



## **Consolidated and Separate Financial Statements for the year ended 30 June 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 of the Company's website at [www.digitalbros.com](http://www.digitalbros.com)

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## **BOARD OF DIRECTORS AND SUPERVISORY BODIES**

### **Board of Directors**

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

<sup>(1)</sup> Executive directors

<sup>(2)</sup> Non-executive directors

<sup>(3)</sup> Independent directors

<sup>(4)</sup> Financial reporting manager pursuant to Art. 154 bis of Legislative Decree 58/98

### **Internal control and risk committee**

Guido Guetta (Chairman)  
Elena Morini  
Bruno Soresina

### **Remuneration committee**

Guido Guetta (Chairman)  
Elena Morini  
Bruno Soresina

### **Board of statutory auditors**

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

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

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

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

**External auditors**

Deloitte & Touche S.p.A.

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

**Other information**

Publication of the consolidated financial statements of Digital Bros S.p.A. Group for the year ended 30 June 2017 was authorised by resolution of the Board of Directors on 12 September 2017. Digital Bros S.p.A. is a company limited by shares incorporated and domiciled in Italy. It is listed on the STAR segment of the MTA market managed by Borsa Italiana S.p.A.

# **DIRECTORS' REPORT**

## **1. GROUP STRUCTURE**

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

During the course of the previous financial year, the Group's organisational structure and operating segments were revised. The previous organisation was structured based on distribution channels, namely International Publishing and Mobile, whereas it has been decided to focus on games categories, namely Premium Games and Free to Play. The structure of the Development, Italian Distribution, Other Activities and Holding operating segments has remained unchanged.

Accordingly, the Group is organised into five operating segments:

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

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

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

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

On 15 March 2017, the acquisition was completed of the Italian company, Kunos Simulazioni S.r.l., the developer and publisher of the Assetto Corsa video game.

**Free to Play:** its operations consist of the development and publishing of video games available free of charge on digital marketplaces, but which allow the gamer to make purchases during the various stages of the game. With respect to Premium video games, Free to Play games are generally simpler and have greater longevity, since the video game is continuously developed and improved subsequent to its launch, in order to gain the public's loyalty and to extend the lifespan of the game.

The operating segment is coordinated by the subsidiary 505 Mobile S.r.l. and by the U.S. company 505 Mobile (US) Inc., which provides consulting services to the Group, by the UK company DR Studios Ltd.,

which is a developer of Free to Play games and by the newly formed company Hawken Entertainment Inc., which is the developer of the Hawken video game.

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

***Italian Distribution:*** this deals with the distribution in Italy of video games purchased from international publishers.

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

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

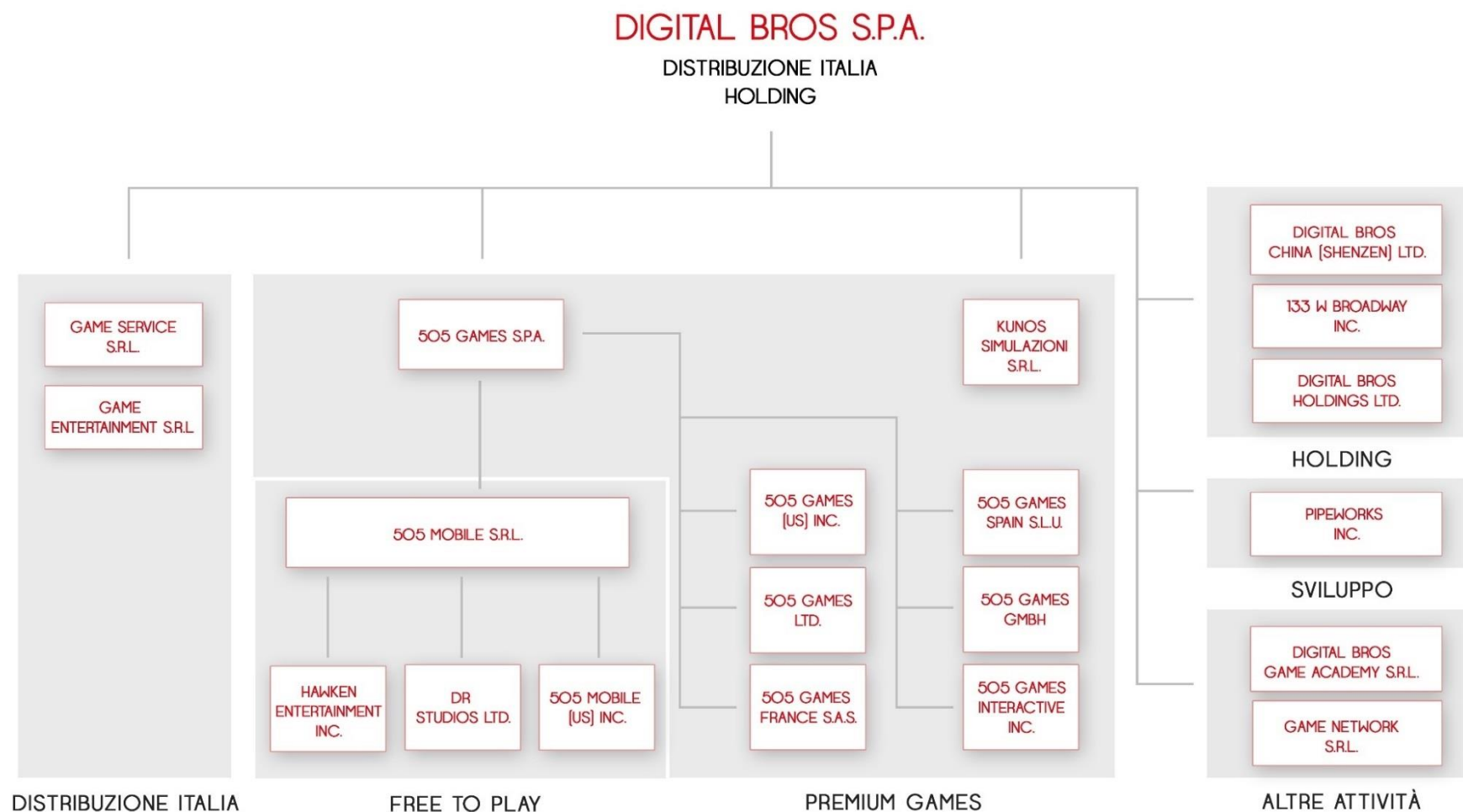
***Other Activities:*** this operating segment handles all of the Group's less significant activities, which are thus grouped within a separate operating segment for a logical presentation of the results. It includes the operations of the subsidiary Game Network S.r.l., which manages paid games under concession from AAMS (Italian State Monopoly Administration) and the operations of the subsidiary Digital Bros Game Academy S.r.l., which organises specialisation courses and training on video games.

***Holding:*** this includes all the coordinating functions carried out by Digital Bros S.p.A. on behalf of the various operating segments. The Holding operating segment also handles administration, management control and business development. The parent company has also availed itself of the contribution made by Digital Bros China Ltd., which operated in the year as a business developer for Asian markets and by 133 W. Broadway Inc., the owner of property located in Eugene, Oregon, USA that has been leased to Group companies, whereas Digital Bros Holdings Ltd. was dormant in the year.

Details are provided below of the Group structure at 30 June 2017. All the investee companies shown are 100% held.



## GROUP STRUCTURE AT 30 JUNE 2017



The Group operated from the following locations during the year:

Company	Address	Function
Digital Bros S.p.A.	Via Tortona 37, Milan	Offices
Digital Bros S.p.A.	Via Boccaccio 95, Trezzano sul Naviglio (MI)	Logistics
133 W. Broadway, Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, USA.	Offices
Digital Bros China (Shenzhen) Ltd.	Tao Yuan Road, Nanshan district, Shenzhen 518062, China	Offices
Digital Bros Game Academy S.r.l.	Via Labus, 15 Milan	Offices
Digital Bros Holdings Ltd. <sup>(3)</sup>	402 Silbury Court, Silbury Boulevard, Milton Keynes, UK	Offices
DR Studios Ltd.	4 Linford Forum, Rockingham Drive, Milton Keynes, UK	Offices
Game Entertainment S.r.l.	Via Tortona 37, Milan	Offices
505 Games S.p.A.	Via Tortona 37, Milan	Offices
505 Games France S.a.s.	2, Chemin de la Chauderaie, Francheville, France	Offices
505 Games Spain Slu	Calle Cabo Rufino Lazaro 15, Las Rozas de Madrid, Spain	Offices
505 Games Ltd.	402 Silbury Court, Silbury Boulevard, Milton Keynes, UK	Offices
505 Games (US) Inc.	5145 Douglas Fir Road, Calabasas, California, USA.	Offices
505 Games GmbH	Brunnfeld 2-6, Burglengenfeld, Germany	Offices
505 Games Interactive (US) Inc.	5145 Douglas Fir Road, Calabasas, California, USA.	Offices
Game Network S.r.l.	Via Tortona 37, Milan	Offices
Game Service S.r.l.	Via Tortona 37, Milan	Offices
Hawken Entertainment Inc. <sup>(1)</sup>	1526 Brookhollow Drive, Santa Ana, California, USA.	Offices
Kunos Simulazioni S.r.l. <sup>(2)</sup>	Via degli Olmetti 39, Formello (Rome)	Offices
Pipeworks Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, USA.	Offices
505 Mobile S.r.l.	Via Tortona 37, Milan	Offices
505 Mobile (US) Inc.	5145 Douglas Fir Road, Calabasas, California, USA.	Offices

- (1) Hawken Entertainment Inc., which is based in the United States and which was set up on 28 September 2016, commenced operations in the second quarter of the financial year.
- (2) Kunos Simulazioni S.r.l. has been consolidated as of its acquisition date of 15 March 2017.
- (3) Digital Bros Holdings Ltd. was dormant in the year.

Details are provided below of the Group's equity investments in associates at 30 June 2017 together with their respective carrying amounts (in Euro thousands):

Name	Location	Holding	Carrying amount
Delta DNA Ltd.	Edinburgh, UK	1.04%	60
Ebooks&Kids S.r.l.	Milan	16%	52
Cityglance S.r.l. in liquidation	Milan	42.5%	2
Ovosonico S.r.l.	Varese	49%	720
Seekhana Ltd.	Milton Keynes, UK	33.61%	511
<b>Total equity investments in associates</b>			<b>1,345</b>

## 2. THE VIDEO GAMES MARKET

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The video games market is part of the broader entertainment industry. Films, publishing, video games and toys are sectors that share the same characters, brands, distinctive features and intellectual property. The market is in constant flux and its growth rate is driven by non-stop technological advances. Gaming is no longer limited to traditional consoles, such as the various iterations of Sony PlayStation and Microsoft Xbox, but has expanded to mobile phones and tablets. Widespread connectivity at increasingly lower costs and the availability of fibre optic networks and high speed mobile phones enable video games to become increasingly diversified, sophisticated and interactive. The widespread use of smartphones by the population, of all ages and walks of life, has led to creativity being expressed in a completely innovative manner that is suitable for adults and females.

As is the case for almost all technological markets, the video games market for the Sony PlayStation and Microsoft Xbox is cyclical as it is linked to the stage of development of the consoles for which the video games are developed. With the rollout of a given console, prices of the hardware and the video games designed therefor are high and relatively small quantities are sold. During their lifespan, hardware and game prices gradually go down, as they progress from new releases to maturity and the quantities sold increase along with a simultaneous increase in the quality of the video games.

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



Developers are those who create and program a game, which is usually based on an original idea, a successful brand, a film or sports simulations, etc. The developers retain the intellectual property rights, but they transfer the exploitation rights for a limited amount of time, as agreed by contract, to international video game publishers, which are therefore a key element in the value chain when it comes to completing the game, enhancing its reputation and distributing it internationally thanks to their direct and indirect international sales networks.

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

The console manufacturer is the company that designs, engineers, produces and markets the hardware or platform on which consumers play the game. Sony is the Sony PlayStation 4 console manufacturer, Microsoft is the Microsoft Xbox One console manufacturer and Nintendo is the Nintendo Switch console

manufacturer. The console manufacturer stamps the game on behalf of publishers in facilities dedicated to the reproduction of software on the various physical storage devices used. The console manufacturer and the video game publisher are often one and the same.

The role of the distributor varies from country to country. The more a market is fragmented, such as the Italian market, the more the distributor's role is integrated with that of the publisher, with the implementation of communication policies for the local market and the undertaking of public relations. In certain markets, such as the UK and the U.S., due to a high concentration of retailers, publishers usually have a direct presence. Due to the increasing digitalisation of the market, more recently incorporated video game publishers do not have their own traditional international retail sales structures as they make use of distribution structures pertaining to other publishers present in various markets.

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

Consumers are moving more towards purchases of games on digital platforms and, accordingly, console manufacturers have developed marketplaces whereby video games can be sold directly to the end consumer without the need for a distributor or retailer.

The value chain is less complex for games distributed in digital format on the marketplaces and for those designed for smartphones and tablets, as indicated below:



The main marketplaces through which video games for consoles are sold to end consumers are: Sony's PlayStation Store, Microsoft's Xbox Live and Nintendo's eShop. Steam marketplace is the global leader in the digital distribution of games for personal computers.

The gradual growth in online gaming has driven Microsoft, with its Microsoft Xbox Live Pass, and Sony, with its Sony PlayStation Now, to create digital platforms on which the gamer, instead of purchasing a single game, may make use of all the games available on the marketplace by paying a subscription valid for a set time period. Revenue recognition by the publisher is tied to the use of its games by end consumers.

Free to Play video games are offered to the public solely in a digital format. The marketplaces used are the App Store for iPhone and iPad video games, the Play Store for Android video games in Western markets and various marketplaces for Eastern markets. Free to Play video games are also available on Sony's and Microsoft's marketplaces for consoles and on Steam for personal computers.

Digital distribution has made it possible to significantly extend the lifespan of each video game. In fact, a product's availability is not strictly limited to the launch period, as is the case with the retail market, but it remains available on individual marketplaces thereafter, thus, ensuring a continuous flow of sales that may be significantly affected by temporary promotional and communication policies.

The extension of the lifespan of a product is also affected by the fact that a publisher may implement product policies that envisage the publication of additional game episodes and/or content available for a fee or free of charge on digital marketplaces (so-called DLC, or downloadable content).

### **3. MARKET SEASONALITY**

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

The seasonal pattern is even more pronounced for a video game publisher, which usually releases a limited number of games over a 12-month period, whereas a distributor can count on a steady stream of new products, as its business is to sell different publishers' games in a given geographical market.

The publication and distribution of video games on the digital marketplace mitigates the volatility of a publisher's results from one quarter to the next. In fact, in the event of digital distribution, revenue is recognised when the end consumer purchases a game from the marketplace. This process occurs more gradually over time and not prevalently in the days immediately after the launch, unlike traditional distribution, for which revenue is recognised at the time of shipment of the finished product to the distributor/dealer, regardless of whether it has been purchased by the end consumer. The fact that it is possible to offer product promotions on the main marketplaces in a fairly rapid and effective manner tends to concentrate revenue during such periods. It is evident that publishers try to plan their promotional campaigns for the more favourable phases of the market, such as the Christmas season for European markets or Black Friday for the American market.

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

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

#### **4. SIGNIFICANT EVENTS DURING THE YEAR**

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The main events that occurred during the year are as follows:

- on 1 July 2016, Digital Bros S.p.A. sold 2,841,321 Starbreeze A shares for a consideration of Euro 6,059 thousand, resulting in a gain of Euro 3,136 thousand and, at the same time, purchased 2,841,321 Starbreeze B ordinary shares for a consideration of the same amount;
- on 26 August 2016, 505 Games S.p.A. sold 2,000,000 Starbreeze B ordinary shares for a consideration of Euro 4,805 thousand, resulting in a gross gain of Euro 602 thousand and granted a right to the purchaser to purchase the same quantity of shares at the same price to be exercised by 30 June 2017;
- on 23 September 2016, 505 Games S.p.A. sold 8,500,000 Starbreeze B ordinary shares for a consideration of Euro 20,846 thousand, resulting in a gross gain of Euro 2,988 thousand;
- on 27 September 2016, the Group announced that, via its subsidiary 505 Games S.p.A., it had entered into an agreement with Starbreeze AB for the exclusive global distribution of retail console versions of the RAID: World War II video game with an investment by the Group of 4 million U.S. dollars;
- on 5 October 2016, Digital Bros Group, via its subsidiary 505 Games S.p.A., entered into an agreement with ArtPLay Inc. for the exclusive publication of all formats of the Bloodstained video game with the exclusion of the mobile versions thereof. The guaranteed minimum payable by the Group to the developer amounts to 4.4 million U.S. dollars. The planned release date is Spring 2018;
- in October 2016, Digital Bros S.p.A. sold its entire holding of 130,247 treasury shares for a consideration of Euro 1,230 thousand;
- on 28 October 2016, an extraordinary general meeting of the shareholders of 505 Games S.p.A. approved a bonus capital increase of Euro 9 million from Euro 1 million to Euro 10 million, by means of the issue of 9,000,000 shares with a par value of Euro 1.00 each, via the partial use of retained earnings and also approved the distribution of a dividend to Digital Bros S.p.A. of Euro 6 million;
- 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 Investor Relations section of the website at [www.digitalbros.com](http://www.digitalbros.com), as well as in the Remuneration Report;

- on 20 January 2017, the Board of Directors of Digital Bros S.p.A. approved the execution of an agreement for the acquisition of a 100% equity interest in Kunos Simulazioni S.r.l., the Italian developer of the Assetto Corsa video game. Kunos Simulazioni S.r.l. is an Italian company based in Formello (RM) with many years of experience in the construction of simulators for Italy's leading car manufacturers. Taking advantage of this experience, in 2014 it developed and launched the Assetto Corsa video game. The transaction has given rise to the acquisition by Digital Bros S.p.A. of 100% of the quotas of Kunos Simulazioni S.r.l., which is held equally by the two founding owners Stefano Casillo and Marco Massarutto, for a total nominal consideration of Euro 4,341,500 payable as follows:
  - Euro 1,375,000 entirely in cash on the closing date;
  - Euro 1,375,000 entirely in cash within one year from the closing date;
  - Euro 1,591,500 via the issue of 150,000 new Digital Bros ordinary shares, with a par value of Euro 0.40 each, at a price of Euro 10.61 each, equating to the average reference price of Digital Bros shares in the previous six months. The issue was approved by the shareholders in general meeting on 13 March 2017.
- on 3 February 2017, the Group announced that, via its subsidiary 505 Games S.p.A., it had entered into an agreement with Starbreeze AB for the global distribution of retail console versions of the Dead by Daylight video game, with the exclusion of the Scandinavian and Asian markets. The agreement provides for the payment of a guaranteed minimum of 2.5 million U.S. dollars;
- on 4 April 2017, the Group entered into a worldwide console and mobile publishing agreement with Re-Logic for the Terraria: Otherworld video game, with the exclusion of the PC Steam version. The Group, via 505 Games, will act as publisher for Terraria: Otherworld by promoting and distributing the console and mobile version worldwide, and will also act as developer, via the subsidiary Pipeworks Inc., which will complete the development of the game with an initial estimated development budget of 4.8 million U.S. dollars. The worldwide console and mobile publishing rights are for a minimum period of 5 years. The agreement provides for the payment of a royalty of 60% for digital version sales and of 30% for retail version sales. Pipeworks will benefit from a 5% royalty on global Terraria: Otherworld sales, including the PC version, which will be published directly by Re-Logic;



- on 6 April 2017, the Group assigned exclusive rights for the Chinese market to Guangzhou Duoyi Network Co. Ltd. for the launch of PC and mobile versions of the Group's fully owned intellectual property, Portal Knights, with the exclusion of the PC Steam version. The Group will benefit from a 50% royalty, from a licensing fee and a guaranteed minimum. The agreement also provides for the development by Duoyi of a new version of the video game that the Chinese company and 505 Games will distribute in the Chinese market and in the rest of the world, respectively. Duoyi Co. Ltd. will localise and adapt Portal Knights for the Chinese market;
- on 3 May 2017, the Group entered into an agreement with Remedy Entertainment Ltd. for the worldwide production of a new video game, digital and retail versions of which will be launched for PlayStation 4, Xbox One and PC, including the Steam platform. The investment will amount to Euro 7.75 million and the Group will contribute to the development, marketing, production and distribution of all versions of the game worldwide. The agreement provides for a royalty payment equating to 45% of net sales;
- effective 1 July 2017, 505 Games S.p.a. and Psyonix have mutually agreed to terminate their Rocket League retail distribution contract. Psyonix will officially take over the management of the Rocket League retail distribution channel and will assume all responsibilities relating thereto. 505 Games S.p.A. will be entitled to revenue on sales recognised up to 30 June 2017, as well as a significant reduction of the contractually due royalty. Psyonix will be liable for any potential future liabilities linked to price reductions, markdowns and product-related trade marketing.

## 5. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2017

	Euro thousands	Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	142,400	105.2%	110,192	102.8%	32,208	29.2%
2	Revenue adjustments	(7,017)	-5.2%	(2,977)	-2.8%	(4,040)	n.m.
3	<b>Net revenue</b>	<b>135,383</b>	<b>100.0%</b>	<b>107,215</b>	<b>100.0%</b>	<b>28,168</b>	<b>26.3%</b>
4	Purchase of products for resale	(31,206)	-23.1%	(21,193)	-19.8%	(10,013)	47.2%
5	Purchase of services for resale	(9,533)	-7.0%	(5,580)	-5.2%	(3,953)	70.8%
6	Royalties	(37,102)	-27.4%	(23,851)	-22.2%	(13,251)	55.6%
7	Changes in inventories of finished products	882	0.7%	(948)	-0.9%	1,830	n.m.
8	<b>Total cost of sales</b>	<b>(76,959)</b>	<b>-56.8%</b>	<b>(51,572)</b>	<b>-48.1%</b>	<b>(25,387)</b>	<b>49.2%</b>
9	<b>Gross profit (3+8)</b>	<b>58,424</b>	<b>43.2%</b>	<b>55,643</b>	<b>51.9%</b>	<b>2,781</b>	<b>5.0%</b>
10	Other income	1,959	1.4%	5,714	5.3%	(3,755)	-65.7%
11	Cost of services	(13,142)	-9.7%	(13,425)	-12.5%	283	-2.1%
12	Lease and rental charges	(1,476)	-1.1%	(1,555)	-1.5%	79	-5.0%
13	Labour costs	(22,469)	-16.6%	(19,861)	-18.5%	(2,608)	13.1%
14	Other operating costs	(1,998)	-1.5%	(1,421)	-1.3%	(577)	40.6%
15	<b>Total operating costs</b>	<b>(39,085)</b>	<b>-28.9%</b>	<b>(36,262)</b>	<b>-33.8%</b>	<b>(2,823)</b>	<b>7.8%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>21,298</b>	<b>15.7%</b>	<b>25,095</b>	<b>23.4%</b>	<b>(3,797)</b>	<b>-15.1%</b>
17	Depreciation and amortisation	(7,714)	-5.7%	(3,788)	-3.5%	(3,926)	n.m.
18	Allocations to provisions	(854)	-0.6%	0	0.0%	(854)	n.m.
19	Impairment losses recognised on assets	(1,653)	-1.2%	(1,080)	-1.0%	(573)	53.1%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	0.5%	(588)	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(10,221)</b>	<b>-7.5%</b>	<b>(4,280)</b>	<b>-4.0%</b>	<b>(5,941)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>11,077</b>	<b>8.2%</b>	<b>20,815</b>	<b>19.4%</b>	<b>(9,738)</b>	<b>-46.8%</b>
23	Interest and finance income	8,772	6.5%	3,093	2.9%	5,679	n.m.
24	Interest expense and finance costs	(3,137)	-2.3%	(5,570)	-5.2%	2,433	-43.7%
25	<b>Net finance income (costs)</b>	<b>5,635</b>	<b>4.2%</b>	<b>(2,477)</b>	<b>-2.3%</b>	<b>8,112</b>	<b>n.m.</b>
26	<b>Profit before tax (22+25)</b>	<b>16,712</b>	<b>12.3%</b>	<b>18,338</b>	<b>17.1%</b>	<b>(1,626)</b>	<b>-8.9%</b>
27	Current tax	(5,140)	-3.8%	(6,644)	-6.2%	1,504	-22.6%
28	Deferred tax	(276)	-0.2%	845	0.8%	(1,121)	n.m.
29	<b>Total income tax expense</b>	<b>(5,415)</b>	<b>-4.0%</b>	<b>(5,799)</b>	<b>-5.4%</b>	<b>384</b>	<b>-6.6%</b>
30	<b>Profit for the year (26+29)</b>	<b>11,297</b>	<b>8.3%</b>	<b>12,539</b>	<b>11.7%</b>	<b>(1,242)</b>	<b>-9.9%</b>
	<b>Earnings per share:</b>						
33	<b>Basic earnings per share (in euros)</b>	<b>0.80</b>		<b>0.90</b>		<b>(0.10)</b>	<b>-11.0%</b>
34	<b>Diluted earnings per share (in euros)</b>	<b>0.80</b>		<b>0.90</b>		<b>(0.10)</b>	<b>-11.0%</b>

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

Gross consolidated revenue for the year amounted to Euro 142,400 thousand, representing an increase of 29.2% with respect to the prior year figure of Euro 110,192 thousand. Prior year revenue had benefited from an amount of Euro 26,832 thousand arising from the sale of PAYDAY2 rights to the Swedish developer Starbreeze. The contributory factors to the positive performance in the year include the launch of the console versions of the Assetto Corsa video game, the continuous revenue stream generated by the Rocket League video game, which was launched at the prior financial year end, and video game contract revenue generated by the Development operating segment. In addition to the positive trend in revenue reported by the Premium Games operating segment that increased by Euro 22,414 thousand, revenue for the year also benefited from revenue growth reported by the Free to Play and Development operating segments of Euro 2,461 thousand and Euro 7,983 thousand, respectively. There was a downward trend in the Italian Distribution operating segment's revenue, which fell in the year by Euro 767 thousand.

A breakdown is provided below of revenue by operating segment for the years ended 30 June 2017 and 2016:

Euro thousands	Gross revenue				Net revenue			
	2017	2016	Change		2017	2016	Change	
Premium Games	105,618	83,204	22,414	26.9%	100,892	81,556	19,336	23.7%
Italian Distribution	18,464	19,231	(767)	-4.0%	16,613	17,958	(1,345)	-7.5%
Development	9,719	1,736	7,983	n.m.	9,719	1,736	7,983	n.m.
Free to Play	7,736	5,275	2,461	46.7%	7,736	5,275	2,461	46.7%
Other Activities	863	746	117	15.7%	423	690	(267)	-38.7%
<b>Total gross revenue</b>	<b>142,400</b>	<b>110,192</b>	<b>32,208</b>	<b>29.2%</b>	<b>135,383</b>	<b>107,215</b>	<b>28,168</b>	<b>26.3%</b>

Revenue reported by the Premium Games operating segment amounted to Euro 105,618 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of revenue by video game:

Amounts in Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016	Change
Rocket League	37,348	5,833	31,515
Terraria	12,828	19,113	(6,285)
Assetto Corsa	12,584	0	12,584
PAYDAY 2	12,372	15,741	(3,369)
Portal Knights	6,777	1,264	5,513
Abzu	5,425	0	5,425
Sniper Elite V3	5,859	8,260	(2,401)
How to Survive	2,485	1,583	902
Brothers	1,203	2,312	(1,109)
Other products	8,737	2,266	6,471
Sale of PAYDAY 2 rights	0	26,832	(26,832)
<b>Total Premium Games gross revenue</b>	<b>105,618</b>	<b>83,204</b>	<b>22,414</b>

The product that generated the highest volumes in the year was Rocket League (retail versions for the Sony PlayStation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 37,348 thousand, inclusive of income arising from the early termination of the retail distribution contract. The video game,

which was launched in June 2016, has remained in the international video games sales charts throughout the year.

The operating segment's revenue was substantially boosted by sales of products launched in the year, namely Assetto Corsa (Euro 12,584 thousand) and Abzu (Euro 5,425 thousand). Portal Knights (final PC version, together with brand new console versions) was launched in the fourth quarter, generating revenue of Euro 6,777 thousand. Solely an Early Access PC version of the game, which was conceived and created internally, and the intellectual property of which is fully held by the Group, had previously been available on the Steam marketplace.

The video games that have contributed the most to Group revenue in recent years, namely, PAYDAY 2 and Terraria, continued to generate significant revenue in the year of Euro 12,372 thousand and Euro 12,828 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that products may now count on following the digitalisation of the market.

The revenue trend reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the retail distribution of video games in Italy. In the prior year, the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid. Trading cards revenue, however, grew by 21.1%.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that increased by 46.7% from the prior year figure of Euro 5,275 thousand to Euro 7,736 thousand in the year just ended. This operating segment also benefited from the launch of new products, such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which, despite having been launched in November 2014, generated revenue in the year of Euro 3,516 thousand.

Significant contract wins by the U.S. subsidiary, Pipeworks, from non-Group customers enabled the Development operating segment to significantly increase its revenue that went from the prior year figure of Euro 1,736 thousand to Euro 9,719 thousand for the year ended 30 June 2017.

The Other Activities operating segment's revenue amounted to Euro 863 thousand and related to sales generated by the Daily Fantasy Sport Fantafida and revenue generated by specialisation courses organised by Digital Bros Game Academy S.r.l.

Cost of sales for the year amounted to Euro 76,959 thousand.

Other income went from Euro 5,714 thousand to Euro 1,959 thousand in the year just ended and consists of the capitalisation of internal development costs of video games undergoing development by the subsidiaries DR Studios Ltd. and Pipeworks Inc. The significant decrease is in line with the reduction in intercompany development contracts pertaining to the subsidiary Pipeworks Inc.

Operating costs increased by 7.8% (Euro 2,823 thousand), which was significantly lower than the turnover trend. In addition to the normal effect of operating leverage triggered by revenue growth, there was a

decrease in advertising expenditure on the Daily Fantasy Sport Fantasfida that had characterised the prior year and that amounted to Euro 2,291 thousand.

The gross operating margin for the year amounted to Euro 21,298 thousand, compared to the margin reported for the year ended 30 June 2016 of Euro 25,095 thousand.

Non-monetary operating costs, net of non-monetary income, increased by Euro 5,941 thousand primarily due to an increase in amortisation of intellectual property, in line with capital expenditure made by the Group. Other minor increases were attributable to the recognition of asset impairment and an allocation to a risk provision in connection with a tax audit of 505 Games S.p.A.

The operating margin (EBIT) thus decreased by Euro 9,738 thousand to Euro 11,077 thousand for the year just ended from the prior year figure of Euro 20,815 thousand, which, however, had benefited from the sale of PAYDAY2 rights.

Net finance income amounted to Euro 5,635 thousand compared to prior year net finance costs of Euro 2,477 thousand. Interest and finance income increased by Euro 5,679 thousand in the year. This mainly consisted of gains recognised in the year on the sale and purchase of Starbreeze shares of Euro 6,891 thousand and exchange gains of Euro 1,752 thousand. Interest expense and finance costs amounted to Euro 3,137 thousand, representing a decrease in the year of Euro 2,433 thousand, attributable to a reduction in losses recognised in the year on the measurement of Starbreeze shares of Euro 2,770 thousand.

Profit before tax for the year ended 30 June 2017 came to Euro 16,712 thousand, down by Euro 1,626 thousand compared to the amount reported for the year ended 30 June 2016 of Euro 18,338 thousand. Profit for the year amounted to Euro 11,297 thousand, having decreased by Euro 1,242 thousand compared to the profit for the year ended 30 June 2016 of Euro 12,539 thousand.

Basic and diluted earnings per share came to Euro 0.80, compared to prior year earnings per share of Euro 0.90.

## 6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

	Euro thousands	30 June 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,619	7,032	(413)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,867	10,458	8,409	80.4%
4	Equity investments	1,345	898	447	49.7%
5	Non-current receivables and other assets	1,052	1,056	(4)	-0.4%
6	Deferred tax assets	2,807	2,619	188	7.2%
	<b>Total non-current assets</b>	<b>30,690</b>	<b>22,063</b>	<b>8,627</b>	<b>39.1%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(545)	(529)	(16)	2.9%
8	Non-current provisions	(79)	(36)	(43)	n.m.
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(624)</b>	<b>(817)</b>	<b>193</b>	<b>-23.5%</b>
	<b>Net working capital</b>				
10	Inventories	12,815	11,933	882	7.4%
11	Trade receivables	36,763	34,840	1,923	5.5%
12	Current tax assets	2,064	2,019	45	2.3%
13	Other current assets	3,263	5,034	(1,771)	-35.2%
14	Trade payables	(27,680)	(21,712)	(5,968)	27.5%
15	Current tax liabilities	(5,736)	(6,211)	475	-7.6%
16	Current provisions	(854)	0	(854)	n.m.
17	Other current liabilities	(3,954)	(2,312)	(1,642)	71.0%
	<b>Total net working capital</b>	<b>16,681</b>	<b>23,591</b>	<b>(6,910)</b>	<b>-29.3%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	1.1%
19	Reserves	(19,805)	(20,804)	999	-4.8%
20	Treasury shares	0	390	(390)	n.m.
21	(Retained earnings) accumulated losses	(33,265)	(22,290)	(10,975)	49.2%
	<b>Total equity</b>	<b>(58,774)</b>	<b>(48,348)</b>	<b>(10,426)</b>	<b>21.6%</b>
	<b>Total net assets</b>	<b>(12,027)</b>	<b>(3,511)</b>	<b>(8,516)</b>	<b>n.m.</b>
22	Cash and cash equivalents	12,136	2,785	9,351	n.m.
23	Current bank debt	(1,942)	(25,929)	23,987	-92.5%
24	Other current financial assets and liabilities	950	28,913	(27,963)	-96.7%
	<b>Current net cash</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>	<b>93.2%</b>
25	Non-current financial assets	1,306	1,195	111	9.3%
26	Non-current bank debt	(383)	(1,558)	1,175	-75.4%
27	Other non-current financial liabilities	(40)	(1,895)	1,855	-97.9%
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>	<b>n.m.</b>
	<b>Total net cash</b>	<b>12,027</b>	<b>3,511</b>	<b>8,516</b>	<b>n.m.</b>

Non-current assets increased by Euro 8,627 thousand with respect to the balance at 30 June 2016 mainly due to net expenditure on intangible assets of Euro 8,409 thousand relating to the acquisition and internal production of intellectual property. Equity investments increased by Euro 447 thousand due to further capital subscriptions in Seekhana Ltd. and Ovostonico S.r.l. of Euro 339 thousand and Euro 300 thousand, respectively, net of a write-down of investments in Cityglance S.r.l. and Ebook&Kids S.r.l. of Euro 44 thousand and Euro 148 thousand, respectively.

Non-current liabilities decreased by Euro 193 thousand due to the classification as current payables of the variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid in September 2017.

Net working capital decreased in the year by Euro 6,910 thousand. An analysis of net working capital together with comparative figures at 30 June 2016 is provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
Inventories	12,815	11,933	882	7.4%
Trade receivables	36,763	34,840	1,923	5.5%
Current tax assets	2,064	2,019	45	2.3%
Other current assets	3,263	5,034	(1,771)	-35.2%
Trade payables	(28,534)	(21,712)	(6,822)	31.4%
Current tax liabilities	(5,736)	(6,211)	475	-7.6%
Current provisions	0	0	0	n.m.
Other current liabilities	(3,954)	(2,312)	(1,642)	71.0%
<b>Total net working capital</b>	<b>16,681</b>	<b>23,591</b>	<b>(6,910)</b>	<b>-29.3%</b>

Net cash amounted to Euro 12,027 thousand, representing an improvement of Euro 8,516 thousand compared to the balance at 30 June 2016 of Euro 3,511 thousand.

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
Cash and cash equivalents	12,136	2,785	9,351	n.m.
Current bank debt	(1,942)	(25,929)	23,987	-92.5%
Other current financial assets and liabilities	950	28,913	(27,963)	-96.7%
<b>Current net cash</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>	<b>93.2%</b>
Non-current financial assets	1,306	1,195	111	9.3%
Non-current bank debt	(383)	(1,558)	1,175	-75.4%
Other non-current financial liabilities	(40)	(1,895)	1,855	-97.9%
<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>	<b>n.m.</b>
<b>Total net cash</b>	<b>12,027</b>	<b>3,511</b>	<b>8,516</b>	<b>n.m.</b>

## 7. RESULTS OF OPERATING SEGMENTS

### Development

#### Financial highlights (reclassified)

Consolidated amounts in Euro thousands		Development					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	9,719	100.0%	1,736	100.0%	7,983	n.m.
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	<b>Net revenue</b>	<b>9,719</b>	<b>100.0%</b>	<b>1,736</b>	<b>100.0%</b>	<b>7,983</b>	<b>n.m.</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(2,526)	-26.0%	(468)	-27.0%	(2,058)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	<b>Total cost of sales</b>	<b>(2,526)</b>	<b>-26.0%</b>	<b>(468)</b>	<b>-27.0%</b>	<b>(2,058)</b>	<b>n.m.</b>
9	<b>Gross profit (3+8)</b>	<b>7,193</b>	<b>74.0%</b>	<b>1,268</b>	<b>73.1%</b>	<b>5,925</b>	<b>n.m.</b>
10	Other income	894	9.2%	4,374	252.0%	(3,480)	-79.6%
11	Cost of services	(425)	-4.4%	(342)	-19.7%	(83)	24.2%
12	Lease and rental charges	0	0.0%	(95)	-5.5%	95	n.m.
13	Labour costs	(4,935)	-50.8%	(5,333)	-307.3%	398	-7.5%
14	Other operating costs	(142)	-1.5%	(122)	-7.1%	(20)	15.7%
15	<b>Total operating costs</b>	<b>(5,502)</b>	<b>-56.6%</b>	<b>(5,892)</b>	<b>-339.5%</b>	<b>390</b>	<b>-6.6%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>2,585</b>	<b>26.6%</b>	<b>(250)</b>	<b>-14.4%</b>	<b>2,835</b>	<b>n.m.</b>
17	Depreciation and amortisation	(594)	-6.1%	(601)	-34.6%	7	-1.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	(16)	-0.9%	16	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(594)</b>	<b>-6.1%</b>	<b>(617)</b>	<b>-35.5%</b>	<b>23</b>	<b>-3.7%</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>1,991</b>	<b>20.5%</b>	<b>(867)</b>	<b>-49.9%</b>	<b>2,857</b>	<b>n.m.</b>

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

The Development operating segment's revenue relates to development contracts that the subsidiary has entered into with non-Group customers, whereas revenue consisting of the capitalisation of internal



development costs for video games on behalf of the Group is classified as other income, net of realised intercompany margins.

The focus of the U.S. subsidiary Pipeworks' operations almost entirely on job orders for non-Group customers enabled the Development operating segment to significantly increase its revenue from the prior year figure of Euro 1,736 thousand to Euro 9,719 thousand for the year ended 30 June 2017. During the year, Pipeworks Inc. performed services for the Group consisting of quality assurance, live support for the Prominence Poker video game and development of the Terraria 1.3 video game.

The increase in purchase of services for resale is attributable to a greater use of specialised external professional resources driven by increased activity in the year.

The decrease in other income of Euro 3,480 thousand is attributable to a significant decrease in intercompany contracts.

Labour costs were the most significant component of operating costs and amounted to Euro 4,935 thousand, representing a decrease of 7.5% compared to the figure reported for the year ended 30 June 2016 of Euro 5,333 thousand.

Depreciation and amortisation expense consists of the amortisation of intangible assets of Euro 156 thousand and the amortisation of development contracts arising from the allocation of the excess value recognised upon acquisition of the subsidiary of Euro 438 thousand.

The operating segment has reported a positive operating margin of Euro 1,991 thousand versus the prior year negative margin of Euro 867 thousand.

A summary statement of financial position is provided below:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>%</b>	<b>30 June 2016</b>	<b>%</b>	<b>Change</b>	
	<b>Total non-current assets</b>	<b>1,651</b>	<b>17.0%</b>	<b>6,007</b>	<b>346.0%</b>	<b>(4,356)</b>	<b>-72.5%</b>
	<b>Total non-current liabilities</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
	<b>Net working capital</b>						
10	Inventories	0		0		0	n.m.
11	Trade receivables	2,286		207		2,079	n.m.
12	Current tax assets	0		0		0	n.m.
13	Other current assets	63		49		13	26.7%
14	Trade payables	(1,094)		(58)		(1,036)	n.m.
15	Current tax liabilities	(1,105)		0		(1,105)	n.m.
17	Other current liabilities	(640)		(630)		(10)	n.m.
	<b>Total net working capital</b>	<b>(490)</b>	<b>-5.0%</b>	<b>(432)</b>	<b>-24.9%</b>	<b>(58)</b>	<b>n.m.</b>
	<b>Gross revenue - Development</b>	<b>9,719</b>		<b>1,736</b>		<b>7,983</b>	<b>n.m.</b>

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

Details of non-current assets are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Internal job orders	1,139	4,839	(3,700)
Open contracts	73	511	(438)
Software	18	31	(13)
Property, plant and equipment	201	264	(63)
Deferred tax assets	220	362	(142)
<b>Total non-current assets</b>	<b>1,651</b>	<b>6,007</b>	<b>(4,356)</b>

Details of internal job orders by project are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Terraria 1.3	1,076	0	1,076
Prominence Poker	0	3,141	(3,141)
Galapagos	0	596	(596)
Superfight	0	769	(769)
Other	63	333	(270)
<b>Total internal job orders</b>	<b>1,139</b>	<b>4,839</b>	<b>(3,700)</b>

The Group has recognised as an intangible asset the difference between the purchase price of the investment and the underlying equity at the acquisition date that was allocated to the carrying amount of open contracts with third party customers and which is being amortised over three years, with the charge for the year having amounted to Euro 73 thousand.

## Premium Games

### Financial highlights (reclassified)

	Consolidated amounts in Euro thousands	Premium Games					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	105,618	104.7%	83,204	102.0%	22,414	26.9%
2	Revenue adjustments	(4,726)	-4.7%	(1,648)	-2.0%	(3,078)	n.m.
3	<b>Net revenue</b>	<b>100,892</b>	<b>100.0%</b>	<b>81,556</b>	<b>100.0%</b>	<b>19,336</b>	<b>23.7%</b>
4	Purchase of products for resale	(18,687)	-18.5%	(8,135)	-10.0%	(10,552)	n.m.
5	Purchase of services for resale	(3,337)	-3.3%	(3,610)	-4.4%	273	-7.6%
6	Royalties	(36,648)	-36.3%	(20,975)	-25.7%	(15,673)	74.7%
7	Changes in inventories of finished products	367	0.4%	(721)	-0.9%	1,088	n.m.
8	<b>Total cost of sales</b>	<b>(58,305)</b>	<b>-57.8%</b>	<b>(33,441)</b>	<b>-41.0%</b>	<b>(24,864)</b>	<b>74.4%</b>
9	<b>Gross profit (3+8)</b>	<b>42,587</b>	<b>42.2%</b>	<b>48,115</b>	<b>59.0%</b>	<b>(5,528)</b>	<b>-11.5%</b>
10	Other income	200	0.2%	186	0.2%	14	7.5%
11	Cost of services	(7,528)	-7.5%	(6,191)	-7.6%	(1,337)	21.6%
12	Lease and rental charges	(606)	-0.6%	(596)	-0.7%	(10)	1.7%
13	Labour costs	(7,650)	-7.6%	(6,591)	-8.1%	(1,059)	16.1%
14	Other operating costs	(591)	-0.6%	(445)	-0.5%	(146)	32.9%
15	<b>Total operating costs</b>	<b>(16,375)</b>	<b>-16.2%</b>	<b>(13,823)</b>	<b>-16.9%</b>	<b>(2,552)</b>	<b>18.5%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>26,412</b>	<b>26.2%</b>	<b>34,478</b>	<b>42.3%</b>	<b>(8,066)</b>	<b>-23.4%</b>
17	Depreciation and amortisation	(3,667)	-3.6%	(1,216)	-1.5%	(2,451)	n.m.
18	Allocations to provisions	(854)	-0.8%	0	0.0%	(854)	0.0%
19	Impairment losses recognised on assets	(882)	-0.9%	0	0.0%	(882)	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(5,403)</b>	<b>-5.4%</b>	<b>(1,216)</b>	<b>-1.5%</b>	<b>(4,187)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>21,009</b>	<b>20.8%</b>	<b>33,262</b>	<b>40.8%</b>	<b>(12,253)</b>	<b>-36.8%</b>

Revenue reported by the Premium Games operating segment amounted to Euro 105,618 thousand, having increased by 26.9%, that is, by Euro 22,414 thousand with respect to the amount reported for the year ended 30 June 2016 of Euro 83,204 thousand. Revenue for the year ended 30 June 2016 had benefited from income from the sale of PAYDAY 2 rights of Euro 26,832 thousand, whereas revenue for the year ended 30 June 2017 has benefited from the retrocession of Rocket League distribution rights.

Details are provided below of gross revenue by video game:

Amounts in Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016	Change
Rocket League	37,348	5,833	31,515
Terraria	12,828	19,113	(6,285)
Assetto Corsa	12,584	0	12,584
PAYDAY 2	12,372	15,741	(3,369)
Portal Knights	6,777	1,264	5,513
Abzu	5,425	0	5,425
Sniper Elite V3	5,859	8,260	(2,401)
How to Survive	2,485	1,583	902
Brothers	1,203	2,312	(1,109)
Other products	8,737	2,266	6,471
Sale of PAYDAY 2 rights	0	26,832	(26,832)
<b>Total Premium Games gross revenue</b>	<b>105,618</b>	<b>83,204</b>	<b>22,414</b>

The product that generated the highest volumes in the year was Rocket League (retail versions for the Sony PlayStation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 37,348 thousand, inclusive of income arising from the early termination of the retail distribution contract. The video game, which was launched in June 2016, has remained in the international video games sales charts throughout the year.

The operating segment's revenue was substantially boosted by sales of products launched in the year, namely Assetto Corsa (Euro 12,584 thousand) and Abzu (Euro 5,425 thousand). Portal Knights (final PC version, together with brand new console versions) was launched in the fourth quarter, generating revenue of Euro 6,777 thousand. Solely an Early Access PC version of the game, which was conceived and created internally, and the intellectual property of which is fully held by the Group, had previously been available on the Steam marketplace.

The video games that have contributed the most to Group revenue in recent years, namely, PAYDAY 2 and Terraria, continued to generate significant revenue in the year of Euro 12,372 thousand and Euro 12,828 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that products may now count on following the digitalisation of the market.

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

Revenue (in Euro thousands)	Year ended 30 June 2017	Year ended 30 June 2016	Change
Retail distribution revenue	65,376	23,477	41,899
Digital distribution revenue	35,226	30,962	4,264
Sub-licensing revenue	5,016	1,933	3,083
Sale of PAYDAY 2 rights	0	26,832	(26,832)
<b>Total Premium Games revenue</b>	<b>105,618</b>	<b>83,204</b>	<b>22,414</b>

Details are provided below of digital distribution revenue by digital marketplace for the year ended 30 June 2017:

Revenue (in Euro thousands)	Year ended 30 June 2017	Year ended 30 June 2017	Change	
Sony PlayStation Network	13,783	7,993	5,790	72.4%
Microsoft Xbox Live	9,629	8,193	1,436	17.5%
Steam	7,478	8,947	(1,469)	-16.4%
iTunes	1,746	2,739	(993)	-36.3%
Google	927	1,193	(266)	-22.3%
Other marketplaces	1,663	1,897	(234)	-12.3%
<b>Total digital distribution revenue</b>	<b>35,226</b>	<b>30,962</b>	<b>4,264</b>	<b>13.8%</b>

Sub-licensing revenue rose significantly by Euro 3,083 thousand due to the sale of exploitation rights in China pertaining to the Terraria video game and from the recent sale of various video game rights for the Microsoft Game Pass platform, inclusive of Terraria and PAYDAY 2.

Revenue adjustments have gone from Euro 1,648 thousand to Euro 4,726 thousand for the year ended 30 June 2017. This line item includes an estimate of credit notes for unsold products that the Group expects to issue to customers in the near future. Expressed as a percentage of retail distribution revenue, the figure for the period of 4.7% is in line with market trends, especially following the launch of new products. The operating segment's net revenue grew by 23.7%.

The significant increase in royalty costs of Euro 15,673 thousand, being an increase in the year of 74.7%, is attributable to an increased weighting of revenue from products, which, due to the nature of the contracts entered into and the lower risks that the Group assumes with the publishing of retail products, have higher than average royalty percentages applied thereto. Cost of sales increased by Euro 24,864 thousand, thus giving rise to gross profit reported by the operating segment of Euro 42,587 thousand versus Euro 48,115 thousand for the year ended 30 June 2016.

Operating costs increased by Euro 2,552 thousand, mainly due to an increase in cost of services of Euro 1,337 thousand, which was attributable to higher advertising expenditure following the launch of new products, as well as an increase in labour costs of Euro 1,337 thousand.

The gross operating margin amounted to Euro 26,412 thousand, compared to the amount reported for the year ended 30 June 2016 of Euro 34,478 thousand.

Non-monetary operating costs rose by Euro 4,187 thousand due to an increase in amortisation of intellectual property acquired by the Group, to an allocation to a risk provision triggered by a tax audit of 505 Games S.p.A. and to the recognition of asset impairment, bringing the operating margin to Euro 21,009 thousand, equating to 20.8% of net revenue.

Assets and liabilities allocable to the Premium Games operating segment are as follows:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>%</b>	<b>30 June 2016</b>	<b>%</b>	<b>Change</b>	
	<b>Total non-current assets</b>	<b>13,337</b>	<b>12.6%</b>	<b>3,932</b>	<b>4.7%</b>	<b>9,405</b>	<b>n.m.</b>
	<b>Total non-current liabilities</b>	<b>(60)</b>	<b>-0.1%</b>	<b>0</b>	<b>0.0%</b>	<b>(60)</b>	<b>n.m.</b>
	<b>Net working capital</b>						
10	Inventories	7,496		7,129		367	5.2%
11	Trade receivables	30,062		28,786		1,276	4.4%
12	Current tax assets	1,131		655		477	72.9%
13	Other current assets	1,241		3,949		(2,708)	-68.6%
14	Trade payables	(22,593)		(17,933)		(4,661)	n.m.
15	Current tax liabilities	(3,869)		(2,191)		(1,679)	76.6%
16	Current provisions	(854)		0		(854)	n.m.
17	Other current liabilities	(320)		(186)		(134)	72.3%
	<b>Total net working capital</b>	<b>12,294</b>	<b>11.6%</b>	<b>20,209</b>	<b>24.3%</b>	<b>(7,915)</b>	<b>-39.2%</b>
	<b>Premium Games gross revenue</b>	<b>105,618</b>		<b>83,204</b>		<b>22,414</b>	<b>26.9%</b>

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

Non-current assets consist of the following:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Property, plant and equipment	922	1,009	(87)
Concessions	6,020	774	5,246
Internally developed assets	1,237	0	1,237
Assetto Corsa brand	3,099	0	3,099
Other brands	332	45	287
Non-current receivables and other assets	185	192	(7)
Deferred tax assets	1,542	1,508	34
<b>Total non-current assets</b>	<b>13,337</b>	<b>3,932</b>	<b>9,405</b>

The increase in concessions is due to the classification as intangible assets of video games that constitute intellectual property of the Group and, accordingly, they have been more correctly stated as non-current assets. The video games in question were classified as trade receivables at 30 June 2016.

The carrying amount of the Assetto Corsa brand derives from the difference between the purchase price paid by Digital Bros S.p.A. and the equity of the company at 15 March 2017, the date of first-time consolidation.

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

Trade receivables consist of the following:

Category	30 June 2017	30 June 2016	Change
Receivables due from customers	11,872	10,307	1,565
Receivables pertaining to video game user licenses	18,190	18,479	(289)
<b>Total trade receivables</b>	<b>30,062</b>	<b>28,786</b>	<b>1,276</b>

The increase in trade payables is attributable to a rise in royalties due to video game developers as a result of higher sales.

Other current assets consist mainly of advances paid to suppliers of localisation, programming, rating and quality assurance services, which are recognised in profit or loss when a video game is released. The decrease in advances is mainly due to a reduction in advances for PAYDAY 2 and Family Guy video game programming of Euro 1,206 thousand and Euro 986 thousand, respectively.

The increase in current tax liabilities is mainly attributable to the subsidiaries Games US Inc. and 505 Games Ltd. due to higher taxable income pertaining thereto.

Current provisions solely include a risk provision in connection with a tax audit of 505 Games S.p.A.

## Free to Play

### Financial highlights (reclassified)

Consolidated amounts in Euro thousands		Free to Play					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	7,736	100.0%	5,275	100.0%	2,461	46.7%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	<b>Net revenue</b>	<b>7,736</b>	<b>100.0%</b>	<b>5,275</b>	<b>100.0%</b>	<b>2,461</b>	<b>46.7%</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(2,759)	-35.7%	(1,236)	-23.4%	(1,523)	n.m.
6	Royalties	(382)	-4.9%	(2,767)	-52.5%	2,385	-86.2%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	<b>Total cost of sales</b>	<b>(3,141)</b>	<b>-40.6%</b>	<b>(4,003)</b>	<b>-75.9%</b>	<b>862</b>	<b>-21.5%</b>
9	<b>Gross profit (3+8)</b>	<b>4,595</b>	<b>59.4%</b>	<b>1,272</b>	<b>24.1%</b>	<b>3,323</b>	<b>n.m.</b>
10	Other income	823	10.6%	858	16.3%	(35)	-4.1%
11	Cost of services	(1,001)	-12.9%	(779)	-14.8%	(222)	28.5%
12	Lease and rental charges	(62)	-0.8%	(65)	-1.2%	3	-5.4%
13	Labour costs	(4,127)	-53.3%	(2,958)	-56.1%	(1,169)	39.5%
14	Other operating costs	(73)	-0.9%	(93)	-1.8%	20	-21.1%
15	<b>Total operating costs</b>	<b>(5,263)</b>	<b>-68.0%</b>	<b>(3,895)</b>	<b>-73.8%</b>	<b>(1,368)</b>	<b>35.1%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>155</b>	<b>2.0%</b>	<b>(1,765)</b>	<b>-33.5%</b>	<b>1,920</b>	<b>n.m.</b>
17	Depreciation and amortisation	(2,584)	-33.4%	(1,330)	-25.2%	(1,254)	94.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(158)	-2.0%	(425)	-8.1%	267	-62.7%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	11.1%	(588)	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(2,742)</b>	<b>-35.4%</b>	<b>(1,167)</b>	<b>-22.1%</b>	<b>(1,575)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(2,587)</b>	<b>-33.4%</b>	<b>(2,932)</b>	<b>-55.6%</b>	<b>345</b>	<b>-11.7%</b>

The Free to Play operating segment has reported a significant increase in revenue of 46.7%, with revenue having gone from the prior year figure of Euro 5,275 thousand to Euro 7,736 thousand in the year ended 30 June 2017. This operating segment benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which was launched in November 2014 and which generated revenue in the year of Euro 3,516 thousand.



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

<b>Revenue (in Euro thousands)</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
Gems of War	3,516	1,622	1,894
Battle Islands	1,103	2,478	(1,375)
Prominence Poker	1,060	0	1,060
Battle Ages	1,032	572	460
Hawken	625	0	625
Other products	400	603	(203)
<b>Total Free to Play revenue</b>	<b>7,736</b>	<b>5,275</b>	<b>2,461</b>

The Battle Ages and Battle Islands video games, which were developed by the subsidiary DR Studios Ltd., contributed revenue in the year of Euro 1,032 thousand and Euro 1,103 thousand, respectively.

The impact on revenue for the year generated by the two games launched in the year, Prominence Poker and Hawken, was Euro 1,060 thousand and Euro 625 thousand, respectively. With specific reference to the second of the two, in view of the potential that the video game is deemed to have, a new organisational unit, Hawken Entertainment Inc., has been set up, through which exploitation rights for Hawken intellectual property have been purchased. The subsidiary has provided live support for the game and has handled the preliminary stages of development of the new version of the game.

Cost of sales solely consists of purchases of services and royalties. The former, which amounted to Euro 2,759 thousand in the year, consist of localisation, ratings and quality assurance costs, as well as costs incurred for live support services. Details are provided below of cost of services by category:

<b>Amounts in Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
Live support	1,399	608	791
Quality assurance	183	348	(165)
Hosting	892	238	654
Other	285	43	242
<b>Total</b>	<b>2,759</b>	<b>1,237</b>	<b>1,522</b>

The increase in live support costs was attributable to Gems of War and Hawken.

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

The capitalisation of internal development costs incurred in the year for the game has been recognised as other income.

Operating costs mainly consist of advertising costs incurred to acquire new gamers, as well as labour costs. The former increased in the year by Euro 222 thousand, whereas the latter increased by Euro 1,169 thousand (39.5%) compared to comparative prior year figures, in line with the increase in the number of the operating segment's employees, partially impacted by professional staff hired by the newly formed Hawken Entertainment Inc.

Depreciation and amortisation increased by Euro 1,254 thousand and consisted of the following:

<b>Amounts in Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
Amortisation of Battle Islands	593	795	(202)
Amortisation of intangible assets	1,961	484	1,477
Depreciation of property, plant and equipment	30	51	(21)
<b>Total</b>	<b>2,584</b>	<b>1,330</b>	<b>1,254</b>

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

The operating loss for the year amounted to Euro 2,587 thousand, being an improvement on the operating loss for the year ended 30 June 2016 of Euro 2,932 thousand.

Assets and liabilities allocable to the Free to Play operating segment are as follows:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>%</b>	<b>30 June 2016</b>	<b>%</b>	<b>Change</b>	
	<b>Total non-current assets</b>	<b>6,251</b>	<b>80.8%</b>	<b>2,769</b>	<b>52.5%</b>	<b>3,482</b>	<b>125.8%</b>
	<b>Total non-current liabilities</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>n.m.</b>
	<b>Net working capital</b>						
11	Trade receivables	1,071		2,252		(1,181)	-52.5%
12	Current tax assets	566		620		(54)	-8.7%
13	Other current assets	905		358		547	n.m.
14	Trade payables	(978)		(1,224)		246	-20.1%
15	Current tax liabilities	(77)		(28)		(49)	n.m.
17	Other current liabilities	(57)		(36)		(21)	60.0%
	<b>Total net working capital</b>	<b>1,430</b>	<b>18.5%</b>	<b>1,942</b>	<b>36.8%</b>	<b>(512)</b>	<b>-26.4%</b>
	<b>Gross Free to Play revenue</b>	<b>7,736</b>		<b>5,276</b>		<b>2,460</b>	<b>46.6%</b>

Non-current assets consist of the following:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Property, plant and equipment	15	30	(15)
Concessions	5,554	2,686	2,868
Internally developed assets	291	0	291
Non-current receivables and other assets	5	0	5
Deferred tax assets	386	53	333
<b>Total non-current assets</b>	<b>6,251</b>	<b>2,769</b>	<b>3,482</b>

Non-current assets mainly consist of concessions for games purchased from 505 Mobile S.r.l. and internal job orders developed by DR Studios Ltd. and by Pipeworks S.r.l.

The increase in concessions is due to the job orders developed in the year and to the classification as intangible assets of video games that constitute intellectual property of the Group and, accordingly, they

have been more correctly stated as non-current assets. The video games in question were classified as trade receivables at 30 June 2016.

Trade receivables mainly relate to receivables for video game user licences and receivables due from the main marketplaces. Trade payables mainly consist of payables due to video game developers.

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

<b>Category</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Receivables due from customers	955	966	(11)
Receivables pertaining to video game user licenses	116	1,286	(1,170)
<b>Total trade receivables</b>	<b>1,071</b>	<b>2,252</b>	<b>(1,181)</b>

## Italian Distribution

### Financial highlights (reclassified)

Consolidated amounts in Euro thousands		Italian Distribution					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	18,464	111.1%	19,231	107.1%	(767)	-4.0%
2	Revenue adjustments	(1,851)	-11.1%	(1,273)	-7.1%	(578)	45.4%
3	<b>Net revenue</b>	<b>16,613</b>	<b>100.0%</b>	<b>17,958</b>	<b>100.0%</b>	<b>(1,345)</b>	<b>-7.5%</b>
4	Purchase of products for resale	(12,519)	-75.4%	(13,058)	-72.7%	539	-4.1%
5	Purchase of services for resale	(734)	-4.4%	(131)	-0.7%	(603)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	515	3.1%	(227)	-1.3%	742	n.m.
8	<b>Total cost of sales</b>	<b>(12,738)</b>	<b>-76.7%</b>	<b>(13,416)</b>	<b>-74.7%</b>	<b>678</b>	<b>-5.1%</b>
9	<b>Gross profit (3+8)</b>	<b>3,875</b>	<b>23.3%</b>	<b>4,542</b>	<b>25.3%</b>	<b>(667)</b>	<b>-14.7%</b>
10	Other income	42	0.3%	68	0.4%	(26)	-38.2%
11	Cost of services	(1,554)	-9.4%	(1,981)	-11.0%	427	-21.6%
12	Lease and rental charges	(44)	-0.3%	(58)	-0.3%	14	-24.7%
13	Labour costs	(1,549)	-9.3%	(1,646)	-9.2%	97	-5.9%
14	Other operating costs	(205)	-1.2%	(220)	-1.2%	15	-7.0%
15	<b>Total operating costs</b>	<b>(3,352)</b>	<b>-20.2%</b>	<b>(3,905)</b>	<b>-21.7%</b>	<b>553</b>	<b>-14.1%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>565</b>	<b>3.4%</b>	<b>705</b>	<b>3.9%</b>	<b>(140)</b>	<b>n.m.</b>
17	Depreciation and amortisation	(261)	-1.6%	(179)	-1.0%	(82)	45.7%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(420)	-2.5%	(639)	-3.6%	219	-34.2%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(681)</b>	<b>-4.1%</b>	<b>(818)</b>	<b>-4.6%</b>	<b>137</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(116)</b>	<b>-0.7%</b>	<b>(113)</b>	<b>-0.6%</b>	<b>(3)</b>	<b>n.m.</b>

The decrease in revenue reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the distribution of video games. In the prior year, the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid. Trading cards revenue, however, grew by 21.1%.

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	
Distribution of video games for consoles	10,562	12,522	(1,960)	-15.7%
Distribution of video games for PC	667	477	190	39.9%
Distribution of trading cards	6,760	5,581	1,179	21.1%
Distribution of other products and services	499	690	(191)	-27.7%
Cash discounts	(24)	(39)	15	-38.2%
<b>Total gross Italian Distribution revenue</b>	<b>18,464</b>	<b>19,231</b>	<b>(767)</b>	<b>-4.0%</b>

The trend in gross revenue from the distribution of video games for consoles is as follows:

<b>Revenue (in Euro thousands)</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>		<b>Change</b>	
	<b>Units</b>	<b>Revenue</b>	<b>Units</b>	<b>Revenue</b>	<b>Units</b>	<b>Revenue</b>
Sony PlayStation 4	240,138	7,488	188,969	6,873	27.1%	9.0%
Sony PlayStation 3	43,315	998	136,761	2,810	-68.3%	-64.5%
Microsoft Xbox One	41,797	1,336	36,974	1,238	13.0%	7.9%
Microsoft Xbox 360	28,884	456	69,231	1,244	-58.3%	-63.4%
Other consoles	33,667	284	40,521	357	-16.9%	-20.4%
<b>Total console revenue</b>	<b>387,801</b>	<b>10,562</b>	<b>472,456</b>	<b>12,522</b>	<b>-17.9%</b>	<b>-15.7%</b>

In line with the lifespan of consoles, total revenue fell by Euro 1,960 thousand, although revenue from the new Sony PlayStation 4 and Microsoft Xbox One platforms has increased by 9.0% and 7.9%, respectively, whereas there has been a rather substantial fall in revenue from consoles that have reached an advanced stage of maturity of 64.5% for the Sony PlayStation 3 console and 63.4% for the Microsoft Xbox 360.

Sales of Yu-Gi-Oh! trading cards increased by Euro 1,179 thousand.

Net revenue amounted to Euro 16,613 thousand, down by 7.5% on the prior year figure.

Cost of sales decreased by 5.1%, giving rise to gross profit reported by the operating segment of Euro 3,875 thousand versus the prior year figure of Euro 4,542 thousand.

Operating costs fell by 14.1% to Euro 553 thousand. The decrease was mainly due to a reduction in cost of services of Euro 427 thousand and in labour costs of Euro 97 thousand.

Non-monetary operating costs rose by Euro 137 thousand mainly due to the impact of an allocation to the provision for doubtful debts, to take account of the potential loss arising from difficulties encountered in collecting certain accounts receivable due from customers.

The operating loss reported by the operating segment is essentially in line with the prior year loss, having gone from Euro 113 thousand for the year ended 30 June 2016 to Euro 116 thousand for the year just ended.

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

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>%</b>	<b>30 June 2016</b>	<b>%</b>	<b>Change</b>	
	<b>Total non-current assets</b>	<b>3,422</b>	<b>18.5%</b>	<b>3,409</b>	<b>17.7%</b>	<b>13</b>	<b>0.4%</b>
	<b>Total non-current liabilities</b>	<b>(496)</b>	<b>2.7%</b>	<b>(531)</b>	<b>2.8%</b>	<b>36</b>	<b>-6.7%</b>
	<b>Net working capital</b>						
10	Inventories	5,319		4,804		515	10.7%
11	Trade receivables	3,339		3,595		(255)	-7.1%
12	Current tax assets	353		741		(388)	-52.3%
13	Other current assets	539		312		227	72.8%
14	Trade payables	(1,981)		(1,669)		(312)	18.7%
15	Current tax liabilities	(167)		(155)		(11)	7.3%
17	Other current liabilities	(896)		(797)		(99)	12.4%
	<b>Total net working capital</b>	<b>6,506</b>	<b>35.2%</b>	<b>6,831</b>	<b>35.5%</b>	<b>(325)</b>	<b>-4.8%</b>
	<b>Gross Italian Distribution revenue</b>	<b>18,464</b>		<b>19,231</b>		<b>(767)</b>	<b>-4.0%</b>

Net working capital has decreased in line with the revenue trend, while the slight rise in inventories is due to an increase in Yu-Gi-Oh! trading cards inventory with a view to the distribution thereof to newsstands that the Group started in the year just ended.

Non-current assets consist of the carrying amount of the Trezzano sul Naviglio warehouse, of deferred tax assets allocable to the operating segment and of other minor amounts of property, plant and equipment and intangible assets.

#### *Other Activities*

*Financial highlights (reclassified)*

Consolidated amounts in Euro thousands		Other Activities					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	863	204.1%	746	108.2%	117	15.7%
2	Revenue adjustments	(440)	-104.1%	(56)	-8.2%	(384)	n.m.
<b>3</b>	<b>Net revenue</b>	<b>423</b>	<b>100.0%</b>	<b>690</b>	<b>100.0%</b>	<b>(267)</b>	<b>-38.7%</b>
4	Purchase of products for resale	0	0.1%	0	0.1%	0	0.0%
5	Purchase of services for resale	(177)	-42.0%	(135)	-19.6%	(42)	31.0%
6	Royalties	(72)	-16.9%	(109)	-15.8%	37	-34.2%
7	Changes in inventories of finished products	0	-0.1%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of sales</b>	<b>(249)</b>	<b>-58.9%</b>	<b>(244)</b>	<b>-35.4%</b>	<b>(5)</b>	<b>2.1%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>174</b>	<b>41.1%</b>	<b>446</b>	<b>64.6%</b>	<b>(272)</b>	<b>-61.0%</b>
10	Other income	0	0.0%	228	33.0%	(228)	n.m.
11	Cost of services	(1,020)	-241.2%	(2,849)	-412.9%	1,829	-64.2%
12	Lease and rental charges	(18)	-4.2%	(20)	-2.9%	2	-10.7%
13	Labour costs	(883)	-208.9%	(647)	-93.8%	(236)	36.5%
14	Other operating costs	(49)	-11.6%	(73)	-10.5%	24	-32.5%
<b>15</b>	<b>Total operating costs</b>	<b>(1,970)</b>	<b>-465.8%</b>	<b>(3,589)</b>	<b>-520.2%</b>	<b>1,619</b>	<b>-45.1%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(1,796)</b>	<b>-424.7%</b>	<b>(2,915)</b>	<b>-422.6%</b>	<b>1,119</b>	<b>-38.4%</b>
17	Depreciation and amortisation	(379)	-89.7%	(275)	-39.8%	(104)	38.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(379)</b>	<b>-89.7%</b>	<b>(275)</b>	<b>-39.8%</b>	<b>(104)</b>	<b>38.2%</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(2,175)</b>	<b>-514.1%</b>	<b>(3,190)</b>	<b>-462.4%</b>	<b>1,015</b>	<b>-31.8%</b>

The Other Activities operating segment's revenue amounted to Euro 863 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by specialisation courses organised by Digital Bros Game Academy S.r.l.

Revenue adjustments consist of taxes paid on revenue generated by the portals [www.gameplaza.it](http://www.gameplaza.it) and [www.fantasfida.it](http://www.fantasfida.it) and on amounts awarded as bonuses to Fantasfida players.

Operating costs decreased by Euro 1,619 thousand from Euro 3,589 thousand to Euro 1,970 thousand due to lower costs incurred for the Italian launch of Fantasfida that in the prior year had amounted to Euro 2,291 thousand.

The negative gross operating margin amounted to Euro 1,796 thousand compared to the negative gross operating margin of Euro 2,915 thousand reported for the year ended 30 June 2016, representing an improvement of Euro 1,119 thousand.

A summary statement of financial position is provided below:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>%</b>	<b>30 June 2016</b>	<b>%</b>	<b>Change</b>	
	<b>Total non-current assets</b>	<b>1,016</b>	<b>117.7%</b>	<b>1,281</b>	<b>171.7%</b>	<b>(264)</b>	<b>-20.7%</b>
	<b>Total non-current liabilities</b>	<b>(68)</b>	<b>7.8%</b>	<b>(34)</b>	<b>4.5%</b>	<b>(34)</b>	<b>n.m.</b>
	<b>Net working capital</b>						
10	Inventories	0		0		0	0.0%
11	Trade receivables	5		0		5	n.m.
12	Current tax assets	14		3		11	n.m.
13	Other current assets	164		128		35	27.5%
14	Trade payables	(184)		(383)		200	n.m.
15	Current tax liabilities	(45)		(21)		(24)	n.m.
17	Other current liabilities	(651)		(660)		9	n.m.
	<b>Total net working capital</b>	<b>(697)</b>	<b>-80.7%</b>	<b>(933)</b>	<b>-125.1%</b>	<b>236</b>	<b>-25.3%</b>
	<b>Gross revenue - Other Activities</b>	<b>863</b>		<b>746</b>		<b>117</b>	<b>15.7%</b>

Non-current assets consist of Euro 493 thousand of expenditure incurred by Game Network S.r.l. for the launch of Fantafida and which is being amortised over three years and of Euro 220 thousand of cautionary deposits relating to operations governed by AAMS, while the remainder consists of deferred tax assets and plant and machinery.

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

## ***Holding***

### ***Financial highlights (reclassified)***



Consolidated amounts in Euro thousands		Holding					
		Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
<b>3</b>	<b>Net revenue</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of sales</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>0</b>	<b>0.0%</b>	<b>(0)</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(1,614)	0.0%	(1,283)	0.0%	(331)	25.7%
12	Lease and rental charges	(746)	0.0%	(721)	0.0%	(25)	3.5%
13	Labour costs	(3,325)	0.0%	(2,686)	0.0%	(639)	23.8%
14	Other operating costs	(938)	0.0%	(468)	0.0%	(470)	n.m.
<b>15</b>	<b>Total operating costs</b>	<b>(6,623)</b>	<b>0.0%</b>	<b>(5,158)</b>	<b>0.0%</b>	<b>(1,465)</b>	<b>28.4%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(6,623)</b>	<b>0.0%</b>	<b>(5,158)</b>	<b>0.0%</b>	<b>(1,465)</b>	<b>28.4%</b>
17	Depreciation and amortisation	(229)	0.0%	(187)	0.0%	(42)	22.6%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(193)	0.0%	0	0.0%	(193)	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(422)</b>	<b>0.0%</b>	<b>(187)</b>	<b>0.0%</b>	<b>(235)</b>	<b>n.m.</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(7,045)</b>	<b>0.0%</b>	<b>(5,345)</b>	<b>0.0%</b>	<b>(1,700)</b>	<b>31.8%</b>

Operating costs amounted to Euro 6,623 thousand, representing an increase in the year of Euro 1,465 thousand. The increase is mainly due to a rise in labour costs of Euro 371 thousand linked to the stock option plan approved in the year, to fees of Euro 516 thousand incurred by 505 Games S.p.A. in connection with the sale and purchase of Starbreeze shares during the course of the year and to professional advisory costs of Euro 134 thousand incurred for the preparation of the share incentive plan and for the acquisition of Kunos Simulazioni S.r.l.

Depreciation and amortisation increased by Euro 42 thousand due to the depreciation of the Eugene property, which is used by the subsidiary Pipeworks Inc., and the amortisation of capital expenditure incurred by the Group on ERP systems in the second half of the prior financial year. Impairment losses were recognised on investments in the associates Cityglance S.r.l. and Ebook&Kids S.r.l. of Euro 44 thousand and Euro 149 thousand, respectively.

Assets and liabilities allocable to the operating segment are as follows:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
	<b>Non-current assets</b>				
1	Property, plant and equipment	2,593	2,721	(128)	-4.7%
3	Intangible assets	367	399	(32)	-8.0%
4	Equity investments	1,345	898	447	49.8%
5	Non-current receivables and other assets	639	635	4	0.7%
6	Deferred tax assets	69	12	57	n.m.
	<b>Total non-current assets</b>	<b>5,013</b>	<b>4,665</b>	<b>348</b>	<b>7.4%</b>
	<b>Non-current liabilities</b>	<b>0</b>	<b>(252)</b>	<b>252</b>	<b>n.m.</b>
	<b>Net working capital</b>	<b>(2,362)</b>	<b>(4,025)</b>	<b>1,663</b>	<b>-41.3%</b>

The decrease in property relates to the depreciation by the subsidiary 133 West Broadway of the property located in Eugene, Oregon.

The decrease in non-current liabilities is a consequence of the classification as current payables of the variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid in September 2017.

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

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

### **Intercompany transactions**

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

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

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

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

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

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

At the time of acquisition, Kunos Simulazioni S.r.l. was party to a development contract for the Assetto Corsa video game entered into with the subsidiary 505 Games S.p.A., which has remained unchanged.

Hawken Entertainment Inc. has provided live support services for the Hawken video game to 505 Games S.p.A.

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

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

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

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

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

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

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

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

On preparing the consolidated financial statements for the year ended 30 June 2017, the impact of intercompany transactions on the results and financial position has been eliminated.

### **Related party transactions**

Related party transactions consist of:

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

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

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

### **Atypical transactions**

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

## **9. TREASURY SHARES**

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Pursuant to Art. 2428 paragraph 2 of the Italian Civil Code, it is hereby disclosed that at 30 June 2017 Digital Bros S.p.A. did not hold any treasury shares, given that the 130,247 treasury shares held at 30 June 2016 were sold during the year just ended.

## **10. RESEARCH AND DEVELOPMENT**

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The Group incurred research costs in the year of Euro 383 thousand and development costs of Euro 4,726 thousand. The amounts incurred in the year ended 30 June 2016 were Euro 66 thousand and Euro 5,051 thousand, respectively.

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

## 11. MANAGEMENT OF OPERATIONAL RISK, FINANCIAL RISK AND FINANCIAL INSTRUMENTS

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

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

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

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

### Operational risks

The most significant operational risks are:

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

#### *Ability to publish popular games*

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

### *Disintermediation of the publisher and the failure to control intellectual property*

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

### *Product obsolescence*

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

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

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

### *Dependence on key employees*

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

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

### **Financial instruments and financial risk management**

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

- Bank overdrafts
- Sight and short-term bank deposits

- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts
- Financial instruments held for trading.

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

Credit facilities granted to the Group and drawn down at 30 June 2017 are as follows:

<b>Euro thousands</b>	<b>Facilities granted</b>	<b>Drawn down</b>	<b>Available</b>
Bank overdrafts	2,650	0	2,650
Import financing	21,000	0	21,000
Advances on invoices and cash orders subject to collection	18,567	0	18,567
Factoring	15,280	218	15,062
Endorsement credits	1,000	0	1,000
<b>Total</b>	<b>58,497</b>	<b>218</b>	<b>58,279</b>

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

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

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

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

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

*Interest rate risk*



The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

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

#### *Liquidity risk*

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

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

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

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

#### *Exchange rate risk*

The Group's exposure in US dollars arising from the operations of its U.S. subsidiaries is mitigated by the fact that the Group is party to a considerable number of game development contracts denominated in that currency and, thus, any negative changes in the EUR/USD exchange rate would cause licence costs to go up but would also lead to a rise in margins earned by the subsidiaries (the reverse also holds true).

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

In the preparation of its forecasts, the Group runs models that take account of various currencies used by the companies and forward exchange rates based on reports issued by independent analysts.

### *Credit risk*

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

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

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

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

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

	Profit (loss) for the year ended		Equity	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
<b>Profit (loss) for the year and equity of Digital Bros S.p.A.</b>	<b>4,237</b>	<b>(3,695)</b>	<b>32,704</b>	<b>28,706</b>
Profit for the year and equity of subsidiaries	13,887	15,622	52,132	42,364
Carrying amount of equity investments	0	0	(29,594)	(25,201)
<b>Consolidation adjustments:</b>				
Impairment of investments in subsidiaries	1,229	2,363	2,388	2,963
Elimination of intercompany profits	33	(1,073)	(1,461)	(1,489)
Dividends	(7,108)	0	0	0
Other adjustments	(981)	(678)	2,605	1,005
<b>Profit for the year and equity of the Group</b>	<b>11,297</b>	<b>12,539</b>	<b>58,774</b>	<b>48,348</b>

Details are provided below of consolidation adjustments at 30 June 2017 and 2016 and for the years then ended:

	Profit (loss) for the year ended		Equity	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	1,459	1,991	1,156	1,301
Impairment of Digital Bros S.p.A.'s investment in Digital Bros Game Academy S.r.l.	119	372	90	171
Impairment (reversal of impairment) of Digital Bros S.p.A.'s investment in Pipeworks Inc.	(1,491)	0	0	1,491
Impairment of 505 Games S.p.A.'s investment in 505 Mobile S.r.l.	1,142	0	1,142	0
<b>Total impairment of investments in subsidiaries</b>	<b>1,229</b>	<b>2,363</b>	<b>2,388</b>	<b>2,963</b>
Profits in inventory	(156)	(80)	(364)	(208)
DR Studios Ltd. and Pipeworks Inc. margin on intercompany sales	189	(993)	(1,097)	(1,281)
<b>Total elimination of intercompany profits</b>	<b>33</b>	<b>(1,073)</b>	<b>(1,461)</b>	<b>(1,489)</b>
Dividends from 505 Games Ltd.	(1,108)	0	0	0
Dividends from 505 Games S.p.A.	(6,000)	0	0	0
<b>Total dividends</b>	<b>(7,108)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Amortisation/depreciation/allocation of purchase price of DR Studios Ltd., net of the related tax effect	(315)	(359)	86	401
Amortisation/depreciation/allocation of purchase price of Pipeworks Inc., net of the related tax effect	(318)	(319)	50	370
Amortisation/depreciation/allocation of purchase price of Kunos S.r.l., net of the related tax effect	(249)	0	2,235	0
Other	(99)	0	234	234
<b>Total consolidation adjustments</b>	<b>(981)</b>	<b>(678)</b>	<b>2,605</b>	<b>1,005</b>

### **13. CONTINGENT ASSETS AND LIABILITIES**

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

As at the reporting date, the Group has deemed the foregoing to be a contingent asset, as was also the case at the prior financial year end.

### **14. SUBSEQUENT EVENTS**

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Details of subsequent events are as follows:

- With the issue of its findings on 25 July 2017, the Milan unit of the Italian Tax Police completed a tax audit of the subsidiary 505 Games S.p.A. that had commenced on 19 October 2016 and which had focused on corporate income tax (IRES and IRAP) for the tax years 2011, 2012, 2013 and 2014 and on withholding tax for the tax years 2012, 2013, 2014 and 2015. The tax audit report addresses issues concerning transfer pricing and the incorrect application of withholding tax that come to a significant total amount. The risks involved have been assessed by the directors and an amount of Euro 854 thousand has been provided at 30 June 2017 in relation thereto.

On the same date, the Milan unit of the Italian Tax Police completed a tax audit of Digital Bros S.p.A. that had commenced on 10 February 2016 and which had focused on corporate income tax (IRES and IRAP) for the tax years 2011, 2012, 2013 and 2014 and on withholding tax for the tax years 2012, 2013, 2014 and 2015. No irregularities arose from the audit;

- Digital Bros S.p.A. sold all the Starbreeze B ordinary shares held at 30 June 2017 at an average price of 15.24 Swedish Krona resulting in a gain of Euro 88 thousand Euro.

## **15. BUSINESS OUTLOOK**

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Over the coming twelve months, the Group will launch Premium products of interest, such as Bloodstained and Mars, although this will also be a preparatory period for the release of major video game productions that have already started, such as Overkill's the Walking Dead and a Remedy product, the code name of which is P7, both of which are expected to be launched in the year ending 30 June 2019. Strong sales are expected to continue of products that have been around for some time, such as Terraria and PAYDAY2, as well as of new games released in the year just ended, such as Portal Knights and Assetto Corsa. The operating segment's business operations will be characterised by the release of a number of newly published retail products, such as Raid, along with continuing sales of previously published products, such as Dead by Daylight, although sales are not expected to repeat the prior year performance that was boosted by the extraordinary success of Rocket League. Due to the impact of the foregoing, it is expected that there will be a temporary downturn in revenue generated by the Premium Games operating segment over the coming year, but there will then be a return to fairly significant growth in the following financial year.

For all the other operating segments, the outlook is for growth even without the launch of new products by the Free to Play operating segment, which will benefit from a strong performance by Gems of War and which will prepare for the launch of the second version of the Hawken video game, the release of which is planned for the following financial year. This growth, however, will not offset at consolidated level the temporary loss of revenue by the Premium Games operating segment.

As far as earnings are concerned, the outlook is identical. The Premium Games sector will experience a downturn in earnings attributable to the expected temporary fall in revenue, even if it is expected to remain the major contributor to EBIT, while the other operating segments are expected to contribute to the reduction of the impact of the foregoing due to a reduction in the losses expected to be reported by the Free to play and Other Activities operating segments, as well as by an expected decrease in costs incurred by the Holding operating segment.

Net cash is expected to remain fairly stable over the course of the financial year, with a decrease in the first half and a subsequent realignment to the current level in the second half, despite significant expenditure on the new productions Overkill's the Walking Dead and P7.

## 16. OTHER INFORMATION

### EMPLOYEES

Below are details of the workforce at 30 June 2017 with comparative figures at 30 June 2016:

Category	30 June 2017	30 June 2016	Change
Managers	10	10	0
Office workers	252	225	27
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>266</b>	<b>239</b>	<b>27</b>

Below are details of employees of foreign companies at 30 June 2017 with comparative figures at 30 June 2016:

Category	30 June 2017	30 June 2016	Change
Managers	5	5	0
Office workers	181	169	12
<b>Total employees abroad</b>	<b>186</b>	<b>174</b>	<b>12</b>

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

Category	2017 average	2016 average	Change
Managers	10	10	0
Office workers	237	208	29
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>251</b>	<b>222</b>	<b>29</b>

The average headcount at foreign companies is as follows:

Category	2017 average	2016 average	Change
Managers	5	5	0
Office workers	175	154	21
<b>Total employees abroad</b>	<b>180</b>	<b>159</b>	<b>21</b>

The increase in the number of employees abroad is due to growth in the international structure of the Premium Games and Free to Play operating segments and to having set up Hawken Entertainment Inc., whereas the increase in the number of employees of the Italian companies is due to the acquisition of Kunos Simulazioni S.r.l.

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

### ENVIRONMENT

At 30 June 2017, there were no issues of an environmental nature and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

## **17. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE**

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

## **18. REMUNERATION REPORT**

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





**Consolidated financial statements  
for the year ended 30 June 2017**

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## FINANCIAL STATEMENTS

### Digital Bros Group

#### Consolidated statement of financial position at 30 June 2017

	Euro thousands	30 June 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,619	7,032	(413)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,867	10,458	8,409	80.4%
4	Equity investments	1,345	898	447	49.7%
5	Non-current receivables and other assets	1,052	1,056	(4)	-0.4%
6	Deferred tax assets	2,807	2,619	188	7.2%
	<b>Total non-current assets</b>	<b>30,690</b>	<b>22,063</b>	<b>8,627</b>	<b>39.1%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(545)	(529)	(16)	2.9%
8	Non-current provisions	(79)	(36)	(43)	n.m.
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(624)</b>	<b>(817)</b>	<b>193</b>	<b>-23.5%</b>
	<b>Net working capital</b>				
10	Inventories	12,815	11,933	882	7.4%
11	Trade receivables	36,763	34,840	1,923	5.5%
12	Current tax assets	2,064	2,019	45	2.3%
13	Other current assets	3,263	5,034	(1,771)	-35.2%
14	Trade payables	(27,680)	(21,712)	(5,968)	27.5%
15	Current tax liabilities	(5,736)	(6,211)	475	-7.6%
16	Current provisions	(854)	0	(854)	n.m.
17	Other current liabilities	(3,954)	(2,312)	(1,642)	71.0%
	<b>Total net working capital</b>	<b>16,681</b>	<b>23,591</b>	<b>(6,910)</b>	<b>-29.3%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	1.1%
19	Reserves	(19,805)	(20,804)	999	-4.8%
20	Treasury shares	0	390	(390)	n.m.
21	(Retained earnings) accumulated losses	(33,265)	(22,290)	(10,975)	49.2%
	<b>Total equity</b>	<b>(58,774)</b>	<b>(48,348)</b>	<b>(10,426)</b>	<b>21.6%</b>
	<b>Total net assets</b>	<b>(12,027)</b>	<b>(3,511)</b>	<b>(8,516)</b>	<b>n.m.</b>
22	Cash and cash equivalents	12,136	2,785	9,351	n.m.
23	Current bank debt	(1,942)	(25,929)	23,987	-92.5%
24	Other current financial assets and liabilities	950	28,913	(27,963)	-96.7%
	<b>Current net cash/debt</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>	<b>93.2%</b>
25	Non-current financial assets	1,306	1,195	111	9.3%
26	Non-current bank debt	(383)	(1,558)	1,175	-75.4%
27	Other non-current financial liabilities	(40)	(1,895)	1,855	-97.9%
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>	<b>n.m.</b>
	<b>Total net cash</b>	<b>12,027</b>	<b>3,511</b>	<b>8,516</b>	<b>n.m.</b>

## Digital Bros Group

### Consolidated statement of profit or loss for the year ended 30 June 2017

	Euro thousands	Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Gross revenue	142,400	105.2%	110,192	102.8%	32,208	29.2%
2	Revenue adjustments	(7,017)	-5.2%	(2,977)	-2.8%	(4,040)	n.m.
3	<b>Net revenue</b>	<b>135,383</b>	<b>100.0%</b>	<b>107,215</b>	<b>100.0%</b>	<b>28,168</b>	<b>26.3%</b>
4	Purchase of products for resale	(31,206)	-23.1%	(21,193)	-19.8%	(10,013)	47.2%
5	Purchase of services for resale	(9,533)	-7.0%	(5,580)	-5.2%	(3,953)	70.8%
6	Royalties	(37,102)	-27.4%	(23,851)	-22.2%	(13,251)	55.6%
7	Changes in inventories of finished products	882	0.7%	(948)	-0.9%	1,830	n.m.
8	<b>Total cost of sales</b>	<b>(76,959)</b>	<b>-56.8%</b>	<b>(51,572)</b>	<b>-48.1%</b>	<b>(25,387)</b>	<b>49.2%</b>
9	<b>Gross profit (3+8)</b>	<b>58,424</b>	<b>43.2%</b>	<b>55,643</b>	<b>51.9%</b>	<b>2,781</b>	<b>5.0%</b>
10	Other income	1,959	1.4%	5,714	5.3%	(3,755)	-65.7%
11	Cost of services	(13,142)	-9.7%	(13,425)	-12.5%	283	-2.1%
12	Lease and rental charges	(1,476)	-1.1%	(1,555)	-1.5%	79	-5.0%
13	Labour costs	(22,469)	-16.6%	(19,861)	-18.5%	(2,608)	13.1%
14	Other operating costs	(1,998)	-1.5%	(1,421)	-1.3%	(577)	40.6%
15	<b>Total operating costs</b>	<b>(39,085)</b>	<b>-28.9%</b>	<b>(36,262)</b>	<b>-33.8%</b>	<b>(2,823)</b>	<b>7.8%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>21,298</b>	<b>15.7%</b>	<b>25,095</b>	<b>23.4%</b>	<b>(3,797)</b>	<b>-15.1%</b>
17	Depreciation and amortisation	(7,714)	-5.7%	(3,788)	-3.5%	(3,926)	n.m.
18	Allocations to provisions	(854)	-0.6%	0	0.0%	(854)	n.m.
19	Impairment losses recognised on assets	(1,653)	-1.2%	(1,080)	-1.0%	(573)	53.1%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	0.5%	(588)	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(10,221)</b>	<b>-7.5%</b>	<b>(4,280)</b>	<b>-4.0%</b>	<b>(5,941)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>11,077</b>	<b>8.2%</b>	<b>20,815</b>	<b>19.4%</b>	<b>(9,738)</b>	<b>-46.8%</b>
23	Interest and finance income	8,772	6.5%	3,093	2.9%	5,679	n.m.
24	Interest expense and finance costs	(3,137)	-2.3%	(5,570)	-5.2%	2,433	-43.7%
25	<b>Net finance income (costs)</b>	<b>5,635</b>	<b>4.2%</b>	<b>(2,477)</b>	<b>-2.3%</b>	<b>8,112</b>	<b>n.m.</b>
26	<b>Profit before tax (22+25)</b>	<b>16,712</b>	<b>12.3%</b>	<b>18,338</b>	<b>17.1%</b>	<b>(1,626)</b>	<b>-8.9%</b>
27	Current tax	(5,140)	-3.8%	(6,644)	-6.2%	1,504	-22.6%
28	Deferred tax	(276)	-0.2%	845	0.8%	(1,121)	n.m.
29	<b>Total income tax expense</b>	<b>(5,415)</b>	<b>-4.0%</b>	<b>(5,799)</b>	<b>-5.4%</b>	<b>384</b>	<b>-6.6%</b>
30	<b>Profit for the year (26+29)</b>	<b>11,297</b>	<b>8.3%</b>	<b>12,539</b>	<b>11.7%</b>	<b>(1,242)</b>	<b>-9.9%</b>
	<b>Earnings per share:</b>						
33	<b>Basic earnings per share (in euros)</b>	<b>0.80</b>		<b>0.90</b>		<b>(0.10)</b>	<b>-11.0%</b>
34	<b>Diluted earnings per share (in euros)</b>	<b>0.80</b>		<b>0.90</b>		<b>(0.10)</b>	<b>-11.0%</b>

**Digital Bros Group****Consolidated statement of comprehensive income for the year ended 30 June 2017**

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
<b>Profit (loss) for the year (A)</b>	<b>11,297</b>	<b>12,539</b>	<b>(1,242)</b>
Items that will not be reclassified subsequently to profit or loss (B)	0	0	0
Actuarial gain (loss)	25	(45)	70
Income tax relating to the actuarial gain (loss)	(7)	11	(18)
Exchange differences on translation of foreign operations	(634)	(569)	(65)
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as available for sale	(3,075)	2,746	(5,821)
Income tax relating to the fair value measurement of shares designated as available for sale	845	(756)	1,601
<b>Items that may be reclassified subsequently to profit or loss (C)</b>	<b>(2,846)</b>	<b>1,387</b>	<b>(4,233)</b>
<b>Total other comprehensive income D = (B)+(C)</b>	<b>(2,846)</b>	<b>1,387</b>	<b>(4,233)</b>
<b>Total comprehensive income (loss) (A)+(D)</b>	<b>8,451</b>	<b>13,926</b>	<b>(5,475)</b>
Attributable to:			
<b>Owners of the Company</b>	<b>8,451</b>	<b>13,926</b>	<b>(5,475)</b>
<b>Non-controlling interests</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Digital Bros Group

### Consolidated statement of cash flows for the year ended 30 June 2017

	Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016
<b>A.</b>	<b>Opening net cash/debt</b>	<b>3,511</b>	<b>(8,333)</b>
<b>B.</b>	<b>Cash flows from operating activities</b>		
	Profit (loss) for the year attributable to the Group	11,297	12,539
	<i>Depreciation, amortisation and non-monetary costs:</i>		
	Provisions and impairment losses	1,653	0
	Amortisation of intangible assets	6,937	3,117
	Depreciation of property, plant and equipment	777	671
	Net change in other provisions	43	(134)
	Net change in employee benefit provisions	16	43
	Net change in other non-current liabilities	(252)	(470)
	<b>SUBTOTAL B.</b>	<b>20,471</b>	<b>15,766</b>
<b>C.</b>	<b>Change in net working capital</b>		
	Inventories	(882)	948
	Trade receivables	(2,343)	1,510
	Current tax assets	(72)	447
	Other current assets	1,771	1,114
	Trade payables	5,968	(5,217)
	Current tax liabilities	(475)	3,182
	Current provisions	854	0
	Other current liabilities	1,642	586
	<b>SUBTOTAL C.</b>	<b>6,463</b>	<b>2,570</b>
<b>D.</b>	<b>Cash flows from investing activities</b>		
	Net payments for intangible assets	(16,360)	(5,629)
	Net payments for property, plant and equipment	(364)	(2,862)
	Net payments for non-current financial assets	(823)	(1)
	<b>SUBTOTAL D.</b>	<b>(17,547)</b>	<b>(8,492)</b>
<b>E.</b>	<b>Cash flows from financing activities</b>		
	Proceeds from capital increases	60	0
	Proceeds from share premium	1,532	0
	<b>SUBTOTAL E.</b>	<b>1,592</b>	<b>0</b>
<b>F.</b>	<b>Changes in consolidated equity</b>		
	Dividends distributed	(1,834)	(1,818)
	Changes in treasury shares held	390	809
	Increases (decreases) in other equity components	(1,018)	3,009
	<b>SUBTOTAL F.</b>	<b>(2,462)</b>	<b>2,000</b>
<b>G.</b>	<b>Cash flow for the year (B+C+D+E+F)</b>	<b>8,516</b>	<b>11,844</b>
<b>H.</b>	<b>Closing net cash (A+G)</b>	<b>12,027</b>	<b>3,511</b>

## Notes to the statement of cash flows

### Details of cash flow by maturity:

Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016
Increase (decrease) in securities and cash and cash equivalents	9,351	(1,554)
Decrease (increase) in current bank debt	23,987	(13,191)
Decrease (increase) in other current financial assets and liabilities	(27,963)	27,228
Cash flow for the year pertaining to current net cash/debt	5,375	12,483
Cash flow for the year pertaining to non-current net cash/debt	3,141	(639)
<b>Cash flow for the year</b>	<b>8,516</b>	<b>11,844</b>

## Digital Bros Group

### Consolidated statement of changes in equity

<b>Euro thousands</b>	<b>Share capital (A)</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Currency translation reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the year</b>	<b>Total retained earnings (D)</b>	<b>Consolidated equity attributable to Group (A+B+C+D)</b>
<b>As at 1 July 2015</b>	<b>5,644</b>	16,954	1,129	1,367	(244)	211	<b>19,417</b>	<b>(1,199)</b>	(3,006)	12,953	<b>9,947</b>	<b>33,809</b>
Allocation of profit for the year							<b>0</b>		9,105	(9,105)	<b>0</b>	<b>0</b>
Payment of dividends									(1,818)		<b>(1,818)</b>	<b>(1,818)</b>
Other changes							<b>0</b>	<b>809</b>	1,622		<b>1,622</b>	<b>2,431</b>
Comprehensive income (loss)					(569)	1,956	<b>1,387</b>			12,539	<b>12,539</b>	<b>13,926</b>
<b>As at 30 June 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(813)	2,167	<b>20,804</b>	<b>(390)</b>	5,903	16,387	<b>22,290</b>	<b>48,348</b>
<b>As at 1 July 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(813)	2,167	<b>20,804</b>	<b>(390)</b>	5,903	16,387	<b>22,290</b>	<b>48,348</b>
Capital increase	<b>60</b>	1,532					<b>1,532</b>				<b>0</b>	<b>1,592</b>
Allocation of profit for the year							<b>0</b>		16,387	(16,387)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,834)		<b>(1,834)</b>	<b>(1,834)</b>
Other changes						315	<b>315</b>	390	1,512		<b>1,512</b>	<b>2,217</b>
Comprehensive income (loss)					(634)	(2,212)	<b>(2,846)</b>			11,297	<b>11,297</b>	<b>8,451</b>
<b>As at 30 June 2017</b>	<b>5,704</b>	18,486	1,129	1,367	(1,447)	270	<b>19,805</b>	<b>0</b>	21,968	11,297	<b>33,265</b>	<b>58,774</b>



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

	Euro thousands	Year ended 30 June 2017		Year ended 30 June 2016	
		Total	Of which with related parties	Total	Of which with related parties
1	Gross revenue	142,400	0	110,192	0
2	Revenue adjustments	(7,017)	0	(2,977)	0
<b>3</b>	<b>Net revenue</b>	<b>135,383</b>	<b>0</b>	<b>107,215</b>	<b>0</b>
4	Purchase of products for resale	(31,206)	0	(21,193)	0
5	Purchase of services for resale	(9,533)	0	(5,580)	0
6	Royalties	(37,102)	0	(23,851)	0
7	Changes in inventories of finished products	882	0	(948)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(76,959)</b>	<b>0</b>	<b>(51,572)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>58,424</b>	<b>0</b>	<b>55,643</b>	<b>0</b>
10	Other income	1,959	0	5,714	0
11	Cost of services	(13,142)	(262)	(13,425)	(254)
12	Lease and rental charges	(1,476)	(1,170)	(1,555)	(1,131)
13	Labour costs	(22,469)	0	(19,861)	0
14	Other operating costs	(1,998)	0	(1,421)	0
<b>15</b>	<b>Total operating costs</b>	<b>(39,085)</b>	<b>(1,432)</b>	<b>(36,262)</b>	<b>(1,385)</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>21,298</b>	<b>(1,432)</b>	<b>25,095</b>	<b>(1,385)</b>
17	Depreciation and amortisation	(7,714)	0	(3,788)	0
18	Allocations to provisions	(854)	0	0	0
19	Impairment losses recognised on assets	(1,653)	0	(1,080)	0
20	Reversal of impairment losses and non-monetary income	0	0	588	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(10,221)</b>	<b>0</b>	<b>(4,280)</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>11,077</b>	<b>(1,432)</b>	<b>20,815</b>	<b>(1,385)</b>
23	Interest and finance income	8,772	0	3,093	0
24	Interest expense and finance costs	(3,137)	0	(5,570)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>5,635</b>	<b>0</b>	<b>(2,477)</b>	<b>0</b>
<b>26</b>	<b>Profit before tax (22+25)</b>	<b>16,712</b>	<b>(1,432)</b>	<b>18,338</b>	<b>(1,385)</b>
27	Current tax	(5,140)	0	(6,644)	0
28	Deferred tax	(276)	0	845	0
<b>29</b>	<b>Total income tax expense</b>	<b>(5,415)</b>	<b>0</b>	<b>(5,799)</b>	<b>0</b>
<b>30</b>	<b>Profit for the year (26+29)</b>	<b>11,297</b>	<b>(1,432)</b>	<b>12,539</b>	<b>(1,385)</b>

## Digital Bros Group

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

	Euro thousands	30 June 2017		30 June 2016	
		Total	Of which with related parties	Total	Of which with related parties
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,619	0	7,032	0
2	Investment property	0	0	0	0
3	Intangible assets	18,867	0	10,458	0
4	Equity investments	1,345	0	898	0
5	Non-current receivables and other assets	1,052	765	1,056	768
6	Deferred tax assets	2,807	0	2,619	0
	<b>Total non-current assets</b>	<b>30,690</b>	<b>765</b>	<b>22,063</b>	<b>768</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(545)	0	(529)	0
8	Non-current provisions	(79)	0	(36)	0
9	Other non-current payables and liabilities	0	0	(252)	0
	<b>Total non-current liabilities</b>	<b>(624)</b>	<b>0</b>	<b>(817)</b>	<b>0</b>
	<b>Net working capital</b>				
10	Inventories	12,815	0	11,933	0
11	Trade receivables	36,763	0	34,840	0
12	Current tax assets	2,064	0	2,019	0
13	Other current assets	3,263	0	5,034	0
14	Trade payables	(27,680)	(22)	(21,712)	(25)
15	Current tax liabilities	(5,736)	0	(6,211)	0
16	Current provisions	(854)	0	0	0
17	Other current liabilities	(3,954)	0	(2,312)	0
	<b>Total net working capital</b>	<b>16,681</b>	<b>(22)</b>	<b>23,591</b>	<b>(25)</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	0	(5,644)	0
19	Reserves	(19,805)	0	(20,804)	0
20	Treasury shares	0	0	390	0
21	(Retained earnings) accumulated losses	(33,265)	0	(22,290)	0
	<b>Total equity</b>	<b>(58,774)</b>	<b>0</b>	<b>(48,348)</b>	<b>0</b>
	<b>Total net assets</b>	<b>(12,027)</b>	<b>743</b>	<b>(3,511)</b>	<b>743</b>
	<b>Current net cash</b>	<b>11,144</b>	<b>0</b>	<b>5,769</b>	<b>0</b>
25	Non-current financial assets	1,306	0	1,195	0
26	Non-current bank debt	(383)	0	(1,558)	0
27	Other non-current financial liabilities	(40)	0	(1,895)	0
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>0</b>	<b>(2,258)</b>	<b>0</b>

	<b>Total net cash</b>	<b>12,027</b>	<b>0</b>	<b>3,511</b>	<b>0</b>

## Digital Bros Group

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

	Euro thousands	Year ended 30 June 2017		Year ended 30 June 2016	
		Total	Of which non- recurring	Total	Of which non- recurring
1	Gross revenue	142,400	0	110,192	0
2	Revenue adjustments	(7,017)	0	(2,977)	0
<b>3</b>	<b>Net revenue</b>	<b>135,383</b>	<b>0</b>	<b>107,215</b>	<b>0</b>
4	Purchase of products for resale	(31,206)	0	(21,193)	0
5	Purchase of services for resale	(9,533)	0	(5,580)	0
6	Royalties	(37,102)	0	(23,851)	0
7	Changes in inventories of finished products	882	0	(948)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(76,959)</b>	<b>0</b>	<b>(51,572)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>58,424</b>	<b>0</b>	<b>55,643</b>	<b>0</b>
10	Other income	1,959	0	5,714	0
11	Cost of services	(13,142)	0	(13,425)	0
12	Lease and rental charges	(1,476)	0	(1,555)	0
13	Labour costs	(22,469)	0	(19,861)	0
14	Other operating costs	(1,998)	0	(1,421)	0
<b>15</b>	<b>Total operating costs</b>	<b>(39,085)</b>	<b>0</b>	<b>(36,262)</b>	<b>0</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>21,298</b>	<b>0</b>	<b>25,095</b>	<b>0</b>
17	Depreciation and amortisation	(7,714)	0	(3,788)	0
18	Allocations to provisions	(854)	0	0	0
19	Impairment losses recognised on assets	(1,653)	0	(1,080)	0
20	Reversal of impairment losses and non-monetary income	0	0	588	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(10,221)</b>	<b>0</b>	<b>(4,280)</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>11,077</b>	<b>0</b>	<b>20,815</b>	<b>0</b>
23	Interest and finance income	8,772	0	3,093	0
24	Interest expense and finance costs	(3,137)	0	(5,570)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>5,635</b>	<b>0</b>	<b>(2,477)</b>	<b>0</b>
<b>26</b>	<b>Profit before tax (22+25)</b>	<b>16,712</b>	<b>0</b>	<b>18,338</b>	<b>0</b>
27	Current tax	(5,140)	0	(6,644)	0
28	Deferred tax	(276)	0	845	0
<b>29</b>	<b>Total income tax expense</b>	<b>(5,415)</b>	<b>0</b>	<b>(5,799)</b>	<b>0</b>
<b>30</b>	<b>Profit for the year (26+29)</b>	<b>11,297</b>	<b>0</b>	<b>12,539</b>	<b>0</b>

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**Notes to the consolidated financial statements  
for the year ended 30 June 2017**

## 1. INTRODUCTORY NOTE

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

The consolidated financial statements for the year ended 30 June 2017 have been prepared on a going concern basis. The Group has deemed that the uncertainties and risks to which it is exposed, as described in the directors' report, do not cast doubt on its ability to operate as a going concern.

### *Accounting standards adopted and declaration of compliance with IAS/IFRS*

The consolidated financial statements of Digital Bros Group, for the year ended 30 June 2017 have been prepared in accordance with Art. 154-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments thereto. They comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), on the basis of the text published in the Official Journal of the European Union. The term "IFRS" encompasses International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts included in the consolidated financial statements for the year ended 30 June 2017 are stated in thousands of euros, unless otherwise specified.

### *Reporting formats*

The consolidated financial statements for the year ended 30 June 2017 comply with International Financial Reporting Standards and with the interpretations thereof (SIC/IFRIC) endorsed by the European Commission as of the reporting date.

The financial statements and the notes thereto also include the disclosures required by Consob Resolution 15519 of 27 July 2006 and Consob Communication 6064293 of 28 July 2006.

No changes have been made to the reporting format with respect to previous years and all schedules are consistent with those used for the consolidated financial statements for the year ended 30 June 2016.

The financial statements comprise:

- consolidated statement of financial position at 30 June 2017 with comparative figures at 30 June 2016 (the annual reporting date for the previous consolidated financial statements);
- consolidated statement of profit or loss for the period from 1 July 2016 to 30 June 2017 together with comparative figures for the period from 1 July 2015 to 30 June 2016;
- consolidated statement of comprehensive income for the period from 1 July 2016 to 30 June 2017 together with comparative figures for the period from 1 July 2015 to 30 June 2016;
- consolidated statement of cash flows from 1 July 2016 to 30 June 2017 with comparative figures for the period from 1 July 2015 to 30 June 2016;
- consolidated statement of changes in equity from 1 July 2016 to 30 June 2017 and from 1 July 2015 to 30 June 2016.

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

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

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

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

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

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

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, particularly the provision for employee termination indemnities pertaining to the parent company and its Italian subsidiaries, and, in general, payables that fall due beyond 30 June 2018.

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

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

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

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

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

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

- gross profit, the difference between net revenue and total cost of sales;
- gross operating margin (EBITDA), the difference between gross profit and total operating costs;

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

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

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2015 and 30 June 2017.

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



## 2. ACCOUNTING POLICIES

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The consolidated financial statements for the year ended 30 June 2017 have been prepared in accordance with International Financial Reporting Standards and their interpretations in force at that date.

The consolidated financial statements were prepared on the basis of financial statements prepared by the Group companies falling within the scope of consolidation for the year ended 30 June 2017, adjusted, where necessary, to bring them into line with Group accounting policies and IAS/IFRS. All prior period comparative figures have been adjusted, as necessary, in order to render them compliant with IAS/IFRS.

The measurement criteria used to prepare the consolidated financial statements for the year ended 30 June 2017 are consistent with those used to prepare the consolidated financial statements for the year ended 30 June 2016. Changes in the standards and interpretations endorsed by the European Union have had no significant effect on the preparation of the consolidated financial statements for the year ended 30 June 2017.

### *Property, plant and equipment*

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

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

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

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

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

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

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

### *Intangible assets*

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

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

The amortisation rates applied are as follows:

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

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

The Group applies amortisation on a straight-line basis over the contract term and, in any event, over a period not exceeding five years.

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

### *Business combinations*

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

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

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

Any contingent consideration is recognised at its acquisition-date fair value. In accordance with IAS 39, a change in the fair value of contingent consideration classified as an asset or liability is recognised in profit

or loss or in other comprehensive income. If the contingent consideration is classified as equity, it need not be remeasured until settlement of the contingency is reflected within equity. The subsequent transaction will be accounted for in equity. If contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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

In the event that it is only possible to make a preliminary determination of the fair value of the assets, liabilities and contingent liabilities, the business combination is recognised using these preliminary amounts. Any adjustments arising from the final determination of the foregoing are recognised within twelve months of the acquisition and the comparatives are restated.

After its initial recognition, goodwill is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

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

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

#### *Equity investments*

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

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

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

#### *Other available-for-sale financial assets*

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

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

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

#### *Impairment of assets*

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

Accordingly, at least once a year, the Group tests the recoverability of the above assets' carrying amounts. If there is any indication that those assets have suffered an impairment loss, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. An asset's value in use is estimated by discounting estimated future cash flows after taxes to their present value at a discount rate that reflects the time value of money and the risks specific to the asset.

An impairment loss is recognised if the recoverable amount is less than its carrying amount. If impairment is subsequently reduced or reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed

the carrying amount that would have been determined had no impairment loss been recognised, with the exception of goodwill, for which the reversal of an impairment loss is prohibited. A reversal of an impairment loss is recognised immediately in profit or loss.

#### *Inventories*

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

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

#### *Receivables and payables*

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

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

Payables are stated at face value.

#### *Factoring of trade receivables*

The Group has factored its trade receivables without recourse to various factoring companies. In accordance with IAS 39, factored assets may be derecognised only when the associated risks and benefits have been substantially transferred. Accordingly, receivables factored without recourse that include provisions limiting the transfer of these risks and benefits at the time of the transaction, such as deferred payments or deductibles by the transferor, or that imply continued significant exposure to the trend in inflows deriving from the receivables, remain in the consolidated financial statements even though said receivables have been transferred. An amount equal to the sums advanced for factored receivables not yet collected is therefore recognised in the consolidated financial statements under other current financial liabilities.

#### *Employee benefits*

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

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

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

other reserves.

#### *Current and non-current provisions*

The Group makes provisions against legal or constructive obligations to third parties whose exact amount and/or timing are unknown and/or it is likely that the Group's resources will have to be employed to fulfil the obligation and the amount can be reliably estimated. The provisions are adjusted periodically to reflect any changes in the estimated amount of the liability.

Changes in estimates are recognised in the profit or loss for the period in which the change occurs.

#### *Financial assets and liabilities*

Current financial assets, non-current financial assets and current and non-current financial liabilities are recognised in accordance with IAS 39 – Financial Instruments: Recognition and Measurement.

Cash and cash equivalents include cash on hand, bank deposits, mutual fund units, other highly negotiable securities and other financial assets recognised as available-for-sale.

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

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

#### *Financial assets measured at fair value through profit or loss*

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

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

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

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

Designation of a financial instrument to this category is final (IAS 39 only envisages some exceptional circumstances in which said financial assets may be classified in another category) and can only be done on initial recognition.

Gains or losses on financial assets measured at fair value through profit or loss are immediately recognised in profit or loss.

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

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

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

#### *Derivative financial instruments*

Derivatives are normally used to hedge the risk of fluctuation in exchange rates and interest rates. In accordance with IAS 39, derivative financial instruments may be recognised on a hedge accounting basis only if, at the inception of the hedge, the relationship is formally designated and documented, the hedge is expected to be highly effective, its effectiveness can be reliably measured and the hedge is assessed as being highly effective throughout the financial reporting periods for which it was designated.

All derivative financial instruments are measured at fair value, as established by IAS 39.

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

- *Fair value hedge* - If a derivative financial instrument is designated as a hedge against changes in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value measurement of the hedge is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of that item and is recognised in profit or loss.
- *Cash flow hedge* - If a financial instrument is designated as a hedge against exposure to variations in the cash flows of a recognised asset or liability or a forecast transaction that is highly probable and could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised directly in equity. The cumulative gain or loss is transferred from equity to profit or loss in the same period in which the hedged transaction is recognised. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss. If a hedge or a hedging relationship is closed, but the hedged transaction has not yet taken place, the gains or losses recognised up to that time in equity are reclassified to profit or loss as soon as the transaction occurs. If the hedged transaction is no longer deemed probable, the profits or losses not yet realised that have been accounted for in equity are immediately recognised in profit or loss.

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

finance income/costs.

#### *Treasury shares*

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

#### *Revenue*

Revenue is recognised when the Group is expected to obtain economic benefits and the amount of which can be reliably determined. Specifically, revenue from the sale of goods is recognised when the risks and benefits of ownership are transferred to the buyer and the price has been agreed or can be determined and is expected to be received.

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

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

#### *Costs*

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

Advertising costs are recognised upon receipt of the service.

#### *Cost of sales*

The cost of sales is the purchase or production cost of products, goods and/or services for resale. It includes all materials and workmanship costs.

Changes in inventories consist of the change in the period in the gross carrying amount of period end inventories.

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

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

#### *Dividends received*

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



### *Interest income/expense and finance income/costs*

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

### *Current tax*

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

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

### *Deferred tax*

Deferred tax is calculated under the balance sheet liability method. It is calculated on all temporary differences between the accounting and tax basis of an asset or liability, with the exception of non-deductible goodwill and differences deriving from investments in subsidiaries that are not expected to reverse in the foreseeable future.

Deferred tax assets on tax losses and unused tax credits eligible to be carried forward are recognised to the extent of the likelihood of earning enough future taxable income for these to be recovered. Deferred tax assets and liabilities are computed using the tax rates expected to be in force in the respective jurisdictions in which the Group operates, when the temporary differences are likely to be realised or reversed.

They are classified as non-current assets and liabilities, regardless of the estimated year of use.

### *Earnings per share*

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

### *Foreign currency transactions*

Transactions in foreign currencies are recognised at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated at the exchange rate in force on that date. Exchange gains and losses generated by the closure of monetary items or by their translation at rates other than those used upon initial recognition during the year or in prior periods are recognised in profit or loss.

### *New accounting standards*

#### **Accounting standards, amendments and IFRS interpretations applicable as from 1 July 2016**

Given that no accounting standards, amendments or IFRS interpretations were applicable to the Group for the first time as from 1 July 2016, the Group has prepared its consolidated financial statements using the same accounting standards adopted for the consolidated financial statements for the year ended 30 June 2016.

**Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, but not yet mandatorily applicable and not adopted early by the Group at 30 June 2017:**

- On 28 May 2014, the IASB issued **IFRS 15 – Revenue from Contracts with Customers**, which, in conjunction with additional clarifications issued on 12 April 2016, replaces IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as the interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. The standard provides a new revenue recognition model to be applied to all contracts with customers except for those that fall within the scope of application of other IAS/IFRS, such as leasing, insurance contracts and financial instruments. The fundamental steps for revenue recognition according to the model are as follows:
  - identification of the contract with the customer;
  - identification of the performance obligations in the contract;
  - determination of the transaction price;
  - allocation of the transaction price to the performance obligations in the contracts;
  - revenue recognition criteria when the entity satisfies a performance obligation.

The standard is applicable as from 1 January 2018. The amendments to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, which were published by the IASB in April 2016, have not yet been endorsed by the European Union. The directors believe that the application of IFRS 15 may have a significant impact on revenue recognition and on related disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Group has completed a detailed analysis of customer contracts.

- On 24 July 2014, the IASB published the final version of **IFRS 9 – Financial instruments**. The document contains the results of the IAS 39 replacement project. The new standard is effective for annual periods beginning on or after 1 January 2018.

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

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

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

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

The increased flexibility of the new accounting rules is offset by additional disclosure requirements concerning a company's risk management activities. The directors do not believe that the application of IFRS 9 will have a significant impact on the amounts recognised and on the disclosures provided in the Group's consolidated financial statements.

#### **Accounting standards, amendments and IFRS interpretations not yet endorsed by the European Union**

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

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

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

right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.

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

The standard is applicable as from 1 January 2019, although early application is permitted, but only for companies that had already adopted IFRS 15 - *Revenue from Contracts with Customers*. The directors believe that the application of IFRS 16 may have a significant impact on the recognition of lease arrangements and on related disclosures in the Group's consolidated financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Group has completed a detailed analysis of the related contracts;

- on 19 January 2016, the IASB issued ***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***. The amendments provide clarifications concerning the recognition of deferred tax assets computed on unrealised losses under certain circumstances and the estimate of future taxable income. The amendments, which were published by the IASB in January 2016 and are applicable as from 1 January 2017, have not yet been endorsed by the European Union and, accordingly, had not yet been adopted by the Group at 30 June 2017. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;
- on 29 January 2016, the IASB issued ***Disclosure Initiative (Amendments to IAS 7)***. The amendments are intended to provide clarifications to improve information concerning liabilities arising from financing activities. Specifically, the amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from monetary movements and changes arising from non-monetary movements. The amendments do not envisage the use of any specific format for the disclosures. However, the amendments require entities to provide a reconciliation of the opening balance of liabilities arising from financing activities to the closing balance thereof. There is no requirement to present comparative information relating to prior years. The amendments, which were published by the IASB in January 2016 and are applicable as from 1 January 2017, have not yet been endorsed by the European Union and, accordingly, had not yet been adopted by the Group at 30 June 2017. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;
- on 20 June 2016, the IASB issued ***Classification and measurement of share-based payment transactions (Amendments to IFRS 2)***. The amendments contain clarifications and amendments in relation to accounting for vesting conditions affecting cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-

settled. The amendments are applicable as from 1 January 2018, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;

- on 8 December 2016, the IASB issued ***Annual Improvements to IFRSs: 2014-2016 Cycle***, a collection of amendments to standards as part of the annual process of improvements thereto. The major amendments relate to:
  - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment is applicable for annual periods beginning on or after 1 January 2018, although early application is permitted, and addresses the deletion of short-term exemptions in paragraphs E3–E7 of Appendix E to IFRS 1, because they were deemed to have served their intended purpose.
  - IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*. The amendment clarifies that the election to measure at fair value through profit or loss (as opposed to the application of the equity method) an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity (such as a mutual fund or a similar entity), is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendment is applicable as from 1 January 2018.
  - IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of IFRS 12 by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to all an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with FRS 5. The amendment is applicable as from 1 January 2017, but, since it has not yet been endorsed by the European Union, it had not been adopted by the Group at 30 June 2017.

The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;

- on 8 December 2016, the IASB issued “***Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)***”. The objective of the interpretation is to provide guidelines for foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation provides guidance on how entities should determine the date of a transaction, and, consequently, the spot exchange rate to be used when foreign currency transactions take place for which there are payments or receipts in advance.

The interpretation clarifies that the date of the transaction is the earlier of:

- a) the date on which the payment or receipt of advance consideration is recognised in an entity's financial statements; and

- b) the date on which the asset, expense or income (or part thereof) is recognised in the financial statements (with the consequent reversal of the payment or receipt of advance consideration).

If there are numerous payments or receipts of advance consideration, a transaction date should be established for each thereof. IFRIC 22 is applicable as from 1 January 2018, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;

- on 8 December 2016, the IASB issued ***Transfers of Investment Property (Amendments to IAS 40)***. These amendments provide clarifications concerning transfers to, or from, investment properties. More specifically, an entity should transfer a property to, or from, investment properties only when there is evidence of a change in use of the property. The change must be attributable to a specific event that has occurred and not to a change in management's intentions for the use of a property. The amendments are applicable as from 1 January 2018, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements;
- on 7 June 2017, the IASB issued ***IFRIC 23 – Uncertainty over Income Tax Treatments***. The document addresses the accounting for uncertainties in income taxes.

The document envisages that uncertainties in the determination of tax liabilities or assets should be reflected in the financial statements only when it is probable that an entity will pay or recover the amount in question. Moreover, the interpretation does not contain any new disclosure requirements, but it highlights that an entity should establish whether there will be a need to provide any disclosures based on management considerations relating to any uncertainty concerning the accounting for taxation, in accordance with IAS 1.

The new interpretation is applicable as from 1 January 2019, although early application is permitted. The directors do not envisage that the adoption of this interpretation will have a significant impact on the Group's consolidated financial statements;

- on 11 September 2014, the IASB issued ***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***. The amendments were proposed due to the conflict between the requirements of IAS 28 and IFRS 10. IAS 28 requires that gains and losses resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in the latter is limited to the extent of the investor's interest in the joint venture or associate. On the contrary, IFRS 10 requires full profit or loss recognition when a parent loses control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, inclusive of in the case of a sale or contribution of a subsidiary to a joint venture or associate. The amendments require that, in the case of a sale or contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller or contributor depends on whether the assets or the subsidiary sold or contributed consist of a business, as defined by IFRS 3. If the assets or the subsidiary sold or contributed consist of a business, then the entity should recognise the full profit or loss in line with the previously held equity interest; otherwise, the portion of the gain or loss

relating to the equity interest that is still held should be eliminated. For the time being, the IASB has postponed the application of these amendments. The directors do not envisage that the adoption of these amendments will have a significant impact on the Group's consolidated financial statements.

### 3. USE OF ESTIMATES

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#### *Critical accounting judgements*

The preparation of the consolidated financial statements for the year ended 30 June 2017 and the notes thereto required certain judgements, estimates and assumptions to be made about the carrying amounts of assets and liabilities recognised in the consolidated financial statements and the disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

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

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

#### *Recoverable amount of intangible assets*

In accordance with IAS 36, an impairment loss is recognised whenever events or a change in circumstances indicate that the carrying amount of an intangible asset is no longer recoverable. Events that may potentially trigger the recognition of asset impairment would be changes in the strategic plan and changes in market prices that lead to lower operational performance and a reduced exploitation of trademarks. The decision to proceed with the recognition of impairment and the quantification thereof depends on management's assessment of complex and highly uncertain factors, such as the future trend in prices and demand conditions on a global or regional scale.

#### *Credit risk*

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

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

#### *Measurement of inventories*

The Group measures inventories on a quarterly basis, in consideration of the rapid obsolescence of its



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

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

#### *Employee benefits*

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

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

Following the approval of the "2016-2026 Stock Option Plan", an actuarial measurement is performed thereof in accordance with the guidance contained in IFR2 – Share-based payments. An independent professional has been appointed to perform the measurement.

#### *Provision for risks*

Where necessary, a provision has been recognised to cover the potential negative outcome associated with tax risks. The amount of any provision recognised in the financial statements pertaining to such risks represents the directors' best estimate at the reporting date, after having sought the opinion of the Group's tax advisors. This estimate is based on assumptions that depend on factors that may change over time and that could, accordingly, impact the estimates made by the directors for the preparation of the consolidated financial statements.

#### *Revenue adjustments*

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

Revenue adjustments consist of various types of cost. The first, category, which is easier to determine, consists of discounts granted to customers at the end of the normally annual contractual period (year end bonuses). The second category is difficult to estimate and consists of potential credit notes that the Group may have to issue to customers as a result of unsold products. To estimate this amount, management

prepares analyses by customer and by product that highlight the risks associated with price cuts and potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to customers with the volumes they have sold to end consumers. The availability of sales figures by country makes the estimate reliable over time. Many customers submit sales and inventory figures on a weekly basis, thus facilitating the estimation process.

#### *Royalties and advances to developers for licenses*

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

#### *Deferred tax assets and liabilities*

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

## **4. BASIS OF CONSOLIDATION**

### *Subsidiaries*

Subsidiaries are investees over which the Group is capable of exercising all of the following three elements:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- ability to use the power over the investee to affect the amount of the variable returns.

Control exists when the Group has the power, directly or indirectly, to influence the financial and operating policies of a subsidiary in such a way as to obtain benefits from its operations. The financial statements of subsidiaries are included in the consolidated financial statements for the year ended 30 June 2017 from the date control is obtained until the date control ceases to exist.

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

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

### *Translation of foreign currency financial statements*

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

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

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

### *Transactions eliminated in the consolidation process*

In preparing the consolidated financial statements for the year ended 30 June 2017, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies have been eliminated, as well as unrealised profits and losses on intragroup transactions.

### *Scope of consolidation*

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

### *Companies consolidated on a line-by-line basis:*

Name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W. Broadway	Eugene	USA	\$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,644,334.80	Parent company
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 50,000	100%
Digital Bros Holdings Ltd. <sup>(3)</sup>	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 100,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc. <sup>(1)</sup>	Santa Ana (CA)	USA	\$ 100,000	100%
Kunos Simulazioni S.r.l. <sup>(2)</sup>	Rome	Italy	€ 10,000	100%
Pipeworks Inc.	Eugene (OR)	USA	\$ 61,929	100%
505 Games S.p.A.	Milan	Italy	€ 100,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%

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

(2) Kunos Simulazioni S.r.l. has been consolidated as of its acquisition date of 15 March 2017.

(3) Digital Bros Holdings Ltd. was dormant in the year.

*Associated companies carried at cost:*

Name	Operational headquarters	Capital	% held directly	% held indirectly
Delta DNA Ltd. <sup>(1)</sup>	Edinburgh, UK	£3,005	1.12%	0%
Ebooks&Kids S.r.l.	Milan	€ 26,366	16%	0%
Cityglance S.r.l. in liquidation	Milan	€ 10,000	42.5%	0%
Ovosonico S.r.l.	Milan	€ 100,000	49%	0%
Seekhana Ltd.	Milton Keynes, UK	£ 10,000	33.61%	0%

<sup>(1)</sup> formerly Games Analytics Ltd.

## **5. EQUITY INVESTMENTS IN ASSOCIATES AND OTHER ENTITIES**

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Equity investments held by Group companies at 30 June 2017 are as follows:

- an equity interest of 1.04% in Delta DNA Ltd., acquired on 3 July 2013 and recognised at cost, equating to Euro 60 thousand (50 thousand pounds);
- an equity interest of 16% in Ebooks&Kids S.r.l., which is stated at an amount of Euro 52 thousand. The initially recognised purchase cost amounted to Euro 200 thousand. The investment was acquired via a first subscription on 7 July 2013 of Euro 70 thousand, of which Euro 68.7 thousand was paid as share premium and a subsequent subscription to a capital increase on 13 February 2014 of Euro 130 thousand, of which Euro 127.1 thousand was paid as share premium. At 30 June 2017, the carrying amount was adjusted to reflect the share of equity resulting from the company's latest approved financial statements;
- an equity interest of 42.5% in Cityglance S.r.l. in liquidation, which is stated at an amount of Euro 2 thousand. The initially recognised purchase cost amounted to Euro 46 thousand. This amount includes Euro 4,250.00 relating to the capital subscribed and approximately Euro 41 thousand relating to costs incurred by Digital Bros S.p.A. to develop the company's operations and which was therefore added to the carrying amount of the investment. At 30 June 2017, the carrying amount was adjusted to reflect the share of equity resulting from the company's latest approved financial statements;
- an equity interest of 49% in Ovostonico S.r.l., the carrying amount of which is Euro 720 thousand, of which Euro 49,000 thousand equated to the par value and Euro 671 was paid as share premium;
- an equity interest of 33.61% in Seekhana Ltd. the carrying amount of which is Euro 511 thousand (449 thousand pounds) of which Euro 4 thousand equated to the par value and Euro 507 thousand was paid as share premium.

## 6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 30 June 2017 is set out below together with comparative figures at 30 June 2016:

	Euro thousands	30 June 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,619	7,032	(413)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,867	10,458	8,409	80.4%
4	Equity investments	1,345	898	447	49.7%
5	Non-current receivables and other assets	1,052	1,056	(4)	-0.4%
6	Deferred tax assets	2,807	2,619	188	7.2%
	<b>Total non-current assets</b>	<b>30,690</b>	<b>22,063</b>	<b>8,627</b>	<b>39.1%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(545)	(529)	(16)	2.9%
8	Non-current provisions	(79)	(36)	(43)	n.m.
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(624)</b>	<b>(817)</b>	<b>193</b>	<b>-23.5%</b>
	<b>Net working capital</b>				
10	Inventories	12,815	11,933	882	7.4%
11	Trade receivables	36,763	34,840	1,923	5.5%
12	Current tax assets	2,064	2,019	45	2.3%
13	Other current assets	3,263	5,034	(1,771)	-35.2%
14	Trade payables	(27,680)	(21,712)	(5,968)	27.5%
15	Current tax liabilities	(5,736)	(6,211)	475	-7.6%
16	Current provisions	(854)	0	(854)	n.m.
17	Other current liabilities	(3,954)	(2,312)	(1,642)	71.0%
	<b>Total net working capital</b>	<b>16,681</b>	<b>23,591</b>	<b>(6,910)</b>	<b>-29.3%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	1.1%
19	Reserves	(19,805)	(20,804)	999	-4.8%
20	Treasury shares	0	390	(390)	n.m.
21	(Retained earnings) accumulated losses	(33,265)	(22,290)	(10,975)	49.2%
	<b>Total equity</b>	<b>(58,774)</b>	<b>(48,348)</b>	<b>(10,426)</b>	<b>21.6%</b>
	<b>Total net assets</b>	<b>(12,027)</b>	<b>(3,511)</b>	<b>(8,516)</b>	<b>n.m.</b>
22	Cash and cash equivalents	12,136	2,785	9,351	n.m.
23	Current bank debt	(1,942)	(25,929)	23,987	-92.5%
24	Other current financial assets and liabilities	950	28,913	(27,963)	-96.7%
	<b>Current net cash</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>	<b>93.2%</b>
25	Non-current financial assets	1,306	1,195	111	9.3%
26	Non-current bank debt	(383)	(1,558)	1,175	-75.4%
27	Other non-current financial liabilities	(40)	(1,895)	1,855	-97.9%
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>	<b>n.m.</b>
	<b>Total net cash</b>	<b>12,027</b>	<b>3,511</b>	<b>8,516</b>	<b>n.m.</b>

## 1. Property, plant and equipment

The carrying amount of property, plant and machinery has gone from Euro 7,032 thousand to Euro 6,619 thousand. Movements during the year were as follows:

Euro thousands	1 July 2016	Additions	Disposals	Foreign currency translation differences	Depreciation	Use of accum. deprec.	30 June 2017
Industrial buildings	4,598	0	0	(78)	(162)	0	4,358
Land	600	0	0	0	0	0	600
Industrial and commercial equipment	1,013	289	(7)	0	(374)	6	927
Other assets	821	154	(1)	0	(241)	1	734
<b>Total</b>	<b>7,032</b>	<b>443</b>	<b>(8)</b>	<b>(78)</b>	<b>(777)</b>	<b>7</b>	<b>6,619</b>

Movements during the prior year were as follows:

Euro thousands	1 July 2015	Additions	Disposals	Foreign currency translation differences	Depreciation	Use of accum. deprec.	30 June 2016
Industrial buildings	2,375	2,348	0	0	(125)	0	4,598
Land	600	0	0	0	0	0	600
Industrial and commercial equipment	746	599	(61)	0	(331)	60	1,013
Other assets	1,120	115	(199)	0	(215)	0	821
<b>Total</b>	<b>4,841</b>	<b>3,062</b>	<b>(260)</b>	<b>0</b>	<b>(671)</b>	<b>60</b>	<b>7,032</b>

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

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

The land pertains to the Trezzano sul Naviglio warehouse, the carrying amount of which is Euro 600 thousand.

Additions in the year amounted to Euro 444 thousand, as detailed below:

Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016
Office automation equipment	212	551
Equipment and machinery	68	0
Improvements made to building used by 505 Games Ltd.	60	0
Furnishings	60	0
Improvements made to new building used by 505 Games (US) Inc.	19	0
Other capital expenditure	13	230
Property, plant and equipment contributed by Kunos Simulazioni S.r.l.	11	0
Building used by Pipeworks Inc.	0	2,281
<b>Total capital expenditure in the year</b>	<b>443</b>	<b>3,062</b>

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

**Current year**

*Gross carrying amount of property, plant and equipment*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Foreign currency translation differences</b>	<b>30 June 2017</b>
Industrial buildings	5,539	0	0	(78)	5,461
Land	600	0	0	0	600
Plant and machinery	24	0	0	0	24
Industrial and commercial equipment	4,205	289	(7)	0	4,487
Other assets	2,276	154	(1)	0	2,429
<b>Total</b>	<b>12,644</b>	<b>443</b>	<b>(8)</b>	<b>(78)</b>	<b>13,001</b>

*Accumulated depreciation*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Depreciation</b>	<b>Use</b>	<b>30 June 2017</b>
Industrial buildings	(941)	(162)	0	(1,103)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial and commercial equipment	(3,192)	(374)	6	(3,560)
Other assets	(1,455)	(241)	1	(1,695)
<b>Total</b>	<b>(5,612)</b>	<b>(777)</b>	<b>7</b>	<b>(6,382)</b>

**Previous year**

*Gross carrying amount of property, plant and equipment*

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

*Accumulated depreciation*

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



### 3. Intangible assets

The carrying amount of intangible assets has gone from Euro 10,458 thousand to Euro 18,867 thousand. All of the intangible assets recognised by the Group have finite useful lives.

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

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Amortisation</b>	<b>30 June 2017</b>
Concessions and licences	3,419	14,683	(0)	(5,846)	12,256
Trademarks and similar rights	786	3,454	0	(637)	3,603
Other assets	538	5	0	(454)	89
Internally developed assets	5,715	7,458	(10,254)	0	2,919
<b>Total</b>	<b>10,458</b>	<b>25,600</b>	<b>(10,254)</b>	<b>(6,937)</b>	<b>18,867</b>

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

Expenditure on intangible assets during the year was as follows:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
Premium Games usage rights	1,993	387
Expenditure on development of ERP systems	183	276
Acquisition of Hawken rights	701	0
Fantafida	49	801
Free to Play usage rights	5,702	902
Other usage rights	4	64
Reclassification from trade receivables	6,051	0
<b>Total additions to concessions and licences</b>	<b>14,683</b>	<b>2,431</b>
Assetto Corsa brand	3,443	0
Other brands	11	6
<b>Total additions to trademarks</b>	<b>3,454</b>	<b>6</b>
<b>Total additions to other intangible assets</b>	<b>5</b>	<b>0</b>
Internal development contracts in progress	1,657	4,538
Internally developed asset: Premium Games	5,510	0
Internally developed asset: Free to Play	291	0
<b>Total additions to internally developed assets</b>	<b>7,458</b>	<b>4,538</b>
<b>Total additions to intangible assets</b>	<b>25,600</b>	<b>6,975</b>

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

The carrying amount of the Assetto Corsa brand arises from the difference between the purchase price paid by Digital Bros S.p.A. and the adjusted equity of the acquired company, Kunos Simulazioni S.r.l., at the

date of first-time consolidation (15 March 2017) and which has been provisionally allocated to the Assetto Corsa brand in accordance with IFRS 3.

Part of the additions in the year, amounting to Euro 6,051 thousand, relate to the classification as intangible assets of certain video games that constitute intellectual property of the Group and, accordingly, they have been more correctly stated as non-current assets. The video games in question were classified as trade receivables at 30 June 2016.

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

#### *Current year*

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

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2017</b>
Concessions and licences	9,025	14,683	(0)	23,708
Trademarks and similar rights	4,486	3,454	0	7,940
Other	1,678	5	0	1,683
Internally developed assets	5,715	7,458	(10,254)	2,919
<b>Total</b>	<b>20,904</b>	<b>25,600</b>	<b>(10,254)</b>	<b>36,250</b>

##### *Accumulated amortisation*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2017</b>
Concessions and licences	(5,606)	(5,846)	0	(11,452)
Trademarks and similar rights	(3,700)	(637)	0	(4,337)
Other	(1,140)	(454)	0	(1,594)
<b>Total</b>	<b>(10,446)</b>	<b>(6,937)</b>	<b>0</b>	<b>(17,383)</b>

#### *Previous year*

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

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

##### *Accumulated amortisation*

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

#### 4. Equity investments

Equity investments in associates held by the Group at 30 June 2017 and 2016 were:

Euro thousands	30 June 2017	30 June 2016	Change
Delta Dna Ltd.	60	60	0
Ebooks&Kids S.r.l.	52	200	(148)
Cityglance S.r.l. in liquidation	2	45	(43)
Ovosonico S.r.l.	720	420	300
Seekhana Ltd.	511	173	338
<b>Total equity investments</b>	<b>1,345</b>	<b>898</b>	<b>447</b>

Changes in the year concerning associated companies are detailed in paragraph 6 of the directors' report entitled "Analysis of the statement of financial position as at 30 June 2017".

The carrying amount of equity investments at the reporting date along with a comparison to the Group's share of the investees' equity was as follows:

Name	Location	Financial statements used	Carrying amount (a)	Capital (b)	Pro-rata share of equity (c)	Result for the year	Difference d=c-a
Delta Dna Ltd.	Edinburgh	31 December 2016	60	3	10	(1,222)	(50)
Ebooks&Kids S.r.l.	Milan	31 December 2016	52	26	52	(77)	0
Cityglance S.r.l.	Milan	30 June 2016	2	10	2	(6)	0
Ovosonico S.r.l.	Varese	31 December 2016	720	100	359	4	(361)
Seekhana Ltd.	Milton Keynes	31 March 2017	511	11	32	(329)	(479)
<b>Total</b>			<b>1,345</b>				

No impairment has been recognised for the investments in Delta Dna Ltd., Ovosonico S.r.l. and Seekhana Ltd. given that, based on the companies' future development plans, the losses have not been deemed to be indicative of impairment.

#### 5. Non-current receivables and other assets

Non-current receivables and other assets at 30 June 2017 amounted to Euro 1,052 thousand.

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

Euro thousands	30 June 2017	30 June 2016	Change
Cautionary deposits for the rental of office premises used by Italian companies	635	635	0
Cautionary deposits for the rental of office premises used by foreign companies	194	192	2
Cautionary deposits for utilities	3	5	(2)
Cautionary deposits for AAMS concession	220	220	0
Other cautionary deposits	0	4	(4)
<b>Total non-current receivables and other assets</b>	<b>1,052</b>	<b>1,056</b>	<b>(4)</b>

## 6. Deferred tax assets

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

Deferred tax assets amounted to Euro 2,797 thousand at 30 June 2017, having increased by Euro 188 thousand in the year.

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Italian companies	508	(195)	703
Foreign companies	2,625	2,493	132
Consolidation adjustments	(326)	321	(647)
<b>Total deferred tax assets</b>	<b>2,807</b>	<b>2,619</b>	<b>188</b>

The following table provides details of temporary differences pertaining to the Italian companies at 30 June 2017 and 30 June 2016:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Taxed provision for doubtful debts	625	1,138	(513)
Tax loss carryforwards prior to tax consolidation	367	367	0
Other liabilities	384	373	11
Actuarial differences	85	138	(53)
Security revaluation reserve	0	(3,073)	3,073
Costs not deducted in prior years	647	339	308
<b>Total differences</b>	<b>2,108</b>	<b>(718)</b>	<b>2,826</b>
IRES tax rate	24.0%	27.5%	
<b>Deferred tax assets (IRES)</b>	<b>506</b>	<b>(197)</b>	<b>703</b>
<b>Deferred tax assets (IRAP)</b>	<b>2</b>	<b>2</b>	<b>0</b>
<b>Total deferred tax assets (Italian companies)</b>	<b>2,807</b>	<b>2,619</b>	<b>188</b>

Deferred tax assets pertaining to foreign subsidiaries are as follows:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
505 Games Spain SI - tax losses	0	190
Pipeworks Inc. - temporary differences	167	142
505 Games (US) Inc. - temporary differences	2,284	2,105
505 Games Interactive - temporary differences	53	29
505 Games Mobile US - temporary differences	52	15
133 W Broadway - tax losses	69	12
<b>Total deferred tax assets pertaining to foreign subsidiaries</b>	<b>2,625</b>	<b>2,493</b>

Deferred tax assets pertaining to foreign subsidiaries relate to temporary differences deemed to be recoverable, given that, based on approved projections, it is considered probable that each foreign subsidiary will generate sufficient future taxable profits that will enable the recovery thereof.

## NON-CURRENT LIABILITIES

### 7. Employee benefits

This provision reflects the actuarial measurement of the Group's employee liability, calculated by an independent actuary in accordance with IAS 19. It increased in the year by Euro 16 thousand.

For the IAS 19 actuarial measurement at 30 June 2017, use was made of a discount rate based on the Iboxx Corporate A 10y+ index, consistent with the rate used at the prior year end. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on the Italian companies' year end workforce of 80 employees.

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

- annual interest rate: 1.74%;
- annual rise in real pay: 1%;
- annual inflation rate: 1.50%.

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
<b>Provision for employee termination indemnities at 1 July</b>	<b>529</b>	<b>486</b>
Benefits paid on termination of service	(4)	(15)
Allocations to provision in the year	208	180
Measurement of supplementary pension schemes	(163)	(166)
Actuarial measurement	(25)	44
<b>Provision for employee termination indemnities at 30 June 2017</b>	<b>545</b>	<b>529</b>

The Group is not party to any integrated pension plans.

### 8. Non-current provisions

These consist entirely of the provision for agents' indemnities. The balance at 30 June 2017 of Euro 79 thousand was Euro 43 thousand higher than the balance at 30 June 2016 of Euro 36 thousand. The change

was attributable to uses of the provision of Euro 14 thousand and allocations to the provision in the year of Euro 57 thousand.

#### **9. Other non-current payables and liabilities**

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

## NET WORKING CAPITAL

### 10. Inventories

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

Euro thousands	30 June 2017	30 June 2016	Change
<b>Italian Distribution inventories (A)</b>	<b>5,319</b>	<b>4,804</b>	<b>515</b>
505 Games S.p.A. inventories	786	769	17
Foreign subsidiaries' inventories	6,710	6,360	350
<b>Premium Games inventories (B)</b>	<b>7,496</b>	<b>7,129</b>	<b>367</b>
<b>Total inventories (A+B)</b>	<b>12,815</b>	<b>11,933</b>	<b>882</b>

Inventories went from Euro 11,933 thousand at 30 June 2016 to Euro 12,815 thousand at 30 June 2017, being an increase of Euro 882 thousand.

### 11. Trade receivables

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

Euro thousands	30 June 2017	30 June 2016	Change
Receivables from customers - Italy	3,825	4,414	(589)
Receivables from customers - EU	3,629	2,490	1,139
Receivables from customers - rest of the world	11,647	9,207	2,440
Provision for doubtful debts	(644)	(1,148)	504
<b>Total receivables from customers</b>	<b>18,457</b>	<b>14,963</b>	<b>3,494</b>
Receivables pertaining to video game user licenses	18,306	19,877	(1,571)
<b>Total trade receivables</b>	<b>36,763</b>	<b>34,840</b>	<b>1,923</b>

Total receivables from customers at 30 June 2017 of Euro 18,457 thousand were Euro 3,494 thousand higher than the balance at 30 June 2016 of Euro 14,963 thousand, in line with the growth in turnover.

Receivables from customers are stated net of an estimate of credit notes to be issued by the Group for price repositioning or returns.

The provision for doubtful debts decreased in the year by Euro 504 thousand, having gone from Euro 1,148 thousand to Euro 644 thousand at the reporting date. The estimated losses are based on an analytical analysis of each customer's degree of solvency. The change was attributable to an allocation to the provision of Euro 420 thousand to take account of potential losses arising from the bankruptcy of certain customers and uses thereof of Euro 924 thousand with respect to specifically identified balances.

The following table provides details of receivables from customers by due date at 30 June 2017 and 2016:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>% of total</b>	<b>30 June 2016</b>	<b>% of total</b>
Not past due	17,445	95%	13,502	90%
0 > 30 days	174	1%	489	4%
30 > 60 days	258	1%	11	0%
60 > 90 days	111	1%	63	0%
> 90 days	469	3%	898	6%
<b>Total receivables from</b>	<b>18,457</b>	<b>95%</b>	<b>14,963</b>	<b>100%</b>

Receivables pertaining to video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They decreased in the year by Euro 1,571 thousand to Euro 18,306 thousand. Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Advances to developers for licences not yet used	14,360	14,883	(523)
Advances to developers for licences partially used	3,946	4,994	(1,048)
<b>Total receivables pertaining to video game user licenses</b>	<b>18,306</b>	<b>19,877</b>	<b>(1,571)</b>

## 12. Current tax assets

Details of current tax assets are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Receivable under domestic tax group arrangements	1	1	0
VAT receivable	627	613	14
Tax credit for foreign income tax withholdings	986	403	583
IRES refund for IRAP deductibility	119	119	0
Other tax assets	331	883	(552)
<b>Total current tax assets</b>	<b>2,064</b>	<b>2,019</b>	<b>45</b>

Current tax assets went from Euro 2,019 thousand at 30 June 2016 to Euro 2,064 thousand at 30 June 2017, being an increase of Euro 45 thousand.

The increase of Euro 583 thousand in the tax credit for foreign income tax withholdings is due to withholding tax suffered by the subsidiary 505 Games S.p.A. on royalty income received.

The decrease in other tax assets of Euro 552 thousand is mainly due to the issue by the parent company of credit notes provided for at 30 June 2016 and the collection of the receivable for prior year IRAP deductibility.

## 13. Other current assets



Other current assets consist of advances paid to suppliers, employees and agents. They went from Euro 5,034 thousand at 30 June 2016 to Euro 3,263 thousand at 30 June 2017. Details of the balance are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Advances to suppliers	3,033	4,826	(1,793)
Advances to employees	115	92	23
Advances to agents	7	13	(6)
Other receivables	108	103	5
<b>Total other current assets</b>	<b>3,263</b>	<b>5,034</b>	<b>(1,771)</b>

Advances to suppliers consist of costs incurred in advance, particularly for services comprising quality assurance, localisation and video game programming, as well as for the rental of equipment and office space. Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Advertising	75	32	43
Insurance	100	57	43
Rent	209	167	42
Programming	278	3,029	(2,751)
Other operating costs	2,278	1,436	842
Other prepaid expenses	93	105	(12)
<b>Total other current assets</b>	<b>3,033</b>	<b>4,826</b>	<b>(1,793)</b>

The decrease in the year in programming advances of Euro 2,521 thousand is mainly due to a reduction in PAYDAY 2 advances of Euro 1,206 thousand and of Family Guy advances of Euro 986 thousand.

Advances classed as other operating costs mainly include costs incurred in advance for quality assurance services pertaining to 505 Games S.p.A.

#### **14. Trade payables**

Trade payables, which amounted to Euro 27,680 thousand at 30 June 2017, increased in the year by Euro 5,968 thousand and were mostly due to publishers for the purchase of finished products and to developers. Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Trade payables - Italy	(2,484)	(2,267)	(217)
Trade payables - EU	(11,644)	(7,610)	(4,034)
Trade payables - rest of the world	(13,552)	(11,835)	(1,717)
<b>Total trade payables</b>	<b>(27,680)</b>	<b>(21,712)</b>	<b>(5,968)</b>

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

#### **15. Current tax liabilities**

Current tax liabilities went from Euro 6,211 thousand at 30 June 2016 to Euro 5,736 thousand at 30 June 2017, a decrease of Euro 475 thousand. Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Income tax	(4,127)	(5,085)	957
VAT payable	(789)	(236)	(553)
Other tax liabilities	(820)	(890)	70
<b>Total current tax liabilities</b>	<b>(5,736)</b>	<b>(6,211)</b>	<b>475</b>

Income tax payable decreased by Euro 957 thousand due to a reduction in tax due by the Italian companies, partially offset by an increase in tax payable by the subsidiaries 505 Games (US) Inc. and Pipeworks Inc. The increase in VAT payable is mainly due to sales made by 505 Games Ltd. and 505 Games GmbH in the last quarter.

## **16. Current provisions**

The amount provided at 30 June 2017 of Euro 854 thousand reflects an assessment made by the directors, after having sought the opinion of the Group's tax advisors, regarding the liability arising from tax audit findings notified to the subsidiary 505 Games S.p.A. subsequent to the year end. The directors have assessed the potential liability arising from the tax audit findings and are of the overall opinion that they are not in a position to compute a reliable estimate thereof, with the exception of certain findings concerning royalties payable to developers for which the directors have deemed the risk of a negative outcome to be probable, in relation to which a provision for risks has been recognised of Euro 854 thousand. As regards the other disputed findings, the Company has not deemed it appropriate to recognise a provision for risks, despite the fact that there is a risk of a negative outcome that is typical of a process of this nature.

## **17. Other current liabilities**

Other current liabilities amounted to Euro 3,954 thousand, having increased in the year by Euro 1,642 thousand. Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Amounts due to social security institutions	(450)	(367)	(83)
Amounts due to employees	(1,038)	(838)	(200)
Amounts due to contract staff	(43)	(52)	9
Other payables	(2,423)	(1,055)	(1,368)
<b>Total other current liabilities</b>	<b>(3,954)</b>	<b>(2,312)</b>	<b>(1,642)</b>

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

The increase in other payables is mainly attributable to the residual amount due by the parent company of Euro 1,384 thousand for the acquisition of Kunos Simulazioni S.r.l.

## EQUITY

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

<b>Euro thousands</b>	<b>Share capital (A)</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Currency translation reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the year</b>	<b>Total retained earnings (D)</b>	<b>Consolidated equity attributable to Group (A+B+C+D)</b>
<b>As at 1 July 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(813)	2,167	<b>20,804</b>	<b>(390)</b>	5,903	16,387	<b>22,290</b>	<b>48,348</b>
Capital increase	<b>60</b>	1,532					<b>1,532</b>				<b>0</b>	<b>1,592</b>
Allocation of profit for the year							<b>0</b>		16,387	(16,387)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,834)		<b>(1,834)</b>	<b>(1,834)</b>
Other changes						315	<b>315</b>	390	1,512		<b>1,512</b>	<b>2,217</b>
Comprehensive income (loss)					(634)	(2,212)	<b>(2,846)</b>			11,297	<b>11,297</b>	<b>8,451</b>
<b>As at 30 June 2016</b>	<b>5,704</b>	18,486	1,129	1,367	(1,447)	270	<b>19,805</b>	<b>0</b>	21,968	11,297	<b>33,265</b>	<b>58,774</b>

Share capital, which has increased in the year by Euro 60 thousand, amounted to Euro 5,704,334.80 at 30 June 2017 and consisted of 14,260,837 ordinary shares with a par value of Euro 0.4 each. No other shares of any nature are outstanding. There are no rights, liens or restrictions associated with the ordinary shares.

In connection with the acquisition of Kunos Simulazioni S.r.l., an extraordinary general meeting of the shareholders of Digital Bros Group held on 13 March 2017 approved a capital increase with disapplication of pre-emption rights of Euro 60.000 via the issue of 150,000 shares with a par value of Euro 0.40 each, with the application of a premium of Euro 10.21 per share and, thus, with a total premium of Euro 1,531,500.00.

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

Changes in the year in other reserves were as follows:

<b>Euro thousands</b>	<b>30 June 2016</b>	<b>Change</b>	<b>30 June 2017</b>
IAS 19 reserve	(119)	18	(101)
Share premium	56	(56)	0
Fair value reserve	2,230	(2,230)	0
Stock option reserve	0	371	371
<b>Total</b>	<b>2,167</b>	<b>(1,897)</b>	<b>270</b>

## NET CASH/DEBT

Details are provided below of the components of the Group's net cash/debt at 30 June 2017 with comparative figures at 30 June 2016:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
22	Cash and cash equivalents	12,136	2,785	9,351
23	Current bank debt	(1,942)	(25,929)	23,987
24	Other current financial assets and liabilities	950	28,913	(27,963)
	<b>Current net cash</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>
25	Non-current financial assets	1,306	1,195	111
26	Non-current bank debt	(383)	(1,558)	1,175
27	Other non-current financial liabilities	(40)	(1,895)	1,855
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>
	<b>Total net cash</b>	<b>12,027</b>	<b>3,511</b>	<b>8,516</b>

Net cash increased in the year by Euro 8,516 thousand mainly due to an increase in cash and cash equivalents of Euro 9,351 thousand, a decrease in current bank debt of Euro 23,987 thousand, a decrease in non-current bank debt of Euro 1,174 thousand and in other non-current financial liabilities of Euro 1,855 thousand, only partially offset by a decrease in other current financial assets and liabilities of Euro 27,963 thousand.

The carrying amount of cash and cash equivalents is a reasonable approximation of fair value since these are highly liquid forms of investment, while the carrying amount of finance lease obligations (included in other financial liabilities) is a reasonable approximation of fair value.

The following table provides details of the Group's financial liabilities at 30 June 2017, grouped by maturity:

<b>Euro thousands</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Bank overdrafts	0	0	0	0
Import and export financing	0	0	0	0
Advances on invoices subject to collection	0	0	0	0
Unsecured bank loans	(1,942)	(383)	0	(2,325)
<b>Total bank debt (A)</b>	<b>(1,942)</b>	<b>(383)</b>	<b>0</b>	<b>(2,325)</b>
<b>Other financial liabilities (B)</b>	<b>0</b>	<b>(40)</b>	<b>0</b>	<b>(40)</b>
<b>Total financial liabilities (A) + (B)</b>	<b>(1,942)</b>	<b>(423)</b>	<b>0</b>	<b>(2,365)</b>

## Current net cash

Current net cash consists of the following:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
22	Cash and cash equivalents	12,136	2,785	9,351
23	Current bank debt	(1,942)	(25,929)	23,987
24	Other current financial assets and liabilities	950	28,913	(27,963)
	<b>Current net cash</b>	<b>11,144</b>	<b>5,769</b>	<b>5,375</b>

### 22. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 12,136 thousand at 30 June 2017, having increased in the year by Euro 9,351 thousand. They are entirely unrestricted and consist solely of current account sight deposits.

### 23. Current bank debt

Current bank debt consists solely of current loan instalments. The decrease in the year of current bank debt of Euro 23,987 thousand is attributable to a decrease in import and export financing of Euro 21,137 thousand, to a decrease in advances on invoices subject to collection of Euro 1,399 and a decrease in loan instalments due within 12 months of Euro 1,753 thousand.

Details are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Bank overdrafts	0	(82)	82
Import and export financing	0	(21,137)	21,137
Advances on invoices subject to collection	0	(1,399)	1,399
Loan instalments due within 12 months	(1,942)	(3,311)	1,369
<b>Total current bank debt</b>	<b>(1,942)</b>	<b>(25,929)</b>	<b>23,987</b>

Loan instalments due within 12 months at 30 June 2017 consist of Euro 706 thousand relating to the entire residual loan granted by Unicredit S.p.A. due to mature in January 2018, Euro 500 thousand relating to the entire residual loan granted by Monte dei Paschi di Siena S.p.A. due to mature in September 2017, Euro 352 thousand relating to the entire residual loan granted by Banco BPM S.p.A. due to mature in September 2017 and Euro 384 thousand relating to the current portion of a medium-long-term loans granted to 505 Games S.p.A. by Unicredit S.p.A.

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

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

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

The agreement also contains the following financial covenants:

- leverage (net debt/equity) lower than or equal to 1.50 to be verified annually with reference to the Company's consolidated financial statements effective as of those for the year ended 30 June 2016;
- debt cover (net debt/EBITDA) lower than or equal to 4.00 to be verified annually with reference to the Company's consolidated financial statements effective as of those for the year ended 30 June 2016.

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

The Monte Paschi di Siena S.p.A. loan was granted to the parent company on 23 November 2015 and amounted to Euro 1.5 million. The loan has to be repaid within 2 years via the payment of 6 quarterly instalments inclusive of capital and interest as from 30 September 2016 plus two instalments comprising interest alone due to mature on 31 March 2016 and 30 June 2016. Interest is charged at a floating rate based on the 6 month Euribor rate plus a spread of 2 percentage points. The agreement contains a commitment covenant to present to the Bank, for each reference period, an amount of trade flows equating to Euro 1.350 million that may consist of invoices subject to collection channelled through the Bank in the reference period, advances on invoices or documents accepted by the Bank and for which advances had been granted

during the reference period, POS flows through a current account opened with the Bank in the customer's name in connection with the card acceptance service via POS (point of sale) equipment issued by the Bank, or the payment of notes and granting of powers for the payment of taxes and dues relating to current account payments made in the reference period via the Bank. For the purpose of verification of compliance with the covenants in the reference period, account will be taken of the volumes accumulated by the various types of eligible trade flows as stipulated above. In the event of failure to comply with the above commitment covenants, Digital Bros S.p.A. shall pay to the Bank a compensatory amount commensurate with the difference between the interest rate/spread that would have applied if the Company had not taken on the foregoing commitment and the amount shall be calculated on a half-yearly basis as 0.500% of the residual loan existing on the date the failure to comply with the commitment was noted.

The unsecured loan provided by Banco BPM S.p.A. was granted on 22 June 2016 and amounted to Euro 1.75 million. The loan has to be repaid in 15 monthly instalments, the first of which fell due on 31 July 2016 and the last falls due on 30 September 2017. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 1.2 percentage points. The agreement does not include any commitment or financial covenants.

The agreement governing the loan granted by Unicredit S.p.A. to 505 Games S.p.A. provides for one or more partial disbursements up to a maximum amount of Euro 3,900,000 to be used to partially fund the expenditure plan for Bloodstained software development costs; the loan expires on 30 September 2018 and 505 Games S.p.A. undertakes to repay the amounts granted within six months subsequent to 1 March 2018 via two quarterly instalments in arrears falling due on 1 June 2018 and 1 September 2018. 505 Games S.p.A. will pay interest quarterly on each disbursement at a quarterly floating rate based on the 3 month Euribor rate rounded up to the nearest 0.05, plus a spread of 3 percentage points. In the absence of a Euribor quote determined by the Euribor Steering Committee, reference shall be made to the Euro LIBOR interest rate; for periods in which the Euribor or the alternative parameter is negative, the interest rate shall equate solely to the envisaged spread.

The agreement also states that 505 Games S.p.A. has to comply with the following commitments:

- to promptly pay any tax, levy, dues or contribution; to pay to Unicredit S.p.A., upon a loan disbursement being made, where due, substitute tax pursuant to Presidential Decree 601 of 29 September 1973 and subsequent amendments and additions and to reimburse Unicredit S.p.A. any tax, levy and expense of any kind incurred or paid on behalf of 505 Games S.p.A., including amounts that Unicredit S.p.A. has paid or has to pay for advice and assistance, in or out of court, provided thereto, as well as to make full payment of all envisaged costs, such as, by way of example only, legal costs and those incurred for due diligence in connection with the completion of the loan agreement;
- to communicate to Unicredit S.p.A. without delay the emergence of disputes that may have a prejudicial impact on 505 Games S.p.A.'s ability to meet the obligations assumed thereby under the agreement, or the occurrence of any event that may adversely impact its legal status or its

capital, financial performance or financial position or the integrity and effectiveness of the warranties, confirming that no dispute of this nature is pending and that no event has occurred at the time of execution of the agreement;

- to notify Unicredit S.p.A. in advance of any change in legal or corporate structure (e.g. form, share capital, directors, members of board of statutory auditors and shareholders, as well as mergers, inclusive of by absorption, demergers, spin-offs or contributions), in management structure and capital and financial structure (e.g. bond issues), as well as in the economic and technical situation resulting from data, elements and documents submitted during the loan application process, as well of facts that may potentially change the business's current structure and organisation;
- to deliver to Unicredit S.p.A., within 30 days of shareholder approval and, in any event, no later than 210 days from the financial year end, the separate annual financial statements together with the Group's consolidated annual financial statements, complete with the minutes documenting the approval thereof, or within 30 days of having filed the tax returns;
- to inform Unicredit S.p.A. in advance of the intention to apply for any other medium-long term loans from credit institutions or individuals and, in any event, not to grant to third parties, subsequent to the date of the agreement, mortgage charges over owned assets in connection with any other loans, unless prior written authorisation has been granted by Unicredit S.p.A.;
- to consent to any kind of technical/administrative investigation or audit and to provide all documents (financial statements, minutes of general meetings etc.) and information that may be requested by Unicredit S.p.A.;
- to use the loan proceeds solely for the purpose stated in the agreement, in compliance with the laws and regulations in force and, in any event, not to use the loan proceeds to enter into any transactions involving shares and/or financial instruments of Unicredit S.p.A. that constitute or may constitute a breach of article 2358 of the Italian Civil Code by Unicredit S.p.A.

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

All financial and commitment covenants had been complied with at 30 June 2017, with the exception of the Monte dei Paschi di Siena S.p.A. commitment covenant.

#### ***24. Other current financial assets and liabilities***



Other current financial assets and liabilities consist of the following:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Starbreeze A shares	0	6,000	(6,000)
Starbreeze B shares	2,972	22,972	(20,000)
Fair value of derivatives expiring within 12 months	0	136	(136)
Advances against trade receivables under non-recourse factoring arrangements	(218)	(128)	(90)
Current lease obligations	(15)	(15)	0
Loan for purchase of 133 W. Broadway property	(1,789)	(52)	(1,737)
<b>Total other current financial assets and liabilities</b>	<b>950</b>	<b>28,913</b>	<b>(27,963)</b>

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

The carrying amount of Starbreeze B shares represents the market value at 30 June 2017 of 1,935,588 Starbreeze B shares (listed on Nasdaq Stockholm First North Premier) held by Digital Bros S.p.A. at the year end.

The 100 million Swedish Krona synthetic agreement for forward exchange that was entered into between the subsidiary Games S.p.A. and Unicredit S.p.A. on 1 June 2016 to hedge foreign exchange risk was completely utilised during the year.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 218 thousand and have decreased in the year by Euro 90 thousand.

Current lease obligations of Euro 15 thousand relate to two lease agreements entered into in the prior financial year with Unicredit Leasing. The lease obligations are for a car (Euro 5 thousand) and server (Euro 10 thousand).

The loan for the purchase of 133 W. Broadway property of Euro 1,789 thousand relates to the entire residual loan granted by Spring Properties Inc. for the purchase of the Eugene property, which is used by Pipeworks Inc. The loan, which amounts to 2,125 thousand U.S. dollars, is repayable in 21 monthly instalments of 15 thousand U.S. dollars, inclusive of interest at an annual rate of 6% plus a final instalment of 2,023 thousand U.S. dollars.

#### **Non-current net cash/debt**

Non-current net cash/debt consists of the following:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
25	Non-current financial assets	1,306	1,195	111
26	Non-current bank debt	(383)	(1,558)	1,175
27	Other non-current financial liabilities	(40)	(1,895)	1,855
	<b>Non-current net cash/debt</b>	<b>883</b>	<b>(2,258)</b>	<b>3,141</b>

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

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

## **26. Non-current bank debt**

Non-current bank debt consists of the non-current portion of a loan granted to 505 Games S.p.A. by Unicredit S.p.A., details of which have been provided under current bank debt.

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

The residual amount of Euro 40 thousand relates to lease instalments due beyond twelve months relating to two finance leases entered into with Unicredit Leasing for the purchase of a server and a car. The amount financed under the first lease is Euro 54 thousand and the agreement envisages the payment of fifty nine monthly instalments plus an advance payment of Euro 5 thousand and a purchase option of Euro 1 thousand. The lease agreement expires on 29 December 2020. Instalments due within twelve months amount to Euro 25 thousand. Interest is charged at a floating rate based on the 3 month Euribor rate plus a spread of 3 percentage points. The amount financed under the car lease is Euro 31 thousand and the agreement envisages the payment of fifty nine monthly instalments plus an advance payment of Euro 1 thousand and a purchase option of Euro 1 thousand. The lease agreement expires on 28 April 2021. Instalments due within twelve months amount to Euro 15 thousand. Interest is payable at a floating rate of 1.41%.

The following table shows finance lease payments by maturity:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Due within 12 months	15	15	0
1-5 years	40	55	(15)
Beyond 5 years	0	0	0
<b>Total</b>	<b>55</b>	<b>70</b>	<b>(15)</b>

## **COMMITMENTS AND RISKS**

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Commitments assumed under executed contracts	(26,875)	(27,921)	1,046
Commitment to subscribe to Ovosonico S.r.l.'s capital	0	(300)	300
Commitment to subscribe to Seekhana Ltd.'s capital	(1,227)	(1,621)	394
<b>Total commitments</b>	<b>(28,102)</b>	<b>(29,842)</b>	<b>1,740</b>

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

The commitment to subscribe to Ovosonico S.r.l.'s capital relates to an agreement entered into for the subscription of an amount of Euro 720 thousand that was fulfilled during the year.

The commitment to subscribe to Seekhana Ltd.'s capital relates to an agreement executed on 18 January 2016 for the subscription of an amount of Euro 2 million U.S. dollars, of which 600 thousand U.S. dollars had been paid as of 30 June 2017.

## **7. ANALYSIS OF STATEMENT OF PROFIT OR LOSS**

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### 3. Net revenue

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

	<b>Euro thousands</b>	<b>Development</b>	<b>Free to Play</b>	<b>Premium Games</b>	<b>Italian Distribution</b>	<b>Other Activities</b>	<b>Total</b>
1	Gross revenue	9,719	7,736	105,618	18,464	863	142,400
2	Revenue adjustments	0	0	(4,726)	(1,851)	(440)	(7,017)
3	<b>Net revenue</b>	<b>9,719</b>	<b>7,736</b>	<b>100,892</b>	<b>16,613</b>	<b>423</b>	<b>135,383</b>

The same details for the year ended 30 June 2016 are as follows:

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

For comments on net revenue, reference should be made to paragraph 5 of the directors' report entitled "Analysis of results for the year ended 30 June 2017".

### 8. Cost of sales

Cost of sales is detailed below:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Purchase of products for resale	(31,206)	(21,193)	(10,013)	47.2%
Purchase of services for resale	(9,533)	(5,580)	(3,953)	70.8%
Royalties	(37,102)	(23,851)	(13,251)	55.6%
Changes in inventories of finished products	882	(948)	1,830	n.m.
<b>Total cost of sales</b>	<b>(76,959)</b>	<b>(51,572)</b>	<b>(25,387)</b>	<b>49.2%</b>

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

### 10. Other income

Other income, which amounted to Euro 1,959 thousand, decreased in the year by Euro 5,714 thousand due to the fact that, during the year, Pipeworks worked almost exclusively on contracts for non-Group customers, with services performed for the Group having been limited to quality assurance and live support for the Prominence Poker video game, as well as development of the new Terraria 1.3. video game.

### 11. Cost of services

The following table provides details of cost of services:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Advertising, marketing, trade fairs and exhibitions	(5,791)	(7,563)	1,772	-23.4%
Transport and freight	(1,394)	(530)	(864)	n.m.
Other sales related costs	(751)	(818)	67	-8.2%
<b>Subtotal: sales related services</b>	<b>(7,936)</b>	<b>(8,911)</b>	<b>975</b>	<b>-10.9%</b>
Miscellaneous insurance	(332)	(394)	62	-15.8%
Consulting fees	(3,003)	(2,264)	(739)	32.6%
Postal and telegraph	(263)	(251)	(12)	4.7%
Travel and subsistence allowances	(1,165)	(1,162)	(3)	0.3%
Utilities	(245)	(237)	(8)	3.5%
Maintenance	(90)	(98)	8	-8.2%
Statutory auditors' fees	(108)	(108)	0	0.0%
<b>Subtotal: general services</b>	<b>(5,206)</b>	<b>(4,514)</b>	<b>(692)</b>	<b>15.3%</b>
<b>Total cost of services</b>	<b>(13,142)</b>	<b>(13,425)</b>	<b>283</b>	<b>-2.1%</b>

Cost of services decreased by Euro 283 thousand in contrast to the increase in sales, mainly due to the fact that no advertising expenditure was incurred for Fantafida, while an amount of Euro 2,291 thousand was incurred in the year ended 30 June 2016. Transport and freight increased by Euro 864 thousand due to significant growth in retail revenue, while consulting fees rose by Euro 739 thousand mainly due to costs incurred for the preparation of the share incentive plan and for the acquisition of Kunos Simulazioni S.r.l.

## 12. Lease and rental charges

The following table provides details of lease and rental charges, which decreased in the year by Euro 79 thousand:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Office rental - Italian companies	(705)	(720)	15	-2.1%
Office rental - 505 Games Ltd.	(79)	(99)	20	-20.2%
Office rental - DR Studios Ltd.	(55)	(65)	10	-15.4%
Office rental - Digital Bros France S.a.s.	(46)	(46)	0	0.0%
Office rental - Digital Bros Spain Slu	(20)	(20)	0	0.0%
Office rental - 505 Games US Inc.	(419)	(368)	(51)	13.9%
Office rental - Pipeworks Inc.	0	(95)	95	n.m.
Office rental - 505 Games GmbH	(3)	(3)	0	0.0%
Office rental - Digital Bros China Ltd.	(39)	(26)	(13)	50.0%
Office rental - Kunos S.r.l.	(8)	0	(8)	n.m.
Office rental - Hawken Entertainment Inc.	(7)	0	(7)	n.m.
Lease of cars and warehouse equipment	(95)	(113)	18	-15.9%
<b>Total lease and rental charges</b>	<b>(1,476)</b>	<b>(1,555)</b>	<b>79</b>	<b>-5.1%</b>

## 13. Labour costs

Labour costs, including directors' fees approved by the shareholders, amounts paid to temporary workers and contract staff and the cost of cars assigned to employees, came to Euro 22,469 thousand and increased in the year by Euro 2,608 thousand:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Wages and salaries	(16,686)	(14,379)	(2,307)	16.0%
Social contributions	(3,986)	(3,758)	(228)	6.1%
Employee termination indemnity	(196)	(191)	(5)	2.4%
Directors' remuneration	(1,196)	(1,084)	(112)	10.3%
Temporary workers and contract staff	(310)	(347)	37	-10.7%
Agents' commission	(64)	(74)	10	-14.0%
Other labour costs	(31)	(28)	(3)	11.5%
<b>Total labour costs</b>	<b>(22,469)</b>	<b>(19,861)</b>	<b>(2,608)</b>	<b>13.1%</b>

The increase in wages and salaries and related social contributions is attributable to staff hired by foreign subsidiaries to sustain the international development of the Group's activities, as well as to the acquisition of Kunos Simulazioni S.r.l. and the set up of Hawken Entertainment Inc. in the course of the year.

Labour costs, in the strict sense of the term, consist of employee wages and salaries, social contributions and the cost of employee termination indemnities. They increased in the year by Euro 2,539 thousand, while the average cost per employee increased by 1.2%:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Wages and salaries	(16,686)	(14,379)	(2,307)	16.0%
Social contributions	(3,986)	(3,758)	(228)	6.1%
Employee termination indemnity	(196)	(191)	(5)	2.4%
<b>Total labour costs</b>	<b>(20,868)</b>	<b>(18,328)</b>	<b>(2,539)</b>	<b>13.9%</b>
Average number of employees	251	223	28	12.6%
<b>Average cost per employee</b>	<b>(83.1)</b>	<b>(82.2)</b>	<b>(0.9)</b>	<b>1.2%</b>

The breakdown of the Group's workforce at 30 June 2017 by category is provided in the directors' report under "Other information".

#### **14. Other operating costs**

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Purchase of miscellaneous materials	(38)	(77)	39	-51.1%
General and administrative costs	(1,193)	(1,043)	(150)	14.4%
Entertainment costs	(41)	(50)	9	-19.1%
Miscellaneous bank charges	(726)	(251)	(475)	n.m.
<b>Total other operating costs</b>	<b>(1,998)</b>	<b>(1,421)</b>	<b>(577)</b>	<b>40.6%</b>

Operating costs increased in the year by 40.6%, from Euro 1,421 thousand to Euro 1,998 thousand. The increase is due to fees of Euro 516 thousand incurred by 505 Games S.p.A. in connection with the sale and purchase of Starbreeze shares during the year.

## 21. Non-monetary income and operating costs

Non-monetary operating costs consist of the following:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Depreciation and amortisation	(7,714)	(3,788)	(3,926)	n.m.
Allocations to provisions	(854)	0	(854)	0.0%
Impairment losses recognised on assets	(1,653)	(1,080)	(573)	53.1%
Reversal of impairment losses	0	588	(588)	n.m.
<b>Total non-monetary income and operating costs</b>	<b>(10,221)</b>	<b>(4,280)</b>	<b>(5,941)</b>	<b>n.m.</b>

Net non-monetary operating costs increased in the year by Euro 5,941 thousand. The increase is mainly attributable to a rise in depreciation and amortisation of Euro 3,926 thousand reflecting the use of the intellectual property held.

The allocations to provisions relate to a risk provision recognised by 505 Games S.p.A. in connection with a tax audit.

Impairment losses increased by Euro 573 thousand from Euro 1,080 thousand to Euro 1,653 thousand. The latter amount includes:

- the impairment of specific receivable balances of Euro 420 that may not be possible to collect;
- the impairment of investments in Cityglance S.r.l. in liquidation and Ebooks&Kids S.r.l. of Euro 44 thousand and Euro 148 thousand, respectively;
- the cancellation of certain uncompleted contracts amounting to Euro 1,041 thousand .

## 25. Net finance income (costs)

This consists of:

	<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
23	Interest and finance income	8,772	3,093	5,679	n.m.
24	Interest expense and finance costs	(3,137)	(5,570)	2,433	-43.7%
<b>25</b>	<b>Net finance income (costs)</b>	<b>5,635</b>	<b>(2,477)</b>	<b>8,112</b>	<b>n.m.</b>

Net finance income amounted to Euro 5,635 thousand compared to prior year net finance costs of Euro 2,477 thousand.

Details of interest and finance income are provided below:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Exchange gains	1,752	1,429	323	22.6%
Finance income	6,899	1,642	5,257	n.m.
Other	121	22	99	n.m.
<b>Total interest and financial income</b>	<b>8,772</b>	<b>3,093</b>	<b>5,679</b>	<b>n.m.</b>

Interest and finance income increased by Euro 5,679 thousand in the year. This mainly consisted of gains recognised in the year on the sale and purchase of Starbreeze A and B shares of Euro 6,891 thousand and exchange gains of Euro 1,752 thousand.

Interest expense and finance costs amounted to Euro 3,137 thousand, representing a decrease in the year of Euro 2,433 thousand, attributable to a reduction in losses recognised in the year on Starbreeze B shares.

Details are provided below of interest expense:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Interest charged by banks on current accounts and trade finance	(405)	(499)	95	-19.0%
Other interest expense	0	(6)	6	n.m.
Interest on loans and leases	(210)	(151)	(59)	38.7%
Factoring interest	(15)	(11)	(5)	44.6%
<b>Total interest expense payable to lenders</b>	<b>(630)</b>	<b>(667)</b>	<b>37</b>	<b>-5.6%</b>
Exchange losses	(1,508)	(1,134)	(374)	33.0%
Loss on disposal of securities	(999)	(3,769)	2,770	-73.5%
<b>Total interest expense</b>	<b>(3,137)</b>	<b>(5,570)</b>	<b>2,433</b>	<b>43.7%</b>

## 29. Taxation

Details of current and deferred taxes for the year ended 30 June 2017 are provided below:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
Current tax	(5,140)	(7,016)	1,876	-26.7%
Deferred tax	(276)	1,217	(1,492)	n.m.
<b>Total income tax expense</b>	<b>(5,415)</b>	<b>(5,799)</b>	<b>384</b>	<b>-6.6%</b>

Details are provided below of current tax:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	<b>%</b>
IRES	(1,970)	(5,134)	3,164	n.m.
IRAP	(529)	(987)	458	-46.4%
Current tax - foreign companies	(2,641)	(535)	(2,106)	393.6%
Other current tax	0	12	(12)	n.m.
<b>Total income tax expense</b>	<b>(5,140)</b>	<b>(6,644)</b>	<b>1,504</b>	<b>-22.6%</b>

IRES for the year was determined as follows:



<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
IRES taxable income	8,087	(6,644)
IRES tax rate	27.5%	27.5%
IRES for the year	(2,224)	(5,103)
Effect of tax consolidation	160	160
Taxes on prior year income	94	(191)
<b>IRES for the year</b>	<b>(1,970)</b>	<b>(5,134)</b>

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>	
<b>Pre-tax result of the parent company</b>	<b>3,801</b>		<b>(4,428)</b>	
<b>IRES tax rate (27.5%)</b>	<b>27.5%</b>		<b>27.5%</b>	
<b>Theoretical tax charge</b>	<b>(1,045)</b>	<b>-27.5%</b>	<b>1,218</b>	<b>-27.5%</b>
Tax effect of non-deductible costs or non-taxable income	1,444	38%	(873)	20%
Tax effect of the use of tax losses not previously used	0	0%	0	0%
Net tax effect of the reversal of deferred tax assets not included above	(57)	-1%	188	-4%
Effect of tax consolidation	160	4%	160	-4%
Tax effect of share of results of subsidiaries	(2,566)	-68%	(5,955)	134%
Taxes on prior year income	94	2%	128	-3%
<b>Tax charge for the year and effective tax rate</b>	<b>(1,970)</b>	<b>-52%</b>	<b>(5,134)</b>	<b>116%</b>

IRAP for the year was determined as follows:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
IRAP taxable income	11,205	25,384
IRAP tax rate	3.9%	3.9%
IRAP attributable to the year	(437)	(990)
IRAP attributable to prior year	(92)	3
<b>IRAP for the year</b>	<b>(529)</b>	<b>(987)</b>

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>	
<b>Parent company operating margin</b>	<b>(3,454)</b>		<b>(2,643)</b>	
<b>IRAP tax rate</b>	<b>3.9%</b>		<b>3.9%</b>	
<b>Theoretical tax charge</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
Tax effect of non-deductible costs	0	0.0%	0	0.0%
Tax effect of share of results of subsidiaries	(529)	15.3%	(987)	37.3%
<b>Tax charge for the year and effective tax rate</b>	<b>(529)</b>	<b>15.3%</b>	<b>(987)</b>	<b>37.3%</b>

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

### 32. Basic earnings per share

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
Profit (loss) for the year (1)	11,297	12,539
Average number of outstanding shares (2)	14,154,588	14,110,838
Number of treasury shares held in the year (3)	(37,989)	(171,250)
Total average number of shares (4)=(2)-(3)	14,116,599	13,939,588
<b>Net earnings (loss) per share (1)/(4) (in euros)</b>	<b>0.80</b>	<b>0.90</b>

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

Earnings per share for the year ended 30 June 2017 amounted to Euro 0.80 versus Euro 0.90 per share for the year ended 30 June 2016.

### 33. Diluted earnings per share

Diluted earnings per share equates to basic earnings per share, since there were no outstanding financial instruments convertible to shares in the years ended 30 June 2017 and 2016.

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

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

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

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

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

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

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

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

The disclosures required by IFRS 7 concerning the significance of financial instruments to the Group's results and financial position are provided in the following tables for each of the years ended 30 June 2017 and 2016.

## Financial instruments: statement of financial position at 30 June 2017

### Category of financial assets pursuant to IAS 39

<b>Financial instruments – Assets at 30 June 2017 (in Euro thousands)</b>	Fair value assets held for trading	Investments held to maturity	Receivables and loans	Assets held for sale	Carrying amount at 30 June 2017	Notes
Non-current receivables and other assets	-	-	1,052	-	1,052	5
Trade receivables	-	-	36,763	-	36,763	11
Other current assets	-	-	3,263	-	3,263	13
Cash and cash equivalents	-	-	12,136	-	12,136	22
Other current financial assets	2,972	-	-	-	2,972	24
Other non-current financial assets	-	-	1,306	-	1,306	25
<b>Total</b>	<b>2,972</b>	<b>-</b>	<b>54,520</b>	<b>-</b>	<b>57,492</b>	

### Category of financial liabilities pursuant to IAS 39

<b>Financial instruments – Liabilities at 30 June 2017 (in Euro thousands)</b>	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2017	Notes
Trade payables	-	27,680	27,680	14
Other current liabilities	-	3,954	3,954	17
Current bank debt	-	1,942	1,942	23
Other current financial liabilities	-	2,022	2,022	24
Non-current bank debt	-	383	383	26
Other non-current financial liabilities	-	40	40	27
<b>Total</b>	<b>-</b>	<b>36,021</b>	<b>36,021</b>	

## Financial instruments: statement of financial position at 30 June 2016

### Category of financial assets pursuant to IAS 39

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

### Category of financial liabilities pursuant to IAS 39

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

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

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

#### *Interest rate risk*

The Group's exposure to interest rate fluctuations is marginal with respect to its medium- and long-term financial instruments, which were originally designated as fixed-rate instruments or have been converted into fixed rates using appropriate derivative agreements.

For short-term financial instruments, the possibility of rising interest rates is an effective risk, because the Group cannot immediately transfer the higher rates to its prices. These risks are reduced by:

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

#### *Liquidity risk*

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

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

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

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

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

<b>Financial liabilities at 30 June 2017 (Euro thousands)</b>	Carrying amount	within one year	1-2 years	2-3 years	3-4 years	4-5 years	beyond 5 years	Total	Notes
Current bank debt	1,942	1,942						1,942	23
Other current financial liabilities	2,022	2,022						2,022	24
Non-current bank debt	383		383					383	26
Other non-current financial liabilities	40		15	16	9			40	27
<b>Total</b>	<b>4,387</b>	<b>3,964</b>	<b>398</b>	<b>16</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>4,387</b>	

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

The Group has sufficient financial resources to satisfy its debt maturing within one year, in the form of cash and cash equivalents, undrawn credit lines, which at the reporting date amounted to approximately Euro 58 million, and cash flows from core operations.

### *Exchange rate risk*

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

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

In the preparation of its forecasts, the Group runs models that take account of various currencies used by the companies and forward exchange rates based on reports issued by independent analysts.

### *Credit risk*

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

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

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

The following table provides details of receivables from customers by due date at 30 June 2017 and 2016:



<b>Euro thousands</b>	<b>30 June 2017</b>	<b>% of total</b>	<b>30 June 2016</b>	<b>% of total</b>
Not past due	17,445	95%	13,502	90%
0 > 30 days	174	1%	489	4%
30 > 60 days	258	1%	11	0%
60 > 90 days	111	1%	63	0%
> 90 days	469	3%	898	6%
<b>Total receivables from</b>	<b>18,457</b>	<b>95%</b>	<b>14,963</b>	<b>100%</b>

#### **Fair value of financial assets and liabilities and calculation methods used**

The table below presents the fair value of assets and liabilities based on the methodologies and calculation models adopted for the determination thereof.

Financial assets whose fair value cannot be objectively determined are not included.

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

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

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

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

<b>Euro thousands</b>	<b>Carrying amount at 30 June 2017</b>	<b>Mark to market Fair value</b>	<b>Mark to model Fair value</b>	<b>Total fair value</b>	<b>Notes</b>
Cash and cash equivalents	12,136	12,136		12,136	22
Current bank debt	(1,942)	(1,942)		(1,942)	23
Other current financial assets and liabilities	950	950		950	24
Other non-current financial assets and liabilities	1,306	1,306		1,306	25
Non-current bank debt	(383)	(383)		(383)	25
Other non-current financial liabilities	(40)	(40)		(40)	27
<b>Total</b>	<b>12,027</b>	<b>12,027</b>		<b>12,027</b>	

<b>Euro thousands</b>	<b>Carrying amount at 30 June 2016</b>	<b>Mark to market Fair value</b>	<b>Mark to model Fair value</b>	<b>Total fair value</b>	<b>Notes</b>
Cash and cash equivalents	2,785	2,785		2,785	22
Current bank debt	(25,929)	(25,929)		(25,929)	23
Other current financial assets and liabilities	28,777	28,777		28,777	24
Other non-current financial assets and liabilities	1,195	1,195		1,195	25
Non-current bank debt	(1,558)	(1,558)		(1,558)	25
Interest rate swap	136	136		136	23-26
Other non-current financial liabilities	(1,895)	(1,895)		(1,895)	27
<b>Total</b>	<b>3,511</b>	<b>3,511</b>		<b>3,511</b>	

### Exchange rate and interest rate risk: sensitivity analysis

Sensitivity analysis has been performed in accordance with IFRS 7. It applies to all financial instruments recognised in the financial statements.

The sensitivity analysis measures the estimated impact on profit or loss and on the statement of financial position of a fluctuation in the exchange rate of +/-10% and in the interest rate of +/-1% with respect to the rates in effect at 30 June 2017 for each class of financial instrument, with all other variables remaining constant. The analysis is purely illustrative, as such changes rarely take place in an isolated manner.

At 30 June 2017, the Group was not exposed to additional risks, such as commodity risk.

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

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

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

Type of change	Impact on net cash/debt	Impact on pre-tax profit
+10% Dollar	(443)	(100)
-10% Dollar	540	121

### Fair value hierarchy

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

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

To calculate the market value of financial instruments, the Group uses various measurement and valuation models, as summarised below for 2017 and 2016:

<b>Balances at 30 June 2017</b>	<b>Instrument</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Notes</b>
Other current financial assets	Listed shares	2,972			2,972	24

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

## **9. NON-RECURRING INCOME AND EXPENSES**

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

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

## **10. INFORMATION CONCERNING OPERATING SEGMENTS**

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

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

Accordingly, the Group is organised into five operating segments:

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

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

The results by operating segment for the years ended 30 June 2017 and 2016 are set out below. Reference should be made to paragraph 7 of the directors' report for comments thereon.

**Consolidated statement of profit or loss by operating segment for the year ended 30 June 2017**

	Amounts in Euro thousands	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	9,719	7,736	105,618	18,464	863	0	142,400
2	Revenue adjustments	0	0	(4,726)	(1,851)	(440)	0	(7,017)
<b>3</b>	<b>Total revenue</b>	<b>9,719</b>	<b>7,736</b>	<b>100,892</b>	<b>16,613</b>	<b>423</b>	<b>0</b>	<b>135,383</b>
4	Purchase of products for resale	0	0	(18,687)	(12,519)	0	0	(31,206)
5	Purchase of services for resale	(2,526)	(2,759)	(3,337)	(734)	(177)	0	(9,533)
6	Royalties	0	(382)	(36,648)	0	(72)	0	(37,102)
7	Changes in inventories of finished products	0	0	367	515	(0)	0	882
<b>8</b>	<b>Total cost of sales</b>	<b>(2,526)</b>	<b>(3,141)</b>	<b>(58,305)</b>	<b>(12,738)</b>	<b>(249)</b>	<b>0</b>	<b>(76,959)</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>7,193</b>	<b>4,595</b>	<b>42,587</b>	<b>3,875</b>	<b>174</b>	<b>0</b>	<b>58,424</b>
10	Other income	894	823	200	42	0	0	1,959
11	Cost of services	(425)	(1,001)	(7,528)	(1,554)	(1,020)	(1,614)	(13,142)
12	Lease and rental charges	(0)	(62)	(606)	(44)	(18)	(746)	(1,476)
13	Labour costs	(4,935)	(4,127)	(7,650)	(1,549)	(883)	(3,325)	(22,469)
14	Other operating costs	(142)	(73)	(591)	(205)	(49)	(938)	(1,998)
<b>15</b>	<b>Total operating costs</b>	<b>(5,502)</b>	<b>(5,263)</b>	<b>(16,375)</b>	<b>(3,352)</b>	<b>(1,970)</b>	<b>(6,623)</b>	<b>(39,085)</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>2,585</b>	<b>155</b>	<b>26,412</b>	<b>565</b>	<b>(1,796)</b>	<b>(6,623)</b>	<b>21,298</b>
17	Depreciation and amortisation	(594)	(2,584)	(3,667)	(261)	(379)	(229)	(7,714)
18	Allocations to provisions	0	0	(854)	0	0	0	(854)
19	Impairment losses recognised on assets	(0)	(158)	(882)	(420)	0	(193)	(1,653)
20	Reversal of impairment losses and non-monetary income	0	0	0	0	0	0	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(594)</b>	<b>(2,742)</b>	<b>(5,403)</b>	<b>(681)</b>	<b>(379)</b>	<b>(422)</b>	<b>(10,221)</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>1,991</b>	<b>(2,587)</b>	<b>21,009</b>	<b>(116)</b>	<b>(2,175)</b>	<b>(7,045)</b>	<b>11,077</b>

## Information concerning operating segments

### Consolidated statement of financial position at 30 June 2017

	Amounts in Euro thousands	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
	<b>Non-current assets</b>							
1	Property, plant and equipment	201	15	922	2,699	189	2,593	6,619
2	Investment property	0	0	0	0	0	0	0
3	Intangible assets	1,230	5,845	10,688	230	507	367	18,867
4	Equity interests	0	0	(0)	0	0	1,345	1,345
5	Non-current receivables and other assets	0	5	185	3	220	639	1,052
6	Deferred tax assets	220	387	1,542	490	100	69	2,807
	<b>Total non-current assets</b>	<b>1,651</b>	<b>6,251</b>	<b>13,337</b>	<b>3,422</b>	<b>1,016</b>	<b>5,013</b>	<b>30,690</b>
	<b>Non-current liabilities</b>							
7	Employee benefits	0	0	(60)	(417)	(68)	0	(545)
8	Non-current provisions	0	0	0	(79)	0	0	(79)
9	Other non-current payables and liabilities	0	0	0	0	0	0	0
	<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>(60)</b>	<b>(496)</b>	<b>(68)</b>	<b>0</b>	<b>(624)</b>
	<b>Net working capital</b>							
10	Inventories	0	(0)	7,496	5,319	0	0	12,815
11	Trade receivables	2,286	1,071	30,062	3,339	5	0	36,763
12	Current tax assets	0	566	1,131	353	14	0	2,064
13	Other current assets	63	905	1,241	539	164	351	3,263
14	Trade payables	(1,094)	(978)	(22,593)	(1,981)	(184)	(850)	(27,680)
15	Current tax liabilities	(1,105)	(77)	(3,869)	(167)	(45)	(473)	(5,736)
16	Current provisions	0	0	(854)	(0)	0	0	(854)
17	Other current liabilities	(640)	(57)	(320)	(896)	(651)	(1,390)	(3,954)
	<b>Total net working capital</b>	<b>(490)</b>	<b>1,430</b>	<b>12,294</b>	<b>6,506</b>	<b>(697)</b>	<b>(2,362)</b>	<b>16,681</b>
	<b>Total</b>	<b>1,161</b>	<b>7,681</b>	<b>25,571</b>	<b>9,432</b>	<b>251</b>	<b>2,650</b>	<b>46,746</b>

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

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



## Information concerning operating segments

### Consolidated statement of financial position at 30 June 2016

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

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

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

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

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

On 15 March 2017, the acquisition was completed of the Italian company, Kunos Simulazioni S.r.l., the developer and publisher of the Assetto Corsa video game.

**Free to Play:** its operations consist of the development and publishing of video games available free of charge on digital marketplaces, but which allow the gamer to make purchases during the various stages of the game. With respect to Premium video games, Free to Play games are generally simpler and have greater longevity, since the video game is continuously developed and improved subsequent to its launch, in order to gain the public's loyalty and to extend the lifespan of the game.

The operating segment is coordinated by the subsidiary 505 Mobile S.r.l. and by the U.S. company 505 Mobile (US) Inc., which provides consulting services to the Group, by the UK company DR Studios Ltd., which is a developer of Free to Play games and by the newly formed company Hawken Entertainment Inc., which is the developer of the Hawken video game.

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

**Italian Distribution:** this consists of the distribution in Italy of video games purchased from international publishers.

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

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

**Other Activities:** this operating segment handles all of the Group's less significant activities, which are thus grouped within a separate operating segment for a logical presentation of the results. It includes the

operations of the subsidiary Game Network S.r.l., which manages paid games under concession from AAMS (Italian State Monopoly Administration) and the operations of the subsidiary Digital Bros Game Academy S.r.l., which organises specialisation courses and training on video games.

**Holding:** this includes all the coordinating functions carried out by Digital Bros S.p.A. on behalf of the various operating segments. The Holding operating segment also handles administration, management control and business development. The parent company also availed itself of the contribution made by Digital Bros China Ltd., which operated in the year as a business developer for Asian markets and by 133 W. Broadway Inc., the owner of property located in Eugene, Oregon, USA that has been leased to Group companies, whereas Digital Bros Holdings Ltd. was dormant in the year.

#### **Information on geographical segments**

Details are provided below of gross revenue by geographical segment:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>		<b>Change</b>	
Europe	35,042	25%	53,959	17%	(18,917)	-35.1%
The Americas	80,872	57%	33,141	44%	47,731	n.m.
Rest of the world	7,159	5%	3,114	2%	4,045	n.m.
<b>Total foreign revenue</b>	<b>123,073</b>	<b>86%</b>	<b>90,214</b>	<b>82%</b>	<b>32,859</b>	<b>36.4%</b>
Italy	19,327	14%	19,978	18%	(651)	-3.3%
<b>Total gross consolidated revenue</b>	<b>142,400</b>	<b>100%</b>	<b>110,192</b>	<b>77%</b>	<b>32,208</b>	<b>29.2%</b>

Foreign revenue accounted for 86% of gross consolidated revenue compared to the prior year figure of 82% and has increased with respect thereto by 36.4%.

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

The most significant portion of foreign revenue is generated by the Premium Games operating segment, which generated foreign revenue of Euro 105,618 thousand, accounting for 86% of total foreign revenue.

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>		<b>Change</b>	
Free to Play	7,736	6%	5,275	15%	2,461	46.7%
Premium Games	105,618	86%	83,204	83%	22,414	26.9%
Development	9,719	8%	1,736	2%	7,983	n.m.
<b>Total gross foreign revenue</b>	<b>123,073</b>	<b>100%</b>	<b>90,215</b>	<b>100%</b>	<b>32,858</b>	<b>36.4%</b>

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

## 11. RELATED PARTY TRANSACTIONS

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

### *Intercompany transactions*

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

### *Other related parties*

Other related party transactions consist of:

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

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

A summary is provided below of year end balances and transactions in the year, together with prior year comparatives:

Euro thousands	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(751)
Matov LLC	0	130	0	0	0	(419)
<b>Total as at 30 June 2017</b>	<b>0</b>	<b>765</b>	<b>(22)</b>	<b>0</b>	<b>0</b>	<b>(1,432)</b>

Euro thousands	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(25)	0	0	(254)
Matov Imm. S.r.l.	0	635	0	0	0	(763)
Matov LLC	0	133	0	0	0	(368)
<b>Total as at 30 June 2016</b>	<b>0</b>	<b>768</b>	<b>(25)</b>	<b>0</b>	<b>0</b>	<b>(1,385)</b>

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

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

Lease instalments for the Milan offices paid during the year by Digital Bros S.p.A. to Matov Imm. S.r.l. amount to Euro 705 thousand and those paid by 505 Games France S.a.s. for the buildings located in Francheville amount to Euro 46 thousand. Effective December 2015, upon renewal of the lease for a further six years, the annual lease charge for the Milan offices was reduced by Euro 60 thousand.

In November 2013, a lease agreement was entered into between the subsidiary 505 Games (US) Inc. and Matov LLC, a related party owned by the Galante family. The transaction was governed by the "Procedure for related party transactions" adopted by Digital Bros S.p.A. pursuant to Consob Regulation 17221 of 12 March 2010 and envisages an annual lease charge of 419 thousand U.S. dollars.

#### *Tax consolidation*

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

## **12. ATYPICAL OR UNUSUAL TRANSACTIONS**

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

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

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

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

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

## 15. EXTERNAL AUDIT FEES

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

Nature of service	Fees pertaining to FY 2016-17					Total
	Parent company auditor			Parent company auditor's network	Auditors not pertaining to parent network	
	to parent company	to other companies	Total	to other companies	to other companies	
Audit	179,900	63,500	242,400	31,500	99,000	372,900
Attestation services						
Tax consultancy services						
Other services (to be detailed)						
- Fairness opinions	90,000					90,000
- Accounting, tax, legal and administrative due diligence						
- Agreed upon procedures						
- Advisory services to the financial reporting manager (Art. 154-bis CFA)						
- Opinions on the application of new accounting standards						
- Consultancy on accounting matters						
- Other services						
<b>Total</b>	<b>268,900</b>	<b>63,500</b>	<b>242,400</b>	<b>31,500</b>	<b>99,000</b>	<b>462,900</b>

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for the period 1 July 2016 - 30 June 2016. No significant issues have arisen.

We also confirm that:

1. the consolidated financial statements of Digital Bros Group for the year ended 30 June 2017:
  - a) have been prepared in accordance with applicable International Financial Reporting Standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
  - b) correspond to the books and accounting records;
  - c) give a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;
2. the directors' reports accompanying the consolidated and separate financial statements include a reliable analysis of the results, as well as a description of the main risks and uncertainties to which Digital Bros S.p.A. and the consolidated entities are exposed.

Milan, 12 September 2017

Signed

Chairman of the Board of Directors

Financial Reporting Manager

Abramo Galante

Stefano Salbe



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