



**Interim Management Report  
for the period ended 31 March 2017**

**(3rd quarter of financial year 2016/2017)**

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

Via Tortona, 37 – 20144 Milan, Italy

VAT No. and tax code 09554160151

Authorised share capital: Euro 6,024,334.80

Milan Companies Register No. 290680 - Vol. 7394 Chamber of Commerce No.  
1302132

This report can be downloaded from the Investors section of the Company's website  
[www.digitalbros](http://www.digitalbros).

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

### **Board of Directors**

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

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

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

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

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

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

Guido Guetta (Chairman)  
Elena Morini  
Bruno Soresina

### **Remuneration committee**

Guido Guetta (Chairman)  
Elena Morini  
Bruno Soresina

### **Board of statutory auditors**

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

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

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

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

**External auditors**

Deloitte & Touche S.p.A.

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

**Other information**

Publication of the interim management report of Digital Bros Group for the period ended 31 March 2017 was authorised by resolution of the Board of Directors on 12 November 2017. Digital Bros S.p.A. is a company limited by shares incorporated and domiciled in Italy. It is listed on the STAR segment of the MTA market managed by Borsa Italiana S.p.A.

# **DIRECTORS' REPORT**

## **1. GROUP STRUCTURE**

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

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

Accordingly, the Group is organised into five operating segments:

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

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

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

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

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

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

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

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

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

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

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

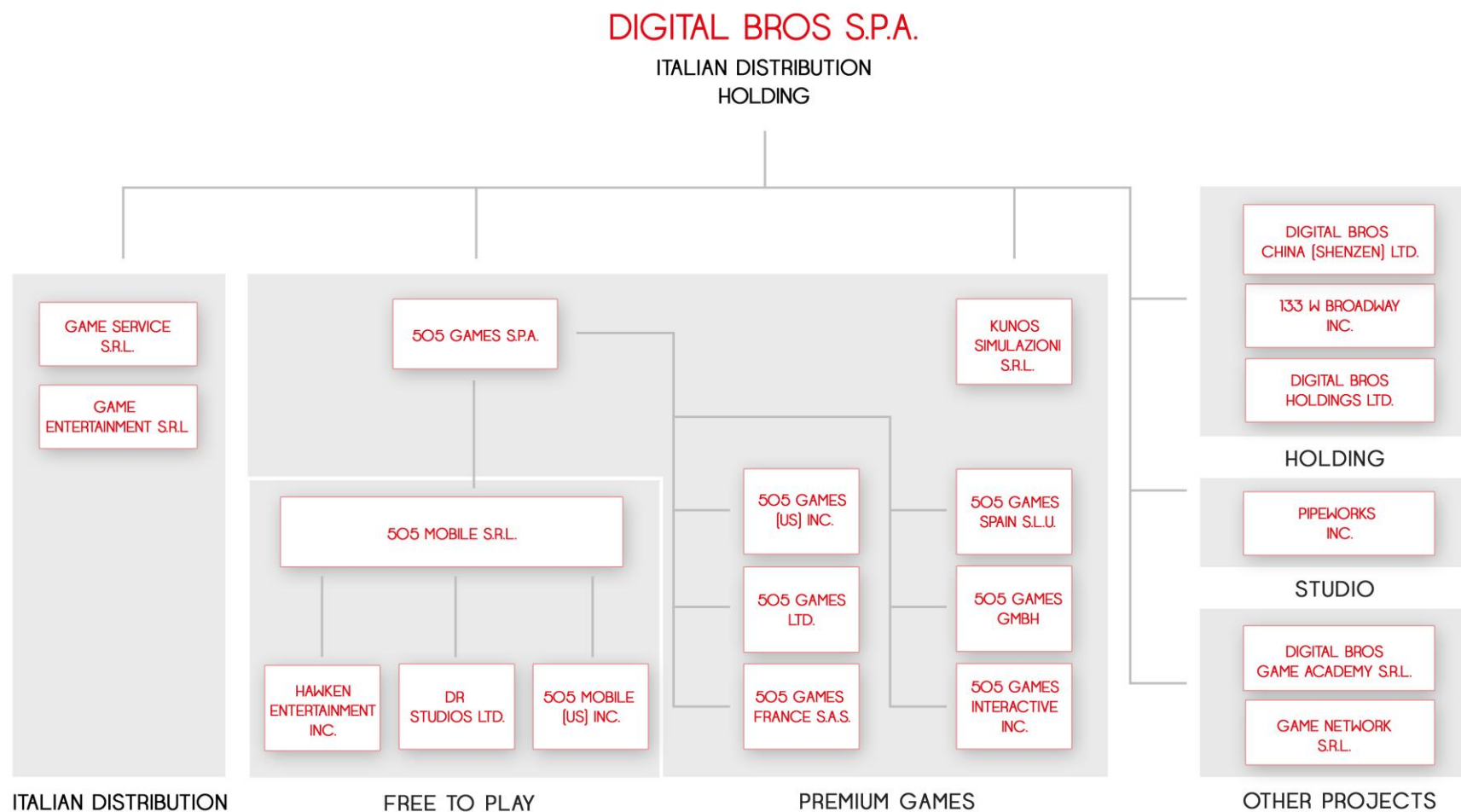
The Group also distributes the Yu-Gi-Oh! trading card game in Italy.

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

***Holding:*** this includes all the coordinating functions carried out by Digital Bros S.p.A. on behalf of the various operating segments. The Holding operating segment also handles administration, management control and business development. Digital Bros China Ltd. operated in the period as a business developer for the Asian markets.

Details are provided below of the Group structure at 31 March 2017. All the investee companies shown are 100% held.

## GROUP STRUCTURE AT 31 MARCH 2017



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

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

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

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

Details are provided below of the Group's equity investments in associates at 31 March 2017 together with their respective carrying amounts (in Euro thousand):

Name	Location	Holding	Carrying amount
Delta DNA Ltd.	Edinburgh, UK	1.04%	60
Ebooks&Kids S.r.l.	Milan	16%	200
Cityglance S.r.l. in liquidation	Milan	42.5%	45
Ovosonico S.r.l.	Varese	42.87%	630
Seekhana Ltd.	Milton Keynes, UK	31.57%	435
<b>Total equity investments</b>			<b>1,370</b>

## 2. THE VIDEO GAMES MARKET

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

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

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

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 3 DS and 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.

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 increased weighting of sales via digital marketplaces has made it possible for publishers to extend the lifespan of products by the distribution of additional game episodes (so-called DLC, or downloadable content).

Free to Play video games are offered to the public solely in a digital format. The marketplaces used are the App Store for iPhone and iPad video games and the Play Store for Android video games. 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 in individual marketplaces thereafter, thus, ensuring a continuous flow of sales that may be significantly affected by temporary promotional policies.

### **3. MARKET SEASONALITY**

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

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

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

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

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

#### 4. ANALYSIS OF RESULTS FOR THE PERIOD ENDED 31 MARCH 2017

	Euro thousand	Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	99,012	105.0%	61,281	104.6%	37,731	61.6%
2	Revenue adjustments	(4,700)	-5.0%	(2,680)	-4.6%	(2,020)	75.3%
3	<b>Net revenue</b>	<b>94,312</b>	<b>100.0%</b>	<b>58,601</b>	<b>100.0%</b>	<b>35,711</b>	<b>60.9%</b>
4	Purchase of products for resale	(24,857)	-26.4%	(16,372)	-27.9%	(8,485)	51.8%
5	Purchase of services for resale	(7,394)	-7.8%	(4,438)	-7.6%	(2,956)	66.6%
6	Royalties	(27,379)	-29.0%	(14,648)	-25.0%	(12,731)	86.9%
7	Changes in inventories of finished products	3,404	3.6%	(1,164)	-2.0%	4,568	n.m.
8	<b>Total cost of sales</b>	<b>(56,226)</b>	<b>-59.6%</b>	<b>(36,622)</b>	<b>-62.5%</b>	<b>(19,604)</b>	<b>53.5%</b>
9	<b>Gross profit (3+8)</b>	<b>38,086</b>	<b>40.4%</b>	<b>21,979</b>	<b>37.5%</b>	<b>16,107</b>	<b>73.3%</b>
10	Other income	1,433	1.5%	4,366	7.5%	(2,933)	-67.2%
11	Cost of services	(9,237)	-9.8%	(9,847)	-16.8%	610	-6.2%
12	Lease and rental charges	(1,104)	-1.2%	(1,159)	-2.0%	55	-4.7%
13	Labour costs	(16,206)	-17.2%	(14,601)	-24.9%	(1,605)	11.0%
14	Other operating costs	(1,557)	-1.7%	(1,136)	-1.9%	(421)	37.1%
15	<b>Total operating costs</b>	<b>(28,104)</b>	<b>-29.8%</b>	<b>(26,743)</b>	<b>-45.6%</b>	<b>(1,361)</b>	<b>5.1%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>11,415</b>	<b>12.1%</b>	<b>(398)</b>	<b>-0.7%</b>	<b>11,813</b>	<b>n.m.</b>
17	Depreciation and amortisation	(4,948)	-5.2%	(2,798)	-4.8%	(2,150)	76.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(432)	-0.5%	(425)	-0.7%	(7)	1.8%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	1.0%	(588)	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(5,380)</b>	<b>-5.7%</b>	<b>(2,635)</b>	<b>-4.5%</b>	<b>(2,745)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>6,035</b>	<b>6.4%</b>	<b>(3,033)</b>	<b>-5.2%</b>	<b>9,068</b>	<b>n.m.</b>
23	Interest and finance income	8,154	8.6%	2,574	4.4%	5,580	n.m.
24	Interest expense and finance costs	(2,398)	-2.5%	(1,222)	-2.1%	(1,176)	96.3%
25	<b>Net finance income (costs)</b>	<b>5,756</b>	<b>6.1%</b>	<b>1,352</b>	<b>2.3%</b>	<b>4,404</b>	<b>n.m.</b>
26	<b>Profit before tax (22+25)</b>	<b>11,791</b>	<b>12.5%</b>	<b>(1,681)</b>	<b>-2.9%</b>	<b>13,472</b>	<b>n.m.</b>
27	Current tax	(4,277)	-4.5%	(1,116)	-1.9%	(3,161)	n.m.
28	Deferred tax	270	0.3%	1,506	2.6%	(1,236)	-82.1%
29	<b>Total income tax income (expense)</b>	<b>(4,007)</b>	<b>-4.2%</b>	<b>390</b>	<b>0.7%</b>	<b>(4,397)</b>	<b>n.m.</b>
30	<b>Profit for the period (26+29)</b>	<b>7,784</b>	<b>8.3%</b>	<b>(1,291)</b>	<b>-2.2%</b>	<b>9,075</b>	<b>n.m.</b>
	<b>Earnings per share:</b>						
33	<b>Basic earnings per share (in euros)</b>	<b>0.55</b>		<b>(0.09)</b>		<b>0.65</b>	<b>n.m.</b>
34	<b>Diluted earnings per share (in euros)</b>	<b>0.55</b>		<b>(0.09)</b>		<b>0.65</b>	<b>n.m.</b>

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

Gross consolidated revenue for the first nine months of the financial year amounted to Euro 99,012 thousand, representing an increase of 61.6% on the figure for the comparative prior year period of Euro 61,281 thousand. The contributory factors to the positive performance in the period include the launch of the console versions of the Assetto Corsa video game, the continuous revenue stream generated by the Rocket League video game, which was launched at the prior financial year end, and video game contract revenue generated by the Development operating segment. In addition to the positive trend in revenue reported by the Premium Games operating segment that grew by Euro 30,799 thousand, the period also benefited from growth in revenue reported by the Free to Play and Development operating segments that was up by Euro 2,419 thousand and Euro 5,737 thousand, respectively. The Italian Distribution operating segment reported a falling trend with a loss in turnover in the period of Euro 1,334 thousand.

A breakdown is provided below of revenue by operating segment for the periods ended 31 March 2017 and 2016:

Euro thousand	Gross revenue				Net revenue			
	2017	2016	Change		2017	2016	Change	
Premium Games	70,749	39,950	30,799	77.1%	67,740	38,347	29,393	76.7%
Italian Distribution	14,959	16,293	(1,334)	-8.2%	13,598	15,267	(1,669)	-10.9%
Free to Play	5,845	3,426	2,419	70.6%	5,845	3,426	2,419	70.6%
Development	6,839	1,102	5,737	n.m.	6,839	1,102	5,737	n.m.
Other Activities	620	510	110	21.6%	290	459	(169)	-36.8%
<b>Total gross revenue</b>	<b>99,012</b>	<b>61,281</b>	<b>37,731</b>	<b>61.6%</b>	<b>94,312</b>	<b>58,601</b>	<b>35,711</b>	<b>60.9%</b>

Revenue reported by the Premium Games operating segment amounted to Euro 70,749 thousand and was the major contributor to consolidated revenue, as had also been the case in prior years. Details are provided below of revenue by video game:

Amounts in Euro thousand	Period ended 31 March 2017	Period ended 31 March 2016	Change
Rocket League	23,197	0	23,197
Terraria	10,718	13,779	(3,061)
Assetto Corsa	10,339	0	10,339
PAYDAY 2	10,050	14,260	(4,210)
Sniper Elite V3	4,586	6,618	(2,032)
Abzu	4,218	0	4,218
How to Survive	1,774	954	820
Portal Knights	1,504	758	746
Brothers	1,025	2,092	(1,067)
Other products	3,338	1,489	1,849
<b>Total Premium Games gross revenue</b>	<b>70,749</b>	<b>39,950</b>	<b>30,799</b>

The operating segment's revenue was substantially boosted by sales of products launched in the period, namely Assetto Corsa (Euro 10,339 thousand) and Abzu (Euro 4,218 thousand). However, the product that generated the highest volumes in the period was Rocket League (retail versions for the Sony Playstation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 23,197 thousand. This video game, which was launched in June 2016, has remained in the international video games sales charts throughout the period.

The video games that have been drivers of the Group's results in recent years, that is, PAYDAY 2 and Terraria, continued to generate revenue in the period of Euro 10,050 thousand and Euro 10,718 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that products may now count on following the digitalisation of the market.

Of note, with a view to the future, is the trend in sales of Portal Knights, which was conceived and created internally and the intellectual property of which is fully held by the Group. During the period, only an Early Access PC version of the game was available on the Steam marketplace and it generated revenue of Euro 1,504 thousand. The final PC version of the video game, together with the brand new console versions, shall be available as from the fourth quarter.

The revenue trend reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the retail distribution of video games in Italy. In the comparative prior year period the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid. Trading cards revenue, however, grew by 21.9%.

Worthy of note is the percentage growth in revenue reported by the Free to Play operating segment that increased by 70% from Euro 3,426 thousand reported in the comparative first nine months to Euro 5,845 thousand in the period just ended. This operating segment also benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which, despite having been launched in November 2014, generated revenue in the period of Euro 2,476 thousand.

The focus of the U.S. subsidiary Pipeworks' operations primarily on job orders for non-Group third party customers made it possible to significantly increase revenue achieved by the Development operating segment that went from Euro 1,102 thousand for the comparative first nine months to Euro 6,839 thousand for the period ended 31 March 2017.

The Other Activities operating segment's revenue amounted to Euro 620 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by specialisation courses organised by Digital Bros Game Academy S.r.l.

Cost of sales amounted to Euro 56,226 thousand in the period. The percentage increase therein was lower than the percentage increase in revenue.

Other income went from Euro 4,366 thousand to Euro 1,433 thousand in the first nine months of the current financial year and which consists of the capitalisation of internal development costs for video games in a development phase by the subsidiaries DR Studios Ltd. and Pipeworks Inc.; the significant decrease is in line with a lower use of resources by the latter on Group products.

Operating costs increased by 5.1% (Euro 5.1 thousand), which was significantly lower than the turnover trend. In addition to the normal effect of operating leverage triggered by revenue growth, there was a decrease in advertising expenditure on the Daily Fantasy Sport Fantasfida that had characterised the first nine months of the last financial year and that amounted to Euro 1,965 thousand.

The gross operating margin for the period amounted to Euro 11,415 thousand, compared to the negative margin reported for the period ended 31 March 2016 of Euro 398 thousand.

Non-monetary operating costs, net of non-monetary income, increased by Euro 2,745 thousand due to an increase in amortisation relating to intellectual property and in line with capital expenditure made by the Group in relation thereto.

The operating margin (EBIT) increased by Euro 9,069 thousand, having gone from a negative margin of Euro 3,033 thousand for the period ended 31 March 2016 to a positive margin of Euro 6,036 thousand for the period just ended.

Net finance income amounted to Euro 5,756 thousand, compared to Euro 1,352 thousand for the comparative prior year period. Interest and finance income increased by Euro 5,580 thousand compared to the comparative prior year period. This mainly consisted of gains recognised in the period on the sale and purchase of Starbreeze shares of Euro 6,891 thousand and exchange gains of Euro 1,156 thousand. Interest expense and finance costs amounted to Euro 2,398 thousand, representing an increase of Euro 1,176 thousand compared to the figure reported for the period ended 31 March 2016, attributable to losses recognised in the period on the measurement of Starbreeze shares and higher exchange losses.

Profit before tax for the period ended 31 March 2017 came to Euro 11,791 thousand, up by Euro 13,472 thousand compared to the loss reported for the period ended 31 March 2016 of Euro 1,681 thousand.

Profit for the period amounted to Euro 7,784 thousand, having increased by Euro 9,075 thousand compared to the loss for the period ended 31 March 2016 of Euro 1,291 thousand.

Basic and diluted earnings per share came to Euro 0.55, compared to loss per share for the comparative prior year period of Euro 0.09.

## 5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Euro thousand	31 March 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,895	7,032	(137)	-1.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	21,459	10,458	11,001	n.m.
4	Equity investments	1,370	898	472	52.6%
5	Non-current receivables and other assets	1,064	1,056	8	0.8%
6	Deferred tax assets	1,419	2,619	(1,200)	-45.8%
	<b>Total non-current assets</b>	<b>32,207</b>	<b>22,063</b>	<b>10,144</b>	<b>46.0%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(552)	(529)	(23)	4.4%
8	Non-current provisions	(27)	(36)	9	-25.3%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(579)</b>	<b>(817)</b>	<b>238</b>	<b>-29.1%</b>
	<b>Net working capital</b>				
10	Inventories	15,337	11,933	3,404	28.5%
11	Trade receivables	34,168	34,840	(672)	-1.9%
12	Current tax assets	2,330	2,019	311	15.4%
13	Other current assets	4,005	5,034	(1,029)	-20.4%
14	Trade payables	(31,174)	(21,712)	(9,462)	43.6%
15	Current tax liabilities	(5,151)	(6,211)	1,060	-17.1%
16	Current provisions	0	0	(0)	n.m.
17	Other current liabilities	(3,682)	(2,312)	(1,370)	59.3%
	<b>Total net working capital</b>	<b>15,833</b>	<b>23,591</b>	<b>(7,758)</b>	<b>-32.9%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	n.m.
19	Reserves	(20,208)	(20,804)	596	-2.9%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,753)	(22,290)	(7,463)	33.5%
	<b>Total equity</b>	<b>(55,665)</b>	<b>(48,348)</b>	<b>(7,317)</b>	<b>15.1%</b>
	<b>Total net assets</b>	<b>(8,204)</b>	<b>(3,511)</b>	<b>(4,693)</b>	<b>n.m.</b>
22	Cash and cash equivalents	8,985	2,785	6,200	n.m.
23	Current bank debt	(2,422)	(25,929)	23,507	-90.7%
24	Other current financial assets and liabilities	754	28,913	(28,159)	-97.4%
	<b>Current net cash/debt</b>	<b>7,317</b>	<b>5,769</b>	<b>1,548</b>	<b>26.8%</b>
25	Non-current financial assets	1,374	1,195	179	14.9%
26	Non-current bank debt	(443)	(1,558)	1,115	-71.6%
27	Other non-current financial liabilities	(44)	(1,895)	1,851	-97.7%
	<b>Non-current net debt</b>	<b>887</b>	<b>(2,258)</b>	<b>3,145</b>	<b>n.m.</b>
	<b>Total net cash/debt</b>	<b>8,204</b>	<b>3,511</b>	<b>4,693</b>	<b>n.m.</b>

Non-current assets increased with respect to the balance at 30 June 2016 by Euro 10,144 thousand mainly due to net expenditure on intangible assets of Euro 11,001 thousand relating to the acquisition and production of intellectual property only partially offset by a decrease in deferred tax assets of Euro 1,200 thousand. Equity investments increased by Euro 472 thousand due to the subscription to further portions of the capital of Seekhana Ltd. and Ovasonico S.r.l. for amounts of Euro 262 thousand and Euro 210 thousand, respectively.

Non-current liabilities decreased by Euro 238 thousand due to the classification within working capital payables of the variable remuneration linked to the medium/long-term incentive scheme for directors and key managers that will be paid in September 2017.

Net working capital decreased in the period by Euro 7,758 thousand. An analysis of net working capital together with comparative figures at 30 June 2016 is provided below:

<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
Inventories	15,337	11,933	3,404	28.5%
Trade receivables	34,168	34,840	(672)	-1.9%
Current tax assets	2,330	2,019	311	15.4%
Other current assets	4,005	5,034	(1,029)	-20.4%
Trade payables	(31,174)	(21,712)	(9,462)	43.6%
Current tax liabilities	(5,151)	(6,211)	1,060	-17.1%
Current provisions	0	0	0	n.m.
Other current liabilities	(3,682)	(2,312)	(1,370)	59.3%
<b>Total net working capital</b>	<b>15,833</b>	<b>23,591</b>	<b>(7,758)</b>	<b>-32.9%</b>

Net cash amounted to Euro 8,204 thousand, representing an improvement of Euro 4,693 thousand compared to net cash of Euro 3,511 thousand at 30 June 2016.

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

<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
Cash and cash equivalents	8,985	2,785	6,200	n.m.
Current bank debt	(2,422)	(25,929)	23,507	-90.7%
Other current financial assets and liabilities	754	28,913	(28,159)	-97.4%
<b>Current net cash/debt</b>	<b>7,317</b>	<b>5,769</b>	<b>1,548</b>	<b>26.8%</b>
Non-current financial assets	1,374	1,195	179	14.9%
Non-current bank debt	(443)	(1,558)	1,115	-71.6%
Other non-current financial liabilities	(44)	(1,895)	1,851	-97.7%
<b>Non-current net debt</b>	<b>887</b>	<b>(2,258)</b>	<b>3,145</b>	<b>n.m.</b>
<b>Total net cash/debt</b>	<b>8,204</b>	<b>3,511</b>	<b>4,693</b>	<b>n.m.</b>

## 6. RESULTS OF OPERATING SEGMENTS

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

### *Development*

#### *Financial highlights (reclassified)*

	Amounts in Euro thousand	Development					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	6,839	100.0%	1,102	100.0%	5,737	n.m.
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
<b>3</b>	<b>Net revenue</b>	<b>6,839</b>	<b>100.0%</b>	<b>1,102</b>	<b>100.0%</b>	<b>5,737</b>	<b>n.m.</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(1,969)	-28.8%	(408)	-37.0%	(1,561)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of sales</b>	<b>(1,969)</b>	<b>-28.8%</b>	<b>(408)</b>	<b>-37.0%</b>	<b>(1,561)</b>	<b>n.m.</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>4,870</b>	<b>71.2%</b>	<b>694</b>	<b>63.0%</b>	<b>4,176</b>	<b>n.m.</b>
10	Other income	607	8.9%	3,365	305.4%	(2,758)	-82.0%
11	Cost of services	(305)	-4.5%	(213)	-19.3%	(92)	43.4%
12	Lease and rental charges	(0)	0.0%	(109)	-9.9%	109	n.m.
13	Labour costs	(3,409)	-49.9%	(3,804)	-345.3%	395	-10.4%
14	Other operating costs	(103)	-1.5%	(134)	-12.1%	31	-23.3%
<b>15</b>	<b>Total operating costs</b>	<b>(3,817)</b>	<b>-55.8%</b>	<b>(4,260)</b>	<b>-386.6%</b>	<b>443</b>	<b>-10.4%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>1,660</b>	<b>24.3%</b>	<b>(201)</b>	<b>-18.2%</b>	<b>1,861</b>	<b>n.m.</b>
17	Depreciation and amortisation	(446)	-6.5%	(453)	-41.1%	7	-1.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(0)	0.0%	0	0.0%	(0)	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(446)</b>	<b>-6.5%</b>	<b>(453)</b>	<b>-41.1%</b>	<b>7</b>	<b>-1.4%</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>1,214</b>	<b>17.8%</b>	<b>(654)</b>	<b>-59.3%</b>	<b>1,868</b>	<b>n.m.</b>

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

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

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

The focus of the U.S. subsidiary Pipeworks' operations almost entirely on job orders for non-Group third party customers made it possible to significantly increase revenue achieved by the Development operating segment that went from Euro 1,102 thousand for the comparative first nine months to Euro 6,839 thousand for the period ended 31 March 2017. In fact, during the period, Pipeworks Inc. solely performed services for the Group, consisting of quality assurance and live support for the Prominence Poker video game.

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

Labour costs were the most significant component of operating costs and amounted to Euro 3,409 thousand, which was lower than the figure reported for the period ended 31 March 2016 of Euro 3,804 thousand.

Depreciation and amortisation expense consists of the amortisation of intangible assets of Euro 117 thousand and the amortisation of development contracts arising from the allocation of goodwill recognised upon acquisition of Euro 329 thousand.

Higher margins generated by non-Group job orders in comparison to the favourable conditions pertaining to intercompany contracts enabled the operating segment to recognise a positive net operating margin of Euro 1,214 thousand compared to the negative margin of Euro 654 thousand reported for the comparative period.

## Premium Games

### Financial highlights (reclassified)

	Amounts in Euro thousand	Premium Games					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	70,749	104.4%	39,950	104.2%	30,799	77.1%
2	Revenue adjustments	(3,009)	-4.4%	(1,603)	-4.2%	(1,406)	87.7%
3	<b>Net revenue</b>	<b>67,740</b>	<b>100.0%</b>	<b>38,347</b>	<b>100.0%</b>	<b>29,393</b>	<b>76.6%</b>
4	Purchase of products for resale	(14,683)	-21.7%	(4,963)	-12.9%	(9,720)	n.m.
5	Purchase of services for resale	(2,834)	-4.2%	(2,972)	-7.7%	138	-4.6%
6	Royalties	(27,114)	-40.0%	(11,911)	-31.1%	(15,203)	n.m.
7	Changes in inventories of finished products	2,098	3.1%	(1,011)	-2.6%	3,109	n.m.
8	<b>Total cost of sales</b>	<b>(42,533)</b>	<b>-62.8%</b>	<b>(20,857)</b>	<b>-54.4%</b>	<b>(21,676)</b>	<b>n.m.</b>
9	<b>Gross profit (3+8)</b>	<b>25,207</b>	<b>37.2%</b>	<b>17,490</b>	<b>45.6%</b>	<b>7,717</b>	<b>44.1%</b>
10	Other income	22	0.0%	86	0.2%	(64)	-74.4%
11	Cost of services	(4,874)	-7.2%	(4,027)	-10.5%	(847)	21.0%
12	Lease and rental charges	(447)	-0.7%	(385)	-1.0%	(62)	16.2%
13	Labour costs	(5,505)	-8.1%	(4,881)	-12.7%	(624)	12.8%
14	Other operating costs	(368)	-0.5%	(373)	-1.0%	5	-1.5%
15	<b>Total operating costs</b>	<b>(11,194)</b>	<b>-16.5%</b>	<b>(9,666)</b>	<b>-25.2%</b>	<b>(1,528)</b>	<b>15.8%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>14,035</b>	<b>20.7%</b>	<b>7,910</b>	<b>20.6%</b>	<b>6,125</b>	<b>77.4%</b>
17	Depreciation and amortisation	(1,849)	-2.7%	(883)	-2.3%	(966)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(1,849)</b>	<b>-2.7%</b>	<b>(883)</b>	<b>-2.3%</b>	<b>(966)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>12,186</b>	<b>18.0%</b>	<b>7,027</b>	<b>18.3%</b>	<b>5,159</b>	<b>73.4%</b>

Revenue reported by the Premium Games operating segment amounted to Euro 70,749 thousand, having increased by 77.1%, that is, by Euro 30,799 thousand with respect to the amount reported for the period ended 31 March 2016 of Euro 39,950 thousand.

Details are provided below of gross revenue by video game:

<b>Amounts in Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
Rocket League	23,197	0	23,197
Terraria	10,718	13,779	(3,061)
Assetto Corsa	10,339	0	10,339
PAYDAY 2	10,050	14,260	(4,210)
Sniper Elite V3	4,586	6,618	(2,032)
Abzu	4,218	0	4,218
How to Survive	1,774	954	820
Portal Knights	1,504	758	746
Brothers	1,025	2,092	(1,067)
Other products	3,338	1,489	1,849
<b>Total Premium Games gross revenue</b>	<b>70,749</b>	<b>39,950</b>	<b>30,799</b>

The operating segment's revenue was substantially boosted by sales of products launched in the period, namely Assetto Corsa (Euro 10,339 thousand) and Abzu (Euro 4,218 thousand). However, the product that generated the highest volumes in the period was Rocket League (retail versions for the Sony Playstation 4 and Microsoft Xbox One platforms), which produced revenue of Euro 23,197 thousand. This video game, which was launched in June 2016, has remained in the international video games sales charts throughout the period.

The video games, which have been drivers of the Group's results in recent years, that is, PAYDAY 2 and Terraria, continued to generate revenue in the period of Euro 10,050 thousand and Euro 10,718 thousand, respectively, despite the fact that they were launched years ago, providing proof of the extremely long lifespan that products may now count on following the digitalisation of the market.

Of note, with a view to the future, is the trend in sales of Portal Knights, which was designed and created internally and the intellectual property of which is fully held by the Group. During the period, only an Early Access PC version of the game was available on the Steam marketplace and it generated revenue of Euro 1,504 thousand. The final PC version of the video game, together with the brand new console versions, shall be available as from the fourth quarter.

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

<b>Revenue (in Euro thousand)</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	
Retail distribution revenue	41,987	14,752	27,235	n.m.
Digital distribution revenue	25,300	24,962	338	1.4%
Sub-licensing revenue	3,462	236	3,226	n.m.
<b>Total Premium Games revenue</b>	<b>70,749</b>	<b>39,950</b>	<b>30,799</b>	<b>77.1%</b>

Details are provided below of digital distribution revenue by digital marketplace for the period ended 31 March 2017:

<b>Revenue (in Euro thousand)</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
Sony Playstation Network	10,642	6,342	4,300
Microsoft Xbox Live	6,771	6,508	263
Steam	4,417	7,544	(3,127)
iTunes	1,433	2,284	(851)
Google	714	955	(241)
Other marketplaces	1,323	1,329	(6)
<b>Total digital distribution revenue</b>	<b>25,300</b>	<b>24,962</b>	<b>338</b>

Sub-licensing revenue grew significantly by Euro 3,226 thousand and arose from the sale of exploitation rights for the Terraria video game for China and from the recent sale of Terraria and PAYDAY 2 rights for the Microsoft Game Pass platform.

Revenue adjustments have gone from Euro 1,603 thousand to Euro 3,009 thousand for the period ended 31 March 2017. This line item includes an estimate of credit notes for unsold products that the Group has forecast that it will have to issue to customers in the near future. Expressed as a percentage of retail distribution revenue, the figure for the period of 4.4% is in line with market trends, especially following the launch of new products, and is also in line with the prior year figure of 4.2%. The operating segment's net revenue grew by 76.6%.

The significant increase in royalty costs of Euro 15,203 thousand, which have more than doubled compared to prior year, is attributable to an increased weighting of revenue from products, which, due to the nature of the contracts entered into and the lower risks that the Group assumes, have higher than average royalty percentages applied thereto. Cost of sales increased by Euro 21,676 thousand, thus giving rise to growth in the operating segment's gross profit of 44.1% to Euro 25,207 thousand.

Operating costs increased by Euro 1,528 thousand, mainly due to an increase in cost of services of Euro 847 thousand, which was attributable to higher advertising expenditure following the launch of new products.

The gross operating margin amounted to Euro 14,035 thousand and increased by 77.4%.

Non-monetary operating costs rose by Euro 966 thousand due to an increase in amortisation of intellectual property acquired by the Group, bringing the operating margin to Euro 12,186 thousand, representing an increase of 73.4% and equating to 18% of net revenue.

## Free to Play

### Financial highlights (reclassified)

Amounts in Euro thousand		Free to Play					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	5,845	100.0%	3,426	100.0%	2,419	70.6%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
<b>3</b>	<b>Net revenue</b>	<b>5,845</b>	<b>100.0%</b>	<b>3,426</b>	<b>100.0%</b>	<b>2,419</b>	<b>n.m.</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(1,929)	-33.0%	(980)	-28.6%	(949)	n.m.
6	Royalties	(207)	-3.5%	(2,645)	-77.2%	2,438	-92.2%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of sales</b>	<b>(2,136)</b>	<b>-36.5%</b>	<b>(3,625)</b>	<b>-105.8%</b>	<b>1,489</b>	<b>-41.1%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>3,709</b>	<b>63.5%</b>	<b>(199)</b>	<b>-5.8%</b>	<b>3,908</b>	<b>n.m.</b>
10	Other income	776	13.3%	685	20.0%	91	13.2%
11	Cost of services	(844)	-14.4%	(641)	-18.7%	(203)	31.8%
12	Lease and rental charges	(49)	-0.8%	(55)	-1.6%	6	-11.0%
13	Labour costs	(3,310)	-56.6%	(2,178)	-63.6%	(1,132)	52.0%
14	Other operating costs	(55)	-0.9%	(51)	-1.5%	(4)	6.3%
<b>15</b>	<b>Total operating costs</b>	<b>(4,258)</b>	<b>-72.8%</b>	<b>(2,925)</b>	<b>-85.4%</b>	<b>(1,333)</b>	<b>45.6%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>227</b>	<b>3.9%</b>	<b>(2,439)</b>	<b>-71.2%</b>	<b>2,666</b>	<b>n.m.</b>
17	Depreciation and amortisation	(2,020)	-34.6%	(1,036)	-30.2%	(984)	95.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(27)	-0.5%	(425)	-12.4%	398	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	17.2%	(588)	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(2,047)</b>	<b>-35.0%</b>	<b>(873)</b>	<b>-25.5%</b>	<b>(1,174)</b>	<b>n.m.</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(1,820)</b>	<b>-31.1%</b>	<b>(3,312)</b>	<b>-96.7%</b>	<b>1,492</b>	<b>-45.0%</b>

The percentage growth in revenue reported by the Free to Play operating segment was significant and, in fact, it increased by 70% from Euro 3,426 thousand reported in the comparative first nine months to Euro 5,845 thousand in the period just ended. This operating segment also benefited from the launch of new products such as Hawken and Prominence Poker, even though the video game that generated the largest portion of revenue was Gems of War, which was launched in November 2014 and which generated revenue in the period of Euro 2,476 thousand.

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

<b>Revenue (in Euro thousand)</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
Gems of War	2,476	893	1,583
Battle Ages	847	0	847
Battle Islands	935	2,070	(1,135)
Prominence Poker	838	0	838
Hawken	569	0	569
Other products	180	463	(283)
<b>Total Free to Play revenue</b>	<b>5,845</b>	<b>3,426</b>	<b>2,419</b>

The Battle Ages and Battle Islands video games, which were developed by the subsidiary DR Studios Ltd., contributed revenue for the period of Euro 847 thousand and Euro 935 thousand, respectively.

The impact on revenue for the period generated by the two games launched in the period, Prominence Poker and Hawken, was Euro 838 thousand and Euro 569 thousand, respectively. With specific reference to the second of the two, in view of the potential that the video game is deemed to have, a new organisational unit, Hawken Entertainment Inc., has been set up, through which the exploitation rights for the intellectual property have been purchased.

Cost of sales solely consists of purchases of services and royalties. The former, which amounted to Euro 1,929 thousand in the period, consist of localisation, ratings and quality assurance costs, as well as costs incurred for live support services. Details are provided below of cost of services by category:

<b>Amounts in Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
Live support	897	466	431
Quality assurance	139	198	-59
Hosting	685	179	506
Other	208	137	71
<b>Total</b>	<b>1,929</b>	<b>980</b>	<b>949</b>

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

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

Operating costs mainly consist of advertising costs incurred to acquire new gamers, as well as labour costs. The former increased in the period by Euro 203 thousand, whereas the latter increased by Euro 1,132 thousand (52%) compared to comparative prior year figures, in line with the increase in the number of the operating segment's employees, partially impacted by professional staff hired by the newly formed Hawken Entertainment Inc.

Depreciation and amortisation increased by Euro 984 thousand and consisted of the following:

<b>Amounts in Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
Amortisation of Battle Islands	327	667	(340)
Amortisation of intangible assets	1,669	328	1,341
Depreciation of property, plant and equipment	24	41	(17)
<b>Total</b>	<b>2,020</b>	<b>1,036</b>	<b>984</b>

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

The operating loss for the period amounted to Euro 1,820 thousand, being a significant improvement on the operating loss for the period ended 31 March 2016 of Euro 3,312 thousand.

## Italian Distribution

### Financial highlights (reclassified)

	Amounts in Euro thousand	Italian Distribution					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	14,959	110.0%	16,293	106.7%	(1,334)	-8.2%
2	Revenue adjustments	(1,361)	-10.0%	(1,026)	-6.7%	(335)	32.6%
<b>3</b>	<b>Net revenue</b>	<b>13,598</b>	<b>100.0%</b>	<b>15,267</b>	<b>100.0%</b>	<b>(1,669)</b>	<b>-10.9%</b>
4	Purchase of products for resale	(10,174)	-74.8%	(11,409)	-74.7%	1,235	-10.8%
5	Purchase of services for resale	(517)	-3.8%	0	0.0%	(517)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	1,306	9.6%	(153)	-1.0%	1,459	n.m.
<b>8</b>	<b>Total cost of sales</b>	<b>(9,385)</b>	<b>-69.0%</b>	<b>(11,562)</b>	<b>-75.7%</b>	<b>2,177</b>	<b>-18.8%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>4,213</b>	<b>31.0%</b>	<b>3,705</b>	<b>24.3%</b>	<b>508</b>	<b>13.7%</b>
10	Other income	28	0.2%	53	0.3%	(25)	-46.4%
11	Cost of services	(1,251)	-9.2%	(1,563)	-10.2%	312	-20.0%
12	Lease and rental charges	(33)	-0.2%	(46)	-0.3%	13	-28.6%
13	Labour costs	(1,183)	-8.7%	(1,277)	-8.4%	94	-7.4%
14	Other operating costs	(156)	-1.1%	(178)	-1.2%	22	-12.6%
<b>15</b>	<b>Total operating costs</b>	<b>(2,623)</b>	<b>-19.3%</b>	<b>(3,064)</b>	<b>-20.1%</b>	<b>441</b>	<b>-14.4%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>1,618</b>	<b>11.9%</b>	<b>694</b>	<b>4.5%</b>	<b>924</b>	<b>n.m.</b>
17	Depreciation and amortisation	(184)	-1.3%	(135)	-0.9%	(49)	35.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(405)	-3.0%	0	0.0%	(405)	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(589)</b>	<b>-4.3%</b>	<b>(135)</b>	<b>-0.9%</b>	<b>(454)</b>	<b>n.m.</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>1,029</b>	<b>7.6%</b>	<b>559</b>	<b>3.7%</b>	<b>470</b>	<b>84.0%</b>

The decrease in revenue reported by the Italian Distribution operating segment was attributable to a fall in revenue generated by the distribution of video games. In the comparative prior year period the operating segment had in fact benefited from the simultaneous launch of PES 2016 and Metal Gear Solid. Trading cards revenue, however, grew by 21.9%.

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

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	
Distribution of video games for consoles	9,230	11,474	(2,244)	-19.6%
Distribution of video games for PC	604	452	152	33.6%
Distribution of trading cards	4,726	3,879	847	21.8%
Distribution of other products and services	418	519	(101)	-19.4%
Cash discounts	(19)	(31)	12	-39.8%
<b>Total gross Italian Distribution revenue</b>	<b>14,959</b>	<b>16,293</b>	<b>(1,334)</b>	<b>-8.2%</b>

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

<b>Revenue (in Euro thousand)</b>	<b>Period ended 31 March 2017</b>		<b>Period ended 31 March 2016</b>		<b>Change</b>	
	<b>Units</b>	<b>Revenue</b>	<b>Units</b>	<b>Revenue</b>	<b>Units</b>	<b>Revenue</b>
Sony Playstation 4	196,269	6,436	154,989	6,281	26.6%	2.5%
Sony Playstation 3	38,147	908	112,348	2,530	-66.0%	-64.1%
Microsoft Xbox One	34,926	1,174	30,969	1,165	12.8%	0.7%
Microsoft Xbox 360	25,090	416	63,795	1,235	-60.7%	-66.3%
Other consoles	67,626	297	32,983	263	n.m.	n.m.
<b>Total console revenue</b>	<b>362,058</b>	<b>9,231</b>	<b>395,084</b>	<b>11,474</b>	<b>-8.4%</b>	<b>-19.6%</b>

The operating segment reported a decrease in revenue arising from the distribution of video games for consoles of Euro 2,249 thousand. Sales of Yu-Gi-Oh! trading cards increased by Euro 848 thousand.

Net revenue amounted to Euro 13,598 thousand, down by 10.9% on the prior year figure.

The 18.8% decrease in cost of sales, which exceeded the percentage fall in revenue, gave rise to an increase in the operating segment's gross profit of 13.7% to Euro 4,213 thousand.

Operating costs fell by 14.4% in the period to Euro 441 thousand. The decrease was mainly due to a reduction in cost of services of Euro 312 thousand and in labour costs of Euro 94 thousand.

Non-monetary operating costs rose by Euro 454 thousand mainly due to the impact of the allocation to the provision for doubtful debts, to take account of the potential loss arising from the bankruptcy of certain customers.

The operating margin increased by Euro 470 thousand, having gone from the figure reported for the period ended 31 March 2016 of Euro 559 thousand to Euro 1,029 thousand for the period just ended.

## Other Activities

### Financial highlights (reclassified)

Amounts in Euro thousand		Other Activities					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	620	214.1%	510	111.2%	110	21.5%
2	Revenue adjustments	(330)	-114.1%	(51)	-11.2%	(279)	n.m.
3	<b>Net revenue</b>	<b>290</b>	<b>100.0%</b>	<b>459</b>	<b>100.0%</b>	<b>(169)</b>	<b>-36.9%</b>
4	Purchase of products for resale	0	0.1%	0	0.1%	0	0.0%
5	Purchase of services for resale	(145)	-50.0%	(78)	-17.0%	(67)	85.2%
6	Royalties	(58)	-20.0%	(92)	-20.1%	34	-37.2%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	<b>Total cost of sales</b>	<b>(203)</b>	<b>-70.2%</b>	<b>(170)</b>	<b>-37.0%</b>	<b>(33)</b>	<b>19.6%</b>
9	<b>Gross profit (3+8)</b>	<b>87</b>	<b>30.2%</b>	<b>289</b>	<b>63.0%</b>	<b>(202)</b>	<b>-69.8%</b>
10	Other income	0	0.0%	177	38.5%	(177)	0.0%
11	Cost of services	(799)	-275.9%	(2,468)	-537.8%	1,669	-67.6%
12	Lease and rental charges	(15)	-5.1%	(16)	-3.6%	1	-10.1%
13	Labour costs	(615)	-212.3%	(400)	-87.1%	(215)	53.8%
14	Other operating costs	(36)	-12.5%	(54)	-11.8%	18	-33.0%
15	<b>Total operating costs</b>	<b>(1,465)</b>	<b>-505.9%</b>	<b>(2,938)</b>	<b>-640.3%</b>	<b>1,473</b>	<b>-50.1%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(1,378)</b>	<b>-476.0%</b>	<b>(2,472)</b>	<b>-538.6%</b>	<b>1,094</b>	<b>-44.2%</b>
17	Depreciation and amortisation	(282)	-97.5%	(188)	-40.9%	(94)	50.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(282)</b>	<b>-97.5%</b>	<b>(188)</b>	<b>-40.9%</b>	<b>(94)</b>	<b>50.4%</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(1,660)</b>	<b>-573.1%</b>	<b>(2,660)</b>	<b>-579.7%</b>	<b>1,000</b>	<b>-37.6%</b>

The Other Activities operating segment's revenue amounted to Euro 620 thousand and related to sales generated by the Daily Fantasy Sport Fantasfida and revenue generated by specialisation courses organised by Digital Bros Game Academy S.r.l.

Revenue adjustments consist entirely of taxes paid on revenues earned by the portals [www.gameplaza.it](http://www.gameplaza.it) and [www.fantasfida.it](http://www.fantasfida.it).

Operating costs decreased by Euro 1,473 thousand from Euro 2,938 thousand to Euro 1,465 thousand due to the fact that in the comparative prior year period significant costs had been incurred of Euro 2,572 thousand for the Italian launch of Fantasfida.

The negative operating margin amounted to Euro 1,660 thousand compared to the negative operating margin of Euro 2,660 thousand reported for the period ended 31 March 2016, representing an improvement of Euro 1,000 thousand.

### **Holding**

#### *Financial highlights (reclassified)*

	Amounts in Euro thousand	Holding					
		Period ended 31 March 2017		Period ended 31 March 2016		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
<b>3</b>	<b>Net revenue</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
<b>8</b>	<b>Total cost of sales</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Cost of services	(1,164)	0.0%	(935)	0.0%	(229)	24.5%
12	Lease and rental charges	(560)	0.0%	(548)	0.0%	(12)	2.3%
13	Labour costs	(2,184)	0.0%	(2,061)	0.0%	(123)	5.9%
14	Other operating costs	(839)	0.0%	(346)	0.0%	(493)	n.m.
<b>15</b>	<b>Total operating costs</b>	<b>(4,747)</b>	<b>0.0%</b>	<b>(3,890)</b>	<b>0.0%</b>	<b>(857)</b>	<b>22.0%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>(4,747)</b>	<b>0.0%</b>	<b>(3,890)</b>	<b>0.0%</b>	<b>(857)</b>	<b>22.0%</b>
17	Depreciation and amortisation	(167)	0.0%	(103)	0.0%	(64)	61.5%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary income and operating costs</b>	<b>(167)</b>	<b>0.0%</b>	<b>(103)</b>	<b>0.0%</b>	<b>(64)</b>	<b>61.5%</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>(4,914)</b>	<b>0.0%</b>	<b>(3,993)</b>	<b>0.0%</b>	<b>(921)</b>	<b>23.0%</b>

Operating costs amounted to Euro 4,747 thousand, representing an increase compared to the comparative prior year figure of Euro 857 thousand. The increase is mainly due to fees of Euro 516 thousand incurred by 505 Games S.p.A. in connection with the sale and purchase of Starbreeze shares during the course of the period as well as costs incurred for the preparation of the share incentive plan and for the acquisition of Kunos Simulazioni S.r.l.

Depreciation and amortisation increased by Euro 64 thousand due to the depreciation of the Eugene property, which is used by the subsidiary Pipeworks Inc., and the amortisation of expenditure incurred by the Group on ERP systems in the second half of the last financial year.

## 7. ANALYSIS OF RESULTS FOR THE THIRD QUARTER OF THE FINANCIAL YEAR 2016/2017

The results posted by the Group in the third quarter of the year, compared with the third quarter of the previous year, are shown below:

	Euro thousand	3rd quarter 2016/2017		3rd quarter 2015/2016		Change	
1	Gross revenue	33,869	103.8%	15,991	101.8%	17,878	n.m.
2	Revenue adjustments	(1,247)	-3.8%	(284)	-1.8%	(963)	n.m.
3	<b>Net revenue</b>	<b>32,622</b>	<b>100.0%</b>	<b>15,707</b>	<b>100.0%</b>	<b>16,915</b>	<b>n.m.</b>
4	Purchase of products for resale	(9,170)	-28.1%	(4,282)	-27.3%	(4,888)	n.m.
5	Purchase of services for resale	(3,341)	-10.2%	(1,153)	-7.3%	(2,189)	n.m.
6	Royalties	(9,466)	-29.0%	(6,679)	-42.5%	(2,787)	41.7%
7	Changes in inventories of finished products	2,257	6.9%	521	3.3%	1,736	n.m.
8	<b>Total cost of sales</b>	<b>(19,720)</b>	<b>-60.4%</b>	<b>(11,592)</b>	<b>-73.8%</b>	<b>(8,127)</b>	<b>70.1%</b>
9	<b>Gross profit (3+8)</b>	<b>12,902</b>	<b>39.5%</b>	<b>4,115</b>	<b>26.2%</b>	<b>8,787</b>	<b>n.m.</b>
10	Other income	550	1.7%	1,602	10.2%	(1,052)	-65.7%
11	Cost of services	(3,021)	-9.3%	(3,103)	-19.8%	82	-2.6%
12	Lease and rental charges	(376)	-1.2%	(375)	-2.4%	(2)	0.5%
13	Labour costs	(5,803)	-17.8%	(4,765)	-30.3%	(1,038)	21.8%
14	Other operating costs	(348)	-1.1%	(369)	-2.4%	22	-5.8%
15	<b>Total operating costs</b>	<b>(9,548)</b>	<b>-29.3%</b>	<b>(8,612)</b>	<b>-54.8%</b>	<b>(936)</b>	<b>10.9%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>3,904</b>	<b>12.0%</b>	<b>(2,895)</b>	<b>-18.4%</b>	<b>6,799</b>	<b>n.m.</b>
17	Depreciation and amortisation	(1,753)	-5.4%	(1,007)	-6.4%	(746)	74.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(27)	-0.1%	0	0.0%	(27)	n.m.
20	Reversal of impairment losses	(0)	0.0%	0	0.0%	(0)	0.0%
21	<b>Total non-monetary operating costs</b>	<b>(1,780)</b>	<b>-5.5%</b>	<b>(1,007)</b>	<b>-6.4%</b>	<b>(773)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>2,124</b>	<b>6.5%</b>	<b>(3,902)</b>	<b>-24.8%</b>	<b>6,026</b>	<b>n.m.</b>
23	Interest income	137	0.4%	602	3.8%	(465)	-77.2%
24	Interest expense	(1,143)	-3.5%	(357)	-2.3%	(786)	n.m.
25	<b>Total net interest</b>	<b>(1,006)</b>	<b>-3.1%</b>	<b>245</b>	<b>1.6%</b>	<b>(1,251)</b>	<b>n.m.</b>
26	<b>Profit before tax (22+25)</b>	<b>1,118</b>	<b>3.4%</b>	<b>(3,657)</b>	<b>-23.3%</b>	<b>4,775</b>	<b>n.m.</b>
27	Current tax	(848)	-2.6%	549	3.5%	(1,397)	n.m.
28	Deferred tax	118	0.4%	568	3.6%	(450)	-79.1%
29	<b>Total income tax expense</b>	<b>(730)</b>	<b>-2.2%</b>	<b>1,117</b>	<b>7.1%</b>	<b>(1,848)</b>	<b>n.m.</b>
30	<b>Profit for the period (26+29)</b>	<b>388</b>	<b>1.2%</b>	<b>(2,540)</b>	<b>-16.2%</b>	<b>2,929</b>	<b>n.m.</b>
	<b>Earnings per share:</b>						
33	<b>Basic earnings per share (in euros)</b>	<b>0.03</b>		<b>(0.18)</b>		<b>0.21</b>	<b>n.m.</b>
34	<b>Diluted earnings per share (in euros)</b>	<b>0.03</b>		<b>(0.18)</b>		<b>0.21</b>	<b>n.m.</b>

Revenue for the third quarter more than doubled, having gone from Euro 15,991 thousand to Euro 33,869 thousand Euro.

The increase in cost of sales of 70.1% was lower than the increase in revenue, giving rise to an upturn in gross profit of Euro 8,787 thousand.

Operating costs increased by 10.9% to Euro 9,548 thousand. The gross operating margin amounted to Euro 3,904 thousand compared to the negative margin reported for the prior year third quarter of Euro 3,904 thousand.

Profit for the quarter came to Euro 388 thousand compared to a loss of Euro 2,540 thousand for the prior year third quarter following the recognition of a loss arising from the measurement of Starbreeze shares of Euro 831 thousand.

Commentary on the performances of the three main business segments in the third quarter is provided below.

## Premium Games

The Premium Games operating segment's results for the third quarter, together with prior year comparatives, are set out below:

	Amounts in Euro thousand	Premium Games					
		3rd quarter 2016/2017		3rd quarter 2015/2016		Change	
1	Revenue	23,214	103.0%	11,732	102.4%	11,482	97.9%
2	Revenue adjustments	(676)	-3.0%	(275)	-2.4%	(401)	0.0%
<b>3</b>	<b>Total revenue</b>	<b>22,538</b>	<b>100.0%</b>	<b>11,457</b>	<b>100.0%</b>	<b>11,081</b>	<b>96.7%</b>
4	Purchase of products for resale	(5,616)	-24.9%	(1,067)	-9.3%	(4,549)	n.m.
5	Purchase of services for resale	(689)	-3.1%	(600)	-5.2%	(90)	15.0%
6	Royalties	(9,447)	-41.9%	(4,359)	-38.0%	(5,088)	n.m.
7	Changes in inventories of finished products	1,451	6.4%	(527)	-4.6%	1,979	n.m.
<b>8</b>	<b>Total cost of sales</b>	<b>(14,301)</b>	<b>-63.5%</b>	<b>(6,553)</b>	<b>-57.2%</b>	<b>(7,748)</b>	<b>n.m.</b>
<b>9</b>	<b>Gross profit (3+8)</b>	<b>8,238</b>	<b>36.5%</b>	<b>4,904</b>	<b>42.8%</b>	<b>3,333</b>	<b>68.0%</b>
10	Other income	8	0.0%	48	0.4%	(39)	-82.8%
11	Cost of services	(1,528)	-6.8%	(1,739)	-15.2%	211	-12.1%
12	Lease and rental charges	(154)	-0.7%	(134)	-1.2%	(20)	15.0%
13	Labour costs	(1,893)	-8.4%	(1,512)	-13.2%	(381)	25.2%
14	Other operating costs	(121)	-0.5%	(117)	-1.0%	(4)	3.8%
<b>15</b>	<b>Total operating costs</b>	<b>(3,697)</b>	<b>-16.4%</b>	<b>(3,502)</b>	<b>-30.6%</b>	<b>(195)</b>	<b>5.6%</b>
<b>16</b>	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>4,549</b>	<b>20.2%</b>	<b>1,450</b>	<b>12.7%</b>	<b>3,099</b>	<b>n.m.</b>
17	Depreciation and amortisation	(635)	-2.8%	(308)	-2.7%	(327)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses	0	0.0%	0	0.0%	0	0.0%
<b>21</b>	<b>Total non-monetary operating costs</b>	<b>(635)</b>	<b>-2.8%</b>	<b>(308)</b>	<b>-2.7%</b>	<b>(327)</b>	<b>n.m.</b>
<b>22</b>	<b>Operating margin (EBIT) (16+21)</b>	<b>3,914</b>	<b>17.4%</b>	<b>1,142</b>	<b>10.0%</b>	<b>2,772</b>	<b>n.m.</b>

Gross revenue reported by the Premium Games operating segment increased by Euro 11,482 thousand compared to the prior year third quarter, whereas net revenue increased by Euro 11,081 thousand, having gone from Euro 11,457 thousand to Euro 22,538 thousand for the quarter just ended. Gross profit amounted to Euro 8,238 thousand versus Euro 4,904 thousand reported for the prior year third quarter.

Operating costs increased by just Euro 195 thousand, whereas non-monetary operating costs increased by Euro 327 thousand, resulting in an operating margin of Euro 3,914 thousand, compared to a negative operating margin of Euro 1,142 thousand for the prior year third quarter.

### ***Free to Play***

The Free to Play operating segment's results for the third quarter, together with prior year comparatives, are set out below:

Amounts in Euro thousand		Free to Play					
		3rd quarter 2016/2017		3rd quarter 2015/2016		Change	
1	Revenue	1,979	100.0%	1,543	100.0%	436	28.2%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	<b>Total revenue</b>	<b>1,979</b>	<b>100.0%</b>	<b>1,543</b>	<b>100.0%</b>	<b>436</b>	<b>28.2%</b>
4	Purchase of products for resale	0	0.0%	(0)	0.0%	0	0.0%
5	Purchase of services for resale	(677)	-34.2%	(447)	-28.9%	(230)	51.6%
6	Royalties	0	0.0%	(2,285)	-148.1%	2,285	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	<b>Total cost of sales</b>	<b>(677)</b>	<b>-34.2%</b>	<b>(2,732)</b>	<b>-177.0%</b>	<b>2,055</b>	<b>-75.2%</b>
9	<b>Gross profit (3+8)</b>	<b>1,302</b>	<b>65.8%</b>	<b>(1,188)</b>	<b>-77.0%</b>	<b>2,491</b>	<b>n.m.</b>
10	Other income	279	14.1%	283	18.4%	(4)	-1.5%
11	Cost of services	(371)	-18.7%	(168)	-10.9%	(203)	n.m.
12	Lease and rental charges	(16)	-0.8%	(15)	-1.0%	(1)	1.9%
13	Labour costs	(1,062)	-53.7%	(706)	-45.8%	(356)	50.5%
14	Other operating costs	(20)	-1.0%	(15)	-0.9%	(6)	38.2%
15	<b>Total operating costs</b>	<b>(1,469)</b>	<b>-74.2%</b>	<b>(904)</b>	<b>-58.6%</b>	<b>(565)</b>	<b>62.4%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>112</b>	<b>5.7%</b>	<b>(1,809)</b>	<b>-117.2%</b>	<b>1,922</b>	<b>n.m.</b>
17	Depreciation and amortisation	(730)	-36.9%	(377)	-24.5%	(353)	93.5%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(27)	-1.4%	(0)	0.0%	(27)	0.0%
20	Reversal of impairment losses	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary operating costs</b>	<b>(757)</b>	<b>-38.3%</b>	<b>(378)</b>	<b>-24.5%</b>	<b>(380)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>(645)</b>	<b>-32.6%</b>	<b>(2,187)</b>	<b>-141.7%</b>	<b>1,542</b>	<b>-70.5%</b>

Revenue reported by the Free to Play operating segment amounted to Euro 1,979 thousand, having increased by 28.2% compared to the prior year third quarter.

The most significant component consists of revenue arising from sales of the Gems of War video game, which generated revenue of Euro 974 thousand.

Cost of sales fell by Euro 2,055 thousand, as a result of a decrease in royalty costs of Euro 2,285 thousand only partially countered by an increase in the cost of services for resale of Euro 230 thousand. Royalty costs for the prior year third quarter were significantly influenced by costs triggered by the early termination of development contracts that did not recur in the current period. Despite the revenue growth, no royalty costs were incurred, given that the revenue was generated by products for which the

intellectual property belonged to the Group, such as Battle Islands, Battle Ages and Prominence Poker or products such as Gems of War, for which the intellectual property does not belong to the Group, but for which net revenue was not sufficient enough to trigger royalty payments.

Gross profit for the third quarter came to Euro 1,302 thousand, compared to a prior year gross loss of Euro 1,188 thousand.

Operating costs increased by Euro 565 thousand compared to the same prior year period and non-monetary operating costs increased by Euro 380 thousand, resulting in a negative operating margin of Euro 645 thousand, representing a marked improvement compared to the negative operating margin of Euro 2,187 thousand euros for the prior year third quarter.

### *Italian Distribution*

The Italian Distribution operating segment's results for the third quarter, together with prior year comparatives, are set out below:

Amounts in Euro thousand		Italian Distribution					
		3rd quarter 2016/2017		3rd quarter 2015/2016		Change	
1	Revenue	4,484	111.6%	2,356	100.1%	2,127	90.3%
2	Revenue adjustments	(466)	-11.6%	(2)	-0.1%	(465)	0.0%
3	<b>Total revenue</b>	<b>4,018</b>	<b>100.0%</b>	<b>2,355</b>	<b>100.0%</b>	<b>1,663</b>	<b>70.6%</b>
4	Purchase of products for resale	(3,554)	-88.5%	(3,212)	-136.4%	(342)	0.0%
5	Purchase of services for resale	(265)	-6.6%	0	0.0%	(265)	n.m.
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	805	20.0%	1,048	44.5%	(244)	0.0%
8	<b>Total cost of sales</b>	<b>(3,014)</b>	<b>-75.0%</b>	<b>(2,164)</b>	<b>-91.9%</b>	<b>(850)</b>	<b>39.3%</b>
9	<b>Gross profit (3+8)</b>	<b>1,004</b>	<b>25.0%</b>	<b>191</b>	<b>8.1%</b>	<b>813</b>	<b>n.m.</b>
10	Other income	6	0.2%	35	1.5%	(29)	-82.8%
11	Cost of services	(397)	-9.9%	(359)	-15.3%	(38)	10.6%
12	Lease and rental charges	(10)	-0.3%	(15)	-0.6%	5	-32.2%
13	Labour costs	(416)	-10.3%	(382)	-16.2%	(34)	8.8%
14	Other operating costs	(64)	-1.6%	(58)	-2.5%	(6)	10.3%
15	<b>Total operating costs</b>	<b>(887)</b>	<b>-22.1%</b>	<b>(814)</b>	<b>-34.6%</b>	<b>(73)</b>	<b>8.9%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>122</b>	<b>3.0%</b>	<b>(588)</b>	<b>-25.0%</b>	<b>711</b>	<b>n.m.</b>
17	Depreciation and amortisation	(82)	-2.0%	(49)	-2.1%	(32)	64.9%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment losses	0	0.0%	0	0.0%	0	0.0%
21	<b>Total non-monetary operating costs</b>	<b>(82)</b>	<b>-2.0%</b>	<b>(49)</b>	<b>-2.1%</b>	<b>(32)</b>	<b>64.9%</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>41</b>	<b>1.0%</b>	<b>(638)</b>	<b>-27.1%</b>	<b>679</b>	<b>n.m.</b>

The significant growth in revenue arising from the distribution of trading cards in the quarter gave rise to growth in gross revenue in the quarter of 90.2% as detailed below:

<b>Euro thousand</b>	<b>3rd quarter 2015/2016</b>	<b>3rd quarter 2014/2015</b>	<b>Change</b>	
Distribution of video games for consoles	1,661	1,369	292	21.3%
Distribution of video games for PC-CDRom	36	53	-17	-32.1%
Distribution of trading cards	2,642	858	1,784	n.m.
Distribution of other products and services	151	83	68	81.9%
Cash discounts	(6)	(6)	0	0.0%
<b>Total gross Italian Distribution revenue</b>	<b>4,484</b>	<b>2,357</b>	<b>2,127</b>	<b>90.2%</b>

The operating segment's cost of sales for the quarter increased by Euro 850 thousand, which was lower than the increase in revenue, giving rise to an increase in gross profit of Euro 813 thousand to Euro 1,004 thousand compared with that reported for the prior year third quarter of Euro 191 thousand.

Operating costs increased by Euro 73 thousand, giving rise to a positive operating margin of Euro 41 thousand, representing an improvement of Euro 679 thousand compared to the operating loss of Euro 638 thousand reported for the prior year third quarter.

## **8. TREASURY SHARES**

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Pursuant to Art. 2428 paragraph 2.3 of the Italian Civil Code, it is hereby disclosed that at 31 March 2017 Digital Bros S.p.A. did not hold any treasury shares, given that the 130,247 treasury shares held at 30 June 2016 were sold during the period just ended.

## **9. RESEARCH AND DEVELOPMENT**

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During the period, the Group incurred research expenses of Euro 306 thousand and development expenses of Euro 3,727 thousand. The amounts incurred in the period ended 31 March 2016 were Euro 40 thousand and Euro 4,847 thousand, respectively.

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

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

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

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

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

## **11. SUBSEQUENT EVENTS**

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Details of subsequent events are as follows:

- on 4 April 2017, the Group entered into a worldwide console and mobile publishing agreement with Re-Logic for the Terraria: Otherworld video game, with the exclusion of the PC Steam version. The Group, through 505 Games, will act as publisher for Terraria: Otherworld by promoting and distributing the console and mobile version worldwide, and will also act as developer, through the subsidiary Pipeworks Inc., which will complete the development of the game with an initial estimated development budget of USD 4.8 million. The worldwide console and mobile publishing rights are for a minimum period of 5 years. The agreement provides for the payment of a royalty of 60% for digital version sales and of 30% for retail version sales. Pipeworks will benefit from a 5% royalty on global Terraria: Otherworld sales, including the PC version, which will be published directly by Re-Logic;
- on 6 April 2017, the Group sold the exclusive rights to Guangzhou Duoyi Network Co. Ltd. to sell in the Chinese market PC and mobile versions, with the exclusion of the PC Steam version, of Portal Knights, the intellectual property of which is fully owned by the Group. The Group will benefit from a 50% royalty, from a licensing fee and a guaranteed minimum. The agreement also provides for the development by Duoyi of a new version of the video game that the Chinese company and 505 Games will distribute in the Chinese market and in the rest of the world, respectively. Duoyi Co. Ltd. will localise and adapt Portal Knights for the Chinese market by summer 2017;
- on 3 May 2017, the Group entered into an agreement with Remedy Entertainment Ltd. for the worldwide production of a new video game, digital and retail versions of which will be launched for PlayStation 4, Xbox One and PC, including the Steam platform. The investment will amount to Euro 7.75 million and the Group will contribute to the development, marketing, production and distribution of all versions of the game worldwide. The agreement provides for the payment of a royalty equating to 45% of sales.

## **12. BUSINESS OUTLOOK**

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In the Premium Games operating segment, the Group, on the back of the excellent performance achieved by the Rocket League video game, has accelerated its search for potential products that have already been successfully launched in digital marketplaces and which are capable of replicating their performance in traditional international retail markets, having identified products such as Stardew Valley and Dead by Daylight, which will be released in the fourth quarter of the current financial year. In the fourth quarter, the Premium Games operating segment will also benefit from the launch of PC and console versions of Portal Knights, the intellectual property of which is owned by the Group.

Also in the fourth quarter, the American subsidiary Pipeworks Inc. will continue to deliver on contracts already acquired and will commence the development of Terraria: Otherworld, the evolution of the successful product produced by the Group in the last few years. The significant improvement in earnings that has already been achieved is expected to continue for the remainder of the financial year. An improvement in earnings is also expected to be achieved by the Italian Distribution and Free to Play operating segments, driven by expected revenue growth.

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

As a consequence of the foregoing, the Group's outlook is for turnover growth by the financial year end and a significant profit for the period, although the result will not replicate that achieved in the prior year, which had benefited from the sale of PAYDAY2 rights.

Net cash/debt is expected to remain broadly stable through to the financial year end despite net working capital investment needed in the last quarter for the global distribution of retail products and, thus, the foregoing is an improvement on that previously communicated.

### 13. OTHER INFORMATION

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#### EMPLOYEES

Below are details of the workforce at 31 March 2017 with comparative figures at 31 March 2016:

Category	31 March 2017	31 March 2016	Change
Managers	10	10	0
Office workers	234	228	6
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>248</b>	<b>242</b>	<b>6</b>

The same details for employees of the Group's foreign companies at 31 March 2017 with comparative figures at 31 March 2016 are as follows:

Category	31 March 2017	31 March 2016	Change
Managers	5	5	0
Office workers	171	172	(1)
<b>Total employees abroad</b>	<b>176</b>	<b>177</b>	<b>(1)</b>

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

Category	2017 average	2016 average	Change
Managers	10	10	0
Office workers	229	220	9
Blue-collar workers and apprentices	4	4	0
<b>Total employees</b>	<b>243</b>	<b>234</b>	<b>9</b>

The average headcount at foreign companies is as follows:

Category	2017 average	2016 average	Change
Managers	5	5	0
Office workers	170	164	6
<b>Total employees abroad</b>	<b>175</b>	<b>169</b>	<b>6</b>

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

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

#### ENVIRONMENT

At 31 March 2017, there were no issues of an environmental nature and as the Group's environment-related activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

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**Condensed consolidated financial statements  
for the period ended 31 March 2017**

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## FINANCIAL STATEMENTS

### Digital Bros Group

#### Consolidated statement of financial position as at 31 March 2017

	Euro thousand	31 March 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,895	7,032	(137)	-1.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	21,459	10,458	11,001	n.m.
4	Equity investments	1,370	898	472	52.6%
5	Non-current receivables and other assets	1,064	1,056	8	0.8%
6	Deferred tax assets	1,419	2,619	(1,200)	-45.8%
	<b>Total non-current assets</b>	<b>32,207</b>	<b>22,063</b>	<b>10,144</b>	<b>46.0%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(552)	(529)	(23)	4.4%
8	Non-current provisions	(27)	(36)	9	-25.3%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(579)</b>	<b>(817)</b>	<b>238</b>	<b>-29.1%</b>
	<b>Net working capital</b>				
10	Inventories	15,337	11,933	3,404	28.5%
11	Trade receivables	34,168	34,840	(672)	-1.9%
12	Current tax assets	2,330	2,019	311	15.4%
13	Other current assets	4,005	5,034	(1,029)	-20.4%
14	Trade payables	(31,174)	(21,712)	(9,462)	43.6%
15	Current tax liabilities	(5,151)	(6,211)	1,060	-17.1%
16	Current provisions	0	0	(0)	n.m.
17	Other current liabilities	(3,682)	(2,312)	(1,370)	59.3%
	<b>Total net working capital</b>	<b>15,833</b>	<b>23,591</b>	<b>(7,758)</b>	<b>-32.9%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	n.m.
19	Reserves	(20,208)	(20,804)	596	-2.9%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,753)	(22,290)	(7,463)	33.5%
	<b>Total equity</b>	<b>(55,665)</b>	<b>(48,348)</b>	<b>(7,317)</b>	<b>15.1%</b>
	<b>Total net assets</b>	<b>(8,204)</b>	<b>(3,511)</b>	<b>(4,693)</b>	<b>n.m.</b>
22	Cash and cash equivalents	8,985	2,785	6,200	n.m.
23	Current bank debt	(2,422)	(25,929)	23,507	-90.7%
24	Other current financial assets and liabilities	754	28,913	(28,159)	-97.4%
	<b>Current net cash/debt</b>	<b>7,317</b>	<b>5,769</b>	<b>1,548</b>	<b>26.8%</b>
25	Non-current financial assets	1,374	1,195	179	14.9%
26	Non-current bank debt	(443)	(1,558)	1,115	-71.6%
27	Other non-current financial liabilities	(44)	(1,895)	1,851	-97.7%
	<b>Non-current net cash/debt</b>	<b>887</b>	<b>(2,258)</b>	<b>3,145</b>	<b>n.m.</b>
	<b>Total net cash/debt</b>	<b>8,204</b>	<b>3,511</b>	<b>4,693</b>	<b>n.m.</b>

**Digital Bros Group**
**Consolidated statement of profit or loss for the period ended 31 March 2017**

	<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>		<b>Period ended 31 March 2016</b>		<b>Change</b>	
1	Gross revenue	99,012	105.0%	61,281	104.6%	37,731	61.6%
2	Revenue adjustments	(4,700)	-5.0%	(2,680)	-4.6%	(2,020)	75.3%
3	<b>Net revenue</b>	<b>94,312</b>	<b>100.0%</b>	<b>58,601</b>	<b>100.0%</b>	<b>35,711</b>	<b>60.9%</b>
4	Purchase of products for resale	(24,857)	-26.4%	(16,372)	-27.9%	(8,485)	51.8%
5	Purchase of services for resale	(7,394)	-7.8%	(4,438)	-7.6%	(2,956)	66.6%
6	Royalties	(27,379)	-29.0%	(14,648)	-25.0%	(12,731)	86.9%
7	Changes in inventories of finished products	3,404	3.6%	(1,164)	-2.0%	4,568	n.m.
8	<b>Total cost of sales</b>	<b>(56,226)</b>	<b>-59.6%</b>	<b>(36,622)</b>	<b>-62.5%</b>	<b>(19,604)</b>	<b>53.5%</b>
9	<b>Gross profit (3+8)</b>	<b>38,086</b>	<b>40.4%</b>	<b>21,979</b>	<b>37.5%</b>	<b>16,107</b>	<b>73.3%</b>
10	Other income	1,433	1.5%	4,366	7.5%	(2,933)	-67.2%
11	Cost of services	(9,237)	-9.8%	(9,847)	-16.8%	610	-6.2%
12	Lease and rental charges	(1,104)	-1.2%	(1,159)	-2.0%	55	-4.7%
13	Labour costs	(16,206)	-17.2%	(14,601)	-24.9%	(1,605)	11.0%
14	Other operating costs	(1,557)	-1.7%	(1,136)	-1.9%	(421)	37.1%
15	<b>Total operating costs</b>	<b>(28,104)</b>	<b>-29.8%</b>	<b>(26,743)</b>	<b>-45.6%</b>	<b>(1,361)</b>	<b>5.1%</b>
16	<b>Gross operating margin (EBITDA) (9+10+15)</b>	<b>11,415</b>	<b>12.1%</b>	<b>(398)</b>	<b>-0.7%</b>	<b>11,813</b>	<b>n.m.</b>
17	Depreciation and amortisation	(4,948)	-5.2%	(2,798)	-4.8%	(2,150)	76.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(432)	-0.5%	(425)	-0.7%	(7)	1.8%
20	Reversal of impairment losses and non-monetary income	0	0.0%	588	1.0%	(588)	0.0%
21	<b>Total non-monetary income and operating costs</b>	<b>(5,380)</b>	<b>-5.7%</b>	<b>(2,635)</b>	<b>-4.5%</b>	<b>(2,745)</b>	<b>n.m.</b>
22	<b>Operating margin (EBIT) (16+21)</b>	<b>6,035</b>	<b>6.4%</b>	<b>(3,033)</b>	<b>-5.2%</b>	<b>9,068</b>	<b>n.m.</b>
23	Interest and finance income	8,154	8.6%	2,574	4.4%	5,580	n.m.
24	Interest expense and finance costs	(2,398)	-2.5%	(1,222)	-2.1%	(1,176)	96.3%
25	<b>Net finance income (costs)</b>	<b>5,756</b>	<b>6.1%</b>	<b>1,352</b>	<b>2.3%</b>	<b>4,404</b>	<b>n.m.</b>
26	<b>Profit before tax (22+25)</b>	<b>11,791</b>	<b>12.5%</b>	<b>(1,681)</b>	<b>-2.9%</b>	<b>13,472</b>	<b>n.m.</b>
27	Current tax	(4,277)	-4.5%	(1,116)	-1.9%	(3,161)	n.m.
28	Deferred tax	270	0.3%	1,506	2.6%	(1,236)	-82.1%
29	<b>Total income tax expense</b>	<b>(4,007)</b>	<b>-4.2%</b>	<b>390</b>	<b>0.7%</b>	<b>(4,397)</b>	<b>n.m.</b>
30	<b>Profit for the period (26+29)</b>	<b>7,784</b>	<b>8.3%</b>	<b>(1,291)</b>	<b>-2.2%</b>	<b>9,075</b>	<b>n.m.</b>
	<b>Earnings per share:</b>						
33	<b>Basic earnings per share (in euros)</b>	<b>0.55</b>		<b>(0.09)</b>		<b>0.65</b>	<b>n.m.</b>
34	<b>Diluted earnings per share (in euros)</b>	<b>0.55</b>		<b>(0.09)</b>		<b>0.65</b>	<b>n.m.</b>

## Digital Bros Group

### Consolidated statement of comprehensive income for the period ended 31 March 2017

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>
<b>Profit (loss) for the period (A)</b>	<b>7,784</b>	<b>(1,291)</b>	<b>9,075</b>
<b>Items that will not be reclassified subsequently to profit or loss (B)</b>			
Actuarial gain (loss)	8	(4)	12
Income tax relating to the actuarial gain (loss)	(2)	1	(3)
Exchange differences on translation of foreign operations	152	(554)	706
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as available for sale	(3,075)	1,472	(4,547)
Income tax relating to the fair value measurement of shares designated as available for sale	845	(405)	1,250
<b>Items that may be reclassified subsequently to profit or loss (C)</b>	<b>(2,072)</b>	<b>510</b>	<b>(2,582)</b>
<b>Total other comprehensive income D = (B)+(C)</b>	<b>(2,072)</b>	<b>510</b>	<b>(2,582)</b>
<b>Total comprehensive income (loss) (A)+(D)</b>	<b>5,712</b>	<b>(781)</b>	<b>6,493</b>
Attributable to:			
Owners of the Company	5,712	(781)	6,493
Non-controlling interests	0	0	0

**Digital Bros Group**
**Consolidated statement of cash flows for the period ended 31 March 2017**

	<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>
<b>A.</b>	<b>Opening net cash/debt</b>	<b>3,511</b>	<b>(8,333)</b>
<b>B.</b>	<b>Cash flows from operating activities</b>		
	Profit (loss) for the period attributable to the Group	7,784	(1,291)
	<i>Depreciation, amortisation and non-monetary costs:</i>		
	Provisions and impairment losses	0	0
	Amortisation of intangible assets	4,370	2,283
	Depreciation of property, plant and equipment	578	515
	Net change in other provisions	(9)	(82)
	Net change in employee benefit provisions	23	(6)
	Net change in other non-current liabilities	(252)	(589)
	<b>SUBTOTAL B.</b>	<b>12,494</b>	<b>830</b>
<b>C.</b>	<b>Change in net working capital</b>		
	Inventories	(3,404)	1,164
	Trade receivables	672	4,667
	Current tax assets	(311)	(942)
	Other current assets	1,029	1,639
	Trade payables	9,462	(8,925)
	Current tax liabilities	(1,060)	(1,127)
	Current provisions	0	0
	Other current liabilities	1,370	(687)
	<b>SUBTOTAL C.</b>	<b>7,758</b>	<b>(4,211)</b>
<b>D.</b>	<b>Cash flows from investing activities</b>		
	Net payments for intangible assets	(15,371)	(4,271)
	Net payments for property, plant and equipment	(441)	(2,974)
	Net payments for non-current financial assets	721	(753)
	<b>SUBTOTAL D.</b>	<b>(15,091)</b>	<b>(7,998)</b>
<b>E.</b>	<b>Cash flows from financing activities</b>		
	Proceeds from capital increases	60	0
	Proceeds from share premium	1,532	0
	<b>SUBTOTAL E.</b>	<b>1,592</b>	<b>0</b>
<b>F.</b>	<b>Changes in consolidated equity</b>		
	Dividends distributed	(1,834)	(1,818)
	Changes in treasury shares held	390	809
	Increases (decreases) in other equity components	(616)	2,746
	<b>SUBTOTAL F.</b>	<b>(2,060)</b>	<b>1,737</b>
<b>G.</b>	<b>Cash flow for the period (B+C+D+E+F)</b>	<b>4,693</b>	<b>(9,642)</b>
<b>H.</b>	<b>Closing net cash/debt (A+G)</b>	<b>8,204</b>	<b>(17,975)</b>

## Notes to the statement of cash flows

### Details of cash flow by maturity:

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>
Increase (decrease) in securities and cash and cash equivalents	6,200	(2,142)
Decrease (increase) in current bank debt	23,507	(9,398)
Decrease (increase) in other current financial assets and liabilities	(28,159)	2,472
Cash flow for the period pertaining to current net cash/debt	1,548	(9,068)
Cash flow for the period pertaining to non-current net cash/debt	3,145	(574)
<b>Cash flow for the period</b>	<b>4,693</b>	<b>(9,642)</b>

**Digital Bros Group**
**Consolidated statement of changes in equity**

<b>Euro thousand</b>	<b>Share capital (A)</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Currency translation reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the period</b>	<b>Total retained earnings (D)</b>	<b>Consolidated equity attributable to Group (A+B+C+D)</b>
<b>As at 1 July 2015</b>	<b>5,644</b>	16,954	1,129	1,367	(244)	211	<b>19,417</b>	<b>(1,199)</b>	(3,006)	12,953	<b>9,947</b>	<b>33,809</b>
Allocation of profit							<b>0</b>		9,105	(9,105)	<b>0</b>	<b>0</b>
Payment of dividends									(1,818)		<b>(1,818)</b>	<b>(1,818)</b>
Other changes							<b>0</b>	<b>809</b>	2,236		<b>2,236</b>	<b>3,045</b>
Comprehensive income (loss)					(554)	1,064	<b>510</b>			(1,291)	<b>(1,291)</b>	<b>(781)</b>
<b>As at 31 March 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(798)	1,275	<b>19,927</b>	<b>(390)</b>	6,517	2,557	<b>9,074</b>	<b>34,255</b>
<b>As at 1 July 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(813)	2,167	<b>20,804</b>	<b>(390)</b>	5,903	16,387	<b>22,290</b>	<b>48,348</b>
Capital increase	<b>60</b>	1,532					<b>1,532</b>				<b>0</b>	<b>1,592</b>
Allocation of profit							<b>0</b>		16,387	(16,387)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,834)		<b>(1,834)</b>	<b>(1,834)</b>
Other changes						(56)	<b>(56)</b>	390	1,512		<b>1,512</b>	<b>1,846</b>
Comprehensive income (loss)					152	(2,224)	<b>(2,072)</b>			7,784	<b>7,784</b>	<b>5,712</b>
<b>As at 31 March 2017</b>	<b>5,704</b>	18,486	1,129	1,367	(661)	(113)	<b>20,208</b>	<b>0</b>	21,968	7,785	<b>29,753</b>	<b>55,665</b>



## **Notes to the condensed consolidated financial statements for the period ended 31 March 2017**

## **1. INTRODUCTORY NOTE**

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

## 2. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 31 March 2017 is set out below together with comparative figures at 30 June 2016:

	Euro thousand	31 March 2017	30 June 2016	Change	
	<b>Non-current assets</b>				
1	Property, plant and equipment	6,895	7,032	(137)	-1.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	21,459	10,458	11,001	n.m.
4	Equity investments	1,370	898	472	52.6%
5	Non-current receivables and other assets	1,064	1,056	8	0.8%
6	Deferred tax assets	1,419	2,619	(1,200)	-45.8%
	<b>Total non-current assets</b>	<b>32,207</b>	<b>22,063</b>	<b>10,144</b>	<b>46.0%</b>
	<b>Non-current liabilities</b>				
7	Employee benefits	(552)	(529)	(23)	4.4%
8	Non-current provisions	(27)	(36)	9	-25.3%
9	Other non-current payables and liabilities	0	(252)	252	n.m.
	<b>Total non-current liabilities</b>	<b>(579)</b>	<b>(817)</b>	<b>238</b>	<b>-29.1%</b>
	<b>Net working capital</b>				
10	Inventories	15,337	11,933	3,404	28.5%
11	Trade receivables	34,168	34,840	(672)	-1.9%
12	Current tax assets	2,330	2,019	311	15.4%
13	Other current assets	4,005	5,034	(1,029)	-20.4%
14	Trade payables	(31,174)	(21,712)	(9,462)	43.6%
15	Current tax liabilities	(5,151)	(6,211)	1,060	-17.1%
16	Current provisions	0	0	(0)	n.m.
17	Other current liabilities	(3,682)	(2,312)	(1,370)	59.3%
	<b>Total net working capital</b>	<b>15,833</b>	<b>23,591</b>	<b>(7,758)</b>	<b>-32.9%</b>
	<b>Capital and reserves</b>				
18	Share capital	(5,704)	(5,644)	(60)	n.m.
19	Reserves	(20,208)	(20,804)	596	-2.9%
20	Treasury shares	0	390	(390)	n.m.
21	Retained earnings (accumulated losses)	(29,753)	(22,290)	(7,463)	33.5%
	<b>Total equity</b>	<b>(55,665)</b>	<b>(48,348)</b>	<b>(7,317)</b>	<b>15.1%</b>
	<b>Total net assets</b>	<b>(8,204)</b>	<b>(3,511)</b>	<b>(4,693)</b>	<b>n.m.</b>
22	Cash and cash equivalents	8,985	2,785	6,200	n.m.
23	Current bank debt	(2,422)	(25,929)	23,507	-90.7%
24	Other current financial assets and liabilities	754	28,913	(28,159)	-97.4%
	<b>Current net cash/debt</b>	<b>7,317</b>	<b>5,769</b>	<b>1,548</b>	<b>26.8%</b>
25	Non-current financial assets	1,374	1,195	179	14.9%
26	Non-current bank debt	(443)	(1,558)	1,115	-71.6%
27	Other non-current financial liabilities	(44)	(1,895)	1,851	-97.7%
	<b>Non-current net debt</b>	<b>887</b>	<b>(2,258)</b>	<b>3,145</b>	<b>n.m.</b>
	<b>Total net cash/debt</b>	<b>8,204</b>	<b>3,511</b>	<b>4,693</b>	<b>n.m.</b>

## NON-CURRENT ASSETS

Capital expenditure in the period amounted to Euro 441 thousand on property, plant and equipment and Euro 15,371 thousand on intangible assets.

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

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>
Purchase of Eugene property used as office of Pipeworks Inc.	160	2,196
Improvements made to new building used by 505 Games (US) Inc.	0	402
Office automation equipment	89	309
Equipment and machinery	68	0
Improvements made to building used by 505 Games Ltd.	61	0
Furnishings	52	33
Property, plant and equipment contributed by Kunos Simulazioni S.r.l.	11	0
Other	0	34
<b>Total capital expenditure in the period</b>	<b>441</b>	<b>2,974</b>

Expenditure on intangible assets during the period was as follows:

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>
Premium Games usage rights	4,603	0
Expenditure on development of ERP systems	120	177
Acquisition of Hawken rights	759	0
Fantafida	49	639
Free to Play usage rights	2,180	1,208
Other usage rights	17	59
<b>Total additions to concessions and licences</b>	<b>7,728</b>	<b>2,083</b>
Internal development contracts in progress	633	3,333
Internally developed asset: Premium Games	4,110	0
Internally developed asset: Free to Play	291	0
<b>Total additions to internally developed assets</b>	<b>5,034</b>	<b>3,333</b>
<b>Kunos Goodwill</b>	<b>2,609</b>	<b>0</b>
<b>Total additions to intangible assets</b>	<b>15,371</b>	<b>5,416</b>

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

Kunos goodwill is the difference between the purchase price paid by Digital Bros S.p.A. and the equity of the company at 15 March 2017, the date of first-time consolidation.

Equity investments increased by Euro 472 thousand due to the subscription to further portions of the capital of Seekhana Ltd. and Ovosonico S.r.l. for amounts of Euro 262 thousand and Euro 210 thousand,

respectively. The equity interests held in the two companies at the period end were 31.57% and 42.87%, respectively.

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

<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Cautionary deposits for the rental of office premises used by Italian companies	635	635	0
Cautionary deposits for the rental of office premises used by foreign companies	203	192	11
Cautionary deposits for utilities	5	5	0
Cautionary deposits for the AAMS and Bingo concessions	220	220	0
Other cautionary deposits	1	4	(3)
<b>Total non-current receivables and other assets</b>	<b>1,064</b>	<b>1,056</b>	<b>8</b>

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

## **NON-CURRENT LIABILITIES**

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

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

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

Net working capital decreased in the period by Euro 7,758 thousand mainly due to an increase in trade payables of Euro 9,462 thousand only partially offset by an increase in inventories of Euro 3,404 thousand.

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

<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>	
Inventories	15,337	11,933	3,404	28.5%
Trade receivables	34,168	34,840	(672)	-1.9%
Current tax assets	2,330	2,019	311	15.4%
Other current assets	4,005	5,034	(1,029)	-20.4%
Trade payables	(31,174)	(21,712)	(9,462)	43.6%
Current tax liabilities	(5,151)	(6,211)	1,060	-17.1%
Current provisions	0	0	0	n.m.
Other current liabilities	(3,682)	(2,312)	(1,370)	59.3%
<b>Total net working capital</b>	<b>15,833</b>	<b>23,591</b>	<b>(7,758)</b>	<b>-32.9%</b>

As shown by the following table, there has been an increase in receivables due from customers, in line with the growth in turnover coupled with a decrease in receivables pertaining to advances for video games user licences. The decrease is mainly due to the classification as intangible assets of video games that constitute intellectual property of the Group and, accordingly, they have been more correctly stated as non-current assets. Details of trade receivables are provided below:

<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>
Receivables due from customers	19,179	14,963	4,216
Receivables pertaining to video game user licenses	14,989	19,877	(4,888)
<b>Total trade receivables</b>	<b>34,168</b>	<b>34,840</b>	<b>(672)</b>

## EQUITY

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

<b>Euro thousand</b>	<b>Share capital (A)</b>	<b>Share premium</b>	<b>Legal reserve</b>	<b>IAS transition reserve</b>	<b>Currency translation reserve</b>	<b>Other reserves</b>	<b>Total reserves (B)</b>	<b>Treasury shares (C)</b>	<b>Retained earnings (accumulated losses)</b>	<b>Profit (loss) for the period</b>	<b>Total retained earnings (D)</b>	<b>Consolidated equity attributable to Group (A+B+C+D)</b>
<b>As at 1 July 2016</b>	<b>5,644</b>	16,954	1,129	1,367	(813)	2,167	<b>20,804</b>	<b>(390)</b>	5,903	16,387	<b>22,290</b>	<b>48,348</b>
Capital increase	<b>60</b>	1,532					<b>1,532</b>				<b>0</b>	<b>1,592</b>
Allocation of profit							<b>0</b>		16,387	(16,387)	<b>0</b>	<b>0</b>
Payment of dividends							<b>0</b>		(1,834)		<b>(1,834)</b>	<b>(1,834)</b>
Other changes						(56)	<b>(56)</b>	390	1,512		<b>1,512</b>	<b>1,846</b>
Comprehensive income (loss)					152	(2,224)	<b>(2,072)</b>			7,784	<b>7,784</b>	<b>5,712</b>
<b>As at 31 March 2017</b>	<b>5,704</b>	18,486	1,129	1,367	(661)	(113)	<b>20,208</b>	<b>0</b>	21,968	7,785	<b>29,753</b>	<b>55,665</b>

As at 31 March 2017, share capital, which had increased in the period by Euro 60 thousand, consisted of 14,260,837 ordinary shares with a par value of Euro 0.4 each, amounting to Euro 5,704,334.8. No other types of shares are outstanding. There are no rights, liens or restrictions associated with the ordinary shares.

In connection with the acquisition of Kunos Simulazioni S.r.l., an extraordinary general meeting of the shareholders of Digital Bros Group held on 13 March approved a capital increase with disapplication of pre-emption rights of Euro 60,000 via the issue of 150,000 shares with a par value of Euro 0.40 each, with the application of a premium of Euro 10.21 per share and thus with a total premium of Euro 1,531,500.00, to be subscribed and paid by Stefano Casillo and Marco Massarutto, equity interest holders of Kunos Simulazioni S.r.l.

On 11 January 2017, as part of the approval process for the "2016-2026 Stock Option Plan", Digital Bros Group's shareholders in extraordinary general meeting granted a mandate to the Board of Directors to increase the capital, in various tranches, with the disapplication of pre-emption rights pursuant to Art. 2441, paragraph 8, of the Italian Civil Code, up to a total maximum nominal amount of Euro 320,000.00, via the issue, which may be in one or more lots, of a maximum number of 800,000 ordinary shares with a par value of Euro 0.4 each, to be reserved for the beneficiaries of the plan. The shares had not yet been issued as at the reporting date, given that the first deadline is 1 July 2019.

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

Changes in reserves in the period were:

- a decrease of Euro 56 thousand relating to the treasury shares reserve that was reduced to zero following the sale of all the treasury shares held at 30 June 2016 and the reclassification of the amount to other changes in retained earnings;
- an increase of Euro 152 thousand relating to the currency translation reserve;
- an increase of Euro 6 thousand relating to a change in the IAS 19 reserve;
- a decrease of Euro 2,230 thousand relating to a change in the fair value reserve. The change in fair value reserve is attributable to the difference between the prior period end market value and the purchase cost of the Starbreeze A ordinary shares held at 30 June 2016 and originally classified amongst equity investments and designated as available for sale. These shares were all sold during the period and, accordingly, the relevant reserve has been completely reduced to zero.

## NET CASH/DEBT

The breakdown of the Group's net financial position as at 31 March 2017 as compared with the same data at 30 June 2016 is as follows:

	<b>Euro thousand</b>	<b>31 March 2017</b>	<b>30 June 2016</b>	<b>Change</b>
22	Cash and cash equivalents	8,985	2,785	6,200
23	Current bank debt	(2,422)	(25,929)	23,507
24	Other current financial assets and liabilities	754	28,913	(28,159)
	<b>Current net cash/debt</b>	<b>7,317</b>	<b>5,769</b>	<b>1,548</b>
25	Non-current financial assets	1,374	1,195	179
26	Non-current bank debt	(443)	(1,558)	1,115
27	Other non-current financial liabilities	(44)	(1,895)	1,851
	<b>Non-current net cash/debt</b>	<b>887</b>	<b>(2,258)</b>	<b>3,145</b>
	<b>Total net cash/debt</b>	<b>8,204</b>	<b>3,511</b>	<b>4,693</b>

Net cash increased in the period by Euro 4,693 thousand mainly due to an increase in cash and cash equivalents of Euro 6,200 thousand, a decrease in current bank debt of Euro 23,507 thousand, a decrease in non-current bank debt of Euro 1,115 thousand and in other non-current financial liabilities of Euro 1,851 thousand, only partially offset by a decrease in other current financial assets and liabilities of Euro 28,159 thousand.

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

The following table shows the Group's financial liabilities as at 31 March 2017, grouped by maturity:

<b>Euro thousand</b>	<b>Within 1 year</b>	<b>1 - 5 years</b>	<b>Beyond 5 years</b>	<b>Total</b>
Bank overdrafts	(31)	0	0	(31)
Unsecured bank loans	(2,391)	(443)	0	(2,834)
<b>Total bank debt (A)</b>	<b>(2,422)</b>	<b>(443)</b>	<b>0</b>	<b>(2,865)</b>
<b>Other financial liabilities (B)</b>	<b>(44)</b>	<b>0</b>	<b>0</b>	<b>(44)</b>
<b>Total financial liabilities (A) + (B)</b>	<b>(2,466)</b>	<b>(443)</b>	<b>0</b>	<b>(2,909)</b>

### 3. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

#### 3. Net revenue

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

	<b>Euro thousand</b>	<b>Development</b>	<b>Free to Play</b>	<b>Premium Games</b>	<b>Italian Distribution</b>	<b>Other Activities</b>	<b>Total</b>
1	Gross revenue	6,839	5,845	70,749	14,959	620	99,012
2	Revenue adjustments	0	0	(3,009)	(1,361)	(330)	(4,700)
3	<b>Net revenue</b>	<b>6,839</b>	<b>5,845</b>	<b>67,740</b>	<b>13,598</b>	<b>290</b>	<b>94,312</b>

The same details for the period ended 31 March 2016 are as follows:

	<b>Euro thousand</b>	<b>Development</b>	<b>Free to Play</b>	<b>Premium Games</b>	<b>Italian Distribution</b>	<b>Other Activities</b>	<b>Total</b>
1	Gross revenue	1,102	3,426	39,950	16,293	510	61,281
2	Revenue adjustments	0	0	(1,603)	(1,026)	(51)	(2,680)
3	<b>Net revenue</b>	<b>1,102</b>	<b>3,426</b>	<b>38,347</b>	<b>15,267</b>	<b>459</b>	<b>58,601</b>

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

#### 25. Net finance income (costs)

This consists of:

	<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	<b>%</b>
23	Interest and finance income	8,154	2,574	5,580	n.m.
24	Interest expense and finance costs	(2,398)	(1,222)	(1,176)	96.3%
25	<b>Net finance income (costs)</b>	<b>5,756</b>	<b>1,352</b>	<b>4,404</b>	<b>n.m.</b>

Net finance income amounted to Euro 5,756 thousand, compared to Euro 1,352 thousand for the comparative prior year period.

Details of interest and finance income are provided below:

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	<b>%</b>
Exchange gains	1,156	1,054	102	9.7%
Finance income	6,899	1,495	5,404	n.m.
Other	98	25	73	n.m.
<b>Total interest and financial income</b>	<b>8,154</b>	<b>2,574</b>	<b>5,580</b>	<b>n.m.</b>

Interest and finance income increased by Euro 5,580 thousand compared to the comparative prior year period. This mainly consisted of gains recognised in the period on the sale and purchase of Starbreeze shares of Euro 6,891 thousand and exchange gains of Euro 1,156 thousand.

Interest expense and finance costs amounted to Euro 2,398 thousand, representing an increase of Euro 1,176 thousand compared to the figure reported for the period ended 31 December 2016, attributable to losses recognised in the period on the sale and purchase of Starbreeze shares and higher exchange losses.

Details are provided below of interest expense:

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	<b>%</b>
Interest charged by banks on current accounts and trade finance	(317)	(347)	30	-8.7%
Interest on loans and leases	(166)	(80)	(86)	n.m.
Factoring interest	(13)	(14)	1	-6.4%
<b>Total interest expense payable to lenders</b>	<b>(496)</b>	<b>(441)</b>	<b>(55)</b>	<b>n.m.</b>
Exchange losses	(1,020)	(781)	(239)	30.6%
Loss on asset disposals and finance costs	(882)	0	(882)	n.m.
<b>Total interest expense</b>	<b>(2,398)</b>	<b>(1,222)</b>	<b>(1,176)</b>	<b>96.3%</b>

## 29. Taxation

Details of current and deferred taxes for the period ended 31 March 2017 are provided below:

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>	<b>Period ended 31 March 2016</b>	<b>Change</b>	<b>%</b>
Current tax	(4,277)	(1,116)	(3,161)	n.m.
Deferred tax	270	1,506	(1,236)	-82.1%
<b>Total income tax expense</b>	<b>(4,007)</b>	<b>390</b>	<b>(4,397)</b>	<b>n.m.</b>

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

#### 4. NON-RECURRING INCOME AND EXPENSES

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

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

#### 5. OTHER INFORMATION

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##### *Information on geographical segments*

Details are provided below of gross revenue by geographical segment:

<b>Euro thousand</b>	<b>Period ended 3 1 March 2017</b>		<b>Period ended 31 March 2016</b>		<b>Change</b>	
Europe	27,052	27%	8,820	17%	18,232	n.m.
The Americas	51,624	52%	21,445	44%	30,179	n.m.
Rest of the world	4,757	5%	752	2%	4,005	n.m.
<b>Total foreign revenue</b>	<b>83,433</b>	<b>84%</b>	<b>31,017</b>	<b>63%</b>	<b>52,416</b>	<b>n.m.</b>
Italy	15,579	16%	14,273	37%	1,306	9.1%
<b>Total gross consolidated revenue</b>	<b>99,012</b>	<b>100%</b>	<b>45,290</b>	<b>100%</b>	<b>53,722</b>	<b>n.m.</b>

Foreign revenue accounted for 84% of gross consolidated revenue compared to the comparative prior year figure of 63%.

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

The most significant portion of foreign revenue is generated by the Premium Games operating segment, which generated foreign revenue of Euro 70,749 thousand, accounting for 84.8% of total foreign revenue.

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

<b>Euro thousand</b>	<b>Period ended 31 March 2017</b>		<b>Period ended 31 March 2016</b>		<b>Change</b>	
Free to Play	5,845	7%	1,883	15%	3,962	n.m.
Premium Games	70,749	85%	28,218	83%	42,531	n.m.
Development	6,839	8%	916	2%	5,923	n.m.
<b>Total gross foreign revenue</b>	<b>83,433</b>	<b>100%</b>	<b>31,017</b>	<b>100%</b>	<b>52,416</b>	<b>n.m.</b>

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

## **6. RELATED PARTY TRANSACTIONS**

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There were no unusual or significant related party transactions in the period ended 31 March 2017 other than those of a continuous nature.

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the interim management report for the period ended 31 March 2017.

We also confirm that:

1. the interim management report of Digital Bros Group for the period ended 31 March 2017:
  - a) has been prepared in accordance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
  - b) corresponds to the books and accounting records;
  - c) gives a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;
2. the interim management report for the period ended 31 March 2017 contains information about key events that occurred during the period and their impact on the interim management report for the period in question, along with a description of the main risks and uncertainties. The interim management report for the period ended 31 March 2017 also contains information about significant transactions with related parties.

Milan, 12 May 2017

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe