



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

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

**(Financial year 2016-2017)**

**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)

## **DIRECTORS' REPORT**

Digital Bros S.p.A. distributes video games in Italy under the Halifax brand acquired from international publishers. The games are marketed through a direct sales network of key accounts and through an indirect sales network composed of sales agents. The Company also distributes the Yu-Gi-Oh! trading card game in Italy.

Moreover, it performs a coordination role in its capacity as parent company.

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

### **1. THE VIDEO GAMES MARKET**

The video games market is part of the broader entertainment industry. Films, publishing, video games and toys are sectors that share the same characters, brands, distinctive features and intellectual property. The market is in constant flux and 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 in the marketplaces and for those designed for smartphones and tablets, as indicated below:



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

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).

## **2. MARKET SEASONALITY**

---

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

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

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

The trend in Free to Play video games revenue is less influenced by seasonality factors than Premium video games, given that, up till now, successful Free to Play video games have achieved revenue growth over time without any particular peaks over the launch period, with certain rare exceptions relating to Free to Play video games that had been highly anticipated and with well known brands. The impact of promotions on revenue trends is significant, but, unlike the Premium video games market, promotions are 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.

### 3. SIGNIFICANT EVENTS DURING THE YEAR

---

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;
- 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 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 that shall be paid as follows:

- Euro 1,375,000 entirely in cash on the closing date;
- Euro 1,375,000 entirely in cash within one year from the closing date;
- Euro 1,591,500 via the issue of 150,000 new Digital Bros ordinary shares, with a par value of Euro 0.40 each, at a price of Euro 10.61 each, equating to the average reference price of Digital Bros shares in the previous six months. The issue was approved by the shareholders in general meeting on 13 March 2017.

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

Set out below are the Company's results for the year ended 30 June 2017 together with comparative figures for the year ended 30 June 2016:

	Euro thousands	Year ended 30 June 2017		Year ended 30 June 2016		Change	
1	Revenue	20,281	106.3%	21,025	105.8%	(744)	-3.5%
2	Revenue adjustments	(1,198)	-6.3%	(1,156)	-5.8%	(42)	3.6%
3	<b>Net revenue</b>	<b>19,083</b>	<b>100.0%</b>	<b>19,869</b>	<b>100.0%</b>	<b>(786)</b>	<b>-4.0%</b>
4	Purchase of products for resale	(12,524)	-65.6%	(13,227)	-66.6%	703	-5.3%
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	(3,055)	-16.0%	(2,253)	-11.3%	(802)	35.6%
8	<b>Total cost of sales</b>	<b>(15,579)</b>	<b>-81.6%</b>	<b>(15,480)</b>	<b>-77.9%</b>	<b>(99)</b>	<b>0.6%</b>
9	<b>Gross profit (3+8)</b>	<b>3,504</b>	<b>18.4%</b>	<b>4,389</b>	<b>22.1%</b>	<b>(885)</b>	<b>-20.2%</b>
10	Other income	2,695	14.1%	3,439	17.3%	(744)	-21.6%
11	Cost of services	(2,970)	-15.6%	(3,752)	-18.9%	782	-20.9%
12	Lease and rental charges	(752)	-3.9%	(779)	-3.9%	27	-3.5%
13	Labour costs	(4,945)	-25.9%	(4,884)	-24.6%	(61)	1.3%
14	Other operating costs	(592)	-3.1%	(683)	-3.4%	91	-13.3%
15	<b>Total operating costs</b>	<b>(9,259)</b>	<b>-48.5%</b>	<b>(10,098)</b>	<b>-50.8%</b>	<b>839</b>	<b>-8.3%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(3,061)</b>	<b>-16.0%</b>	<b>(2,270)</b>	<b>-11.4%</b>	<b>(791)</b>	<b>34.8%</b>
17	Depreciation and amortisation	(393)	-2.1%	(373)	-1.9%	(20)	5.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(2,190)	-11.5%	(3,001)	-15.1%	811	-27.0%
20	Reversal of impairment losses and non-monetary income	1,491	7.8%	0	0.0%	1,491	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(1,092)</b>	<b>-5.7%</b>	<b>(3,374)</b>	<b>-17.0%</b>	<b>2,282</b>	<b>-67.6%</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(4,153)</b>	<b>-21.8%</b>	<b>(5,644)</b>	<b>-28.4%</b>	<b>1,491</b>	<b>-26.4%</b>
23	Interest and finance income	9,861	51.7%	2,132	10.7%	7,729	n.m.
24	Interest expense and finance costs	(1,907)	-10.0%	(916)	-4.6%	(991)	n.m.
25	<b>Net finance income (costs)</b>	<b>7,954</b>	<b>41.7%</b>	<b>1,216</b>	<b>6.1%</b>	<b>6,738</b>	<b>n.m.</b>
26	<b>Profit (loss) before tax (22+25)</b>	<b>3,801</b>	<b>19.9%</b>	<b>(4,428)</b>	<b>-22.3%</b>	<b>8,229</b>	<b>n.m.</b>
27	Current tax	557	2.9%	820	4.1%	(263)	-32.1%
28	Deferred tax	(121)	-0.6%	(87)	-0.4%	(34)	38.8%
29	<b>Total income tax income</b>	<b>436</b>	<b>2.3%</b>	<b>733</b>	<b>3.7%</b>	<b>(297)</b>	<b>-40.6%</b>
30	<b>Profit (loss) for the year (26+29)</b>	<b>4,237</b>	<b>22.2%</b>	<b>(3,695)</b>	<b>-18.6%</b>	<b>7,932</b>	<b>n.m.</b>

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



Gross revenue decreased by 3.5% to Euro 20,281 thousand from the prior year figure of Euro 21,025 thousand due to a fall in revenue generated by the retail 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 11.8%.

Inventories continued to fall, with a decrease in the year just ended of Euro 3,055 thousand, in line with the downturn in business volume.

Other income fell by Euro 744 thousand due to an improved allocation of resources among the Group companies that reduced the need for the parent company to recharge its subsidiaries.

Operating costs fell by 8.3% in the year to Euro 839 thousand. The decrease was driven by a reduction in cost of services of Euro 782 thousand that was primarily attributable to lower costs incurred on behalf of subsidiaries. The decrease in cost of services was achieved despite higher costs incurred for capital increases effected in the year just ended.

The gross operating margin (EBITDA) amounted to a loss of Euro 3,061 thousand versus the prior year loss of Euro 2,270 thousand, representing a deterioration of Euro 791 thousand.

Net operating (costs) income have gone from prior year net costs of Euro 3,374 thousand to net costs for the year just ended of Euro 1,092 thousand.

Impairment losses recognised on assets of Euro 2,190 thousand consist of the following:

- impairment of the investment in Game Network S.r.l. of Euro 1,459 thousand;
- impairment of the investment in Digital Bros Game Academy S.r.l. of Euro 119 thousand;
- impairment of the investment in Cityglance S.r.l. in liquidation of Euro 44 thousand;
- impairment of the investment in Ebooks&kids S.r.l. of Euro 148 thousand;
- impairment of specific receivable balances of Euro 420 thousand that may not be possible to collect.

Reversal of impairment losses consists of the reversal of impairment previously recognised on the investment in the subsidiary Pipeworks Inc. of Euro 1,491 thousand, given that, based on the positive performance of the subsidiary and the medium-long term forecasts, there is no longer any need to recognise any impairment loss.

The operating margin (EBIT) increased by Euro 1,491 thousand from the prior year negative margin of Euro 5,644 thousand to a negative margin of Euro 4,153 thousand for the year just ended.

Net finance income amounted to Euro 7,954 thousand versus the prior year figure of Euro 1,216 thousand mainly due to the receipt of a dividend from 505 Games S.p.A. of Euro 6,000 thousand.

Profit before tax for the year ended 30 June 2017 came to Euro 3,801 thousand versus the prior year loss before tax of Euro 4,428 thousand. Profit for the year amounted to Euro 4,237 thousand versus the prior year loss of Euro 3,695 thousand.

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

The Company's statement of financial position at 30 June 2017 is shown below together with comparative figures at 30 June 2016:

	<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	3,160	3,357	(197)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	367	399	(32)	-8.0%
4	Equity investments	18,919	13,948	4,971	35.6%
5	Non-current receivables and other assets	637	644	(7)	-1.0%
6	Deferred tax assets	406	531	(125)	-23.4%
	<b>Total non-current assets</b>	<b>23,489</b>	<b>18,879</b>	<b>4,610</b>	<b>24.4%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(417)	(495)	78	-15.7%
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>(496)</b>	<b>(783)</b>	<b>287</b>	<b>-36.6%</b>
	<b>Net working capital</b>				
10	Inventories	3,958	7,013	(3,055)	-43.6%
11	Trade receivables	2,176	3,166	(990)	-31.3%
12	Receivables due from subsidiaries	20,220	33,155	(12,935)	-39.0%
13	Current tax assets	327	741	(414)	-55.9%
14	Other current assets	564	510	54	10.5%
15	Trade payables	(2,306)	(1,939)	(367)	18.9%
16	Payables due to subsidiaries	(16,262)	(5,407)	(10,855)	n.m.
17	Current tax liabilities	(615)	(3,965)	3,350	-84.5%
18	Current provisions	(1,246)	(3,808)	2,562	-67.3%
19	Other current liabilities	(2,277)	(797)	(1,480)	n.m.
	<b>Total net working capital</b>	<b>4,539</b>	<b>28,669</b>	<b>(24,130)</b>	<b>-84.2%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,704)	(5,644)	(60)	1.1%
21	Reserves	(19,764)	(20,129)	365	-1.8%
22	Treasury shares	0	390	(390)	n.m.
23	(Retained earnings) accumulated losses	(7,237)	(3,323)	(3,914)	n.m.
	<b>Total equity</b>	<b>(32,705)</b>	<b>(28,706)</b>	<b>(3,999)</b>	<b>13.9%</b>
	<b>Total net assets</b>	<b>(5,173)</b>	<b>18,059</b>	<b>(23,232)</b>	<b>n.m.</b>
24	Cash and cash equivalents	3,872	577	3,295	n.m.
25	Current bank debt	(1,558)	(22,900)	21,342	-93.2%
26	Other current financial assets and liabilities	2,899	5,877	(2,978)	-50.7%
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>(16,446)</b>	<b>21,659</b>	<b>n.m.</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current bank debt	0	(1,558)	1,558	n.m.
29	Other non-current financial liabilities	(40)	(55)	15	-27.3%
	<b>Non-current net debt</b>	<b>(40)</b>	<b>(1,613)</b>	<b>1,573</b>	<b>-97.5%</b>
	<b>Total net cash/debt</b>	<b>5,173</b>	<b>(18,059)</b>	<b>23,232</b>	<b>n.m.</b>

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

	30 June 2017	30 June 2016	Change	
<b>Net working capital</b>				
Inventories	3,958	7,013	(3,055)	-43.6%
Trade receivables	2,176	3,166	(990)	-31.3%
Receivables due from subsidiaries	20,220	33,155	(12,935)	n.m.
Current tax assets	327	741	(414)	-55.9%
Other current assets	564	510	54	10.5%
Trade payables	(2,306)	(1,939)	(367)	18.9%
Payables due to subsidiaries	(16,262)	(5,407)	(10,855)	n.m.
Current tax liabilities	(615)	(3,965)	3,350	-84.5%
Current provisions	(1,246)	(3,808)	2,562	-67.3%
Other current liabilities	(2,277)	(797)	(1,480)	n.m.
<b>Total net working capital</b>	<b>4,539</b>	<b>28,669</b>	<b>(24,130)</b>	<b>-84.2%</b>

Net working capital at 30 June 2017 amounted to Euro 4,539 thousand, having decreased by Euro 24,130 thousand compared to the balance at 30 June 2016 of Euro 28,669 thousand. The most significant changes relate to receivables from and payables to subsidiaries: the former decreased by Euro 12,935 thousand, whereas the latter increased by Euro 10,855 thousand mainly due to a change in the current account balance with 505 Games S.p.A.

The decrease in current tax liabilities is in line with the lower tax base of the members of the domestic tax group.

The decrease in current provisions is due to the reversal of the provision for the investment in the subsidiary Pipeworks Inc. and to a lower allocation to the provision to cover losses reported by the subsidiaries Game Network S.r.l. and Digital Bros Game Academy S.r.l.

Net cash amounted to Euro 5,173 thousand versus net debt at 30 June 2016 of Euro 18,059 thousand.

A detailed analysis of cash flows is provided in the statement of cash flows.

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

---

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

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

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

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

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

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

### **Related party transactions**

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

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

### **Atypical transactions**

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

## **7. TREASURY SHARES**

---

The Company did not hold any treasury shares at 30 June 2017, given that the 130,247 treasury shares held at 30 June 2016 were sold during the year just ended.

## **8. RESEARCH AND DEVELOPMENT**

---

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

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

---

The Company 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 product obsolescence and dependence on key employees.

#### *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 Company's success depends on the performance of some key individuals who have made a solid contribution to its development and acquired valuable experience in the industry.

The Company 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 Company'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 Company 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 that may be used by the Company 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 Company'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 Company 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	1,200	0	1,200
Import financing	19,250	0	19,250
Advances on invoices and cash orders subject to collection	8,500	0	8,500
Factoring	1,000	58	942
Endorsement credits	1,000	0	1,000
<b>Total</b>	<b>30,950</b>	<b>58</b>	<b>30,892</b>

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 Company tries to maintain a balance between short-term and medium/long-term financial instruments. The Company'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 Company's financial instruments are:

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

#### *Interest rate risk*

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

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

It is believed that the results of short- and medium/long-term planning and currently available funds, along with those to be generated by operating activities, should allow the Company 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 Company'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 Company 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 Company 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*

The Company sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold with advance payment and/or cash on delivery to limit credit risk.

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

## **10. CONTINGENT ASSETS AND LIABILITIES**

---

There were no contingent assets and liabilities at 30 June 2017.

## **11. SUBSEQUENT EVENTS**

---

Details of subsequent events are as follows:

- On 25 July 2017, the Milan unit of the Italian Tax Police completed a tax audit of Digital Bros S.p.A. that had commenced on 25 February 2017 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.

## **12. BUSINESS OUTLOOK**

---

Italian Distribution's revenue has been forecast to grow slightly in the coming financial year with, however, an expected improvement in profitability due to a significant decrease in operating costs. A decrease in operating costs has also been forecast for the Holding operating segment.

Dividends from subsidiaries are expected to remain at least at the level recognised in the year just ended.



As a consequence of the foregoing, the outlook for the coming financial year is for slight growth in revenue and an improvement in earnings.

### 13. 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	5	5	0
Office workers	43	52	(9)
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>52</b>	<b>61</b>	<b>(9)</b>

The average headcount for the year ended 30 June 2017, 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	5	5	0
Office workers	44	52	(8)
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>53</b>	<b>61</b>	<b>(8)</b>

The decrease in the average number of total employees is due to the transfer, effective July 2016, from the parent company to 505 Games S.p.A. of employees dedicated to the Premium Games business.

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

### 14. ALLOCATION OF RESULT FOR THE YEAR

---

The year closed with a profit of Euro 4,237 thousand, the proposed allocation of which is as follows: Euro 12 thousand to the legal reserve; Euro 2,139 thousand to be distributed as a dividend of Euro 0.15 per share; and the remainder of Euro 2,086 thousand to retained earnings.

(this page intentionally left blank)

## FINANCIAL STATEMENTS

Digital Bros S.p.A

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	3,160	3,357	(197)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	367	399	(32)	-8.0%
4	Equity investments	18,919	13,948	4,971	35.6%
5	Non-current receivables and other assets	637	644	(7)	-1.0%
6	Deferred tax assets	406	531	(125)	-23.4%
	<b>Total non-current assets</b>	<b>23,489</b>	<b>18,879</b>	<b>4,610</b>	<b>24.4%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(417)	(495)	78	-15.7%
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>(496)</b>	<b>(783)</b>	<b>287</b>	<b>-36.6%</b>
	<b>Net working capital</b>				
10	Inventories	3,958	7,013	(3,055)	-43.6%
11	Trade receivables	2,176	3,166	(990)	-31.3%
12	Receivables due from subsidiaries	20,220	33,155	(12,935)	-39.0%
13	Current tax assets	327	741	(414)	-55.9%
14	Other current assets	564	510	54	10.5%
15	Trade payables	(2,306)	(1,939)	(367)	18.9%
16	Payables due to subsidiaries	(16,262)	(5,407)	(10,855)	n.m.
17	Current tax liabilities	(615)	(3,965)	3,350	-84.5%
18	Current provisions	(1,246)	(3,808)	2,562	-67.3%
19	Other current liabilities	(2,277)	(797)	(1,480)	n.m.
	<b>Total net working capital</b>	<b>4,539</b>	<b>28,669</b>	<b>(24,130)</b>	<b>-84.2%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,704)	(5,644)	(60)	1.1%
21	Reserves	(19,764)	(20,129)	365	-1.8%
22	Treasury shares	0	390	(390)	n.m.
23	(Retained earnings) accumulated losses	(7,237)	(3,323)	(3,914)	n.m.
	<b>Total equity</b>	<b>(32,705)</b>	<b>(28,706)</b>	<b>(3,999)</b>	<b>13.9%</b>
	<b>Total net assets</b>	<b>(5,173)</b>	<b>18,059</b>	<b>(23,232)</b>	<b>n.m.</b>
24	Cash and cash equivalents	3,872	577	3,295	n.m.
25	Current bank debt	(1,558)	(22,900)	21,342	-93.2%
26	Other current financial assets and liabilities	2,899	5,877	(2,978)	-50.7%
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>(16,446)</b>	<b>21,659</b>	<b>n.m.</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current bank debt	0	(1,558)	1,558	n.m.
29	Other non-current financial liabilities	(40)	(55)	15	-27.3%
	<b>Non-current net debt</b>	<b>(40)</b>	<b>(1,613)</b>	<b>1,573</b>	<b>-97.5%</b>
	<b>Total net cash/debt</b>	<b>5,173</b>	<b>(18,059)</b>	<b>23,232</b>	<b>n.m.</b>

**Digital Bros S.p.A.**
**Separate 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	Revenue	20,281	106.3%	21,025	105.8%	(744)	-3.5%
2	Revenue adjustments	(1,198)	-6.3%	(1,156)	-5.8%	(42)	3.6%
3	<b>Net revenue</b>	<b>19,083</b>	<b>100.0%</b>	<b>19,869</b>	<b>100.0%</b>	<b>(786)</b>	<b>-4.0%</b>
4	Purchase of products for resale	(12,524)	-65.6%	(13,227)	-66.6%	703	-5.3%
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	(3,055)	-16.0%	(2,253)	-11.3%	(802)	35.6%
8	<b>Total cost of sales</b>	<b>(15,579)</b>	<b>-81.6%</b>	<b>(15,480)</b>	<b>-77.9%</b>	<b>(99)</b>	<b>0.6%</b>
9	<b>Gross profit (3+8)</b>	<b>3,504</b>	<b>18.4%</b>	<b>4,389</b>	<b>22.1%</b>	<b>(885)</b>	<b>-20.2%</b>
10	Other income	2,695	14.1%	3,439	17.3%	(744)	-21.6%
11	Cost of services	(2,970)	-15.6%	(3,752)	-18.9%	782	-20.9%
12	Lease and rental charges	(752)	-3.9%	(779)	-3.9%	27	-3.5%
13	Labour costs	(4,945)	-25.9%	(4,884)	-24.6%	(61)	1.3%
14	Other operating costs	(592)	-3.1%	(683)	-3.4%	91	-13.3%
15	<b>Total operating costs</b>	<b>(9,259)</b>	<b>-48.5%</b>	<b>(10,098)</b>	<b>-50.8%</b>	<b>839</b>	<b>-8.3%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(3,061)</b>	<b>-16.0%</b>	<b>(2,270)</b>	<b>-11.4%</b>	<b>(791)</b>	<b>34.8%</b>
17	Depreciation and amortisation	(393)	-2.1%	(373)	-1.9%	(20)	5.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(2,190)	-11.5%	(3,001)	-15.1%	811	-27.0%
20	Reversal of impairment losses and non-monetary income	1,491	7.8%	0	0.0%	1,491	n.m.
21	<b>Total non-monetary income and operating costs</b>	<b>(1,092)</b>	<b>-5.7%</b>	<b>(3,374)</b>	<b>-17.0%</b>	<b>2,282</b>	<b>-67.6%</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(4,153)</b>	<b>-21.8%</b>	<b>(5,644)</b>	<b>-28.4%</b>	<b>1,491</b>	<b>-26.4%</b>
23	Interest and finance income	9,861	51.7%	2,132	10.7%	7,729	n.m.
24	Interest expense and finance costs	(1,907)	-10.0%	(916)	-4.6%	(991)	n.m.
25	<b>Net finance income (costs)</b>	<b>7,954</b>	<b>41.7%</b>	<b>1,216</b>	<b>6.1%</b>	<b>6,738</b>	<b>n.m.</b>
26	<b>Profit (loss) before tax (22+25)</b>	<b>3,801</b>	<b>19.9%</b>	<b>(4,428)</b>	<b>-22.3%</b>	<b>8,229</b>	<b>n.m.</b>
27	Current tax	557	2.9%	820	4.1%	(263)	-32.1%
28	Deferred tax	(121)	-0.6%	(87)	-0.4%	(34)	38.8%
29	<b>Total income tax income</b>	<b>436</b>	<b>2.3%</b>	<b>733</b>	<b>3.7%</b>	<b>(297)</b>	<b>-40.6%</b>
30	<b>Profit (loss) for the year (26+29)</b>	<b>4,237</b>	<b>22.2%</b>	<b>(3,695)</b>	<b>-18.6%</b>	<b>7,932</b>	<b>n.m.</b>

**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>4,237</b>	<b>(3,695)</b>	<b>7,932</b>
<b>Items that will not be reclassified subsequently to profit or loss (B)</b>			
Actuarial gain (loss)	25	(45)	70
Income tax relating to the actuarial gain (loss)	(7)	11	(18)
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	(755)	1,600
<b>Items that may be reclassified subsequently to profit or loss (C)</b>	<b>(2,212)</b>	<b>1,957</b>	<b>(4,169)</b>
<b>Total other comprehensive income D = (B)+(C)</b>	<b>(2,212)</b>	<b>1,957</b>	<b>(4,169)</b>
<b>Total comprehensive income (loss) (A)+(D)</b>	<b>2,025</b>	<b>(1,738)</b>	<b>3,763</b>
Attributable to:			
Owners of the Company	2,025	(1,738)	3,763
Non-controlling interests	0	0	0

**Digital Bros S.p.A.**
**Statement of cash flows 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>A. Opening net debt</b>		<b>(18,059)</b>	<b>(11,165)</b>
<b>B. Cash flows from operating activities</b>			
Profit (loss) for the year		4,237	(3,695)
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment losses		612	639
Amortisation of intangible assets		129	146
Depreciation of property, plant and equipment		233	227
Net change in other provisions		43	(135)
Net change in employee benefit provisions		(78)	53
Net change in other non-current liabilities		(252)	119
<b>SUBTOTAL B.</b>		<b>4,925</b>	<b>(2,646)</b>
<b>C. Change in net working capital</b>			
Inventories		3,055	2,253
Trade receivables		570	1,640
Receivables due from subsidiaries		12,935	(19,024)
Current tax assets		414	(270)
Other current assets		(54)	(11)
Trade payables		367	(165)
Payables due to subsidiaries		10,855	3,376
Current tax liabilities		(3,350)	3,679
Current provisions		(2,562)	2,317
Other current liabilities		1,480	(110)
<b>SUBTOTAL C.</b>		<b>23,710</b>	<b>(6,315)</b>
<b>D. Cash flows from investing activities</b>			
Net payments for intangible assets		(97)	(223)
Net payments for property, plant and equipment		(36)	(249)
Net payments for non-current financial assets		(5,032)	(31)
<b>SUBTOTAL D.</b>		<b>(5,165)</b>	<b>(503)</b>
<b>E. 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. Changes in equity</b>			
Dividends distributed		(1,834)	(1,818)
Changes in treasury shares held		390	809
Increases (decreases) in other equity components		(385)	3,579
<b>SUBTOTAL F.</b>		<b>(1,829)</b>	<b>2,570</b>
<b>G. Cash flow for the year (B+C+D+E+F)</b>		<b>23,233</b>	<b>(6,894)</b>
<b>H. Closing net cash/debt (A+G)</b>		<b>5,173</b>	<b>(18,059)</b>

**Details of cash flow by maturity:**

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
Increase (decrease) in securities and cash and cash equivalents	3,295	(1,203)
Decrease (increase) in current bank debt	21,342	(10,173)
Decrease (increase) in other current financial liabilities	(2,978)	4,476
Cash flow for the year pertaining to current net cash/debt	21,659	(6,900)
Cash flow for the year pertaining to non-current net cash/debt	1,573	6
<b>Cash flow for the year</b>	<b>23,232</b>	<b>(6,894)</b>

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

**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>Reserve for actuarial gains and losses</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the year</b>	<b>Total retained earnings (D)</b>	<b>Equity (A+B+C+D)</b>
<b>As at 1 July 2015</b>	<b>5,644</b>	16,954	1,129	(142)	(64)	295	<b>18,172</b>	<b>(1,199)</b>	268	6,946	<b>7,214</b>	<b>29,831</b>
Allocation of result for the year							<b>0</b>		6,946	(6,946)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,818)		<b>(1,818)</b>	<b>(1,818)</b>
Purchase of treasury shares							<b>0</b>	<b>809</b>	1,622		<b>1,622</b>	<b>2,431</b>
Comprehensive income (loss)					(34)	1,991	<b>1,957</b>			(3,695)	<b>(3,695)</b>	<b>(1,738)</b>
<b>As at 1 July 2016</b>	<b>5,644</b>	16,954	1,129	(142)	(98)	2,286	<b>20,129</b>	<b>(390)</b>	7,018	(3,695)	<b>3,323</b>	<b>28,706</b>
Capital increase	<b>60</b>	1,532					<b>1,532</b>				<b>0</b>	<b>1,592</b>
Allocation of result for the year									(3,695)	3,695	<b>0</b>	<b>0</b>
Payment of dividends									(1,834)		<b>(1,834)</b>	<b>(1,834)</b>
Other changes						315	<b>315</b>	390	1,511		<b>1,901</b>	<b>2,216</b>
Comprehensive income (loss)					18	(2,230)	<b>(2,212)</b>			4,237	<b>4,237</b>	<b>2,025</b>
<b>As at 30 June 2017</b>	<b>5,704</b>	18,486	1,129	(142)	(80)	371	<b>19,764</b>	<b>0</b>	3,000	4,237	<b>7,237</b>	<b>32,705</b>

A) not available;

B) available - can be used to cover losses. Only the share premium reserve is distributable if the legal reserve has reached the limit established by Art. 2430 (one fifth of share capital);

D) available - can be used to cover losses, for capital increases and for the distribution of dividends.



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

**Separate 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	20,281	0	21,025	0
2	Revenue adjustments	(1,198)	0	(1,156)	0
<b>3</b>	<b>Net revenue</b>	<b>19,083</b>	<b>0</b>	<b>19,869</b>	<b>0</b>
4	Purchase of products for resale	(12,524)	0	(13,227)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(3,055)	0	(2,253)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(15,579)</b>	<b>0</b>	<b>(15,480)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>3,504</b>	<b>0</b>	<b>4,389</b>	<b>0</b>
10	Other income	2,695	0	3,439	0
11	Cost of services	(2,970)	(262)	(3,752)	(254)
12	Lease and rental charges	(752)	(705)	(779)	(717)
13	Labour costs	(4,945)	0	(4,884)	0
14	Other operating costs	(592)	0	(683)	0
<b>15</b>	<b>Total operating costs</b>	<b>(9,259)</b>	<b>(967)</b>	<b>(10,098)</b>	<b>(971)</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(3,061)</b>	<b>(967)</b>	<b>(2,270)</b>	<b>(971)</b>
17	Depreciation and amortisation	(393)	0	(373)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(2,190)	0	(3,001)	0
20	Reversal of impairment losses and non-monetary income	1,491	0	0	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(1,092)</b>	<b>0</b>	<b>(3,374)</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(4,153)</b>	<b>(967)</b>	<b>(5,644)</b>	<b>(971)</b>
23	Interest and finance income	9,861	0	2,132	0
24	Interest expense and finance costs	(1,907)	0	(916)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>7,954</b>	<b>0</b>	<b>1,216</b>	<b>0</b>
<b>26</b>	<b>Profit before tax (22+25)</b>	<b>3,801</b>	<b>(967)</b>	<b>(4,428)</b>	<b>(971)</b>
27	Current tax	557	0	820	0
28	Deferred tax	(121)	0	(87)	0
<b>29</b>	<b>Total income tax income</b>	<b>436</b>	<b>0</b>	<b>733</b>	<b>0</b>
<b>30</b>	<b>Profit (loss) for the year (26+29)</b>	<b>4,237</b>	<b>(967)</b>	<b>(3,695)</b>	<b>(971)</b>

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

**Statement of financial position prepared in accordance with Consob Resol. 15519 of 27 July 2006**

	<b>Euro thousands</b>	<b>30 June 2017</b>		<b>30 June 2016</b>	
		<b>Total</b>	<b>Of which with related parties</b>	<b>Total</b>	<b>Of which with related parties</b>
	<b>Non-current assets</b>				
1	Property, plant and equipment	3,160	0	3,357	0
2	Investment property	0	0	0	0
3	Intangible assets	367	0	399	0
4	Equity investments	18,919	0	13,948	0
5	Non-current receivables and other assets	637	635	644	635
6	Deferred tax assets	406	0	531	0
	<b>Total non-current assets</b>	<b>23,489</b>	<b>635</b>	<b>18,879</b>	<b>635</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(417)	0	(495)	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>(496)</b>	<b>0</b>	<b>(783)</b>	<b>0</b>
	<b>Net working capital</b>				
10	Inventories	3,958	0	7,013	0
11	Trade receivables	2,176	0	3,166	0
12	Receivables due from subsidiaries	20,220		33,155	
13	Current tax assets	327	0	741	0
14	Other current assets	564	0	510	0
15	Trade payables	(2,306)	(22)	(1,939)	(25)
16	Payables due to subsidiaries	(16,262)		(5,407)	
17	Current tax liabilities	(615)	0	(3,965)	0
18	Current provisions	(1,246)	0	(3,808)	0
19	Other current liabilities	(2,277)	0	(797)	0
	<b>Total net working capital</b>	<b>4,539</b>	<b>(22)</b>	<b>28,669</b>	<b>(25)</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,704)	0	(5,644)	0
21	Reserves	(19,764)	0	(20,129)	0
22	Treasury shares	0	0	390	0
23	(Retained earnings) accumulated losses	(7,237)	0	(3,323)	0
	<b>Total equity</b>	<b>(32,705)</b>	<b>0</b>	<b>(28,706)</b>	<b>0</b>
	<b>Total net assets</b>	<b>(5,173)</b>	<b>613</b>	<b>18,059</b>	<b>610</b>
24	Cash and cash equivalents	3,872	0	577	0
25	Current bank debt	(1,558)	0	(22,900)	0
26	Other current financial assets and liabilities	2,899	0	5,877	0
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>0</b>	<b>(16,446)</b>	<b>0</b>
27	Non-current financial assets	0	0	0	0
28	Non-current bank debt	0	0	(1,558)	0
29	Other non-current financial liabilities	(40)	0	(55)	0
	<b>Non-current net debt</b>	<b>(40)</b>	<b>0</b>	<b>(1,613)</b>	<b>0</b>
	<b>Total net cash/debt</b>	<b>5,173</b>	<b>0</b>	<b>(18,059)</b>	<b>0</b>

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

**Separate statement of profit or loss prepared in accordance with Consob Resolution 15519 of  
27 July 2006**

	<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>	
		<b>Total</b>	<b>Of which non- recurring</b>	<b>Total</b>	<b>Of which non- recurring</b>
1	Gross revenue	20,281	0	21,025	0
2	Revenue adjustments	(1,198)	0	(1,156)	0
<b>3</b>	<b>Net revenue</b>	<b>19,083</b>	<b>0</b>	<b>19,869</b>	<b>0</b>
4	Purchase of products for resale	(12,524)	0	(13,227)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(3,055)	0	(2,253)	0
<b>8</b>	<b>Total cost of sales</b>	<b>(15,579)</b>	<b>0</b>	<b>(15,480)</b>	<b>0</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>3,504</b>	<b>0</b>	<b>4,389</b>	<b>0</b>
10	Other income	2,695	0	3,439	0
11	Cost of services	(2,970)	0	(3,752)	0
12	Lease and rental charges	(752)	0	(779)	0
13	Labour costs	(4,945)	0	(4,884)	0
14	Other operating costs	(592)	0	(683)	0
<b>15</b>	<b>Total operating costs</b>	<b>(9,259)</b>	<b>0</b>	<b>(10,098)</b>	<b>0</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(3,061)</b>	<b>0</b>	<b>(2,270)</b>	<b>0</b>
17	Depreciation and amortisation	(393)	0	(373)	0
18	Allocations to provisions	0	0	0	0
19	Impairment losses recognised on assets	(2,190)	0	(3,001)	0
20	Reversal of impairment losses and non-monetary income	1,491	0	0	0
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(1,092)</b>	<b>0</b>	<b>(3,374)</b>	<b>0</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(4,153)</b>	<b>0</b>	<b>(5,644)</b>	<b>0</b>
23	Interest and finance income	9,861	0	2,132	0
24	Interest expense and finance costs	(1,907)	0	(916)	0
<b>25</b>	<b>Net finance income (costs)</b>	<b>7,954</b>	<b>0</b>	<b>1,216</b>	<b>0</b>
<b>26</b>	<b>Profit (loss) before tax (22+25)</b>	<b>3,801</b>	<b>0</b>	<b>(4,428)</b>	<b>0</b>
27	Current tax	557	0	820	0
28	Deferred tax	(121)	0	(87)	0
<b>29</b>	<b>Total income tax income</b>	<b>436</b>	<b>0</b>	<b>733</b>	<b>0</b>
<b>30</b>	<b>Profit (loss) for the year (26+29)</b>	<b>4,237</b>	<b>0</b>	<b>(3,695)</b>	<b>0</b>

(this page intentionally left blank)



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

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

---

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

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

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

The separate financial statements of Digital Bros S.p.A. for the year ended 30 June 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 separate financial statements for the year ended 30 June 2017 are stated in thousands of euros, unless otherwise specified.

### ***Reporting formats***

The separate 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 separate financial statements for the year ended 30 June 2016.

The financial statements comprise:

- statement of financial position at 30 June 2017 with comparative figures at 30 June 2016 (the annual reporting date for the previous separate financial statements);
- 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;
- statement of comprehensive income from 1 July 2016 to 30 June 2017 together with comparative figures for the period from 1 July 2015 to 30 June 2016;
- statement of cash flows for the year just ended together with prior year comparative figures;
- 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 period by maturity together with comparative figures for the previous year;

- additional information on the statement of cash flows together with comparative figures for the previous year;
- statement of profit or loss and statement of financial position prepared in accordance with Consob Resolution 15519 of 27 July 2006.

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

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

- non-current assets;
- non-current liabilities;
- net working capital;
- equity;
- net 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 and receivables that fall due in subsequent periods. They also include investment property and deferred tax assets regardless of when they might be realised.

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, particularly the provision for employee termination indemnities.

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

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

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

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

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

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

- gross profit, the difference between net revenue and total cost of sales;
- gross operating margin (EBITDA), the difference between gross profit and total operating costs;
- operating margin (EBIT), the difference between gross operating margin and non-monetary operating costs;
- profit before tax, the difference between the operating margin and net finance income (costs).

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

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

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

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

The statement of changes in equity has been prepared in accordance with International 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

---

The separate 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 financial statements were prepared on the basis of the Company's accounting records as at 30 June 2017.

The measurement criteria used to prepare the separate financial statements for the year ended 30 June 2017 are consistent with those used to prepare the separate 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 separate 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 revaluations of assets have been carried out in prior years. No borrowing costs have been capitalised.

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

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

Buildings	3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%

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

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

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

### *Intangible assets*

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

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

The amortisation rates applied are as follows:

- Brands: 10%
- Microsoft Dynamics Navision licenses: 20%
- Long-term licences / usage rights: 20%.

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

The same criterion is used for long-term licences for usage rights, the amortisation method of which must reasonably and reliably reflect the correlation between costs and income. If that correlation cannot be objectively determined, the Company applies amortisation on a straight-line basis over the contract term and, in any event, over a period not exceeding five years.

The Company 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.

### *Equity investments*

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

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

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

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

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

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

For further information on accounting policies for financial assets, reference should be made to the relevant note ("Financial Assets").

#### *Impairment of assets*

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

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

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

When it is no longer necessary to maintain an impairment, the carrying value of the asset (or cash-generating unit), with the exception of goodwill, is increased to the new value deriving from the estimate of its recoverable value, but not exceeding the net book value that the asset would have had if it had not been written down for impairment. The reversal of an impairment loss is recognised in profit or loss.

### *Inventories*

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

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

### *Receivables and payables*

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

### *Employee benefits*

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

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

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

### *Current and non-current provisions*

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

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

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

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

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

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

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

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

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

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

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

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

#### *Derivative financial instruments*

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

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

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

*Fair value hedge* - If a derivative financial instrument is designated as a hedge against changes in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value measurement of the hedge is recognised in profit or loss.

The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of that item and is recognised in profit or loss.

*Cash flow hedge* - If a financial instrument is designated as a hedge against exposure to variations in the cash flows of a recognised asset or liability or a forecast transaction that is highly probable and could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised directly in equity. The cumulative gain or loss is transferred from equity to profit or loss in the same

period in which the hedged transaction is recognised. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss. If a hedge or a hedging relationship is closed, but the hedged transaction has not yet taken place, the gains or losses recognised up to that time in equity are reclassified to profit or loss soon as the transaction occurs. If the hedged transaction is no longer deemed probable, the profits or losses not yet realised that have been accounted for in equity are immediately recognised in profit or loss.

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

#### *Treasury shares*

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

#### *Revenue*

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

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

Gross revenue is shown net of discounts, rebates and returns. Revenue adjustments 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 refer to the change in the period in the gross amount of period end inventories, net of the change in provisions for inventory obsolescence.

#### *Dividends received*

Dividends received from investee companies are recognised when the right to receive payment is established, provided they derive from the allocation of profits earned subsequent to the acquisition of the

investee. If they derive from the distribution of reserves generated prior to the acquisition, such dividends are deducted from the carrying amount of the equity investment.

#### *Interest income and expense*

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

#### *Current tax*

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

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

#### *Deferred tax*

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

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

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

#### *Earnings per share*

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

#### *Foreign currency transactions*

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



## *New accounting standards*

### **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 Company for the first time as from 1 July 2016, the Company has prepared its separate financial statements using the same accounting standards adopted for the 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 Company 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 Company's separate financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Company has completed a detailed analysis of customer contracts.

- On 24 July 2014, the IASB published the final version of **IFRS 9 – Financial instruments**. The document contains the results of the 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 Company's separate financial statements.

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

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

- on 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 Company's separate financial statements. However, it is not possible to provide a reasonable estimate of the effects thereof until the Company has completed a detailed analysis of 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 Company at 30 June 2017. The directors do not envisage that the adoption of these amendments will have a significant impact on the Company's separate financial statements;
- on 29 January 2016, the IASB issued ***Disclosure Initiative (Amendments to IAS 7)***. The amendments are intended to provide clarifications to improve information concerning liabilities arising from financing activities. Specifically, the amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from monetary movements and changes arising from non-monetary movements. The amendments do not envisage the use of any specific format for the disclosures. However, the amendments require entities to provide a reconciliation of the opening balance 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 Company at 30 June 2017. The directors do not envisage that the adoption of these amendments will have a significant impact on the Company's separate financial statements;
- on 20 June 2016, the IASB issued ***Classification and measurement of share-based payment transactions (Amendments to IFRS 2)***. The amendments contain clarifications and amendments in relation to accounting for vesting conditions affecting cash-settled share-based payment

transactions, the classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are applicable as from 1 January 2018, although early application is permitted. The directors do not envisage that the adoption of these amendments will have a significant impact on the Company's separate financial statements;

- 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 IFRS 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 Company at 30 June 2017.

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

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

depends on whether the assets or the subsidiary sold or contributed consist of a business, as defined by IFRS 3. If the assets or the subsidiary sold or contributed consist of a business, then the entity should recognise the full profit or loss in line with the previously held equity interest; otherwise, the portion of the gain or loss relating to the equity interest that is still held should be eliminated. For the time being, the IASB has postponed the application of these amendments. The directors do not envisage that the adoption of these amendments will have a significant impact on the Company's separate financial statements.

### 3. USE OF ESTIMATES

---

#### *Critical accounting judgements*

The preparation of the separate financial statements and notes for the year ended 30 June 2017 required the Company to make certain critical accounting judgements. These judgements were used to prepare estimates and assumptions that affect the amounts of assets and liabilities recognised in the separate financial statements and the disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

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

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

#### *Recoverable amount of equity investments*

In accordance with IAS 36, an impairment loss is recognised whenever events or a change in circumstances indicate that the carrying amount of an equity investment is no longer recoverable. Events that may potentially trigger the recognition of impairment of an equity investment would be changes in the strategic plan and changes in market prices that lead to lower operational performance and a reduced ability of the subsidiary to generate dividends. Measurement of the recoverable amount of equity investments is performed by using estimates of expected cash flows and appropriate discount rates for the computation of the present value thereof and it is thus based on a set of hypothetical assumptions relating to future events and actions by the administrative bodies of subsidiaries that may not necessarily occur in the manner and within the timescale envisaged.

#### *Measurement of inventories*

The Company measures inventories on a quarterly basis, in consideration of the rapid obsolescence of its products. Impairment losses may be recognised to reflect individual products' lower market value with respect to their historical cost. To arrive at these estimates, the Company uses revenue forecasts for the subsequent four quarters, produced by the sales department. Any differences found between the market value of a product held in inventory, taking account of its platform/price category and its historical cost, are recognised in profit or loss in the quarter they are revealed.

#### *Employee benefits*

The Company offers no pension plans and/or other employee benefits, with the exception of employee termination indemnities (trattamento di fine rapporto, or TFR) required by Italian law. Estimating those

benefits requires an assessment of the future financial outlays that may arise as a result of employees' voluntary and involuntary departure, in relation to their seniority and the revaluation rates these benefits enjoy by law.

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

Following the approval of the "2016-2017 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.

#### *Revenue adjustments*

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

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



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

The statement of financial position at 30 June 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	3,160	3,357	(197)	-5.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	367	399	(32)	-8.0%
4	Equity investments	18,919	13,948	4,971	35.6%
5	Non-current receivables and other assets	637	644	(7)	-1.0%
6	Deferred tax assets	406	531	(125)	-23.4%
	<b>Total non-current assets</b>	<b>23,489</b>	<b>18,879</b>	<b>4,610</b>	<b>24.4%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(417)	(495)	78	-15.7%
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>(496)</b>	<b>(783)</b>	<b>287</b>	<b>-36.6%</b>
	<b>Net working capital</b>				
10	Inventories	3,958	7,013	(3,055)	-43.6%
11	Trade receivables	2,176	3,166	(990)	-31.3%
12	Receivables due from subsidiaries	20,220	33,155	(12,935)	-39.0%
13	Current tax assets	327	741	(414)	-55.9%
14	Other current assets	564	510	54	10.5%
15	Trade payables	(2,306)	(1,939)	(367)	18.9%
16	Payables due to subsidiaries	(16,262)	(5,407)	(10,855)	n.m.
17	Current tax liabilities	(615)	(3,965)	3,350	-84.5%
18	Current provisions	(1,246)	(3,808)	2,562	-67.3%
19	Other current liabilities	(2,277)	(797)	(1,480)	n.m.
	<b>Total net working capital</b>	<b>4,539</b>	<b>28,669</b>	<b>(24,130)</b>	<b>-84.2%</b>
	<b>Capital and reserves</b>				
20	Share capital	(5,704)	(5,644)	(60)	1.1%
21	Reserves	(19,764)	(20,129)	365	-1.8%
22	Treasury shares	0	390	(390)	n.m.
23	(Retained earnings) accumulated losses	(7,237)	(3,323)	(3,914)	n.m.
	<b>Total equity</b>	<b>(32,705)</b>	<b>(28,706)</b>	<b>(3,999)</b>	<b>13.9%</b>
	<b>Total net assets</b>	<b>(5,173)</b>	<b>18,059</b>	<b>(23,232)</b>	<b>n.m.</b>
24	Cash and cash equivalents	3,872	577	3,295	n.m.
25	Current bank debt	(1,558)	(22,900)	21,342	-93.2%
26	Other current financial assets and liabilities	2,899	5,877	(2,978)	-50.7%
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>(16,446)</b>	<b>21,659</b>	<b>n.m.</b>
27	Non-current financial assets	0	0	0	0.0%
28	Non-current bank debt	0	(1,558)	1,558	n.m.
29	Other non-current financial liabilities	(40)	(55)	15	-27.3%
	<b>Non-current net debt</b>	<b>(40)</b>	<b>(1,613)</b>	<b>1,573</b>	<b>-97.5%</b>
	<b>Total net cash/debt</b>	<b>5,173</b>	<b>(18,059)</b>	<b>23,232</b>	<b>n.m.</b>

## NON-CURRENT ASSETS

### 1. Property, plant and equipment

The carrying amount of property, plant and machinery has gone from Euro 3,357 thousand to Euro 3,160 thousand. Movements during this and the previous year were as follows:

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Use of accum. deprec.</b>	<b>30 June 2017</b>
Industrial buildings	2,340	0	0	(103)	0	2,237
Land	600	0	0	0	0	600
Plant and machinery	208	36	0	(57)	0	187
Other assets	205	0	0	(72)	0	133
Leasehold improvements	4	0	0	(1)	0	3
<b>Total</b>	<b>3,357</b>	<b>36</b>	<b>0</b>	<b>(233)</b>	<b>0</b>	<b>3,160</b>

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

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

Industrial buildings relate to the warehouse in Trezzano sul Naviglio, while the balance of land amounting to Euro 600 thousand relates to the land on which the warehouse is located.

Additions in the year consisted almost entirely of electronic equipment.

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

#### *Current year*

*Gross carrying amount of property, plant and equipment*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2017</b>
Industrial buildings	3,258	0	0	3,258
Land	600	0	0	600
Plant and machinery	2,134	36	0	2,170
Other assets	1,333	0	0	1,333
Leasehold improvements	317	0	0	317
<b>Total</b>	<b>7,642</b>	<b>36</b>	<b>0</b>	<b>7,678</b>

*Accumulated depreciation*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2017</b>
Industrial buildings	(918)	(103)	0	<b>(1,021)</b>
Land	0	0	0	<b>0</b>
Plant and machinery	(1,926)	(57)	0	<b>(1,983)</b>
Other assets	(1,128)	(72)	0	<b>(1,200)</b>
Leasehold improvements	(313)	(1)	0	<b>(314)</b>
<b>Total</b>	<b>(4,285)</b>	<b>(233)</b>	<b>0</b>	<b>(4,518)</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	67	0	<b>3,258</b>
Land	600	0	0	<b>600</b>
Plant and machinery	1,987	147	0	<b>2,134</b>
Other assets	1,303	30	0	<b>1,333</b>
Leasehold improvements	312	5	0	<b>317</b>
<b>Total</b>	<b>7,393</b>	<b>249</b>	<b>0</b>	<b>7,642</b>

*Accumulated depreciation*

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

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

**3. Intangible assets**

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

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

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Amortisation</b>	<b>30 June 2017</b>
Concessions and licences	380	127	0	(150)	<b>357</b>
Trademarks and similar rights	6	2	0	(2)	<b>6</b>
Other assets	13	0	0	(9)	<b>4</b>
<b>Total</b>	<b>399</b>	<b>129</b>	<b>0</b>	<b>(161)</b>	<b>367</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	296	219	0	(135)	<b>380</b>
Trademarks and similar rights	4	4	0	(2)	<b>6</b>
Other assets	22	0	0	(9)	<b>13</b>
<b>Total</b>	<b>322</b>	<b>223</b>	<b>0</b>	<b>(146)</b>	<b>399</b>

Concessions and licences increased in the year by Euro 127 thousand due to expenditure on ERP systems.

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

***Current year***

*Gross carrying amount of intangible assets*

<b>Euro thousands</b>	<b>1 July 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>30 June 2017</b>
Concessions and licences	2,661	127	0	<b>2,788</b>
Trademarks and similar rights	1,512	2	0	<b>1,514</b>
Other assets	73	0	0	<b>73</b>
<b>Total</b>	<b>4,246</b>	<b>129</b>	<b>0</b>	<b>4,375</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	(2,281)	(150)	0	<b>(2,431)</b>
Trademarks and similar rights	(1,506)	(2)	0	<b>(1,508)</b>
Other assets	(60)	(9)	0	<b>(69)</b>
<b>Total</b>	<b>(3,847)</b>	<b>(161)</b>	<b>0</b>	<b>(4,008)</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	2,442	219	0	<b>2,661</b>
Trademarks and similar rights	1,508	4	0	<b>1,512</b>
Other assets	73	0	0	<b>73</b>
<b>Total</b>	<b>4,023</b>	<b>223</b>	<b>0</b>	<b>4,246</b>

*Accumulated amortisation*

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

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

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

#### 4. Equity investments

Equity investments increased by Euro 4,461 thousand in the financial year to Euro 18,919 thousand.

Equity investments at 30 June 2017 consist of the following:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
505 Games S.p.A.	10,100	10,100	0
Game Service S.r.l.	85	85	0
Pipeworks Inc.	2,412	2,412	0
Digital Bros Game Academy S.r.l.	300	300	0
Game Network S.r.l.	10	10	0
Digital Bros Game China	100	100	0
Digital Bros Holdings Ltd.	125	125	0
133 W. Broadway Inc.	91	91	0
Kunos Simulazioni S.r.l.	4,351	0	4,351
<b>Total subsidiaries</b>	<b>17,574</b>	<b>13,223</b>	<b>4,351</b>
Games Analytics 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	0	511
<b>Total associates</b>	<b>1,345</b>	<b>725</b>	<b>620</b>
<b>Total equity investments</b>	<b>18,919</b>	<b>13,948</b>	<b>4,971</b>

The only change in investments in subsidiaries relates to the acquisition of a 100% equity interest in Kunos Simulazioni S.r.l. The acquisition has been described under significant events during the year.

Changes in investments in associates were as follows:

- recognition of impairment of the investment in Ebooks&Kids S.r.l. to reflect the Company's share of the investee's equity;
- recognition of impairment of the investment in Cityglance S.r.l. in liquidation to reflect the Company's share of the investee's equity;
- capital subscriptions in Ovosonico S.r.l. of Euro 300 thousand;
- capital subscriptions in Seekhana Ltd. of Euro 339 thousand, as well as the recognition in equity investments of an amount of Euro 172 thousand, which had already been accounted for at 30 June 2016 as an advance.

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	Carrying amount a	Capital b	Pro-rata share of equity c	Result for the year	Change d=c-a
505 Games S.p.A.	Milan	10,100	10,000	30,895	7,779	20,795
Game Service S.r.l.	Milan	85	50	220	(22)	135
Pipeworks Inc.	Milan	2,412	1,442	2,879	1,686	467
Digital Bros Game Academy S.r.l.	Milan	210	300	210	(119)	0
Game Network S.r.l.	Milan	(1,147)	10	(1,147)	(1,460)	0
Digital Bros Game China	Shenzhen	100	100	82	7	(18)
Digital Bros Holdings Ltd.	Milton Keynes	125	125	113	(2)	(12)
133 W. Broadway Inc.	Eugene	91	90	(8)	(83)	(99)
Kunos Simulazioni S.r.l.	Rome	4,351	10	2,862	2,850	(1,489)
<b>Total subsidiaries</b>		<b>16,327</b>				
Games Analytics Ltd. <sup>(1)</sup>	Edinburgh	60	3	10	(1,222)	(50)
Ebooks S.r.l. <sup>(1)</sup>	Milan	52	26	52	(77)	0
Cityglance S.r.l. <sup>(2)</sup>	Milan	2	10	2	(6)	0
Ovosonico S.r.l. <sup>(1)</sup>	Varese	720	100	359	4	(361)
Seekhana Ltd. <sup>(3)</sup>	Milton Keynes	511	11	32	(329)	(479)
<b>Total associates</b>		<b>1,345</b>				
<b>Total equity investments</b>		<b>17,672</b>				

<sup>(1)</sup> Figures taken from financial statements for year ended 31 December 2016

<sup>(2)</sup> Figures taken from financial statements for year ended 30 June 2016

<sup>(3)</sup> Figures taken from financial statements for year ended 31 March 2017

The carrying amounts of the investments in Digital Bros Game Academy S.r.l. and Game Network S.r.l. are net of impairment, amounting to Euro 1,157 thousand for Game Network S.r.l. and Euro 90 thousand for Digital Bros Game Academy S.r.l.

No impairment has been recognised in the investments in 133 W. Broadway Inc., Kunos Simulazioni S.r.l., Ovosonico S.r.l. and Seekhana Ltd. given that it is believed that their measurement at historical cost is supported by medium/long term prospective financial information.

## 5. Non-current receivables and other assets

Non-current receivables and other assets, which consist solely of cautionary deposits pertaining to contractual obligations, have decreased in the year by Euro 6 thousand and amounted to Euro 638 thousand at 30 June 2016. The most significant component relates to an amount of Euro 635 thousand deposited with Matov Imm. S.r.l. as a cautionary deposit against lease obligations in connection with the premises at Via Tortona 37, Milan, where the Company's head office is located.

## 6. Deferred tax assets

Deferred tax assets at 30 June 2017 amounted to Euro 406 thousand, down by Euro 125 thousand with respect to 30 June 2016.

Deferred tax assets are calculated on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. The rate applied for IRES purposes was 24%. The following table provides details of temporary differences at 30 June 2017 and 30 June 2016:

Description	Temporary differences at 30 June 2016	Changes in temporary differences in the year	Temporary differences at 30 June 2017
Taxed provision for doubtful debts	1,138	(518)	620
Provision for risks associated with derivatives	41	0	41
Directors' fees not attributable to period	289	312	601
Employee termination indemnity	67	(28)	39
Provision for inventory obsolescence	332	11	343
Other	61	(12)	49
<b>Total</b>	<b>1,928</b>	<b>(235)</b>	<b>1,693</b>

The table below shows the calculation of deferred tax assets for IRES purposes at 30 June 2017:

Description	Temporary differences at 30 June 2017	IRES tax rate	Deferred tax assets (IRES) at 30 June 2017
Taxed provision for doubtful debts	620	24.0%	149
Provision for risks associated with derivatives	41	24.0%	10
Directors' fees not attributable to period	601	24.0%	144
Employee termination indemnity	39	24.0%	9
Provision for inventory obsolescence	343	24.0%	82
Other	49	24.0%	12
<b>Total</b>	<b>1,693</b>		<b>406</b>

There were no deferred tax assets for IRAP purposes at 30 June 2017, as was also the case at the previous year end.

## NON-CURRENT LIABILITIES

### 7. Employee benefits

This provision reflects the actuarial measurement of the Company's employee liability, calculated by an independent actuary in accordance with IAS 19. It decreased in the year by Euro 78 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 Company's year end workforce of 52 employees, with an average age of approximately 45.

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 table below shows movements in the provision for employee termination indemnities in the year just ended and in the previous year:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
<b>Provision for employee termination indemnities at 1 July 2016</b>	<b>495</b>	<b>442</b>
Employees transferred to 505 Games S.p.A.	(55)	0
Benefits paid on termination of service	(4)	(1)
Allocations to provision in the year	149	175
Measurement of supplementary pension schemes	(143)	(166)
Actuarial measurement	(25)	45
<b>Provision for employee termination indemnities at 30 June 2017</b>	<b>417</b>	<b>495</b>

The Company is not party to any integrated pension plans.

## **8. Non-current provisions**

These consist entirely of the provision for agents' indemnities. The balance at 30 June 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 working capital payables.

## NET WORKING CAPITAL

There were no receivables or payables with a residual duration of more than five years nor any payables secured by collateral on the Company's assets at 30 June 2017. No significant impact has arisen from fluctuations in foreign exchange rates subsequent to the year end. Furthermore, there were no receivables or payables linked to repurchase agreements.

The following table presents the geographical breakdown of working capital components at 30 June 2017:

	<b>Euro thousands</b>	<b>Italy</b>	<b>Rest of EU</b>	<b>Non-EU</b>	<b>Total</b>
10	Inventories	3,958	0	0	3,958
11	Trade receivables	1,978	196	2	2,176
12	Receivables due from subsidiaries	16,857	1,892	1,470	20,220
13	Current tax assets	327	0	0	327
14	Other current assets	564	0	0	564
15	Trade payables	(1,366)	(868)	(72)	(2,306)
16	Payables due to subsidiaries	(7,767)	(5,046)	(3,449)	(16,262)
17	Current tax liabilities	(615)	0	0	(615)
18	Current provisions	(1,246)	0	0	(1,246)
19	Other current liabilities	(2,277)	0	0	(2,277)
	<b>Total net working capital</b>	<b>10,414</b>	<b>(3,825)</b>	<b>(2,050)</b>	<b>4,539</b>

### 10. Inventories

Inventories consist of finished products for resale. Inventories went from Euro 7,013 thousand at 30 June 2016 to Euro 3,958 thousand at 30 June 2017, a decrease of Euro 3,055 thousand. The decrease in inventories was in line with the decrease in revenue. Inventories are stated net of a provision for obsolescence of Euro 343 thousand versus Euro 332 thousand at 30 June 2016.

### 11. Trade receivables

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Trade receivables - Italy	2,612	3,987	(1,375)
Trade receivables - EU	196	283	(87)
Trade receivables - rest of the world	2	34	(32)
Provision for doubtful debts	(634)	(1,138)	504
<b>Total trade receivables</b>	<b>2,176</b>	<b>3,166</b>	<b>(990)</b>

Total trade receivables at 30 June 2017 amounted to Euro 2,176 thousand, compared to Euro 3,166 thousand at 30 June 2016, representing a decrease of Euro 990 thousand. The Company's trade receivables are primarily due from Italian customers. The balance is stated net of the provision for doubtful debts.

Trade receivables are stated net of an estimate of credit notes to be issued by the Company for price repositioning or returns that amounted to Euro 481 thousand, Euro 139 thousand higher than the amount estimated at 30 June 2016.

The following table provides details of trade receivables 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	1,718	79%	2,084	66%
0 > 30 days	59	3%	420	13%
30 > 60 days	32	1%	12	0%
60 > 90 days	85	4%	3	0%
> 90 days	282	13%	647	21%
<b>Total trade receivables</b>	<b>2,176</b>	<b>100%</b>	<b>3,166</b>	<b>100%</b>

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

## **12. Receivables due from subsidiaries**

Receivables due from subsidiaries amounted to Euro 20,220 thousand and have decreased by Euro 12,935 thousand mainly due to a decrease in receivables due from 505 Games S.p.A.

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

## **13. Current tax assets**

Current tax assets at 30 June 2017 amounted to Euro 327 thousand, having decreased by Euro 414 thousand compared to the balance at 30 June 2016 of Euro 414 thousand. The balance at 30 June 2017 consisted of an IRES tax refund receivable of Euro 120 thousand relating to the deductibility of IRAP from labour costs, a VAT receivable of Euro 25 thousand and receivables for other refunds of Euro 182 thousand.

## **14. Other current assets**

Other current assets consist of advances paid to suppliers, employees and agents. They went from Euro 510 thousand at 30 June 2016 to Euro 564 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>
Insurance refunds receivable	1	1	0
Trade payables	391	334	57
Advances to suppliers	0	0	0
Advances to employees	113	94	19
Advances to agents	0	13	(13)
Other receivables	59	68	(9)
<b>Total other current assets</b>	<b>564</b>	<b>510</b>	<b>54</b>

## 15. Trade payables

Trade payables due within 1 year increased by an amount of Euro 367 thousand and consist mainly of payables to publishers for the purchase of finished products. Details of the balance are provided below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Trade payables - Italy	(1,366)	(1,198)	(168)
Trade payables - EU	(868)	(668)	(200)
Trade payables - rest of the world	(72)	(73)	1
<b>Total trade payables</b>	<b>(2,306)</b>	<b>(1,939)</b>	<b>(367)</b>

## 16. Payables due to subsidiaries

Payables due to subsidiaries amounted to Euro 16,262 thousand and increased in the year by Euro 10,855 thousand mainly due to an increase in the payable to 505 Games Ltd.

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

## 17. Current tax liabilities

Current tax liabilities went from Euro 3,965 thousand to Euro 615 thousand, having decreased by Euro 3,350 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 tax authorities	(471)	(3,812)	3,341
Other tax liabilities	(144)	(153)	9
<b>Total current tax liabilities</b>	<b>(615)</b>	<b>(3,965)</b>	<b>3,350</b>

The decrease in current tax liabilities is in line with the lower tax base of the members of the domestic tax group. Other tax liabilities relate to withholding taxes on remuneration paid in June.

## 18. Current provisions

These mainly consist of equity investment provisions. The provisions decreased by Euro 2,562 thousand in the year from the balance at 30 June 2016 of Euro 3,808 thousand.

The decrease in current provisions is due to the reversal of the provision for the investment in the subsidiary Pipeworks Inc. and to a lower allocation to the provision to cover losses reported by the subsidiaries Game Network S.r.l. and Digital Bros Game Academy S.r.l.

Changes in the year are summarised as follows:

<b>Euro thousands</b>	<b>30 June 2016</b>	<b>Allocations to provisions</b>	<b>Uses/releases</b>	<b>30 June 2017</b>
Pipeworks Inc.	1,491	0	(1,491)	0
Digital Bros Game Academy S.r.l.	171	90	(171)	90
Game Network S.r.l.	1,301	1,156	(1,301)	1,156
<b>Total equity investment provisions</b>	<b>2,963</b>	<b>1,246</b>	<b>(2,963)</b>	<b>1,246</b>
Deferred tax liabilities	845	0	(845)	0
<b>Total current provisions</b>	<b>3,808</b>	<b>1,246</b>	<b>(3,808)</b>	<b>1,246</b>

The Company used the equity investments provision to cover the losses reported by the subsidiaries Digital Bros Game Academy S.r.l. and Game Network S.r.l. for the year ended 30 June 2016 of Euro 171 thousand and Euro 1,301 thousand, respectively. The allocation to provisions in the year amounted to Euro 1,578 thousand, in line with the losses reported for the year ended 30 June 2017, of which Euro 332 thousand was used in the year.

The Company has released the provision for the investment in the subsidiary Pipeworks Inc. of Euro 1,491 thousand given that, based on the positive performance of the subsidiary and the medium-long term forecasts, there is no longer any need to recognise any impairment loss.

Digital Bros S.p.A. has classified as an IRES tax liability the deferred tax liability of Euro 845 thousand that was recognised at 30 June 2016, relating to the difference between the purchase price paid for the Starbreeze A shares and the year end market value due to the fact that they were disposed of in the year just ended.

## 19. Other current liabilities

Other current liabilities went from Euro 797 thousand at 30 June 2016 to Euro 2,277 thousand at 30 June 2017, being an increase of Euro 1,480 thousand as detailed below:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Amounts due to social security institutions	(244)	(229)	(15)
Amounts due to employees	(605)	(522)	(83)
Amounts due to contract staff	(36)	(37)	1
Other payables	(1,392)	(9)	(1,383)
<b>Total other current liabilities</b>	<b>(2,277)</b>	<b>(797)</b>	<b>(1,480)</b>

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

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

The increase in amounts due to social security institutions and employees is due to a higher amount accrued for the variable component of remuneration compared to 30 June 2016.

## EQUITY

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

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Share capital	5,704	5,644	60
Treasury shares	0	(390)	390
Legal reserve	1,129	1,129	0
Share premium	18,486	16,954	1,532
IFRS adoption reserve	(142)	(142)	0
Reserve for actuarial gains and losses	(80)	(98)	18
Fair value reserve	0	2,231	(2,231)
Other reserves	0	55	(55)
Stock option reserve	371	0	371
Retained earnings	3,000	7,018	(4,018)
Result for the year	4,237	(3,695)	7,932
<b>Total equity</b>	<b>32,705</b>	<b>28,706</b>	<b>3,999</b>

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

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
<b>Equity at beginning of year</b>	<b>28,706</b>	<b>29,831</b>	<b>(1,125)</b>
Capital increase	60	0	60
Proceeds from share premium	1,532	0	1,532
Payment of dividends	(1,834)	(1,818)	(16)
Change in treasury shares	390	809	(419)
Actuarial gains/(losses)	18	(34)	52
Change in fair value reserve	(2,230)	1,991	(4,221)
Stock option reserve	371	0	371
Other changes	1,455	1,622	(167)
Result for the year	4,237	(3,695)	7,932
<b>Equity at end of year</b>	<b>32,705</b>	<b>28,706</b>	<b>3,999</b>

Share capital, which has increased in the year by Euro 60 thousand, amounted to Euro 5,704 thousand at 30 June 2017 and consisted of 14,260,837 ordinary shares with a par value of Euro 0.4 each. 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 approved a capital increase with disapplication of pre-emption rights of Euro 60 thousand 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 1,532 thousand.

There are no rights, liens or restrictions associated with the ordinary shares.

130,247 treasury shares with a carrying amount of Euro 390 thousand at 30 June 2016 were sold during the year for a consideration of Euro 1,230 thousand.

All the Starbreeze A shares were disposed of during the year. In connection therewith, a fair value reserve of Euro 2,230 thousand had been recognised, since the shares had originally been designated as available for sale.

The stock option reserve of Euro 371 thousand is the amount attributable to the financial year relating to the previously described “2016-2026 Stock Option Plan”.

Other changes consist of an amount of Euro 840 thousand relating to the difference between the proceeds from the sale of treasury shares and the carrying amount thereof and an amount of Euro 615 thousand relating to the tax liability recognised at 30 June 2016 on a prior year gain that arose on the sale of treasury shares.

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

No dividends had been approved, but not yet paid, as of the approval date of these financial statements.

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

## NET CASH/DEBT

Details are provided below of the components of 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>	
24	Cash and cash equivalents	3,872	577	3,295	n.m.
25	Current bank debt	(1,558)	(22,900)	21,342	-93.2%
26	Other current financial assets and liabilities	2,899	5,877	(2,978)	-50.7%
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>(16,446)</b>	<b>21,659</b>	<b>n.m.</b>
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank debt	0	(1,558)	1,558	n.m.
29	Other non-current financial liabilities	(40)	(55)	15	-27.3%
	<b>Non-current net debt</b>	<b>(40)</b>	<b>(1,613)</b>	<b>1,573</b>	<b>-97.5%</b>
	<b>Total net cash/debt</b>	<b>5,173</b>	<b>(18,059)</b>	<b>23,232</b>	<b>n.m.</b>

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

The following table provides details of 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	(1,558)	0	0	(1,558)
<b>Total bank debt (A)</b>	<b>(1,558)</b>	<b>0</b>	<b>0</b>	<b>(1,558)</b>
<b>Other financial liabilities (B)</b>	<b>0</b>	<b>(40)</b>	<b>0</b>	<b>(40)</b>
<b>Total (A+B)</b>	<b>(1,558)</b>	<b>(40)</b>	<b>0</b>	<b>(1,598)</b>

### Current net cash/debt

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>	
24	Cash and cash equivalents	3,872	577	3,295	n.m.
25	Current bank debt	(1,558)	(22,900)	21,342	-93.2%
26	Other current financial assets and liabilities	2,899	5,877	(2,978)	-50.7%
	<b>Current net cash/debt</b>	<b>5,213</b>	<b>(16,446)</b>	<b>21,659</b>	<b>n.m.</b>

### 24. Cash and cash equivalents

Cash and cash equivalents increased from Euro 577 thousand to Euro 3,872 thousand at 30 June 2017. They are entirely unrestricted and consist solely of current account sight deposits.

## 25. Current bank debt

Current bank debt consists entirely of the current portions of three loans. The reduction of current bank debt in the year of Euro 21,342 thousand is primarily attributable to a decrease in import and export financing, to a decrease in advances on invoices and subject to collection and a decrease in loan instalments due within 12 months:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Bank overdrafts	0	(59)	59
Import and export financing	0	(18,131)	18,131
Advances on invoices and subject to collection	0	(1,399)	1,399
Loan instalments due within 12 months	(1,558)	(3,311)	(1,753)
<b>Total current bank debt</b>	<b>(1,558)</b>	<b>(22,900)</b>	<b>21,342</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 and Euro 352 thousand relating to the entire residual loan granted by Banco BPM S.p.A. due to mature in September 2017.

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



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

The agreement also contains the following financial covenants:

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

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

The Monte Paschi di Siena S.p.A. loan was granted 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.

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.

## 26. Other current financial assets and liabilities

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 AB A Shares	0	6,000	(6,000)
Starbreeze AB B Shares	2,972	0	2,972
Advances against trade receivables under non-recourse factoring arrangements	(58)	(108)	50
Current lease obligations	(15)	(15)	0
<b>Total other current financial assets and liabilities</b>	<b>2,899</b>	<b>5,877</b>	<b>(2,978)</b>

The carrying amount of Starbreeze AB 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. These shares were measured at fair value with recognition through profit or loss of the difference between the carrying amount and the market value at 30 June 2017, given that they are financial instruments designated as held for trading. Subsequent to the year end, 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.

Advances against trade receivables under non-recourse factoring arrangements amounted to Euro 58 thousand and have decreased in the year by Euro 50 thousand.

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

## Non-current net debt

Non-current net debt consists of the following:

	<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
27	Non-current financial assets	0	0	0
28	Non-current bank debt	0	(1,558)	1,558
29	Other non-current financial liabilities	(40)	(55)	15
	<b>Non-current net debt</b>	<b>(40)</b>	<b>(1,613)</b>	<b>1,573</b>

## 27. Non-current financial assets

There were no non-current financial assets at 30 June 2017, as was also the case at 30 June 2016.

## 28. Non-current bank debt

There was no non-current bank debt at 30 June 2017 due to the fact that, as previously described, all residual loans outstanding fall due within twelve months.

## 29. 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 Company's commitments are as follows:

<b>Euro thousands</b>	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Financial commitments	(7,450)	(5,450)	(2000)
Commitment to subscribe to Ovosonico S.r.l.'s capital	0	(300)	300
<b>Total commitments</b>	<b>(7,450)</b>	<b>(5,750)</b>	<b>(1,700)</b>

The financial commitments relate to credit mandates on behalf of subsidiaries of Euro 7,450 thousand.

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

## 5. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

### 3. Net revenue

Total net revenue went from Euro 19,869 thousand to Euro 19,083 thousand, being a decrease of 4%.

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>	
Gross sales - Italy	19,759	20,294	(535)	-2.6%
Gross sales - foreign	522	731	(209)	-28.6%
<b>Total gross revenue</b>	<b>20,281</b>	<b>21,025</b>	<b>(744)</b>	<b>-3.5%</b>
<b>Total revenue adjustments</b>	<b>(1,198)</b>	<b>(1,156)</b>	<b>(42)</b>	<b>3.6%</b>
<b>Net revenue</b>	<b>19,083</b>	<b>19,869</b>	<b>(786)</b>	<b>-4.0%</b>

Details are provided below of a geographical breakdown of gross revenue 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>	
Gross revenue - Italy	19,759	20,294	(3,931)	-2.6%
Gross revenue - EU	522	731	418	-28.6%
Gross revenue - Non-EU	0	0	0	n.m.
<b>Total gross revenue</b>	<b>20,281</b>	<b>21,025</b>	<b>(3,513)</b>	<b>-4.0%</b>

### 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	(12,524)	(13,227)	703	-5.3%
Changes in inventories of finished products	(3,055)	(2,253)	(802)	35.6%
<b>Total cost of sales</b>	<b>(15,579)</b>	<b>(15,480)</b>	<b>(99)</b>	<b>0.6%</b>

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

### 10. Other income

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

## 11. Cost of services

The following table provides details of cost of services:

Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016	Change	%
Advertising, marketing, trade fairs and exhibitions	(736)	(1,336)	600	-44.9%
Transport and freight	(175)	(204)	29	-14.4%
Other sales related costs	0	0	0	0.0%
<b>Subtotal: sales related services</b>	<b>(911)</b>	<b>(1,540)</b>	<b>629</b>	<b>-40.9%</b>
Miscellaneous insurance	(95)	(182)	87	-47.8%
Legal and notary fees	(1,268)	(1,096)	(173)	15.8%
Postal and telegraph	(107)	(106)	(1)	1.2%
Travel and subsistence allowances	(259)	(239)	(20)	8.2%
Utilities	(99)	(106)	7	-6.5%
Maintenance	(64)	(67)	3	-5.1%
Remuneration of corporate bodies	(73)	(74)	1	-1.1%
<b>Subtotal: general services</b>	<b>(1,965)</b>	<b>(1,870)</b>	<b>(95)</b>	<b>5.1%</b>
Intercompany services	(94)	(342)	248	-72.4%
<b>Subtotal</b>	<b>(2,060)</b>	<b>(2,212)</b>	<b>153</b>	<b>-6.9%</b>
<b>Total cost of services</b>	<b>(2,970)</b>	<b>(3,752)</b>	<b>782</b>	<b>-20.8%</b>

Cost of services amounted to Euro 2,970 thousand, having decreased in the year by Euro 782 thousand from the prior year figure of Euro 3,752 thousand mainly due to a decrease in advertising costs and intercompany services. Consulting fees rose 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

Lease and rental charges, which amounted to Euro 752 thousand, decreased in the year in line with a reduction in the rent payable for the property located at Via Tortona 37, Milan that took place on the renewal of the agreement for a further six years. The amount includes Euro 705 thousand related to the rental of the Company's offices at Via Tortona 37, Milan and Euro 43 thousand related to operating leases in connection with cars assigned to employees and with the lease of warehouse equipment.

## 13. Labour costs

Labour costs, including commissions paid to sales agents, directors' fees approved by the shareholders, amounts paid to temporary workers and contract staff and the cost of cars assigned to employees, came to Euro 4,945 thousand, having increased by Euro 61 thousand in the year:

Euro thousands	Year ended 30 June 2017	Year ended 30 June 2016	Change	%
Wages and salaries	(2,709)	(2,623)	(86)	3.3%
Social contributions	(863)	(955)	92	-9.6%
Employee termination indemnity	(150)	(186)	36	-19.3%
Directors' remuneration	(1,139)	(1,013)	(126)	12.5%
Temporary workers and contract staff	0	(17)	17	n.m.
Agents' commission	(51)	(60)	9	-14.7%
Other labour costs	(33)	(30)	(3)	9.3%
<b>Total labour costs</b>	<b>(4,945)</b>	<b>(4,884)</b>	<b>(61)</b>	<b>1.3%</b>

Labour costs, in the strict sense of the term, consist of employee wages and salaries, social contributions and the cost of employee termination indemnities. They fell in the year by Euro 43 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	(2,709)	(2,624)	(85)	3.2%
Social contributions	(863)	(955)	93	-9.7%
Employee termination indemnity	(150)	(186)	36	-19.3%
<b>Total labour costs</b>	<b>(3,722)</b>	<b>(3,765)</b>	<b>43</b>	<b>-1.2%</b>
Average number of employees	53	61	(8)	-13.1%
<b>Average cost per employee</b>	<b>(70)</b>	<b>(62)</b>	<b>(8)</b>	<b>13.8%</b>

The average cost per employee has increased by 13.8% due to the recognition of a provision for the variable portion of remuneration and the cost attributable to the financial year of the 2016-2026 Stock Option Plan of Euro 371 thousand.

A breakdown of the Company'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	(36)	(40)	4	-10.8%
General and administrative costs	(425)	(446)	21	-4.6%
Entertainment costs	(19)	(25)	6	-25.4%
Miscellaneous bank charges	(112)	(172)	60	-34.9%
<b>Total other operating costs</b>	<b>(592)</b>	<b>(683)</b>	<b>91</b>	<b>-13.3%</b>

Operating costs decreased in the year by 13.3%, from Euro 683 thousand to Euro 592 thousand, mainly due to a fall in bank charges.

#### **21. Depreciation and amortisation, provisions and impairment**

<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	(393)	(373)	(20)	5.4%
Allocations to provisions	0	0	0	0.0%
Impairment losses recognised on assets	(2,190)	(3,001)	811	-27.0%
Reversal of impairment losses	1,491	0	1,491	n.m.
<b>Total non-monetary income and operating costs</b>	<b>(1,092)</b>	<b>(3,374)</b>	<b>2,282</b>	<b>-67.6%</b>

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

Net operating (costs) income have gone from prior year net costs of Euro 3,374 thousand to net costs for the year just ended of Euro 1,092 thousand.

Impairment losses recognised on assets of Euro 2,190 thousand consist of the following:

- impairment of the investment in Game Network S.r.l. of Euro 1,459 thousand;
- impairment of the investment in Digital Bros Game Academy S.r.l. of Euro 119 thousand;
- impairment of the investment in Cityglance S.r.l. in liquidation of Euro 44 thousand;
- impairment of the investment in Ebooks&kids S.r.l. of Euro 148 thousand;
- impairment of specific receivable balances of Euro 420 thousand that may not be possible to collect.

Reversal of impairment losses consists of the reversal of impairment previously recognised on the investment in the subsidiary Pipeworks Inc. of Euro 1,491 thousand given that, based on the positive performance of the subsidiary and the medium-long term forecasts, there is no longer any need to recognise any impairment loss.

## 25. Net finance income (costs)

Net finance income amounted to Euro 7,954 thousand versus the prior year figure of Euro 1,216 thousand mainly due to the receipt of a dividend from 505 Games S.p.A. of Euro 6,000 thousand.

Net finance income 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	9,861	2,132	7,729	n.m.
24	Interest expense and finance costs	(1,907)	(916)	(991)	n.m.
25	<b>Net finance income (costs)</b>	<b>7,954</b>	<b>1,216</b>	<b>6,738</b>	<b>n.m.</b>

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>
Dividends from subsidiaries	6,000	0	6,000	n.m.
Interest income on current accounts with banks	3	0	3	n.m.
Finance income	3,145	1,496	1,649	n.m.
Exchange gains	713	636	77	12.2%
<b>Total interest and financial income</b>	<b>9,861</b>	<b>2,132</b>	<b>7,729</b>	<b>n.m.</b>

Interest and finance income increased by Euro 7,729 thousand. In addition to the dividend received from 505 Games S.p.A., interest and finance income consists mainly of finance income of Euro 3,145 thousand relating to gains arising from the sale of Starbreeze B shares versus the prior year figure of 1,496 thousand and a foreign exchange gain of Euro 713 thousand versus the gain reported for the year ended 30 June 2016 of Euro 636 thousand.

Details of interest expense and finance costs 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>
Interest charged by banks on current accounts and trade finance	(273)	(467)	195	-41.7%
Other interest expense	(35)	0	(35)	n.m.
Interest on loans and leases	(91)	(104)	13	-12.8%
Factoring interest	(6)	(11)	4	-40.0%
<b>Total interest expense payable to lenders</b>	<b>(405)</b>	<b>(582)</b>	<b>177</b>	<b>-30.4%</b>
Exchange losses	(503)	(323)	(180)	55.8%
Loss on disposal of securities	(999)	(11)	(988)	n.m.
<b>Total interest expense</b>	<b>(1,907)</b>	<b>(916)</b>	<b>(991)</b>	<b>n.m.</b>

Interest expense and finance costs amounted to Euro 1,907 thousand, having increased by Euro 991 thousand due to losses recognised on the measurement of Starbreeze A and B shares. Interest expense payable to lenders decreased by Euro 177 thousand in line with improved agreed conditions and less use of credit facilities, whereas, in the year ended 30 June 2017, exchange losses rose by Euro 180 thousand to Euro 503 thousand.

## 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	557	820	(264)	-32.1%
Deferred tax	(121)	(87)	(34)	38.8%
<b>Total income tax income</b>	<b>436</b>	<b>733</b>	<b>(297)</b>	<b>-40.6%</b>

Current tax income consists entirely of IRES, which was determined as follows:

<b>Euro thousands</b>	<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>	<b>Change</b>
IRES taxable income	(1,225)	(1,935)	710
IRES tax rate	27.5%	27.5%	0
IRES for the year	337	532	(195)
Effect of tax consolidation	160	144	16
Taxes on prior year income	60	144	(84)
<b>IRES for the year</b>	<b>557</b>	<b>820</b>	<b>(263)</b>



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

<i>Euro thousands</i>	<b>Year ended 30 June 2017</b>		<b>Year ended 30 June 2016</b>	
<b>Pre-tax result of the Company</b>	<b>3,801</b>		<b>(4,428)</b>	
<b>IRES tax rate</b>	<b>27.5%</b>		<b>27.5%</b>	
<b>Theoretical tax charge</b>	(1,045)	-27.5%	1,218	-27.5%
Tax effect of non-deductible costs	1,439	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)		188	
Effect of tax consolidation	160		144	
Taxes on prior year income	60		144	
<b>Tax charge for the year and effective tax rate</b>	<b>557</b>	<b>14.6%</b>	<b>820</b>	<b>-18.5%</b>

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

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

---

The main financial instruments that may be used by the Company 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 Company'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.

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 Company tries to maintain a balance between short-term and medium/long-term financial instruments. The Company'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.

## 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
Equity investments			-	18,919	18,919	4
Non-current receivables and other assets			637	-	637	5
Trade receivables	-	-	2,176	-	2,176	11
Receivables due from subsidiaries	-	-	20,220	-	20,220	12
Other current assets	-	-	564	-	564	22
Cash and cash equivalents	-	-	3,872	-	3,872	24
Other current financial assets	2,972	-	-	-	2,972	26
<b>Total</b>	<b>2,972</b>	<b>-</b>	<b>27,469</b>	<b>18,919</b>	<b>49,360</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	-	2,306	2,306	15
Payables due to subsidiaries	-	16,262	16,262	16
Other current liabilities	-	2,277	2,277	19
Current bank debt	-	1,558	1,558	25
Other current financial liabilities	-	73	73	26
Non-current bank debt	-	0	0	28
Other non-current financial liabilities	-	40	40	29
<b>Total</b>	<b>-</b>	<b>22,516</b>	<b>32,779</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
Equity investments			-	13,948	13,948	4
Non-current receivables and other assets			644	-	644	5
Trade receivables	-	-	3,166	-	3,166	11
Receivables due from subsidiaries	-	-	33,155	-	33,155	12
Other current assets	-	-	510	-	510	22
Cash and cash equivalents	-	-	577	-	577	24
Other current financial assets	6,000	-	-	-	6,000	26
<b>Total</b>	<b>6,000</b>	<b>-</b>	<b>38,052</b>	<b>13,948</b>	<b>58,000</b>	

### Category of financial liabilities pursuant to IAS 39

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

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

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

#### *Interest rate risk*

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

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

It is believed that the results of short- and medium/long-term planning and currently available funds, along with those to be generated by operating activities, should allow the Company 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 Company 's financial obligations by maturity, in the worst-case scenario and using undiscounted values, considering the nearest date by which the Company could be asked for payment and providing the number of the relevant note.

<b>Financial liabilities at 30 June 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	1,558	1,558						1,558	25
Other current financial liabilities	73	73						73	26
Non-current bank debt	0	0						0	28
Other non-current financial liabilities	40		15	16	9			40	29
<b>Total</b>	<b>1,671</b>	<b>1,631</b>	<b>15</b>	<b>16</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>1,671</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	22,900	22,900						12,727	25
Other current financial liabilities	123	123						152	26
Non-current bank debt	1,558		1,558					1,619	28
Other non-current financial liabilities	55		15	15	16	9		55	29
<b>Total</b>	<b>24,636</b>	<b>23,023</b>	<b>1,573</b>	<b>15</b>	<b>16</b>	<b>9</b>	<b>-</b>	<b>24,636</b>	

The Company has sufficient financial resources to satisfy its debt maturing within one year, in the form of cash and cash equivalents, undrawn credit lines, which at the reporting date amounted to approximately Euro 31 million and cash flows from core operations.

### *Exchange rate risk*

The Company'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 Company 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 Company 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*

The Company sells exclusively to known buyers. If necessary information on customers is not available, merchandise is sold with advance payment and/or cash on delivery to limit credit risk.

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

The following table provides details of trade receivables 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	1,718	79%	2,084	66%
0 > 30 days	59	3%	420	13%
30 > 60 days	32	1%	12	0%
60 > 90 days	85	4%	3	0%
> 90 days	282	13%	647	21%
<b>Total trade receivables</b>	<b>2,176</b>	<b>100%</b>	<b>3,166</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 their carrying amount.

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



<b>Euro 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	3,872	3,872		3,872	24
Current bank debt	11,558	11,558		11,558	25
Other current financial assets and liabilities	2,899	2,899		2,899	26
Other non-current financial liabilities	40	40		40	29

<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	577	577		577	24
Current bank debt	22,900	22,900		22,900	25
Other current financial assets and liabilities	5,877	5,877		5,877	26
Non-current bank debt	1,558	1,558		1,558	28
Other non-current financial liabilities	55	55		55	29

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

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

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

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

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

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

### Fair value hierarchy

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

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

To calculate the market value of financial instruments, the Company uses various measurement and valuation models, as summarised below for 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			6,000	24

<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>
Other current financial assets	Listed shares	6,000			6,000	24

## 7. NON-RECURRING INCOME AND EXPENSES

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

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

## 8. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets and liabilities at 30 June 2017.

## 9. 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 S.p.A. and its direct subsidiaries and associates have been conducted at arm's length and do not qualify as atypical or unusual transactions.

### Subsidiaries

Commercial and financial transactions between Digital Bros S.p.A. and other Group companies in the year ended 30 June 2017 were settled at arm's length. 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.		
505 Games S.p.A.	1	0	0	(7,722)	2,594	(1,462)
505 Mobile S.r.l.	0	10,605	0	0	0	(272)
Digital Bros Game Academy S.r.l.	0	0	(35)	(9)	77	(35)
Game Entertainment S.r.l.	0	5,855	0	0	5,944	0
Game Network S.r.l.	0	1,627	0	0	11	0
Game Service S.r.l.	0	396	0	0	0	0
505 Games France S.a.s.	0	224	0	0	0	0
505 Games Ltd.	0	0	0	(3,484)	9	0
505 Games Iberia Slu	0	41	0	0	0	0
505 Games (US) Inc.	0	0	0	(1,017)	32	0
505 Games GmbH	0	0	0	(590)	0	0
505 Games Interactive	0	0	0	(242)	0	0
505 Games Mobile (US)	0	0	0	(256)	0	0
DR Studios Ltd.	0	0	0	(859)	9	0
Pipeworks Inc.	0	0	0	(1,931)	0	0
Digital Bros China (Shenzen Ltd.)	0	0	0	(4)	0	0
Digital Bros Holdings Ltd.	0	0	0	(113)	0	0
133 W. Broadway Inc.	0	430	0	0	0	0
Hawkwen Entertainment Inc.	0	1,041	0	0	0	0
<b>Total as at 30 June 2017</b>	<b>1</b>	<b>20,219</b>	<b>(35)</b>	<b>(16,227)</b>	<b>8,676</b>	<b>(1,769)</b>

Euro thousands	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
505 Games S.p.A.	1,850	16,313	0	0	2,936	(342)
505 Mobile S.r.l.	0	8,610	0	0	5	0
Digital Bros Game Academy S.r.l.	0	0	0	55	124	0
Game Entertainment S.r.l.	0	2,073	0	0	2,598	(168)
Game Network S.r.l.	0	1,741	0	0	274	0
Game Service S.r.l.	0	407	0	0	0	0
505 Games France S.a.s.	0	0	0	75	1	0
505 Games Ltd.	0	0	0	2,778	7	0
505 Games Iberia Slu	0	172	0	0	0	0
505 Games (US) Inc.	0	1,614	0	0	31	0
505 Games GmbH	0	0	0	136	0	0
505 Games Interactive	0	0	0	184	0	0
505 Games Mobile (US)	0	0	0	152	0	0
DR Studios Ltd.	0	0	0	886	7	0
Pipeworks Inc.	0	0	0	1,141	0	0
Digital Bros China (Shenzen Ltd.)	0	10	0	0	0	0
Digital Bros Holdings Ltd.	0	48	0	0	0	0
133 W. Broadway Inc.	0	317	0	0	0	0
<b>Total as at 30 June 2016</b>	<b>1,850</b>	<b>31,305</b>	<b>0</b>	<b>5,407</b>	<b>5,983</b>	<b>(510)</b>

The parent company also provides a centralised cash management service, using intercompany current accounts to which positive and negative balances between Group companies are transferred, including through the transfer of receivables. The accounts do not bear interest.

#### *Other related parties*

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

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	(705)
<b>Total as at 30 June 2017</b>	<b>0</b>	<b>635</b>	<b>(22)</b>	<b>0</b>	<b>0</b>	<b>(967)</b>

Transactions in the year ended 30 June 2016 are summarised below:

Euro thousands	Receivables		Payables		Revenue	Costs
	comm.	finan.	comm.	finan.		
Dario Treves	0	0	(22)	0	0	(254)
Matov Imm. S.r.l.	0	635	(3)	0	0	(717)
<b>Total as at 30 June 2016</b>	<b>0</b>	<b>635</b>	<b>(25)</b>	<b>0</b>	<b>0</b>	<b>(971)</b>

The financial receivable due to Digital Bros S.p.A. by Matov Imm. S.r.l. relates to a cautionary deposit paid for the Via Tortona 37 premises in Milan.

### *Tax consolidation*

Digital Bros S.p.A., in its capacity as parent company/consolidating company, has opted for tax consolidation allowed by Italian law with the companies 505 Games Mobile S.r.l., Game Entertainment S.r.l., Game Service S.r.l., 505 Games S.p.A., Digital Bros Game Academy S.r.l. and Game Network S.r.l..

Membership of a domestic tax group has made it necessary to prepare an implementing regulation to govern intercompany transactions to ensure there are no grounds for prejudice against individual participants in the system.

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

---

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

## **11. OTHER INFORMATION**

---

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

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

### **DIRECTORS' FEES**

Remuneration paid to members of the Board of Directors amounted to Euro 1,139 thousand.

### **STATUTORY AUDITORS' FEES**

During the year ended 30 June 2017, a total of Euro 73 thousand was paid to the members of the Board of Statutory Auditors.

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

The Company has issued options linked to the previously described 2016-2026 Stock Option Plan.

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

The Company is not party to any shareholder loans with subordination clauses.

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

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

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

The Company is not party to any loans earmarked for a specific use.

## **OFF-BALANCE SHEET ARRANGEMENTS**

There are no off-balance sheet arrangements.

## **12. INFORMATION ON OWNERSHIP STRUCTURE (pursuant to Art. 123-bis of the Consolidated Finance Act)**

---

### **SHARE CAPITAL STRUCTURE**

Share capital at 30 June 2017 consists of 14,260,837 issued and fully paid ordinary shares with a par value of Euro 0.4 each. The Company has not issued different classes of shares or other financial instruments entitling the holder to subscribe to newly issued shares. On 11 January 2017, Digital Bros Group's shareholders in general meeting approved the 2016-2026 Stock Option Plan as described in significant events during the year.

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

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

### **SHARES CARRYING SPECIAL RIGHTS**

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

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

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

### **RESTRICTIONS ON VOTING RIGHTS**

There are no restrictions on voting rights.

### **SHAREHOLDER AGREEMENTS**

There are no shareholder agreements in place.

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

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

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

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

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

## **CHANGE OF CONTROL PROVISIONS**

There are no change of control provisions.

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

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

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

---

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

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

---

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 Art. 149- duodecies of the Listing Rules, it is hereby disclosed that the external auditors, Deloitte & Touche, were paid fees for the year just ended of Euro 269 thousand.



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

---

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the separate financial statements for the period July 2016 - June 2017. No significant issues have arisen.

We also confirm that:

1. the financial statements of Digital Bros S.p.A. 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 issuer's results and financial position;
2. the directors' report includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which the Company is exposed.

Milan, 12 September 2017

Signed

Chairman of the Board of Directors

Financial Reporting Manager

Abramo Galante

Stefano Salbe