopted the criteria established in the Code. The examination showed that the acting auditor Paolo Villa did not meet the presumptive independence criterion, inasmuch as he had been an acting auditor of Digital Bros S.p.A. for more than nine of the past twelve years. However, since this requirement is not binding, the Board of Statutory Auditors unanimously deemed that all of its members were independent of the Company.

The procedure governing related party transactions also applies to members of the Board of Statutory Auditors and states that statutory auditors who have an interest, in a personal capacity or on account of third parties, in a given transaction must inform the Board of Statutory Auditors and Board of Directors in a timely manner of the nature, terms, origin and extent of such interest.

The Board of Statutory Auditors supervised the independence of the external auditors and in particular the services rendered to the Group in addition to the audit.

In carrying out its duties, the Board of Statutory Auditors worked in coordination with the control and risks committee, having attended all meetings held by such committee during the year, as well as with the internal control officer and the director responsible for internal control.

## **15. SHAREHOLDER RELATIONS**

---

Digital Bros S.p.A. has adopted a communication policy aimed at establishing constant dialogue with institutional investors, shareholders and the market and at ensuring the regular dissemination of full, accurate and timely information concerning its activities, with the sole limit of the need for confidentiality applicable to certain information. Digital Bros S.p.A. proactively maintains constant dialogue with the market in accordance with laws and regulations governing the circulation of privileged information.

Relations with investors and other shareholders are managed by the investor relation manager, Stefano Salbe, who is also entasked with the function of designated liaison for requests for information pursuant to

the Borsa Italiana Regulation. The Board of Directors has deemed that the current structure is fit for purpose.

Dissemination of information in investor relations is also ensured by making the most important company documentation available, in a timely, ongoing manner, on the Company's website, ([www.digitalbros.com](http://www.digitalbros.com)). In particular, all press releases issued to the market and the Company's financial reports are available from the Company's website, as soon as they are approved by the competent corporate bodies, as well as other company documentation, such as:

- separate and consolidated financial statements;
- half-yearly financial reports;
- interim reports;
- company events calendar;
- corporate governance reports;
- Articles of Association;
- regulations for general meetings.

Such documentation may be consulted in the “*Investors*” section, is readily identifiable and accessible and is available in both Italian and English.

## **16. GENERAL MEETINGS OF SHAREHOLDERS (pursuant to Art. 123-bis (2) (c) of the Consolidated Finance Act)**

---

A duly constituted general meeting of shareholders represents the shareholders and their resolutions, passed in accordance with the law and Articles of Association and which are binding on all shareholders.

Ordinary and extraordinary sessions of general meetings are duly constituted and pass resolutions with the majorities established by law.

As provided for by Art. 10 of the Articles of Association, a general meeting has to be convened as laid down by law and in accordance with the terms and conditions established by applicable regulations. The notice of meeting must contain an indication of the date, time and place of the meeting and a list of the subject matter to be discussed, along with all additional information required by applicable provisions of laws and regulations.

Pursuant to Art. 11 of the Articles of Association, vote holders authorised by notice submitted to the Company by an authorised intermediary may participate in the shareholders' meeting in accordance with the law. Such notice must be delivered to the Company in accordance with applicable legislation at least three days prior to the shareholders' meeting at first call, or by the different term established by applicable provisions of law. The right to attend and vote remains valid if the notice is delivered to the Company after the above deadline, but before the commencement of the shareholders' meeting.

Pursuant to Art. 12 of the Articles of Association, all shareholders entitled to take part in the shareholders'

meeting may be represented by written proxy in accordance with the law. Proxies may also be submitted to the Company by electronic mail according to the conditions indicated in the notice of meeting. The Company does not designate representatives to whom authorised persons may confer a proxy with voting instructions.

The Chairman of the shareholders' meeting is responsible for determining that proxies are valid within the limits indicated above and generally for establishing the right to take part in the shareholders' meeting. The duly constituted general meeting of shareholders represents all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, even absent and dissenting shareholders.

The Chairman of the shareholders' meeting determines, including through persons appointed by him or her, the right of shareholders to participate, including by proxy and verifies the validity of representation documents.

The shareholders' meeting is chaired by the Chairman of the Board of Directors. If he or she is absent, unable or unwilling to attend, the shareholders' meeting is chaired by the Deputy Chairman or a managing director, or by any other director designated by the Board of Directors, where appointed; if such persons are also absent, the shareholders' meeting is chaired by a person, not required to be a shareholder, appointed by the shareholders in general meeting. Resolutions passed by shareholders in general meeting must be recorded by minutes signed by the Chairman and secretary.

The minutes of meetings must be drafted by a notary in cases prescribed by law and/or where deemed appropriate by the Board of Directors.

In order to ensure the orderly, effective conduct of the shareholders' meeting and the right of all shareholders to express themselves concerning the matters up for discussion, shareholders' meeting regulations were approved on 6 September 2000. The regulations are available from the Company's website.

During the year ended 30 June 2016, three general meetings were held: (i) ordinary general meeting of 28 October 2016 attended by six directors out of nine; (ii) ordinary and extraordinary general meeting of 11 January 2017 attended by all directors; (iii) extraordinary general meeting of 13 March 2017 attended by all directors.

The Board of Directors reported to the shareholders in general meeting on planned and past activity and strove to ensure that the shareholders were adequately informed of the necessary elements for them to be able to make decisions within the purview of the shareholders' meeting in an informed manner.

No members of the remuneration committee reported to the shareholders in general meeting on the methods employed to exercise the functions thereof.

There were no significant changes in the year in the composition of share capital or market capitalisation.

## **17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis (2) (a) of the Consolidated Finance Act)**

---

There are no additional corporate governance practices beyond those of the organisational model pursuant to Legislative Decree 231, as described above.

## **18. CHANGES SINCE THE END OF THE REPORTING YEAR**

---

There have been no changes to the issuer's governance structure subsequent to the year end reporting date of 30 June 2017.

## **19. SUMMARY TABLES**

---

The following tables provide a summary of the composition of the Board of Directors and the Board of Statutory Auditors and the methods of adoption of the main recommendations of the Corporate Governance Code.

Board of Directors													Control and Risks Committee		Remuneration Committee	
Position held	Members	Year of birth	Date first appointed	In office since	In office up to	List (M/m)*	Exec	Non-exec	Indep. as per Code	Indep. as per CFA	(%) **	Number of other offices***	....	..	....	..
Director	Lidia Florean	1951	2014	28/10/2014	Approval of 2017 financial statements	M		X			100	0				
Chairman and managing director	Abramo Galante	1963	1991	28/10/2014	Approval of 2017 financial statements	M	X				88	0				
Director	Davide Galante	1933	1991	28/10/2014	Approval of 2017 financial statements	M		X			88	0				
Managing Director	Raffaele Galante	1965	1991	28/10/2014	Approval of 2017 financial statements	M	X				100	0				
Director	Guido Guetta	1969	2009	28/10/2014	Approval of 2017 financial statements	M		X	X	X	88	0	X	100	X	100
Director	Elena Morini	1980	2014	28/10/2014	Approval of 2017 financial statements	M		X	X	X	88	0	X	100	X	100
Director	Stefano Salbe	1965	2005	28/10/2014	Approval of 2017 financial statements	M	X				100	0				
Director	Bruno Soresina	1944	2000	28/10/2014	Approval of 2017 financial statements	M		X	X	X	88	0	X	100	X	100
Director	Dario Treves	1968	2000	28/10/2014	Approval of 2017 financial statements	M	X				100	0				
DIRECTORS WHO LEFT DURING THE YEAR																
Director																
Indicate the quorum required for the submission of lists on the occasion of the last appointment: 4.5%																
No. of meetings held during the reference year:							BoD: 9		Internal Control Committee: 7				Remuneration Committee: 7			

## NOTES

\* This column contains “M” or “m” depending on whether the member was elected from the majority list (“M”) or a minority list (“m”).

\*\* This column indicates the attendance in percentage terms of the directors at meetings of the Board of Directors and committees (No. of attendances/No. of meetings held during the period the person concerned was in office).

\*\*\* This column indicates the number of positions held as director or statutory auditor by the person concerned with other companies listed on regulated markets in Italy or abroad and with finance, banking or insurance companies, or companies of significant size. Appended to the Report is a list of such companies, with regard to each Director, with clarification as to whether the company at which the position is held belongs to the same group as the Issuer.

\*\*\*\* When marked with an “X”, this column indicates that the member of the Board of Directors participates in the committee.

Board of statutory auditors									
Position held	Members	Year of birth	Date first appointed	In office since	In office up to	List (M/m)*	Indep. as per Code	(%) **	Number of other offices ***
Chairman	Paolo Villa	1965	2002	28/10/2014	Approval of 2017 financial statements	M	YES	100	10
Acting auditor	Emanuela Maria Conti	1966	2014	28/10/2014	Approval of 2017 financial statements	M	YES	100	12
Acting auditor	Simone Luigi Dalledonne	1978	2014	28/10/2014	Approval of 2017 financial statements	M	YES		5
STATUTORY AUDITORS WHO LEFT DURING THE YEAR									
Acting auditor									
Indicate the quorum required for the submission of lists on the occasion of the last appointment: 4.5%									
No. of meetings held during the reference year: 8									

## NOTES

\* This column contains “M” or “m” depending on whether the member was elected from the majority list (“M”) or a minority list (“m”).

\*\* This column indicates the attendance in percentage terms of the directors at meetings of the Board of Directors and committees (No. of attendances/No. of meetings held during the period the person concerned was in office).

\*\*\* This column indicates the number of positions held as director or statutory auditor by the person concerned with other companies listed on regulated markets in Italy or abroad and with finance, banking or insurance companies, or companies of significant size. Appended to the Report is a list of such companies, with regard to each Director, with clarification as to whether the company at which the position is held belongs to the same group as the Issuer.