Digital Bros S.p.A.

Separate financial statements for the year ended 30 June 2018

(Financial year 2017/2018)

Digital Bros S.p.A.
Via Tortona, 37 – 20144 Milan, Italy
VAT No. and tax number 09554160151
Share capital: Euro 6,024,334.80 of which Euro 5,704,334.80 subscribed
Milan Companies Register No. 290680 - Vol. 7394 Chamber of Commerce No. 1302132

This report is available in the Investors section of the Company's website at www.digitalbros.com

DIRECTORS' REPORT

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

The Company also performs management and coordination activities in its capacity as Parent Company of the Digital Bros Group.

Analysis of revenue by geographical area can be found in the Directors' Report attached to the consolidated financial statements.

1. THE VIDEO GAMES MARKET

The video games market is part of the broader entertainment industry. Films, publishing, video games and toys are sectors that share the same characters, brands, distinctive features and intellectual property. The market is in constant flux and its growth rate is driven by non-stop technological advances. Gaming is no longer limited to traditional consoles, such as the various iterations of Sony PlayStation and Microsoft Xbox, but has expanded to mobile phones, tablet devices and hybrid consoles like the Nintendo Switch. 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. Widespread use of smartphones by people of all ages and walks of life has expanded the video gaming population and led to the publication of games suited to adult gamers and women only gamers.

As is the case for almost all technological markets, the video games market for consoles follows a cyclical trend depending on the stage of development of the consoles for which the videogames are developed. When a given console is first launched, the prices of the hardware and the video games designed for it are high and relatively small quantities are sold. Over their lifespan, console and game prices gradually fall, as they progress from new releases to maturity and the quantities sold increase while video game quality also increases.

As well as being marketed on the digital market place, high quality video games with strong sales potential are also produced physically and distributed through traditional sales networks. In this case, the value chain is as follows:

Developers

Developers are creators and programmers of games which are usually based on an original idea, a successful brand, a film or sports simulations, etc. The developers retain the intellectual property rights but transfer the exploitation rights, for a limited amount of time, as agreed by contract, to international video game publishers, which are therefore key players when it comes to completing the game, raising its awareness, enhancing its reputation and distributing it internationally.

Publishers

The video game publisher decides when the game is released onto the market, determines global pricing and commercial policy, studies product positioning, packaging design and takes on all of the risks. Together with the developer, it benefits from all the opportunities that the video game may produce if it is a success. Publishers usually finance the game development stage.

Console manufacturers

The console manufacturer is the company that designs, engineers, produces and markets the hardware or platform on which consumers play the game. Sony is the Sony Playstation 4 console manufacturer, Microsoft is the Microsoft Xbox One console manufacturer and Nintendo is the Nintendo Switch console manufacturer. The console manufacturer produces the physical support format on behalf of publishers at software reproduction facilities. The console manufacturer and the video game publisher are often one and the same.

Distributors

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

Retailers

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

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

The gradual growth of online gaming has established a new trend: Microsoft, with Microsoft XboX Live Pass; and Sony, with Sony PlayStation Now have created digital platforms where, rather than making single purchases, end consumers can subscribe a service to access a batch of games for a limited amount of time. Revenues to the publisher are calculated based on end consumers' usage of the video games.

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

Digital distribution has made it possible to extend the lifespan of a game. In fact, a video game remains on the marketplace once it has been released whereas it would be unlikely to remain on the shelf in the case of physical distribution. This makes it possible to generate an ongoing sales curve that is significantly affected by temporary communications policies and promotional pricing. The extension of product life cycle is also greatly affected by product policies adopted by publishers when, alongside the main game, they create additional episodes or functions available free of charge or for payment on digital marketplaces (so-called DLC, or downloadable content).

2. MARKET SEASONALITY

Seasonality is influenced by the launch of popular products. Quarter-on-quarter results can be volatile depending on whether or not a successful 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 financial position is closely linked to the revenue trend. The physical distribution of a product in a quarter leads to concentration of net working capital investment. This is temporarily reflected by the level of net cash/debt until such time as the related sales revenue is collected.

3. SIGNIFICANT EVENTS DURING THE PERIOD

The most significant events during the period were as follows:

- On 25 July 2017, the Italian Tax Authorities ("*Guardia di Finance* – Milan Tax Police Unit") completed their inspection of subsidiary 505 Games S.p.A. which had commenced on 19 October 2016; they also issued their tax inspection report. The inspection regarded IRES and IRAP for the 2011, 2012, 2013 and 2014 tax periods and withholding taxes for the 2012, 2013, 2014 and 2015 tax periods. The tax inspection report raised findings in relation to transfer pricing and the failure to apply withholding taxes. These findings involved significant amounts and the risks were assessed by the Directors when making allocations totalling Euro 854 thousand to the provision for risks and charges in the consolidated financial statements at 30 June 2017. In December 2017, the Italian Tax Authorities issued tax demands relating to the 2012 tax period. Based on the advice of their professional advisors, the Directors have concluded that the provision already made at 30 June 2017 was sufficient;

- On 27 October 2017, a General Meeting of the shareholders of Digital Bros S.p.A. approved the consolidated financial statements of the Group at 30 June 2017 and the separate financial statements of Digital Bros S.p.A. at 30 June 2017. It also approved the Remuneration Report in terms of Article 123-ter of Legislative Decree no 58 of 24 February 1998. The General Meeting also appointed the new members of the Board of Directors and the Board of Statutory Auditors who will remain in office until approval of the financial statements for the period ending 30 June 2020. The same General Meeting also resolved to distribute a dividend of Euro 0.15 per share. The dividend was duly paid on 13 December 2017;

- On 21 December 2017, the Board of Directors of Digital Bros S.p.A. approved the sale of a 12.5% interest in US subsidiary Pipeworks Inc. to a group of investors headed by US private equity firm Northern Pacific Group for a consideration of USD 2.5 million. At the same time, the Group granted the buyer a call option to acquire the remaining 87.5% of the shares for USD 17.5 million. This option was later exercised on 23 February 2018 with payment of a further USD 5 million. The residual balance of USD 12.5 million will be paid in three instalments as follows:

  a) USD 2.5 million by 30 June 2018;
  b) USD 5 million by 31 March 2021;
  c) USD 5 million by 31 March 2022.

  The last two instalments bear income at 4% per annum. As a result of subsequent contractual agreements, the instalment due on 30 June 2018 has been postponed until the current reporting period. The agreement includes an option in favour of the buyer entitling it to purchase the real estate property owned by subsidiary 133 W Broadway Inc.; the option may be exercised by 15 October 2018 at a price of USD 2.5 million.

  A net gain of Euro 11,059 thousand was recognised on the sale.

4. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2018

The following table sets out the Company's results for the year ended 30 June 2018 together with comparative figures for the year ended 30 June 2017:

	Euro Thousands	30 June 2018		30 June 2017		Change	
1	Gross revenue	16,578	107.8%	20,281	106.3%	(3,703)	-18.3%
2	Revenue adjustments	(1,198)	-7.8%	(1,198)	-6.3%	(0)	0.0%
3	**Net revenue**	**15,380**	**100.0%**	**19,083**	**100.0%**	**(3,703)**	**-19.4%**
4	Purchase of products for resale	(11,248)	-73.1%	(12,524)	-65.6%	1,276	-10.2%
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	(270)	-1.8%	(3,055)	-16.0%	2,785	-91.1%
8	**Total cost of sales**	**(11,518)**	**-74.9%**	**(15,579)**	**-81.6%**	**4,061**	**-26.1%**
9	**Gross profit (3+8)**	**3,862**	**25.1%**	**3,504**	**18.4%**	**358**	**10.2%**
10	Other income	2,772	18.0%	2,695	14.1%	77	2.8%
11	Costs for services	(2,684)	-17.5%	(2,970)	-15.6%	286	-9.6%
12	Lease and rental costs	(730)	-4.7%	(752)	-3.9%	22	-3.0%
13	Labour costs	(5,315)	-34.6%	(4,946)	-25.9%	(369)	7.5%
14	Other operating costs	(536)	-3.5%	(592)	-3.1%	56	-9.6%
15	**Total operating costs**	**(9,265)**	**-60.2%**	**(9,260)**	**-48.5%**	**(5)**	**0.0%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(2,631)**	**-17.1%**	**(3,061)**	**-16.0%**	**430**	**-14.0%**
17	Depreciation and amortisation	(389)	-2.5%	(393)	-2.1%	4	-1.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(1,235)	-8.0%	(2,190)	-11.5%	955	-43.6%
20	Reversal of impairment adjustments and non-monetary income	(0)	0.0%	1,491	7.8%	(1,491)	n.m.
21	**Total non-monetary operating income and costs**	**(1,624)**	**-10.6%**	**(1,092)**	**-5.7%**	**(532)**	**n.m.**
22	**Operating margin (EBIT) (16+21)**	**(4,255)**	**-27.7%**	**(4,153)**	**-21.8%**	**(102)**	**n.m.**
23	Interest and financial income	20,087	130.6%	9,861	51.7%	10,226	n.m.
24	Interest expense and financial expenses	(714)	-4.6%	(1,907)	-10.0%	1,193	-62.6%
25	**Net financial income (expenses)**	**19,373**	**126.0%**	**7,954**	**41.7%**	**11,419**	**n.m.**
26	**Profit before tax (22+25)**	**15,118**	**98.3%**	**3,801**	**19.9%**	**11,317**	**n.m.**
27	Current tax	476	3.1%	557	2.9%	(81)	-14.5%
28	Deferred tax	(74)	-0.5%	(121)	-0.6%	47	-38.5%
29	**Total income tax expense**	**402**	**2.6%**	**436**	**2.3%**	**(34)**	**-7.6%**
30	**Net profit (26+29)**	**15,520**	**100.9%**	**4,237**	**22.2%**	**11,283**	**n.m.**

Gross revenue decreased by 18.3% to Euro 16,578 thousand from the prior year figure of Euro 20,281 thousand because of a significant decline in sales of trading cards in the newsstands distribution channel.

Following the large decreases recorded in prior years, inventories decreased slightly by Euro 270 thousand.

Other income increased by Euro 77 thousand from Euro 2,695 thousand in the year ended 30 June 2017 to Euro 2,772 thousand in the year ended 30 June 2018. They mainly consist of income for services provided on behalf of subsidiaries.

Operating costs amount to Euro 9,265 thousand and are unchanged compared to prior year. This is the result of two contrasting trends: a Euro 369 thousand increase in labour costs mainly in relation to costs for the stock option plan approved in the second half of prior year and a Euro 286 thousand decrease in costs for services. Indeed, in prior year, the Statement of Profit or Loss included additional costs for services incurred to set up the stock option plan and consulting expenses incurred in relation to the acquisition of Kunos Simulazioni S.r.l..

Gross operating margin/EBITDA amounts to a negative figure of Euro 2,631 thousand, an improvement of Euro 430 thousand on the negative figure of Euro 3,061 thousand recorded in prior year.

Non-monetary operating costs have increased from Euro 1,092 thousand in prior year to Euro 1,624 thousand in the current reporting period.

Operating margin/EBIT has deteriorated slightly from a negative figure of Euro 4,153 thousand in prior year to Euro 4,255 thousand this year.

Net financial income totalled Euro 19,373 thousand compared to Euro 7,954 thousand in prior year. The improvement was the result of a Euro 10,226 thousand increase in interest and financial income.

Interest and financial income is analysed as follows:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**	**%**
Gain on disposal of Pipeworks Inc.	11,509	0	11,509	n.m.
Dividends from subsidiaries	7,292	6,000	1,292	21.5%
Exchange gains	1,163	713	450	63.0%
Other interest and financial income	123	3,148	(3,025)	-96.1%
Total interest and financial income	**20,087**	**9,861**	**10,226**	**n.m.**

The gross gain realised on the sale of the non-strategic investment in Pipeworks Inc. amounted to Euro 13,924 thousand. The net gain, after transaction related expenses, was Euro 11,509 thousand.

Dividends of Euro 6,000 thousand and USD 1,526 thousand (Euro 1,292 thousand) were received from 505 Games S.p.A. and Pipeworks Inc., respectively.

Interest and other financial income for the year ended 30 June 2017 mainly comprised gains on sales of Starbreeze B shares; such gains totalled just Euro 88 thousand in the year ended 30 June 2018.

Profit before tax for the year ended 30 June 2018 was Euro 15,118 thousand compared to Euro 3,801 thousand in prior year. Meanwhile, net profit totalled Euro 15,520 thousand against Euro 4,237 thousand in prior year.

5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

The Company's statement of financial position at 30 June 2018 is shown below together with comparative figures at 30 June 2017:

	Euro thousands	30 June 2018	30 June 2017	Change	
	Non-current assets				
1	Property, plant and equipment	2,982	3,160	(178)	-5.6%
2	Investment property	0	0	0	n.m.
3	Intangible assets	302	367	(65)	-17.7%
4	Equity investments	16,432	18,919	(2,487)	-13.1%
5	Non-current receivables and other assets	9,216	637	8,579	n.m.
6	Deferred tax assets	330	406	(76)	-18.8%
	Total non-current assets	**29,262**	**23,489**	**5,773**	**24.6%**
	Non-current liabilities				
7	Employee benefits	(419)	(417)	(2)	0.5%
8	Non-current provisions	(80)	(79)	(1)	1.2%
9	Other non-current payables and liabilities	(901)	0	(901)	n.m.
	Total non-current liabilities	**(1,400)**	**(496)**	**(904)**	**n.m.**
	Net working capital				
10	Inventories	3,688	3,958	(270)	-6.8%
11	Trade receivables	1,802	2,176	(374)	-17.2%
12	Receivables from subsidiaries	23,233	20,220	3,013	14.9%
13	Tax receivables	1,968	327	1,641	n.m.
14	Other current assets	3,078	564	2,514	n.m.
15	Trade payables	(2,012)	(2,306)	294	-12.7%
16	Payables to subsidiaries	(8,933)	(16,262)	7,329	-45.1%
17	Current tax liabilities	(216)	(615)	399	-64.9%
18	Current provisions	(2,393)	(1,246)	(1,147)	92.0%
19	Other current liabilities	(753)	(2,277)	1,524	-67.0%
	Total net working capital	**19,462**	**4,539**	**14,923**	**n.m.**
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(20,577)	(19,764)	(813)	4.1%
22	Treasury shares	0	0	0	n.m.
23	(Retained earnings) accumulated losses	(20,606)	(7,237)	(13,369)	n.m.
	Total equity	**(46,887)**	**(32,705)**	**(14,182)**	**43.4%**
	Total net assets	***437***	***(5,173)***	***5,610***	***n.m.***
24	Cash and cash equivalents	609	3,872	(3,263)	84.3%
25	Current bank borrowing	(845)	(1,558)	713	-45.8%
26	Other current financial assets and liabilities	(176)	2,899	(3,075)	n.m.
	Current net financial position	**(412)**	**5,213**	**(5,625)**	**n.m.**
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(25)	(40)	15	-38.4%
	Non-current net financial position	**(25)**	**(40)**	**15**	**-38.4%**
	Total net financial position	***(437)***	***5,173***	**(5,610)**	***n.m.***

The following table contains an analysis of net working capital together with comparative figures at 30 June 2017:

Net working capital	**30 June 2018**	**30 June 2017**	**Change**	
Inventories	3,688	3,958	(270)	-6.8%
Trade receivables	1,802	2,176	(374)	-17.2%
Receivables from subsidiaries	23,233	20,220	3,013	14.9%
Tax receivables	1,968	327	1,641	n.m.
Other current assets	3,078	564	2,514	n.m.
Trade payables	(2,012)	(2,306)	294	-12.7%
Payables to subsidiaries	(8,933)	(16,262)	7,329	-45.1%
Current tax liabilities	(216)	(615)	399	-64.9%
Current provisions	(2,393)	(1,246)	(1,147)	92.0%
Other current liabilities	(753)	(2,277)	1,524	-67.0%
Total net working capital	**19,462**	**4,539**	**14,923**	**n.m.**

At 30 June 2018, net working capital amounted to Euro 19,462 thousand, representing an increase of Euro 14,923 thousand compared to 30 June 2017 when it stood at Euro 4,539 thousand. The most significant changes relate to receivables from subsidiaries and payables to subsidiaries – the former have increased by Euro 3,013 thousand while the latter have decreased by Euro 7,329 thousand mainly because of the change in the current account balance with 505 Games S.p.A..

The increase in tax receivables is in line with the negative taxable income of companies taking part in the domestic tax consolidation.

The increase in other current assets is mainly due to the recognition of Euro 2,144 thousand (i.e. USD 2.5 million) representing the portion of the receivable for the sale of Pipeworks Inc. due within a year.

The increase in current provisions is due to the amount allocated to cover the losses of subsidiaries Game Network S.r.l. and Digital Bros Game Academy S.r.l..

The net financial position shows net debt of Euro 437 thousand compared to net cash of Euro 5,173 thousand at 30 June 2017.

More detailed analysis of the change in the net financial position is provided in the Statement of Cash Flows which forms an integral part of the financial statements.

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

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

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

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

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

Other minor transactions consisted of administrative, financial, legal and general services that are usually performed by Digital Bros S.p.A. on behalf of other Group companies.

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

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

Related party transactions

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

The impact of related party transactions on the statement of profit or loss and on the statement of financial position is highlighted in the Notes to the Financial Statements.

Atypical transactions

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

7. TREASURY SHARES

The Company did not hold any treasury shares at 30 June 2018 nor did it purchase or sell any treasury shares during the year then ended.

8. RESEARCH AND DEVELOPMENT

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

9. MANAGEMENT OF OPERATIONAL RISKS, FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

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

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

The completeness of the risk map and the ratings of net risk is assessed jointly by the two Managing Directors. The process is supervised by the Board of Statutory Auditors.

Risks fall into two different categories: operational risks and financial risks.

Operational risks

The most significant operational risks are:

- product obsolescence risk;
- risk of dependence on key personnel.

Product obsolescence risk

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

The decision to invest in a given product is often made years before its actual release. Therefore, management must estimate the price a game will sell for in subsequent periods. A sudden acceleration in the obsolescence of a game or its supporting hardware could result in lower retail prices than those originally foreseen. This will have a negative impact on actual revenues and margins.

Risk of dependence on key personnel

The Company's success depends on the performance of certain key individuals who have made an important contribution to its development and have acquired valuable experience in the games industry.

The Company has an executive team (Chairman, Managing Director and CFO) with many years' experience in the sector and who play a decisive role in the management of its business. The loss of the services of these individuals without suitable replacements could have a negative impact on the Company's results and financial position and, in particular, could affect the risk detection, assessment and monitoring process.

In any case, management believes that the Company's operational and executive structure ensures continuity in the handling of business affairs

<u>Management of financial risks and financial instruments</u>

The main financial instruments used by the Company are:

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts

The purpose of these instruments is to finance the Company's operating activities.

Credit facilities granted to the Company and utilised at 30 June 2018 are as follows:

Euro Thousands	**Facility**	**Utilised**	**Available**
Bank overdrafts	1,100	0	1,100
Import financing	15,000	0	15,000
Advances on invoices and cash orders subject to collection	8,000	845	7,155
Factoring	1,000	160	840
Endorsement credits	1,000	0	1,000
Total	**26,100**	**1,005**	**25,095**

Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries. This is except in relation to other financial instruments not listed above, namely trade payables and receivables arising from operating activities for which each subsidiary remains responsible for the financial risk.

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

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

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

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

Exchange rate risk

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

In order to monitor the EUR/USD exchange rate risk, the Company closely monitors forecast exchange rate trends – also based on reports by independent analysts - and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

When preparing forecasts, the Company uses models that take account of the various currencies in which Group companies operate and uses forward exchange rates based on reports issued by independent analysts.

Interest rate risk

The Company's exposure to the risk of interest rate fluctuation is limited with regard to its medium and long-term financial instruments which were originally arranged as fixed-rate instruments or have been converted into fixed rate using appropriate derivative agreements.

The risk of interest rate increases is an effective risk for short-term financial instruments because the Company cannot immediately pass on any interest rate rises by increasing its selling prices.

The level of debt is low or next to zero and the interest rate risk is further mitigated by:

- the availability of an interconnected series of short-term credit lines, allowing it to borrow under the most favourable conditions;
- the financial structure which varies significantly based on video game market seasonality and which shows constant improvement in the medium/long-term trend;
- the implementation of a short-term cash flow procedure that constantly monitors the short-term borrowing trend and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

The liquidity risk arises if it becomes difficult or impossible to raise - on sustainable terms and conditions, obtain -the financial resources needed to operate the business.

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

The Company has taken the following measures in order to reduce this risk:

- centralised management of treasury procedures and lines of credit;
- obtaining lines of credit that lead to the creation of a sustainable debt structure through the use of irrevocable lines of credit;
- constant monitoring of prospective liquidity conditions.

The results of short and medium/long-term planning, currently available funds and funds to be generated by operating activities are expected to enable the Company to fulfil its funding requirements with regard to capex, working capital management and debt repayment at scheduled maturity. They should also be able to determine the Company’s funding requirements in good time.

Credit risk

The Company sells exclusively to well-known customers. For customers on which the Company does not have the necessary information, the sales policy adopted requires advance payment and/or cash on delivery in order to limit credit risk.

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

10. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2018 – as at 30 June 2017 – there were no contingent assets or liabilities.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In the period since the reporting date:

- Non-Executive Director Bruno Soresina unfortunately passed away on 6 August 2018;
- On 13 September 2018, Non-Executive Director Elena Morini resigned from the Board for personal reasons;
- As a result of the above, on 13 September 2018, the Board of Directors resolved to establish three Board committees comprising non-Executive Directors Guido Guetta, Luciana La Maida and Irene

Longhin. On the same date, the Board of Directors resolved to propose to the General Meeting to reduce the number of Directors to nine.

12. BUSINESS OUTLOOK

Modest revenue growth is forecast for the coming year. Profitability is also expected to improve thanks to a reduction in operating costs.

The profit boost during 2018 thanks to the gain on the sale of Pipeworks Inc. and dividends relating to profits generated by the subsidiaries in the year ended 30 June 2017 will not be repeated in the year ahead.

The net financial position will change in line with Group performance with a deterioration expected in the first half of the year followed by a clear improvement in the second half of the year.

13. OTHER INFORMATION

EMPLOYEES

The following table contains details of the number of employees at 30 June 2018 with comparative figures at 30 June 2017:

Category	30 June 2018	30 June 2017	Change
Managers	5	5	0
Office workers	40	43	(3)
Blue-collar workers and apprentices	4	4	0
Total employees	**49**	**52**	**(3)**

The average headcount for the year ended 30 June 2018, calculated as the mean number of employees in service at the end of every month, is shown below with prior year comparative figures:

Category	Average no in 2018	Average no in 2017	Change
Managers	5	5	0
Office workers	41	44	(3)
Blue-collar workers and apprentices	4	4	0
Total employees	**50**	**53**	**(3)**

The Company's employees are hired under the current Confcommercio national collective employment agreement for the commercial, distribution and services sector.

ENVIRONMENT

At 30 June 2018, there were no environmental issues and as the Company's activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason why any environmental issues should emerge in the future.

FINANCIAL STATEMENTS

Digital Bros S.p.A

Statement of financial position at 30 June 2018

	Euro Thousands	30 June 2018	30 June 2017	Change	
	Non-current assets				
1	Property, plant and equipment	2,982	3,160	(178)	-5.6%
2	Investment property	0	0	0	0.0%
3	Intangible assets	302	367	(65)	-17.7%
4	Equity investments	16,432	18,919	(2,487)	-13.1%
5	Non-current receivables and other assets	9,216	637	8,579	n.m.
6	Deferred tax assets	330	406	(76)	-18.8%
	Total non-current assets	**29,262**	**23,489**	**5,773**	**24.6%**
	Non-current liabilities				
7	Employee benefits	(419)	(417)	(2)	0.5%
8	Non-current provisions	(80)	(79)	(1)	1.2%
9	Other non-current payables and liabilities	(901)	0	(901)	n.m.
	Total non-current liabilities	**(1,400)**	**(496)**	**(904)**	**n.m.**
	Net working capital				
10	Inventories	3,688	3,958	(270)	-6.8%
11	Trade receivables	1,802	2,176	(374)	-17.2%
12	Receivables from subsidiaries	23,233	20,220	3,013	14.9%
13	Tax receivables	1,968	327	1,641	n.m.
14	Other current assets	3,078	564	2,514	n.m.
15	Trade payables	(2,012)	(2,306)	294	-12.7%
16	Payables to subsidiaries	(8,933)	(16,262)	7,329	-45.1%
17	Current tax liabilities	(216)	(615)	399	-64.9%
18	Current provisions	(2,393)	(1,246)	(1,147)	92.0%
19	Other current liabilities	(753)	(2,277)	1,524	-67.0%
	Total net working capital	**19,462**	**4,539**	**14,923**	**n.m.**
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(20,577)	(19,764)	(813)	4.1%
22	Treasury shares	0	0	0	0.0%
23	(Retained earnings) accumulated losses	(20,606)	(7,237)	(13,369)	n.m.
	Total equity	**(46,887)**	**(32,705)**	**(14,182)**	**43.4%**
	Total net assets	***437***	***(5,173)***	***5,610***	***n.m.***
24	Cash and cash equivalents	609	3,872	(3,263)	84.3%
25	Current bank borrowing	(845)	(1,558)	713	-45.8%
26	Other current financial assets and liabilities	(176)	2,899	(3,075)	n.m.
	Current net financial position	**(412)**	**5,213**	**(5,625)**	**n.m.**
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(25)	(40)	15	-38.4%
	Non-current net financial position	**(25)**	**(40)**	**15**	**-38.4%**
	Total net financial position	***(437)***	***5,173***	***(5,610)***	***n.m.***

Digital Bros S.p.A.

Separate statement of profit or loss for the year ended 30 June 2018

	Euro Thousands	30 June 2018		30 June 2017		Change	
1	Revenue	16,578	107.8%	20,281	106.3%	(3,703)	-18.3%
2	Revenue adjustments	(1,198)	-7.8%	(1,198)	-6.3%	(0)	0.0%
3	**Total net revenue**	**15,380**	**100.0%**	**19,083**	**100.0%**	**(3,703)**	**-19.4%**
4	Purchases of products for resale	(11,248)	-73.1%	(12,524)	-65.6%	1,276	-10.2%
5	Purchases 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	Change in inventories of finished products	(270)	-1.8%	(3,055)	-16.0%	2,785	-91.1%
8	**Total cost of sales**	**(11,518)**	**-74.9%**	**(15,579)**	**-81.6%**	**4,061**	**-26.1%**
9	**Gross profit (3+8)**	**3,862**	**25.1%**	**3,504**	**18.4%**	**358**	**10.2%**
10	Other income	2,772	18.0%	2,695	14.1%	77	2.8%
11	Costs for services	(2,684)	-17.5%	(2,970)	-15.6%	286	-9.6%
12	Lease and rental costs	(730)	-4.7%	(752)	-3.9%	22	-3.0%
13	Labour costs	(5,315)	-34.6%	(4,946)	-25.9%	(369)	7.5%
14	Other operating costs	(536)	-3.5%	(592)	-3.1%	56	-9.6%
15	**Total operating costs**	**(9,265)**	**-60.2%**	**(9,260)**	**-48.5%**	**(5)**	**0.0%**
16	**Gross operating margin / EBITDA (9+10+15)**	**(2,631)**	**-17.1%**	**(3,061)**	**-16.0%**	**430**	**-14.0%**
17	Depreciation and amortisation	(389)	-2.5%	(393)	-2.1%	4	-1.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(1,235)	-8.0%	(2,190)	-11.5%	955	-43.6%
20	Reversal of impairment adjustments and non-monetary income	(0)	0.0%	1,491	7.8%	(1,491)	n.m.
21	**Total non-monetary operating income and costs**	**(1,624)**	**-10.6%**	**(1,092)**	**-5.7%**	**(532)**	**n.m.**
22	**Operating margin / EBIT (16+21)**	**(4,255)**	**-27.7%**	**(4,153)**	**-21.8%**	**(102)**	**n.m.**
23	Interest and financial income	20,087	130.6%	9,861	51.7%	10,226	n.m.
24	Interest and financial expenses	(714)	-4.6%	(1,907)	-10.0%	1,193	-62.6%
25	**Net financial income /(expenses)**	**19,373**	**126.0%**	**7,954**	**41.7%**	**11,419**	**n.m.**
26	**Profit before taxation (22+25)**	**15,118**	**98.3%**	**3,801**	**19.9%**	**11,317**	**n.m.**
27	Current tax	476	3.1%	557	2.9%	(81)	-14.5%
28	Deferred tax	(74)	-0.5%	(121)	-0.6%	47	-38.5%
29	**Total taxes on income**	**402**	**2.6%**	**436**	**2.3%**	**(34)**	**-7.6%**
30	**Net profit (26+29)**	**15,520**	**100.9%**	**4,237**	**22.2%**	**11,283**	**n.m.**

Separate statement of comprehensive income for the year ended 30 June 2018

Euro Thousands	30 June 2018	30 June 2017	Change
Profit (Loss) for the period (A)	**15,520**	**4,237**	**11,283**
Items that will not be subsequently recycled through profit or loss (B)			
Actuarial gain (loss)	7	25	(18)
Income tax relating to the actuarial gain (loss)	(2)	(7)	5
Fair value measurement of shares available for sale	0	(3,075)	3,075
Tax effect of fair value measurement of shares available for sale	0	845	(845)
Items that will subsequently be recycled through profit or loss (C)	**5**	**(2,212)**	**2,217**
Total other comprehensive income D= (B)+(C)	**5**	**(2,212)**	**2,217**
Total comprehensive income (loss) (A)+(D)	**15,525**	**2,025**	**13,500**
Attributable to:			
Company Shareholders	15,525	2,025	13,500
Non-controlling interests	0	0	0

Digital Bros S.p.A.

Statement of cash flows for the year ended 30 June 2018

	Euro Thousands	**30 June 2018**	**30 June 2017**
A.	**Opening net financial position**	**5,173**	**(18,059)**
B.	**Cash flows from operating activities**		
	Profit (loss) for the year attributable to the Group	15,520	4,237
	Depreciation, amortisation and non-monetary costs:		
	Provisions and impairment adjustments	89	612
	Amortisation of intangible assets	154	129
	Depreciation of property, plant and equipment	235	233
	Net change in other provisions	1	43
	Net change in employee benefit provisions	2	(78)
	Net change in other non-current liabilities	901	(252)
	SUBTOTAL B.	**16,902**	**4,925**
C.	**Change in net working capital**		
	Inventories	270	3,055
	Trade receivables	320	570
	Receivables due from subsidiaries	(3,006)	12,935
	Tax receivables	(1,641)	414
	Other current assets	(2,521)	(54)
	Trade payables	(294)	367
	Payables to subsidiaries	(7,329)	10,855
	Current tax liabilities	(399)	(3,350)
	Current provisions	1,147	(2,562)
	Other current liabilities	(1,524)	1,480
	SUBTOTAL C.	**(14,976)**	**23,710**
D.	**Cash flows from investing activities**		
	Net investment in intangible assets	(89)	(97)
	Net investment in property, plant and equipment	(57)	(36)
	Net investment in non-current financial assets	(6,051)	(5,032)
	SUBTOTAL D.	**(6,198)**	**(5,165)**
E.	**Cash flows from financing activities**		
	Proceeds from capital increases	0	60
	Increase in share premium reserve	0	1,532
	SUBTOTAL E.	**0**	**1,592**
F.	**Changes in equity**		
	Dividends distributed	(2,139)	(1,834)
	Changes in treasury shares held	0	390
	Increases (decreases) in other equity components	801	(385)
	SUBTOTAL F.	**(1,338)**	**(1,829)**
G.	**Cash flows for the period (B+C+D+E+F)**	**(5,610)**	**23,232**
H.	**Closing net financial position (A+G)**	**(437)**	**5,173**

Details of cash flows by maturity:

Euro Thousands	**30 June 2018**	**30 June 2017**
Increase (decrease) in securities and cash and cash equivalents	(3,263)	3,295
Decrease (increase) in current bank borrowing	713	21,342
Decrease (increase) in other current financial assets and liabilities	(3,075)	(2,978)
Cash flows for the period pertaining to current net financial position	(5,625)	21,659
Cash flows for the period pertaining to non-current net financial position	15	1,573
Cash flows for the period	**(5,610)**	**23,232**

Digital Bros S.p.A.

Statement of changes in equity at 30 June 2018

Euro Thousands	**Share capital (A)**	Share premium	Legal reserve	IAS transition reserve	Reserve for actuarial gains and losses	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (accumulated losses)	Profit (loss) for the year	**Total retained earnings (D)**	**Equity (A+B+C+D)**
Total at 1 July 2016	**5,644**	16,954	1,129	(142)	(98)	2,286	**20,129**	**(390)**	7,018	(3,695)	**3,323**	**28,706**
Capital increase	**60**	1,532					**1,532**				**0**	**1,592**
Allocation of profit for the year									(3,695)	3,695	**0**	**0**
Payment of dividends									(1,834)		**(1,834)**	**(1,834)**
Other changes						315	**315**	**390**	1,511		**1,511**	**2,216**
Comprehensive income (loss)					18	(2,230)	**(2,212)**			4,237	**4,237**	**2,025**
Total at 1 July 2017	**5,704**	18,486	1,129	(142)	(80)	371	**19,764**	**0**	3,000	4,237	**7,237**	**32,705**
Allocation of profit for the year			12				**12**		4,225	(4,237)	**(12)**	**0**
Payment of dividends									(2,139)		**(2,139)**	**(2,139)**
Other changes						796	**796**				**0**	**796**
Comprehensive income (loss)						5	**5**			15,520	**15,520**	**15,525**
Total at 30 June 2018	**5,704**	18,486	1,141	(142)	(80)	1,172	**20,577**	**0**	5,086	15,520	**20,606**	**46,887**

A) not available;

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

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

Digital Bros S.p.A.

Separate statement of profit or loss prepared in accordance with Consob Resolution no. 15519 of 27 July 2006

	Euro Thousands	30 June 2018		30 June 2017	
		Total	of which related parties	Total	of which related parties
1	Gross revenue	16,578	0	20,281	0
2	Revenue adjustments	(1,198)	0	(1,198)	0
3	**Total net revenue**	**15,380**	**0**	**19,083**	**0**
4	Purchases of products for resale	(11,248)	0	(12,524)	0
5	Purchases of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Change in inventories of finished products	(270)	0	(3,055)	0
8	**Total cost of sales**	**(11,518)**	**0**	**(15,579)**	**0**
9	**Gross profit (3+8)**	**3,862**	**0**	**3,504**	**0**
10	Other income	2,772	0	2,695	0
11	Costs for services	(2,684)	(335)	(2,970)	(262)
12	Lease and rental costs	(730)	(690)	(752)	(705)
13	Labour costs	(5,315)	0	(4,946)	0
14	Other operating costs	(536)	0	(592)	0
15	**Total operating costs**	**(9,265)**	**(1,025)**	**(9,260)**	**(967)**
16	**Gross operating margin / EBITDA (9+10+15)**	**(2,631)**	**(1,025)**	**(3,061)**	**(967)**
17	Depreciation and amortisation	(389)	0	(393)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(1,235)	0	(2,190)	0
20	Reversal of impairment adjustments and non-monetary income	0	0	1,491	0
21	**Total non-monetary operating income and costs**	**(1,624)**	**0**	**(1,092)**	**0**
22	**Operating margin / EBIT (16+21)**	**(4,255)**	**(1,025)**	**(4,153)**	**(967)**
23	Interest and financial income	20,087	0	9,861	0
24	Interest and financial expenses	(714)	0	(1,907)	0
25	**Net financial income / (expenses)**	**19,373**	**0**	**7,954**	**0**
26	**Profit before taxation (22+25)**	**15,118**	**(1,025)**	**3,801**	**(967)**
27	Current tax	476	0	557	0
28	Deferred tax	(74)	0	(121)	0
29	**Total income tax**	**402**	**0**	**436**	**0**
30	**Net profit (26+29)**	**15,520**	**(1,025)**	**4,237**	**(967)**

Digital Bros S.p.A.

Statement of financial position in accordance with Consob Resolution no. 15519 of 27 July 2006

	Euro Thousands	**30 June 2018**		**30 June 2017**	
	Non-current assets	**Total**	**of which with related parties**	**Total**	**of which with related parties**
1	Property, plant and equipment	2,982	0	3,160	0
2	Investment property	0	0	0	0
3	Intangible assets	302	0	367	0
4	Equity investments	16,432	0	18,919	0
5	Non-current receivables and other assets	9,216	635	637	635
6	Deferred tax assets	330	0	406	0
	Total non-current assets	**29,262**	**635**	**23,489**	**635**
	Non-current liabilities				
7	Employee benefits	(419)	0	(417)	0
8	Non-current provisions	(80)	0	(79)	0
9	Other non-current payables and liabilities	(901)	0	0	0
	Total non-current liabilities	**(1,400)**	**0**	**(496)**	**0**
	Net working capital				
10	Inventories	3,688	0	3,958	0
11	Trade receivables	1,802	0	2,176	0
12	Receivables from subsidiaries	23,233	210	20,220	0
13	Tax receivables	1,968	0	327	0
14	Other current assets	3,078	0	564	0
15	Trade payables	(2,012)	(48)	(2,306)	(22)
16	Payables to subsidiaries	(8,933)	0	(16,262)	0
17	Tax payables	(216)	0	(615)	0
18	Current provisions	(2,393)	0	(1,246)	0
19	Other current liabilities	(753)	0	(2,277)	0
	Total net working capital	**19,462**	**162**	**4,539**	**(22)**
	Capital and reserves				
20	Share capital	(5,704)	0	(5,704)	0
21	Reserves	(20,577)	0	(19,764)	0
22	Treasury shares	0	0	0	0
23	(Retained earnings) accumulated losses	(20,606)	0	(7,237)	0
	Total equity	**(46,887)**	**0**	**(32,705)**	**0**
	Total net assets	***437***	***797***	***(5,173)***	***613***
24	Cash and cash equivalents	609	0	3,872	0
25	Current bank borrowing	(845)	0	(1,558)	0
26	Other current financial assets and liabilities	(176)	0	2,899	0
	Current net financial position	**(412)**	**0**	**5,213**	**0**
27	Non-current financial assets	0	0	0	0
28	Non-current bank borrowing	0	0	0	0
29	Other non-current financial liabilities	(25)	**0**	(40)	**0**
	Non-current net financial position	**(25)**	**0**	**(40)**	**0**
	Total net financial position	***(437)***	***0***	***5,173***	***0***

Digital Bros S.p.A.

Separate statement of profit or loss prepared in accordance with Consob Resolution no 15519 of 27 July 2006

	Euro Thousands	30 June 2018		30 June 2017	
		Total	of which non-recurring	Total	of which non-recurring
1	Gross revenue	16,578	0	20,281	0
2	Revenue adjustments	(1,198)	0	(1,198)	0
3	**Total net revenue**	**15,380**	**0**	**19,083**	**0**
4	Purchases of products for resale	(11,248)	0	(12,524)	0
5	Purchases of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Change in inventories of finished products	(270)	0	(3,055)	0
8	**Total cost of sales**	**(11,518)**	**0**	**(15,579)**	**0**
9	**Gross profit (3+8)**	**3,862**	**0**	**3,504**	**0**
10	Other income	2,772	0	2,695	0
11	Costs for services	(2,684)	0	(2,970)	0
12	Lease and rental costs	(730)	0	(752)	0
13	Labour costs	(5,315)	0	(4,946)	0
14	Other operating costs	(536)	0	(592)	0
15	**Total operating costs**	**(9,265)**	**0**	**(9,260)**	**0**
16	**Gross operating margin / EBITDA (9+10+15)**	**(2,631)**	**0**	**(3,061)**	**0**
17	Depreciation and amortisation	(389)	0	(393)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(1,235)	0	(2,190)	0
20	Rvrsl of impairment adjustments and non-monetary income	(0)	0	1,491	0
21	**Total non-monetary operating income and costs**	**(1,624)**	**0**	**(1,092)**	**0**
22	**Operating margin / EBIT (16+21)**	**(4,255)**	**0**	**(4,153)**	**0**
23	Interest and financial income	20,087	0	9,861	0
24	Interest and financial expenses	(714)	0	(1,907)	0
25	**Net financial income / (expenses)**	**19,373**	**0**	**7,954**	**0**
26	**Profit before taxation (22+25)**	**15,118**	**0**	**3,801**	**0**
27	Current tax	476	0	557	0
28	Deferred tax	(74)	0	(121)	0
29	**Total income tax**	**402**	**0**	**436**	**0**
30	**Net profit (26+29)**	**15,520**	**0**	**4,237**	**0**

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Notes to the separate financial statements for the year ended 30 June 2018

1. FORM, CONTENT AND OTHER GENERAL INFORMATION

The main activities carried out by Digital Bros S.p.A. are described in the Directors' Report.

The financial statements for the year ended 30 June 2018 have been prepared on a going concern basis. The Company has concluded that the uncertainties and risks to which it is exposed, as described in the directors' report, do not cast doubt on its ability to operate as a going concern.

Accounting standards adopted and declaration of compliance with IAS/IFRS

The separate financial statements of Digital Bros S.p.A. for the year ended 30 June 2018 have been prepared in accordance with Art. 154-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments thereto. They have been prepared in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as based on the text published in the Official Journal of the European Union. The term "IFRS" encompasses International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts included in the separate financial statements for the year ended 30 June 2018 are stated in Euro thousands, unless otherwise specified.

Reporting format

The separate financial statements for the year ended 30 June 2018 have been prepared in accordance with IAS/IFRS and with the related interpretations (SIC/IFRIC) endorsed by the European Commission as of the reporting date.

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

No changes have been made to the reporting format compared to previous years and all schedules are consistent with those used when preparing the separate financial statements for the year ended 30 June 2017.

The financial statements comprise:

- statement of financial position at 30 June 2018 with comparative figures at 30 June 2017 (the annual reporting date for the previous separate financial statements);
- statement of profit or loss for the period from 1 July 2017 to 30 June 2018 together with comparative figures for the period from 1 July 2016 to 30 June 2017;
- statement of comprehensive income for the period from 1 July 2017 to 30 June 2018 together with comparative figures for the period from 1 July 2016 to 30 June 2017;
- statement of cash flows from 1 July 2017 to 30 June 2018 with comparative figures for the period from 1 July 2016 to 30 June 2017;
- statement of changes in equity from 1 July 2017 to 30 June 2018 and from 1 July 2016 to 30 June 2017.

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

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

The left-hand column of the statement of financial position indicates the number of the relevant note.

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

- non-current assets;
- non-current liabilities;
- net working capital;
- equity;
- net financial position.

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

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

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

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

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

The net financial position has been split between the current net financial position and the non-current net financial position and represents total net assets.

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

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

- gross profit, the difference between net revenue and total cost of sales;

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

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

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2016 and 30 June 2018.

There are no non-controlling interests, so none are reported.

2. ACCOUNTING POLICIES

The separate financial statements for the year ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards and their interpretations in force at that date.

The financial statements have been prepared on the basis of the Company's accounting records as at 30 June 2018.

The valuation criteria used to prepare the separate financial statements for the year ended 30 June 2018 are consistent with those used to prepare the separate financial statements for the year ended 30 June 2017. Changes in the standards and interpretations endorsed by the European Union have had no significant effect on preparation of the separate financial statements for the year ended 30 June 2018.

Property, plant and equipment

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

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

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

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

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

Leases where the lessor retains substantially all the risks and rewards of ownership of an asset are accounted for as operating leases. Operating lease costs are recognised in profit or loss over the lease term as lease and rental expenses.

Land is not depreciated but impairment adjustments are made if fair value falls below reported cost.

Intangible assets

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

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

The amortisation rates applied are as follows:

- Brands/Trademarks 10%
- Microsoft Dynamics Navision licences 20%.
- Long-term licences / User rights 20%

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

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

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

Equity investments

Equity investments in subsidiaries are recorded at cost as adjusted for impairment.

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

Once a year, or more frequently if necessary, equity investments in subsidiaries are tested for impairment in accordance with IAS 36. If there is evidence that these investments have been impaired, the related adjustment is duly recognised in profit or loss. If the Company's share of an investee's losses exceeds the carrying amount of the equity investment and if the Company is obliged to cover this loss, the carrying amount of the investment is reduced to zero and the Company's share of the additional losses is recognised as a provision in the statement of financial position. If there is any subsequent indication that an impairment loss may no longer exist or may have decreased, it is reversed in profit or loss up to the cost of the asset.

The profits and losses and assets and liabilities of associated companies are recorded in the consolidated financial statements using the equity method, except where the investments have been classified as held for sale.

Under this method, investments in associated companies are initially recognised at cost. The consolidated financial statements include the Group share of the profits or losses of the associated companies as recognised using the equity method until the date on which significant influence ends.

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

Gains and losses resulting from fair value adjustments are recognised in a specific other comprehensive income reserve until an asset is sold or impaired; when an asset is sold, gains or losses previously recognised in other comprehensive income are reclassified to profit or loss for the period. When an asset is adjusted for impairment, the accumulated loss is recognised in profit or loss under “Interest and financial expenses”.

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

Impairment of assets

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

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

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

When it is no longer necessary to maintain an impairment adjustment, the carrying value of the asset (or cash-generating unit) – except for goodwill - is increased to the new value based on its estimated recoverable amount; this cannot exceed the net carrying amount the asset would have had if it had never been adjusted for impairment. The reversal of an impairment adjustment is recognised in profit or loss.

Inventories

Inventories of finished goods are recognised at the lower of purchase cost including ancillary expenses and realisable value, as estimated based on market trends. Cost is determined based on specific cost.

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

Receivables and payables

Receivables are measured at amortised cost which coincides with their estimated realisable value. The nominal amount of receivables is brought into line with estimated realisable amount by means of a provision for doubtful accounts, taking account of the specific circumstances of each debtor.

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

Payables are stated at nominal amount.

Factoring of trade receivables

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

Employee benefits

Employee termination indemnities (*trattamento di fine rapporto* or TFR) - mandatory for Italian companies pursuant to Art. 2120 of the Civil Code - constitute deferred compensation and depend on the employees' period of employment and the amount of compensation received while in the Company's service.

Effective 1 January 2007, significant changes were made to Italian law governing the TFR. These changes included the choice given to employees to decide where to allocate their TFR entitlement accruing (in supplementary pension schemes or in the "Treasury Fund" managed by the Social Security agency INPS). Thus, the obligation towards INPS and the payments to supplementary pension schemes qualify as defined contribution plans while the amounts remaining in TFR, in accordance with IAS 19, retain their status as defined benefit plans.

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

Current and non-current provisions

The Company creates provisions for risks and charges when it has legal or constructive obligations to third parties whose exact amount and/or timing is uncertain and/or it is probable that the Company will have to employ resources to fulfil the obligation and the amount can be reliably estimated. The provisions are adjusted periodically to reflect any increases/decreases in the estimated amount of the liability.

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

Financial assets and liabilities

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

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

Current financial assets and securities are recognised based on their trading date and, upon initial recognition, they are measured at purchase cost including transaction expenses. After initial recognition, financial instruments and securities available for sale are measured at fair value. If no market price is available, the fair value of financial instruments available for sale is measured with the most appropriate valuation techniques e.g. the discounted cash flow method, using market information available at the reporting date.

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

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

Financial assets measured at fair value through profit or loss

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

- financial assets specifically held for trading purposes;
- financial assets to be considered at fair value since their data of purchase.

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

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

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

Treasury shares

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

Revenue

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

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

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

Costs

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

Advertising costs are recognised upon receipt of the service.

Cost of sales

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

Changes in inventories refer to the change in the period in the gross amount of period end inventories, net of the change in provisions for inventory obsolescence.

Dividends received

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

Interest income and expenses

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

Current tax

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

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

Deferred tax

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

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

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

Earnings per share

Basic earnings per share is calculated by dividing the profit for the period by the number of shares outstanding, excluding treasury shares. Diluted earnings per share is equal to basic earnings per share as e no financial instruments convertible to shares were in issue during the period.

Foreign currency transactions

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

New accounting standards

Accounting standards, amendments and IFRS interpretations applied from 1 July 2017

- On 29 January 2016, the IASB issued ***Disclosure Initiative (Amendments to IAS 7).*** The amendments are intended to provide clarifications to improve the disclosure of financial liabilities. Specifically, the amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from monetary movements and changes arising from non-monetary movements. The amendments do not require the use of any specific format for the disclosures. However, the amendments require entities to provide a reconciliation between the opening and closing balances of liabilities arising from financing activities. There is no requirement to present comparative information for prior years. In accordance with the amendment, the Company has included the information requested in the Notes (see the note on the Net Financial Position).
- on 19 January 2016, the IASB issued ***Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)***. The document aims to provide clarification on the recognition of deferred tax assets computed on unrealised losses arising on the valuation of financial assets classed as "Available for Sale" in certain circumstances and on the estimate of future taxable income. Adoption of these amendments has not had any effect on the financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Company at 30 June 2018:

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

  The standard will be applied from 1 July 2018. The analysis process is still in progress and a reasonable estimate of the potential effects cannot be provided at present.

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

  The standard introduces new criteria for the classification and measurement of financial assets and liabilities. For financial assets, IFRS 9 uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets themselves to determine how those assets are measured, replacing the many different rules in IAS 39. For financial liabilities, the main amendments relate to the accounting treatment of changes in fair value of a financial liability designated at fair value through profit or loss, in the event that these changes are due to a change in the credit risk of the issuer of the liability in question. Under the new standard, these changes shall be presented in other comprehensive income and shall no longer be presented in the statement of profit or loss. Moreover, in case of non-substantial changes in liabilities, the profit or loss effects of renegotiation can no longer be spread over the residual duration of the liability by amending the effective interest rate at that date; rather, the related effect must be recorded in profit or loss.

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

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

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

  The greater flexibility of the new accounting rules is offset by additional disclosure requirements concerning a company's risk management activities.

  The standard will be applied from 1 July 2018. The analysis provides is still in progress and a reasonable estimate of the potential effects cannot be provided at present.

- Amendment to **IFRS 2 "Classification and measurement of share-based payment transactions"** (published on 20 June 2016) which contains several clarifications on the accounting treatment of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the accounting treatment of changes to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled. The amendments will be applied from 1 July 2018. The Directors do not expect adoption of these amendments to have a significant effect on the financial statements.

- on 8 December 2016, the IASB issued "**Annual Improvements to IFRSs: 2014-2016 Cycle**", a collection of amendments to standards as part of the annual process of improvements thereto. The main amendments relate to:
    - IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment will be applied from 1 July 2018 and regards the deletion of several short-term exemptions under paragraphs E3–E7 of Appendix E to IFRS 1 as they are deemed to have served their intended purpose.
    - IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss*:* an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organisation or another qualifying entity (e.g. a mutual investment fund or similar entity) to measure investments in associated companies or joint ventures at fair value through profit or loss (rather than using the equity method) is available upon initial recognition of each investment. The amendment will be applied from 1 July 2018.
    - IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of IFRS 12 by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to all investments that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5. The amendment will be applied from 1 July 2018.

  The directors do not expect adoption of these amendments to have a significant effect on the financial statements.

- Amendment to **IAS 40 "Transfers of Investment Property"** (published on 8 December 2016). These amendments provide clarification on transfers of property to or from investment property. More specifically, an entity should transfer a property to, or from, investment property only when there has been a change of use of the property. The change must be attributable to a specific event that has occurred and not merely to a change in management's intentions. The amendments will be applied from 1 July 2018. The Directors do not expect adoption of these amendments to have a significant effect on the financial statements.
- Interpretation **"Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)"** (published on 8 December 2016). The objective aims to provide guidance for foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation provides guidelines on how entities should

determine the date of a transaction, and, consequently, the spot exchange rate to be used in case of foreign currency transactions where payment is made or received in advance.
The interpretation clarifies that the transaction date is the earlier of:

a) the date on which the advance payment made or received is recorded by the entity; and
b) the date on which the asset, the cost or the revenue (or part thereof) is booked (thus resulting in reversal of the advance payment made or received).

If there are numerous payments or receipts of advance consideration, a specific transaction date must be established for each of them. IFRIC 22 will be applied from 1 July 2018. The Directors do not expect adoption of these amendments to have a significant effect on the financial statements.

- On 13 January 2016, the IASB published **IFRS 16 – Leases** which will replace IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
The new standard provides a new definition of a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts. It identifies the following differentiating features: identification of the asset, the right to replacement of the asset, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.

The standard sets out a single model for the recognition and measurement of lease contracts for a lessee that requires the recognition of assets held under leases, inclusive of operating leases, as balance sheet assets with an opposite entry to financial liabilities and it also makes it possible not to recognise as leases contracts for low-value assets (i.e. leases for assets with a value of less than Euro 5,000) and leases with a contractual duration of less than or equal to 12 months. Meanwhile, the standard does not include any significant amendments for lessors.

The standard is applicable from 1 January 2019, although early application is permitted but only for companies that have already adopted IFRS 15 - Revenue from Contracts with Customers. The directors believe that the application of IFRS 16 may have a significant impact on the recognition of lease arrangements and on related disclosures in the financial statements. They have already commenced an initial phase of detailed analysis of lease agreements and accounting effects and a second phase of implementation and/or adaptation of administrative processes and the accounting system. The Directors have not yet finalised the approach they intend to adopt from among those permitted by IFRS 16.

- Amendment to **IFRS 9 "Prepayment Features with Negative Compensation"** (published on 12 October 2017). This document specifies that instruments with prepayment features could pass the SPPI test even if the "reasonable additional compensation" payable in case of prepayment is a "negative compensation" for the financing entity. The amendment is applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the financial statements.

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

As of the reporting date, the competent European Union bodies had not yet completed the endorsement process necessary for the adoption of the amendments and standards described below:

- On 18 May 2017, the IASB published **IFRS 17 – Insurance Contracts** which is destined to replace IFRS 4 – Insurance Contracts.

  The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations resulting from the insurance contracts issued. The IASB has developed the standard in order to eliminate inconsistencies and weaknesses in existing accounting standards while providing a single principle-based approach to take account of all of the types of insurance contracts held by an insurer, including reinsurance contracts.

  The new standards also lay down presentation and disclosure requirements to improve comparability between entities belonging to this segment.

  The new standard measures insurance contracts based on a General Model or a simplified version thereof, called the Premium Allocation Approach ("PAA").

  The main characteristics of the General Model are as follows:
    - future cash flow estimates and assumptions are always current ones;
    - the measurement reflects the time value of money;
    - estimates provide for extensive utilisation of information observable on the market;
    - there is a current and explicit measurement of risk;
    - expected premiums are deferred and aggregated in groups of insurance contracts at the time of initial recognition; and,
    - expected premiums are recognised in the period of contractual cover taking account of adjustments due to changes in assumptions for cash flows relating to each group of contracts.

  The PAA provides for measurement of the liability for the residual cover of a group of insurance contracts con condition that, at the time of initial recognition, the entity believes that the liability represents a reasonable approximation of the General Model. Contracts with a cover period of a year or less are automatically suitable for the PAS approach. Simplifications due to application of the PAA method do not apply to the measurement of liabilities for existing claims which are measured using the General Model. Nonetheless, it is not necessary to discount those cash flows if it is expected that the balance to be paid or collected will fall due within a year of the date on which the claim was made.

  The entity shall apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and investment contracts with a discretionary participation feature (DPF).

  The standard is applicable from 1 January 2021 with early application permitted but only for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with

Customers. The Directors do not expect adoption of this standard to have a significant effect on the financial statements.

- On 7 June 2017, the IASB issued **IFRIC 23 – Uncertainty over Income Tax Treatments**. The document addresses the issue of uncertainty over income tax treatments.

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

  The new interpretation is applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of this interpretation to have a significant effect on the financial statements.

- On 12 October 2017, the IASB published the document **"Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)".** The document provides clarification on the need to apply IFRS 9, including requirements regarding impairment, to long-term interests in associates and joint ventures to which the equity method is not applied. The amendment is applicable from 1 January 2009 but early application is allowed.

  The Directors do not expect adoption of the amendments to have a significant effect on the financial statements.

- On 12 December 2017, the IASB published the document **"Annual Improvements to IFRSs 2015-2017 Cycle"** which contains amendments to several standards as part of the annual improvement process. The main amendments regard:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity gains control of a business that represents a joint operation, it shall remeasure the interest previously held in that business. This process does not apply when joint control is acquired.
  - IAS 12 Income Taxes: the amendment clarifies that all tax effects relating to dividends (including payments on financial instruments classified in equity) should be accounted for on the same basis as the transaction that generated the related profits (statement of profit or loss, OCI or equity).
  - IAS 23 Borrowing costs: the amendment clarifies that loans that remain in place even after the related qualifying asset is ready for use or sale shall become part of the total loans used to calculate borrowing costs.

  The amendments are applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the financial statements.

- Amendment to **IAS 19 "Plan Amendment, Curtailment or Settlement"** (published on 7 February 2018). The document clarifies how an entity should record an amendment (i.e. a curtailment or a settlement) to a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendment clarifies that, after such an event, an entity shall use the updated assumptions to measure the current service cost and interest for the rest of the period after the event. The Directors do not expect adoption of the amendment to have a significant effect on the financial statements.

- On 11 September 2014, the IASB published an amendment to **IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture.** The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.
  IAS 28 requires that the gain or losses resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in the latter is limited to the extent of the investor's interest in the joint venture or associate. Meanwhile, IFRS 10 requires full profit or loss recognition when a parent loses control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, inclusive of in the case of a sale or contribution of a subsidiary to a joint venture or associate. The amendments require that, in the case of a sale or contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller or contributor depends on whether the assets or the subsidiary sold or contributed consist of a business, as defined by IFRS 3. If the assets or the subsidiary sold or contributed consist of a business, then the entity should recognise the full profit or loss in line with the previously held equity interest; otherwise, the portion of the gain or loss relating to the equity interest that is still held should be eliminated. For the time being, the IASB has postponed the application of these amendments. The directors do not expect adoption of these amendments to a significant impact on the financial statements.

3. DISCRETIONARY JUDGMENT AND SIGNIFICANT ESTIMATES

Discretionary judgment

Preparation of the separate financial statements for the year ended 30 June 2018 and the notes thereto required the use of discretionary judgment in order to make estimates and assumptions with an effect on the carrying amount of assets and liabilities recognised in the consolidated financial statements and on disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

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

The main sources of uncertainty when making estimates regarded the recoverable amount of intangible assets, credit risk, inventory impairment, employee benefits, provisions, revenue adjustments, royalties and deferred tax estimates.

Credit risk

The credit risk regarding trade receivables is periodically assessed periodically based on opinions provided by the external legal advisor who handles customer disputes. Under the credit recovery procedure adopted by the Company receivables not paid within 45 days of their due date are passed on to the legal advisor for collection. Frequent updates from the lawyer on the likelihood of collection ensure that the credit risk estimate remains reliable over time.

Recoverable amount of equity investments

Equity investments are adjusted for impairment whenever events or a change in circumstances indicate that their carrying amount is no longer recoverable. Events that may potentially require an impairment adjustment to an equity investment include changes in the strategic plan and changes in market prices that lead to a poorer operational performance and reduce the subsidiary's capacity to generate dividends. Measurement of the recoverable amount of equity investments is performed using estimates of expected cash flows and appropriate discount rates to calculate present value. Therefore, it is based on a set of hypothetical assumptions relating to future events and actions by the Directors of subsidiaries that may not necessarily occur in the manner and within the timescale envisaged.

Measurement of inventories

The Company measures inventories on a quarterly basis, in light of the rapid obsolescence of its products. Impairment adjustments may be recorded in relation to individual products whose market value is lower than their historical cost. In order to make these estimates, the Company uses revenue forecasts for the subsequent four quarters, as periodically produced by the sales department. Any differences identified between the market value of a product held in inventory, taking account of its price category and historical cost, are recognised in profit or loss in the period they come to light.

Employee benefits

Estimating employee termination indemnities is made more complex by the fact that it requires an assessment of the future cash outflows that may arise as a result of employees' voluntary and involuntary departure, in relation to their seniority and the revaluation rates these benefits enjoy by law.

The TFR/employee termination indemnity system underwent significant change during the year ended 30 June 2006. Estimating the liability remains complex because a residual portion of indemnities have remained with the Company. The Company makes its estimate with assistance from an actuary in order to determine the necessary parameters.

Following the approval of the "2016-2026 Stock Option Plan", an actuarial measurement was require. An independent professional has been appointed to perform the measurement.

Revenue adjustments

A significant cost element known as "revenue adjustments" involves detailed calculations for which the Company has adopted appropriate procedures.

Revenue adjustments consist of various types of cost. The first category, which is easier to determine, consists of discounts granted to customers at the end of the contractual period – normally annual – in the form of year-end bonuses. The second category regards credit notes that the Company might have to issue to customers in relation to unsold products. In order to make this estimate, management performs analysis by customer and by product, highlighting the risks and dividing them between price differences and potential returns. The forecast is made quarterly, on a product-by-product basis, comparing volumes sold to customers with the volumes they have sold to end consumers. The availability of sales figures by country makes the estimate reliable over time. Many customers submit sales and inventory figures on a weekly basis, thus facilitating the estimation process.

4. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The statement of financial position at 30 June 2018 is set out below together with comparative figures at 30 June 2017:

	Euro Thousands	30 June 2018	30 June 2017	Change	
	Non-current assets				
1	Property, plant and equipment	2,982	3,160	(178)	-5.6%
2	Investment property	0	0	0	0.0%
3	Intangible assets	302	367	(65)	-17.7%
4	Equity investments	16,432	18,919	(2,487)	-13.1%
5	Non-current receivables and other assets	9,216	637	8,579	n.m.
6	Deferred tax assets	330	406	(76)	-18.8%
	Total non-current assets	**29,262**	**23,489**	**5,773**	**24.6%**
	Non-current liabilities				
7	Employee benefits	(419)	(417)	(2)	0.5%
8	Non-current provisions	(80)	(79)	(1)	1.2%
9	Other non-current payables and liabilities	(901)	0	(901)	n.m.
	Total non-current liabilities	**(1,400)**	**(496)**	**(904)**	**n.m.**
	Net working capital				
10	Inventories	3,688	3,958	(270)	-6.8%
11	Trade receivables	1,802	2,176	(374)	-17.2%
12	Receivables from subsidiaries	23,233	20,220	3,013	14.9%
13	Tax receivables	1,968	327	1,641	n.m.
14	Other current assets	3,078	564	2,514	n.m.
15	Trade payables	(2,012)	(2,306)	294	-12.7%
16	Payables to subsidiaries	(8,933)	(16,262)	7,329	-45.1%
17	Current tax liabilities	(216)	(615)	399	-64.9%
18	Current provisions	(2,393)	(1,246)	(1,147)	92.0%
19	Other current liabilities	(753)	(2,277)	1,524	-67.0%
	Total net working capital	**19,462**	**4,539**	**14,923**	**n.m.**
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(20,577)	(19,764)	(813)	4.1%
22	Treasury shares	0	0	0	0.0%
23	(Retained earnings) accumulated losses	(20,606)	(7,237)	(13,369)	n.m.
	Total equity	**(46,887)**	**(32,705)**	**(14,182)**	**43.4%**
	Total net assets	***437***	***(5,173)***	***5,610***	***n.m.***
24	Cash and cash equivalents	609	3,872	(3,263)	84.3%
25	Current bank borrowing	(845)	(1,558)	713	-45.8%
26	Other current financial assets and liabilities	(176)	2,899	(3,075)	n.m.
	Current net financial position	**(412)**	**5,213**	**(5,625)**	**n.m.**
27	Non-current financial assets	0	0	0	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(25)	(40)	15	-38.4%
	Non-current net financial position	**(25)**	**(40)**	**15**	**-38.4%**
	Total net financial position	***(437)***	***5,173***	**(5,610)**	***n.m.***

NON-CURRENT ASSETS

1. Property, plant and equipment

Property, plant and equipment has decreased from Euro 3,160 thousand to Euro 2,982 thousand. Movements during the reporting period were as follows:

Euro Thousands	1 July 2017	Additions	Disposals	Depreciation	Use of accum. deprec'n	30 June 2018
Industrial buildings	2,237	0	0	(103)	0	**2,134**
Land	600	0	0	0	0	**600**
Plant and machinery	187	57	0	(61)	0	**183**
Other assets	133	0	0	(70)	0	**63**
Leasehold improvements	3	0	0	(1)	0	**2**
Total	**3,160**	**57**	**0**	**(235)**	**0**	**2,982**

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

Property, plant and equipment – except for land – is depreciated over the useful life of each individual asset.

Industrial buildings include the warehouse in Trezzano sul Naviglio while land includes the land at the same location, as valued at Euro 600 thousand.

Additions for the year consisted almost entirely of electronic equipment.

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

Current year

Gross carrying amount of property, plant and equipment

Euro Thousands	1 July 2017	Additions	Disposals	30 June 2018
Industrial buildings	3,258	0	0	**3,258**
Land	600	0	0	**600**
Plant and machinery	2,170	57	0	**2,227**
Other assets	1,333	0	0	**1,333**
Leasehold improvements	317	0	0	**317**
Total	**7,678**	**57**	**0**	**7,735**

Accumulated depreciation

Euro Thousands	**1 July 2017**	**Increases**	**Disposals**	**30 June 2018**
Industrial buildings	(1,021)	(103)	0	**(1,124)**
Land	0	0	0	**0**
Plant and machinery	(1,983)	(61)	0	**(2,044)**
Other assets	(1,200)	(70)	0	**(1,270)**
Leasehold improvements	(314)	(1)	0	**(315)**
Total	**(4,518)**	**(235)**	**0**	**(4,753)**

Prior year

Gross carrying amount of property, plant and equipment

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

Accumulated depreciation

Euro Thousands	**1 July 2016**	**Increases**	**Disposals**	**30 June 2017**
Industrial buildings	(918)	(103)	0	**(1,021)**
Land	0	0	0	**0**
Plant and machinery	(1,926)	(57)	0	**(1,983)**
Other assets	(1,128)	(72)	0	**(1,200)**
Leasehold improvements	(313)	(1)	0	**(314)**
Total	**(4,285)**	**(233)**	**0**	**(4,518)**

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

3. Intangible assets

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

Intangible assets have recorded a net decrease of Euro 65 thousand after the amortisation charge for the year of Euro 154 thousand. The following table shows movements for the current year and the previous year by asset category

Euro Thousands	**1 July 2017**	**Additions**	**Disposals**	**Amortisation**	**30 June 2018**
Concessions and licences	357	89	0	(150)	**296**
Trademarks and similar rights	6	0	0	(2)	**4**
Other intangible assets	4	0	0	(2)	**2**
Total	**367**	**89**	**0**	**(154)**	**302**

Euro Thousands	1 July 2016	Additions	Disposals	Amortisation	30 June 2017
Concessions and licences	380	127	0	(150)	**357**
Trademarks and similar rights	6	2	0	(2)	**6**
Other intangible assets	13	0	0	(9)	**4**
Total	**399**	**129**	**0**	**(161)**	**367**

Concessions and licences increased by Euro 89 thousand over the year due to expenditure on ERP systems.

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

Current year

Gross carrying amount of intangible assets

Euro Thousands	1 July 2017	Additions	Disposals	30 June 2018
Concessions and licences	2,788	89	0	**2,877**
Trademarks and similar rights	1,514	0	0	**1,514**
Other intangible assets	73	0	0	**73**
Total	**4,375**	**89**	**0**	**4,464**

Accumulated amortisation

Euro Thousands	1 July 2017	Increases	Disposals	30 June 2018
Concessions and licences	(2,431)	(150)	0	**(2,581)**
Trademarks and similar rights	(1,508)	(2)	0	**(1,510)**
Other intangible assets	(69)	(2)	0	**(71)**
Total	**(4,008)**	**(154)**	**0**	**(4,162)**

Prior year

Gross carrying amount of intangible assets

Euro Thousands	1 July 2016	Additions	Disposals	30 June 2017
Concessions and licences	2,661	127	0	**2,788**
Trademarks and similar rights	1,512	2	0	**1,514**
Other intangible assets	73	0	0	**73**
Total	**4,246**	**129**	**0**	**4,375**

Accumulated amortisation

Euro Thousands	1 July 2016	Increases	Disposals	30 June 2017
Concessions and licences	(2,281)	(150)	0	**(2,431)**
Trademarks and similar rights	(1,506)	(2)	0	**(1,508)**
Other intangible assets	(60)	(9)	0	**(69)**
Total	**(3,847)**	**(161)**	**0**	**(4,008)**

At the reporting date, there were no intangible assets with an indefinite useful life.

4. Equity investments

Equity investments amount to Euro 16,446 thousand and have decreased by Euro 2,473 thousand compared to prior year.

The following table contains details of equity investments at 30 June 2018, together with comparatives at 30 June 2017:

Euro Thousands	30 June 2018	30 June 2017	Change
505 Games S.p.A.	10,100	10,100	0
Game Service S.r.l.	85	85	0
Pipeworks Inc.	0	2,412	(2,412)
Digital Bros Game Academy S.r.l.	300	300	0
Game Network S.r.l.	10	10	0
Digital Bros Game China	100	100	0
Digital Bros Holdings Ltd.	125	125	0
133 W Broadway Inc.	91	91	0
Kunos Simulazioni S.r.l.	4,351	4,351	0
Total subsidiaries	**15,162**	**17,574**	**(2,412)**
Ovosonico S.r.l.	751	720	31
Seekhana Ltd.	421	511	(90)
Total associated companies	**1,172**	**1,231**	**(59)**
Games Analytics Ltd.	60	60	0
Ebooks&Kids S.r.l.	38	52	(14)
Cityglance S.r.l. in liquidation	0	2	(2)
Total other companies	**98**	**114**	**(16)**
Total equity investments	**16,432**	**18,919**	**(2,487)**

The most significant change was due to the sale of the investment in US company Pipeworks Inc. The disposal has already been described under Significant Events During the Reporting Period.

Other changes in equity investments in associated companies included:

- The value of the investment in Ebooks&Kids S.r.l. has been reduced by Euro 14 thousand to bring it into line with the Company's share of the equity reported in the latest approved financial statements of the investee company;
- The completion of the liquidation process of the investment in Citylance S.r.l. in liquidation;
- A Euro 31 thousand increase in the value of the investment in Ovosonico S.r.l. to bring it into line with the relevant portion of the investee's equity;
- Subscription of Euro 50 thousand of additional capital of Seekhana Ltd. and an impairment adjustment of Euro 141 thousand to reflect the relevant portion of the investee's equity.

The investments held in Ovosonico S.r.l. and Seekhana Ltd. are measured using the equity method so their amount includes the Company's share of their profits/losses and the amortisation and/or writedown of the difference between the price paid and the proportionate equity value at the date of acquisition of each investment.

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

Name	Location	Carrying amount a	Capital b	Pro-rata share of equity c	Result for the year	Change d=c-a
505 Games S.p.A.	Milan	10,100	10,000	27,048	2,153	16,948
Game Service S.r.l.	Milan	85	50	209	(11)	124
Digital Bros Game Academy S.r.l.	Milan	82	300	82	(128)	0
Game Network S.r.l.	Milan	(2,165)	10	(2,165)	(1,019)	0
Digital Bros Game China	Shenzhen	100	100	92	9	(8)
Digital Bros Holdings Ltd.	Milton Keynes	125	125	109	(2)	(16)
133 W Broadway Inc.	Eugene	91	90	(108)	(98)	(199)
Kunos Simulazioni S.r.l.	Rome	4,351	10	5,297	2,434	946
Total subsidiaries		**12,769**				
Games Analytics Ltd. (1)	Edinburgh	60	3	7	(293)	(53)
Ebooks&Kids S.r.l. (1)	Milan	38	26	38	(90)	0
Total other companies		**98**				

(1)Figures taken from financial statements at 31 December 2017
(2) Figures taken from Six-Monthly Report at 30 June 2018

All of the subsidiaries are 100% owned. The percentage investments held in Games Analytics Ltd. and Ebooks&Kids S.r.l. are 1.04% and 16%, respectively.

The carrying amounts of the investments in Digital Bros Game Academy S.r.l. and Game Network S.r.l. are stated net of impairment adjustments which total Euro 2,175 thousand for Game Network S.r.l. and Euro 218 thousand for Digital Bros Game Academy S.r.l.

No impairment adjustments have been made to the investments in 133 W. Broadway Inc., Ovosonico S.r.l. and Seekhana Ltd. as medium/long-term business plans suggest that their impairment is not permanent.

5. Non-current receivables and other assets

Non-current receivables and other assets amount to Euro 9,216 thousand. The balance has increased by Euro 8,579 thousand compared to 30 June 2017 mainly because of recognition of the medium/long-term receivable of USD 10 million resulting from the disposal of Pipeworks Inc. The remaining balance of Euro 638 thousand consists entirely of guarantee deposits paid in respect of contractual obligations. The largest deposit is the amount of Euro 635 thousand paid to Matov Imm. S.r.l. as a deposit for the rental of premises in Via Tortona 37, Milan, the Company’s headquarters.

6. Deferred tax assets

At 30 June 2018, deferred tax assets amount to Euro 330 thousand and have decreased by euro 76 thousand compared to 30 June 2017.

The balance includes IRES deferred tax assets of Euro 321 thousand and IRAP deferred tax assets of Euro 9 thousand.

Deferred tax assets are calculated on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. The rate applied for IRES purposes was 24%. The following table provides details of temporary differences at 30 June 2018 and 30 June 2017:

Description	**Temporary differences at 30 June 2017**	**Changes in temporary differences in the year**	**Temporary differences at 30 June 2018**
Taxed provision for bad debts	620	34	654
Provision for derivative risks	41	(41)	0
Directors' emoluments not paid	601	(332)	269
Employee termination indemnity	39	0	39
Inventory obsolescence provision	343	(93)	250
Deduction for "Economic Growth Assistance " (ACE)	0	93	93
Other	49	(16)	33
Total	**1,693**	**(355)**	**1,338**

The following table shows the calculation of deferred tax assets for IRES purposes at 30 June 2018:

Description	**Temporary differences at 30 June 2018**	**IRES rate**	**Deferred tax assets for IRES purposes at 30 June 2018**
Taxed provision for bad debts	654	24.0%	157
Provision for derivative risks	0	24.0%	0
Directors' emoluments not paid	269	24.0%	65
Employee termination indemnity	39	24.0%	9
Inventory obsolescence provision	250	24.0%	60
Deduction for "Economic Growth Assistance " (ACE	93	24.0%	22
Other	33	24.0%	8
Total	**1,338**		**321**

NON-CURRENT LIABILITIES

7. Employee benefits

"Employee benefits" reflects the actuarial value of the Company's liability towards employees, as calculated by an independent actuary. It has decreased by Euro 29 thousand compared to prior year.

The IAS 19 actuarial measurement at 30 June 2018 was performed using a discount rate based on the Iboxx Corporate A 10y+ index, in line with the rate used at the previous reporting date. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on the Company's reporting date headcount of 49 employees.

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

- annual rate of interest of 1.84%;
- annual rate of real increase in remuneration of 1%;
- annual rate of inflation of 1.50%.

The following table shows movements on the provision for employee termination indemnities in the reporting period and in the previous reporting period:

Euro Thousands	**30 June 2018**	**30 June 2017**
Provision for employee termination indemnities at 1 July 2017	**417**	**495**
Employees transferred to 505 Games S.p.A.	39	(55)
Utilisation of provision for payments to leavers	(40)	(4)
Allocations to provision in the year	141	149
Measurement of supplementary pension schemes	(131)	(143)
Actuarial measurement	(7)	(25)
Provisions for employee termination indemnities at 30 June 2018	**419**	**417**

The Company is not party to any supplementary pension funds.

8. Non-current provisions

These consist entirely of the agents' termination indemnity provision. The balance of Euro 80 thousand at 30 June 2018 was Euro 1 thousand higher than the 30 June 2017 balance of Euro 79 thousand. The increase is entirely due to allocations for the period.

9. Other non-current payables and liabilities

At 30 June 2018, other non-current payables and liabilities amounted to Euro 901 thousand and entirely consisted of the amount payable for advisory services received in relation to the disposal of Pipeworks Inc. which will be settled upon collection of the amount of USD 10 million previously described.

NET WORKING CAPITAL

At 30 June 2018, the Company had no receivables or payables with a residual duration of more than five years and no payables were secured on the Company's assets. Exchange rate fluctuation since the reporting date has not had any significant effect. Moreover, there were no receivables or payables linked to repurchase agreements.

The following table contains a geographical breakdown of net working capital at 30 June 2018:

	Euro Thousands	Italy	Other EU	Non EU	Total
10	Inventories	3,688	0	0	3,688
11	Trade receivables	1,739	63	0	1,802
12	Receivables from subsidiaries	21,947	139	1,147	23,233
13	Tax receivables	1,968	0	0	1,968
14	Other current assets	2,957	0	121	3,078
15	Trade payables	(1,222)	(729)	(61)	(2,012)
16	Payables to subsidiaries	0	(8,454)	(479)	(8,933)
17	Current tax liabilities	(216)	0	0	(216)
18	Current provisions	(2,393)	0	0	(2,393)
19	Other current liabilities	(753)	0	0	(753)
	Total net working capital	**27,715**	**(8,981)**	**728**	**19,462**

10. Inventories

Inventories entirely consist of finished products for resale. They have decreased by Euro 270 thousand from Euro 3,958 thousand at 30 June 2017 to Euro 3,688 thousand at 30 June 2018. Inventories are stated net of a provision for obsolescence of Euro 250 thousand against Euro 343 thousand at 30 June 2017.

11. Trade receivables

Changes in trade receivables compared to prior year are as follows:

Euro Thousands	30 June 2018	30 June 2017	Change
Trade receivables - Italy	2,416	2,612	(196)
Trade receivables – Other EU	63	196	(133)
Trade receivables - Rest of the world	1	2	(1)
Provision for doubtful debts	(678)	(634)	(44)
Total trade receivables	**1,802**	**2,176**	**(374)**

At 30 June 2018, trade receivables amounted to Euro 1,802 thousand, a decrease of Euro 374 thousand compared to Euro 2,176 thousand at 30 June 2017. The Company's trade receivables are primarily due from Italian customers. The balance is stated net of the provision for doubtful debts.

Trade receivables are stated net of an estimate of credit notes totalling Euro 638 thousand to be issued by the Company for price repositioning or returns. This compares to the amount of Euro 481 thousand estimated at 30 June 2017.

The provision for doubtful debts has increased by Euro 44 thousand from Euro 644 thousand at 30 June 2017 to Euro 688 thousand at 30 June 2018. The provision is estimated based on a detailed analysis of each trade receivable balance in order to assess its recoverability. The change compared to prior year is the net result of Euro 54 thousand provided for potential bad debts due to the insolvency of a number of customers minus Euro 10 thousand utilised for specific bad debts.

The following table contains an analysis of trade receivables at 30 June 2018 by due date, together with comparative figures at 30 June 2017:

Euro Thousands	30 June 2018	% of total	30 June 2017	% of total
Current	1,224	68%	1,718	79%
0 -30 days overdue	227	13%	59	3%
30 - 60 days overdue	11	0%	32	1%
60 - 90 days overdue	0	0%	85	4%
> 90 days overdue	340	19%	282	13%
Total trade receivables	**1,802**	**100%**	**2,176**	**100%**

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

12. Receivables from subsidiaries

Receivables from subsidiaries amount to Euro 23,233 thousand and have increased by Euro 3,013 thousand compared to prior year.

Receivables from subsidiaries at 30 June 2018 and at 30 June 2017 are analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change
505 Mobile S.r.l.	9,169	10,605	(1,436)
Game Entertainment S.r.l.	8,081	5,855	2,226
Game Network S.r.l.	2,477	1,627	850
505 Games S.p.A.	1,248	1	1,247
133 W Broadway Inc.	576	430	146
Hawkwen Entertainment Inc.	571	1,041	(470)
Kunos Simulazioni S.r.l.	523	0	523
Game Service S.r.l.	406	396	10
505 Games France S.a.s.	139	224	(85)
Digital Bros Game Academy S.r.l.	43	0	43
505 Games Iberia Slu	0	41	(41)
Total receivables from subsidiaries	**23,233**	**20,220**	**3,013**

Based on medium/long-term business plans, the Company believes that all receivables from subsidiaries are recoverable.

13. Tax receivables

At 30 June 2018, tax receivables amounted to Euro 1,968 thousand and increased by Euro 1,641 thousand compared to a balance of Euro 327 thousand at 30 June 2017.

Tax receivables at 30 June 2018 and at 30 June 2017 are analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change
Receivable under domestic tax group arrangement	1.486	0	1.486
IRES rebate receivable	120	120	0
VAT receivable	112	25	87
Other receivables	250	182	68
Total tax receivables	**1.968**	**327**	**1.641**

The IRES rebate receivable relates to the deductibility of IRAP on labour costs.

14. Other current assets

Other current assets have increased from Euro 564 thousand at 30 June 2017 to Euro 3,078 thousand at 30 June 2018, mainly because of the recognition of Euro 2,144 thousand (the equivalent of USD 2.5 million) representing the portion of the receivable for the sale of Pipeworks Inc. due within a year. The balance may be analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change
Insurance refunds receivable	1	1	0
Advances to suppliers	351	391	(40)
Advances to employees	192	113	79
Other receivables	2,534	59	2,475
Total other current assets	**3,078**	**564**	**2,514**

In addition to the Euro 2,144 thousand mentioned above, other receivables also include Euro 210 thousand representing a loan to associated company Ovosonico S.r.l. and Euro 121 thousand receivable for interest accruing up to 30 June 2018 from the purchaser of Pipeworks Inc. on the portion of the selling price not yet collected. The rest of the balance includes advances paid to suppliers and employees.

15. Trade payables

Trade payables due within a year have decreased by Euro 294 thousand and consist mainly of payables to publishers for purchases of finished products. The balance is analysed below:

Euro Thousands	30 June 2018	30 June 2017	Change
Trade payables – Italy	(1,222)	(1,366)	142
Trade payables – Other EU	(543)	(868)	325
Trade payables – Rest of World	(247)	(72)	(175)
Total trade payables	**(2,012)**	**(2,306)**	**294**

16. Payables to subsidiaries

Payables to subsidiaries amount to Euro 8,933 thousand and have decreased by Euro 7,329 thousand compared to prior year mainly because of a reduction in the payable to 505 Games Ltd. They are analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change
505 Games (US) Inc.	(3,071)	(1,017)	(2,054)
505 Games Ltd.	(1,952)	(3,484)	1,532
505 Games GmbH	(1,552)	(590)	(962)
DR Studios Ltd.	(885)	(859)	(26)
505 Games Iberia Slu	(883)	0	(883)
505 Games Mobile (US)	(234)	(256)	22
505 Games Interactive	(219)	(242)	23
Digital Bros Holdings Ltd.	(111)	(113)	2
Digital Bros China (Shenzen Ltd.)	(26)	(4)	(22)
505 Games S.p.A.	0	(7,722)	7,722
Digital Bros Game Academy S.r.l.	0	(44)	44
Pipeworks Inc.	0	(1,931)	1,931
Total payables to subsidiaries	**(8,933)**	**(16,262)**	**7,329**

17. Tax payables

Tax payables have decreased by Euro 399 thousand from Euro 615 thousand at 30 June 2017 to Euro 216 thousand. They mainly include payables for taxes deducted at source from employees and contract personnel.

18. Current provisions

This caption mainly consists of provisions for impairment of equity investments. It has increased by Euro 1,147 thousand compared to the 30 June 2017 balance of Euro 1,246 thousand as a result of the amount allocated to cover the losses of subsidiaries Game Network S.r.l. and Digital Bros Game Academy S.r.l..

Movements during the period were as follows:

Euro Thousands	30 June 2017	Allocated	30 June 2018
Digital Bros Game Academy S.r.l.	90	128	218
Game Network S.r.l.	1,156	1,019	2,175
Total current provisions	**1,246**	**1,147**	**2,393**

The amount of Euro 1,147 thousand allocated during the reporting period is in line with the losses reported by the two subsidiaries for the year ended 30 June 2018.

19. Other current liabilities

Other current liabilities have decreased by Euro 1,524 thousand from Euro 2,277 thousand at 30 June 2017 to Euro 753 thousand at 30 June 2018, as shown below:

Euro Thousands	30 June 2018	30 June 2017	Change
Amounts due to social security institutions	(219)	(244)	25
Amounts due to employees	(482)	(605)	123
Amounts due to contract staff	(36)	(36)	0
Other payables	(16)	(1.392)	1.376
Total other current liabilities	**(753)**	**(2.277)**	**1.524**

The decrease in other payables includes Euro 1,375 thousand due to payment by the Parent Company of the outstanding liability for the acquisition of Kunos Simulazioni S.r.l.

Amounts due to employees includes accrued holiday pay and leave of absence at the reporting date and the amount provided for payment of the 13th month's salary.

The decrease in amounts due to social security institutions and amounts due to employees is due to the lower amounts provided for the variable portion of remuneration than at 30 June 2017.

EQUITY

The following table contains a detailed breakdown of equity at 30 June 2018 and at 30 June 2017:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
Share capital	5,704	5,704	0
Treasury shares	0	0	0
Legal reserve	1,141	1,129	12
Share premium reserve	18,486	18,486	0
IFRS adoption reserve	(142)	(142)	0
Reserve for actuarial gains and losses	(75)	(80)	5
Fair value reserve	0	0	0
Other reserves	0	0	0
Stock option reserve	1,167	371	796
Retained earnings	5,086	3,000	2,086
Profit / (Loss) for the year	15,520	4,237	11,283
Total shareholders' equity	**46,887**	**32,705**	**14,182**

Detailed movements on equity are shown in the statement of changes in equity. The following table contains a summary of these movements:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
Opening equity	32,705	28,706	3,999
Capital increase	0	60	(60)
Increase in share premium reserve	0	1,532	(1,532)
Distribution of dividends	(2,139)	(1,834)	(305)
Change in treasury shares	0	390	(390)
Actuarial gains (losses)	5	18	(13)
Change in reserve for revaluation of securities	0	(2,230)	2,230
Stock option plan reserve	796	371	425
Other changes	0	1,455	(1,455)
Profit / (Loss) for the year	15,520	4,237	11,283
Closing equity	**46,887**	**32,705**	**14,182**

Share capital at 30 June 2018 is unchanged compared to 30 June 2017 and is divided into 14,260,837 ordinary shares with a par value of Euro 0.4 each, for a total of Euro 5,704 thousand.

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

The Euro 796 thousand increase in the Stock option plan reserve regards the amount relating to the period for the "Stock option plan 2016-2026" approved in prior year.

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

At the date of approval of the financial statements, no dividends had already been approved but not yet paid.

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

NET FINANCIAL POSITION

The Company's net financial position at 30 June 2018 is analysed in detail below. Comparative figures at 30 June 2017 are also provided:

	Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
24	Cash and cash equivalents	609	3,872	(3,263)
25	Current bank borrowing	(845)	(1,558)	713
26	Other current financial assets and liabilities	(176)	2,899	(3,075)
	Net financial position – current	**(412)**	**5,213**	**(5,625)**
27	Non-current financial assets	0	0	0
28	Non-current bank borrowing	0	0	0
29	Other non-current financial liabilities	(25)	(40)	15
	Net financial position – non-current	**(25)**	**(40)**	**15**
	Total net financial position	***(437)***	***5,173***	**(5,610)**

When preparing its statement of cash flows, the Company analysed the main changes in liabilities due to financing activities during the year and noted that there were no significant changes not involving cash flows.

At the reporting date, the carrying amount of the financial instruments held by the Company was equal to their fair value.

The following table contains details of financial liabilities by maturity at 30 June 2018:

Euro Thousands	**Within 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
Bank overdrafts	0	0	0	0
Import and export financing	0	0	0	0
Advances on invoices and notes receivable	(845)	0	0	(845)
Unsecured bank loans	0	0	0	0
Total bank borrowing (A)	**(845)**	**0**	**0**	**(845)**
Other financial liabilities (B)	**(176)**	**(25)**	**0**	**(201)**
Total (A+B)	**(1,021)**	**(25)**	**0**	**(1,046)**

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousands	30 June 2018	30 June 2017	Change
24	Cash and cash equivalents	609	3,872	(3,263)
25	Current bank borrowing	(845)	(1,558)	713
26	Other current financial assets and liabilities	(176)	2,899	(3,075)
	Current net financial position	**(412)**	**5,213**	**(5,625)**

24. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 609 thousand at 30 June 2018, a decrease of Euro 3,263 thousand compared to 30 June 2017. They are unrestricted and consist entirely of current account deposits accessible on demand.

25. Current bank borrowing

Current bank borrowing consists entirely of Euro 845 thousand of advances on invoices and on notes receivable.

Details are provided below:

Euro Thousands	30 June 2018	30 June 2017	Change
Advances on invoices and on notes receivable	(845)	0	(845)
Loan instalments due within a year	0	(1,558)	1,558
Total current bank borrowing	**(845)**	**(1,558)**	**713**

Current bank borrowing has decreased by Euro 713 thousand as a result of settlement of Euro 1,558 thousand of loans due in instalments within a year, as partially offset by a Euro 845 thousand increase in advances on invoices and notes receivable.

26. Other current financial assets and liabilities

Details of other current financial assets and liabilities are provided below:

Euro Thousands	30 June 2018	30 June 2017	Change
Starbreeze B shares	0	2,972	(2,972)
Advances on trade receivables factored without recourse	(161)	(58)	(103)
Lease instalments due within a year	(15)	(15)	0
Total other current financial assets and liabilities	**(176)**	**2,899**	**(3,075)**

The Starbreeze B shares held by Digital Bros at 30 June 2017 were all sold during the period at a net gain of Euro 88 thousand.

Advances on trade receivables factored without recourse totalled Euro 161 thousand and increased by Euro 103 thousand compared to 30 June 2017.

Lease instalments due within a year, amounting to Euro 15 thousand, comprise the current portion of instalments due under two lease agreements signed last year with Unicredit Leasing.

Non-current net financial position

The non-current net financial position is analysed as follows:

	Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
27	Non-current financial assets	0	0	0
28	Non-current bank borrowing	0	0	0
29	Other non-current financial liabilities	(25)	(40)	15
	Non-current net financial position	**(25)**	**(40)**	**15**

27. Non-current financial assets

There were no non-current financial assets at 30 June 2018 or at 30 June 2017.

28. Non-current bank borrowing

There was no non-current bank borrowing at 30 June 2018 or at 30 June 2017.

29. Other non-current financial liabilities

Other non-current financial liabilities amount to Euro 25 thousand and refer to lease repayments due after more than a year under two finance lease agreements entered into with Unicredit Leasing for the purchase of a server and a motor vehicle. The first lease agreement provides for a financed amount of Euro 54 thousand and the payment of fifty-nine monthly instalments plus an advance payment of Euro 5 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 29 December 2020. Lease instalments due after more than a year amount to Euro 15 thousand. The interest rate is variable and is determined based on the Euribor 3 month rate plus a spread of 3 percentage points. The lease agreement for the motor vehicle involves a financed amount of Euro 31 thousand and requires payment of fifty-nine monthly instalments plus an advance payment of Euro 1 thousand and a final purchase option of Euro 1 thousand. This finance lease expires on 28 April 2021. Lease instalments due after more than a year amount to Euro 10 thousand. There is a variable rate of interest of 1.41%.

The following table shows finance lease instalments by maturity:

Euro Thousands	30 June 2018	30 June 2017	Change
Due within a year	15	15	0
1-5 years	25	40	(15)
More than 5 years	0	0	0
Total	**40**	**55**	**(15)**

COMMITMENTS AND RISKS

At 30 June 2018, the Company's commitments totalled Euro 19,796 thousand and referred to credit mandates in favour of subsidiaries. At 30 June 2017, they totalled Euro 12,346 thousand and the increase relates to additional guarantees in favour of 505 Games S.p.A..

5. ANALYSIS OF THE STATEMENT OF PROFIT OR LOSS

3. Net revenue

Total net revenue has decreased by 18.3% from Euro 19,083 thousand in prior year to Euro 16,578 thousand in the year ended 30 June 2018.

Euro Thousands	30 June 2018	30 June 2017	Change	
Gross sales – Italy	16,051	19,759	(3,708)	-18.8%
Gross sales – Other countries	527	522	5	1.0%
Total gross revenue	**16,578**	**20,281**	**(3,703)**	**-18.3%**
Total revenue adjustments	**(1,198)**	**(1,198)**	**0**	**0.0%**
Total net revenue	**15,380**	**19,083**	**(3,703)**	**-19.4%**

Gross revenue for the year ended 30 June 2018 may be analysed by geographical area as follows:

Euro Thousands	30 June 2018	30 June 2017	Change	
Gross revenue – Italy	16,051	19,759	(3,708)	-18.8%
Gross revenue – Other EU	527	522	5	1.0%
Total gross revenue	**16,578**	**20,281**	**(3,703)**	**-18.3%**

8. Cost of sales

Cost of sales is analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Purchases of products for resale	(11,248)	(12,524)	1,276	-10.2%
Change in inventories of finished products	(270)	(3,055)	2,785	-91.1%
Total cost of sales	**(11,518)**	**(15,579)**	**4,061**	**-26.1%**

More detailed analysis of the individual revenue and cost of sales items is provided in the Directors' Report.

10. Other income

Other income mainly comprises revenue for activities on behalf of the subsidiaries.

11. Costs for services

Costs for services are detailed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Advertising, marketing, trade fairs and exhibitions	(771)	(736)	(35)	4.7%
Transport and freight	(177)	(175)	(2)	1.3%
Sub-total: sales related services	**(948)**	**(911)**	**(37)**	**4.0%**
Sundry insurance	(102)	(95)	(7)	6.9%
Legal and notary fees	(944)	(1,268)	324	-25.6%
Postage and telegraph	(106)	(107)	1	-1.1%
Travel and subsistence costs	(280)	(259)	(21)	8.2%
Utilities	(106)	(99)	(7)	7.1%
Maintenance	(62)	(64)	2	-3.2%
Statutory auditors' fees	(74)	(73)	(1)	1.1%
Sub-total: general services	**(1,674)**	**(1,965)**	**291**	**-14.8%**
Intercompany services	(62)	(94)	32	-33.8%
Sub-total	**(1,736)**	**(2,059)**	**323**	**-15.7%**
Total costs for services	**(2,684)**	**(2,970)**	**286**	**-9.7%**

Costs for services amount to Euro 2,684 thousand, a decrease of Euro 286 thousand compared to the year ended 30 June 2017. The decrease is mainly due to lower consulting fees – the high figure in prior year was mainly due to costs incurred for the preparation of the share incentive plan and for the acquisition of Kunos Simulazioni S.r.l.

12. Lease and rental costs

Lease and rental costs amount to Euro 730 thousand compared to Euro 752 thousand in prior year. The amount includes Euro 690 thousand for the rental of the Company's offices at Via Tortona 37, Milan and Euro 40 thousand of operating lease expenses for cars assigned to employees and for warehouse equipment.

13. Labour costs

Labour costs include agents' commission, directors' fees approved by the shareholders, costs for temporary workers and contract personnel and costs for company cars assigned to employees. They totalled Euro 5,315 thousand which was Euro 369 thousand more than in prior year:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Wages and salaries	(2,306)	(2,338)	32	-1.4%
Social contributions	(846)	(863)	17	-1.9%
Employee termination indemnity	(143)	(150)	7	-4.5%
Stock option plan	(796)	(371)	(426)	n.m.
Agents' commission	(28)	(51)	23	-45.2%
Other labour costs	(48)	(34)	(14)	39.7%
Total labour costs	**(5,315)**	**(4,946)**	**(369)**	**7.5%**

Labour costs, in the narrow sense, include wages and salaries, social contributions and the cost of employee termination indemnities. They have increased by Euro 57 thousand compared to prior year:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Wages and salaries	(2,306)	(2,338)	32	-1.4%
Social contributions	(846)	(863)	17	-1.9%
Employee termination indemnity	(143)	(150)	8	-5.1%
Total labour costs	**(3,295)**	**(3,351)**	**57**	**-1.7%**

Average number of employees	50	53	(3)	-5.7%
Average cost per employee	**(66)**	**(63)**	**(3)**	**4.2%**

The average cost per employee has increased by 4.2%.

A detailed breakdown of the Company's workforce by employee category at 30 June 2018 is provided in the Directors' Report.

14. Other operating costs

The following table contains details of operating costs, together with prior year comparatives:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**	**%**
Purchase of sundry materials	(40)	(36)	(4)	12.1%
General and administrative costs	(433)	(425)	(8)	1.8%
Entertainment costs	(15)	(19)	4	-20.8%
Sundry bank charges	(48)	(112)	64	-57.0%
Total other operating costs	**(536)**	**(592)**	**56**	**-9.4%**

Operating costs have decreased by 9.4% from Euro 592 thousand in prior year to Euro 536 thousand, mainly because of a reduction in bank charges.

21. Depreciation and amortisation, provisions and impairment

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**	**%**
Depreciation and amortisation	(389)	(393)	4	-1.1%
Allocations to provisions	0	0	0	n.m.
Impairment adjustments to assets	(1,235)	(2,190)	955	-43.6%
Reversal of impairment adjustments	0	1,491	(1,491)	n.m.
Total non-monetary operating income and costs	**(1,624)**	**(1,092)**	**(532)**	**n.m.**

Depreciation and amortisation are detailed in the notes on property, plant and equipment and intangible assets.

Impairment adjustments to assets in the years ended 30 June 2018 and 30 June 2017 are analysed as follows:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
Impairment adjustment to investment in Game Networks S.r.l.	(1,019)	(1,459)	440
Impairment adjustment to investment in Digital Bros Game Academy S.r.l.	(128)	(119)	(9)
Impairment adjustment to investment in Cityglance S.r.l.	(20)	(44)	24
Impairment adjustment to investment in Ebooks&Kids S.r.l.	(14)	(148)	134
Allocation to provision for doubtful debts	(54)	(420)	366
Total impairment adjustments to assets	**(1,235)**	**(2,190)**	**955**

In the year ended 30 June 2017, the reversal of impairment adjustments to assets related entirely to the reversal of the impairment adjustment of Euro 1,491 thousand relating to subsidiary Pipeworks Inc..

25. Net financial income / (expenses)

Net financial income totalled euro 19,373 thousand compared to Euro 7,954 thousand in prior year. The increase was mainly due to a Euro 10,226 thousand increase in interest and financial income. The caption may be analysed as follows:

	Euro Thousands	30 June 2018	30 June 2017	Change	%
23	Interest and financial income	20,087	9,861	10,226	n.m.
24	Interest and financial expenses	(714)	(1,907)	1,193	-62.6%
25	**Net interest and financial income**	**19,373**	**7,954**	**11,419**	**n.m.**

Interest and financial income may be analysed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Gain on disposal of Pipeworks Inc.	11,509	0	11,509	n.m.
Dividends from subsidiaries	7,292	6,000	1,292	21.5%
Exchange gains	1,163	713	450	63.0%
Other interest and financial income	123	3,148	(3,025)	-96.1%
Total interest and financial income	**20,087**	**9,861**	**10,226**	**n.m.**

The gross gain on the sale of the non-strategic investment in Pipeworks Inc. was Euro 13,924 thousand. The net gain after disposal related expenses was Euro 11,509 thousand.

Dividends were received from 505 Games S.p.A. and Pipeworks Inc. in the amount of Euro 6,000 thousand and Euro 1,292 thousand, respectively.

Other interest and financial income includes Euro 31 thousand relating to the equity method measurement of the investment in associated company Ovosonico S.r.l.. In the year ended 30 June 2017, this caption mainly included the gains realised on the sale of Starbreeze B shares but they totalled just Euro 88 thousand in the current reporting period.

Interest and financial expenses are detailed as follows:

Euro Thousands	30 June 2018	30 June 2017	Change	%
Bank interest on overdrafts and trade finance	(23)	(273)	250	-91.5%
Other interest expenses	(8)	(35)	27	-77.5%
Interest expenses on loans and leases	(20)	(91)	71	-77.8%
Factoring interest	(4)	(6)	2	-30.5%
Total interest expenses on sources of financing	**(55)**	**(405)**	**350**	**-86.3%**
Exchange gains	(518)	(503)	(15)	2.9%
Losses on disposal of securities	0	(999)	999	n.m.
Equity measurement of investments	(141)	0	(141)	n.m.
Total interest and financial expenses	**(714)**	**(1,907)**	**1,193**	**-62.6%**

Interest and financial expenses have decreased by Euro 11,193 thousand to stand at Euro 714 thousand. The decrease is due to lower losses on the disposal of Starbreeze A and B shares. Interest expenses on sources of financing have decreased by Euro 350 thousand in line with the change in the net financial position over the year.

The caption Equity measurement of investments regards the restatement of the carrying amount of the investment in associated company Seekhana Ltd. to reflect the Company's share of the losses of the associate since it was acquired by Digital Bros S.p.A..

29. Taxation

Details of current and deferred taxes for the year ended 30 June 2018 are provided below:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**	**%**
Current taxes	476	557	(81)	-14.5%
Deferred taxes	(74)	(121)	47	-38.5%
Total taxation	**402**	**436**	**(34)**	**-7.8%**

Current taxes consist entirely of IRES which was determined as follows:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
Taxable income for IRES	(2,442)	(1,225)	(1,217)
IRES rate	24.0%	27.5%	
IRES for the period	586	337	249
Effect of tax consolidation	0	160	(160)
Prior year taxes	(110)	60	(170)
IRES for the period	**476**	**557**	**(81)**

IRES for the period is reconciled with the result reported in the financial statements as follows:

Euro Thousands	30 June 2018		30 June 2017	
Company profit before taxation	**15,118**		**3,801**	
IRES rate	**24.0%**		**27.5%**	
Theoretical taxation	(3,628)	-24.0%	(1,045)	-27.5%
Tax effect of non-deductible costs	4,100	27%	1,439	38%
Tax effect of utilisation of tax loss carryforwards	0	0%	0	0%
Net tax effect of reversal of deferred tax assets not included in above captions	86		(57)	
Effect of tax consolidation	0		160	
IRES on gain classified under financial income	28			
Prior year taxation	(110)		60	
Taxes on income for the year and effective tax rate	**476**	**3.1%**	**557**	**14.6%**

No IRAP tax expense was recognised in the current reporting period or in the previous one.

6. MANAGEMENT OF FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (IFRS 7)

The main financial instruments used by the Company are:

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts

The goal of the above financial instruments is to finance the Company's activities.

The credit facilities available to the Company, together with utilisation at 30 June 2018, are detailed below:

Digital Bros S.p.A. manages all financial risks on behalf of itself and its subsidiaries. This is except for other financial instruments not listed above i.e. trade payables and receivables arising from operating activities for which the financial risk remains the responsibility of the individual subsidiary.

The Company seeks to maintain a balance between short-term and medium/long-term financial instruments. The Company's core business i.e. the marketing of video games mainly involves investment in net working capital which is funded through short-term lines of credit. Long-term investments are normally financed through medium/long-term lines of credit, often dedicated to the individual investment, sometimes in the form of finance leases.

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

Financial Instruments: Statement of Financial Position at 30 June 2018

Category of financial assets in terms of IAS 39

Financial Instruments– Assets at 30 June 2018 (in Euro Thousands)	Fair Value Assets held for trading	Investments held to maturity	Loans and Receivables	Assets available for sale	Carrying Amount at 30 June 2018	Note
Non-current receivables and other assets			9,216	-	9,216	5
Trade receivables	-	-	1,802	-	1,802	11
Receivables from subsidiaries	-	-	23,233	-	23,233	12
Other current assets	-	-	3,078	-	3,078	14
Cash and cash equivalents	-	-	609	-	609	24
Other current financial assets	-	-	-	-	-	26
Total	**-**	**-**	**37,938**	**16,432**	**54,370**	

Category of financial liabilities in terms of IAS 39

Financial Instruments - Liabilities at 30 June 2018 (in Euro Thousands)	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2018	Note
Trade payables	-	2,012	2,012	15
Payables to subsidiaries	-	8,933	8,933	16
Other current liabilities	-	753	753	19
Current bank borrowing	-	845	845	25
Other current financial liabilities	-	176	176	26
Non-current bank borrowing	-	0	0	28
Other non-current financial liabilities	-	25	25	29
Total	**-**	**12,744**	**12,744**	

Financial Instruments: Statement of Financial Position at 30 June 2017

Category of financial assets in terms of IAS 39

Financial Instruments– Assets at 30 June 2017 (in Euro Thousands)	Fair Value Assets held for trading	Investments held to maturity	Loans and Receivables	Assets available for sale	Carrying Amount at 30 June 2017	Note
Non-current receivables and other assets			637	-	637	5
Trade receivables	-	-	2,176	-	2,176	11
Receivables from subsidiaries	-	-	20,220	-	20,220	12
Other current assets	-	-	564	-	564	14
Cash and cash equivalents	-	-	3,872	-	3,872	24
Other current financial assets	2,972	-	-	-	2,972	26
Total	**2,972**	**-**	**27,469**	**18,919**	**49,360**	

Category of financial liabilities in terms of IAS 39

Financial Instruments - Liabilities at 30 June 2017 (in Euro Thousands)	Fair value liabilities held for trading	Liabilities measured at amortised cost	Carrying amount at 30 June 2017	Note
Trade payables	-	2,306	2,306	15
Payables to subsidiaries	-	16,262	16,262	16
Other current liabilities	-	2,277	2,277	19
Current bank borrowing	-	1,558	1,558	25
Other current financial liabilities	-	73	73	26
Non-current bank borrowing	-	0	0	28
Other non-current financial liabilities	-	40	40	29
Total	**-**	**22,516**	**32,779**	

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

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

Interest rate risk

The Company's exposure to the risk of interest rate fluctuation is marginal with respect to its medium and long-term financial instruments which were originally arranged as fixed-rate instruments or have been transformed into fixed rate instruments by means of appropriate derivative contracts.

For short-term financial instruments, the risk of interest rate increases is a genuine one because the Company cannot immediately pass on any rate increases through higher prices.

The level of debt is low or next to zero and the interest rate risk is further mitigated by:

- the availability of a range of short-term credit lines which enable the Company to borrow at the most favourable terms and conditions;
- the financial structure which varies significantly based on video game market seasonality and which shows constant improvement in the medium/long-term trend;
- the implementation of a short-term cash flow procedure that constantly monitors the short-term borrowing trend and allows preventive action to be taken when interest rates are expected to rise.

Liquidity risk

The liquidity risk arises if it becomes difficult or impossible to raise - on sustainable terms and conditions, obtain -the financial resources needed to operate the business.

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

The Company has taken the following measures in order to reduce this risk:

- centralised management of treasury procedures and lines of credit;
- obtaining lines of credit that lead to the creation of a sustainable debt structure through the use of irrevocable lines of credit;
- constant monitoring of prospective liquidity conditions.

The results of short and medium/long-term planning, currently available funds and funds to be generated by operating activities are expected to enable the Company to fulfil its funding requirements with regard to capex, working capital management and debt repayment at scheduled maturity. They should also be able to determine the Company's funding requirements in good time.

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

Financial liabilities at 30 June 2018 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Current bank borrowing	845	845						845	25
Other current financial liabilities	176	176						176	26
Non-current bank borrowing	0	0						0	28
Other non-current financial liabilities	25		16	9				25	29
Total	**1,046**	**1,021**	**16**	**9**	**-**	**-**	**-**	**1,046**	

Financial liabilities at 30 June 2017 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Current bank borrowing	1,558	1,558						1,558	25
Other current financial liabilities	73	73						73	26
Non-current bank borrowing	0	0						0	28
Other non-current financial liabilities	40		15	16	9			40	29
Total	**1,671**	**1,631**	**15**	**16**	**9**	**-**	**-**	**1,671**	

The Company has sufficient financial resources to satisfy its debt maturing within one year. These financial resources include cash and cash equivalents, unutilised credit facilities totalling around Euro 25 million at the reporting date and cash flows from operating activities.

Exchange rate risk

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

In order to monitor the EUR/USD and EUR/GBP exchange rate risk, the Company closely monitors forecast exchange rate trends – also based on reports by independent analysts - and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

When preparing forecasts, the Company uses models that take account of the various currencies in which Group companies operate and uses forward exchange rates based on reports issued by independent analysts.

Credit risk

The Company sells exclusively to well-known customers. For customers on which the Company does not have the necessary information, the sales policy adopted requires advance payment and/or cash on delivery in order to limit credit risk.

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

The following table contains a breakdown of trade receivables by due date at 30 June 2018 and at 30 June 2017:

Euro Thousands	**30 June 2018**	**% of total**	**30 June 2017**	**% of total**
Not overdue	1,224	68%	1,718	79%
0 -30 days overdue	227	13%	59	3%
30 - 60 days overdue	11	0%	32	1%
60 - 90 days overdue	0	0%	85	4%
> 90 days overdue	340	19%	282	13%
Total trade receivables	**1,802**	**100%**	**2,176**	**100%**

***Fair value* of financial assets and liabilities and calculation models used**

The table below presents the fair value of assets and liabilities based on the calculation methods and models used.

Financial assets whose fair value cannot be reasonably determined have not been included.

The fair value of Bank borrowing has been calculated based on the interest rate curve at the reporting date, without making assumptions as to the credit spread.

The fair value of financial instruments listed on an active market is based on reporting date market prices. The market prices used are bid/ask prices depending on the asset/liability held. The fair value of unlisted financial instruments and derivatives is determined using the valuation models and techniques most prevalent on the market, using inputs observable on the market.

Fair value has not been calculated for trade receivables and trade payables as their carrying amount approximates fair value.

For finance lease payables and payables to other lenders, we believe there is no significant difference between fair value and carrying amount.

Euro Thousands	Carrying amount at 30 June 2018	Mark to Market Fair Value	Mark to Model Fair Value	Total *Fair Value*	Note
Cash and cash equivalents	609	609		609	24
Current bank borrowing	845	845		845	25
Other current financial assets and liabilities	(176)	(176)		(176)	26
Other non-current financial liabilities	25	25		25	29

Euro Thousands	Carrying amount at 30 June 2017	Mark to Market Fair Value	Mark to Model Fair Value	Total *Fair Value*	Note
Cash and cash equivalents	3,872	3,872		3,872	24
Current bank borrowing	1,558	1,558		1,558	25
Other current financial assets and liabilities	2,899	2,899		2,899	26
Other non-current financial liabilities	40	40		40	29

Exchange rate and interest rate risk: sensitivity analysis

A sensitivity analysis has been performed in accordance with IFRS 7. It applies to all financial instruments reported in the financial statements.

The Copmany's sensitivity analysis measures the estimated impact on profit or loss and on the statement of financial position of an exchange rate fluctuation of +/-10% compared to the rates in effect at 30 June 2018 for each class of financial instrument, with all other variables remaining constant. The analysis is purely illustrative, as such changes rarely take place in an isolated manner.

At 30 June 2018, the Company was not exposed any additional risks, such as the commodity risk.

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

Financial instruments that are subject to changes in value as a result of interest rate fluctuation include floating rate instruments and fixed rate instruments but which are measured at fair value.

The table below shows the impact on the net financial position and on profit before taxation of a 10% increase/decrease in the EUR/USD exchange rate compared to the budgeted rate of USD 1.18/EUR 1:

Type of change	**Effect on net financial position**	**Effect on profit before taxation**
+10% USD	(115)	(244)
-10% USD	140	299

Fair Value hierarchy

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

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

At 30 June 2018, there were no financial instruments measured at fair value. At 30 June 2017, the caption included:

Balance at 30 June 2017	Instrument	Level 1	Level 2	Level 3	Total	Note
Other current financial assets	Treasury shares	2,972			2,972	24

7. NON-RECURRING INCOME AND EXPENSES

In accordance with Consob Resolution 15519 of 27 July 2006, non-recurring income and expenses shall be presented separately in the statement of profit or loss. They are generated by transactions or events that, by their nature, do not occur on a regular basis during ordinary operating activities.

During the year, the Company did not account for any non-recurring income and expenses.

8. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2018 – as at 30 June 2017 – there were no contingent assets and liabilities.

9. RELATED PARTY TRANSACTIONS

In accordance with Consob Resolution 17221 of 12 March 2010, it is hereby disclosed that all commercial and financial transactions between Digital Bros S.p.A. and its direct subsidiaries and associates have been conducted at arm's length and cannot be classed as atypical or unusual transactions.

Transactions between Digital Bros and subsidiaries

Commercial and financial transactions between Digital Bros S.p.A. and other Group companies in the year ended 30 June 2018 took place on an arm's length basis. The following table provides a summary of year end balances and transactions in the year, together with prior year comparatives:

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	financial		
505 Games S.p.A.	0	1,248	0	0	2,588	(1,360)
505 Mobile S.r.l.	0	9,169	0	0	0	0
Digital Bros Game Academy S.r.l.	0	43	0	0	77	(21)
Game Entertainment S.r.l.	0	8,081	0	0	3,090	0
Game Network S.r.l.	0	2,477	0	0	10	0
Game Service S.r.l.	0	406	0	0	0	0
505 Games France S.a.s.	0	523	0	0	0	0
505 Games Ltd.	0	139	0	0	0	0
505 Games Iberia Slu	0	0	0	(1,952)	0	0
505 Games (US) Inc.	0	0	0	(883)	1	0
505 Games GmbH	0	0	0	(3,071)	0	0
505 Games Interactive	0	0	0	(1,552)	0	0
505 Games Mobile (US)	0	0	0	(219)	0	0
DR Studios Ltd.	0	0	0	(234)	0	0
Pipeworks Inc.	0	0	0	(885)	0	0
Digital Bros China (Shenzen Ltd.)	0	0	0	(26)	0	0
Digital Bros Holdings Ltd.	0	0	0	(111)	0	0
133 W Broadway Inc.	0	576	0	0	0	0
Hawkwen Entertainment Inc.	0	571	0	0	0	0
Total at 30 June 2018	**0**	**23,233**	**0**	**(8,933)**	**5,766**	**(1,381)**

The Company also provides a centralised cash management service, using intercompany current accounts to which positive and negative balances between Group companies are transferred. These accounts do not bear interest.

Other related parties

Transactions with related parties regard the legal advice provided by Director Dario Treves and the lease by Matov Imm. S.r.l. of property owned by the Galante family.

Outstanding balances at the reporting date and total transactions during the period are shown below, together with prior year comparatives:

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	0	210	0	0	0	0
Dario Treves	0	0	(48)	0	0	(335)
Matov Imm. S.r.l.	0	635	0	0	0	(690)
Total at 30 June 2018	**0**	**845**	**(48)**	**0**	**0**	**(1,025)**

Related party balances and transactions at 30 June 2017 were as follows:

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	Financial		
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(705)
Total at 30 June 2017	**0**	**635**	**(22)**	**0**	**0**	**(967)**

The receivable of Euro 210 thousand from associated company Ovosonico S.r.l. relates to a loan disbursed during the year.

Digital Bros S.p.A.'s financial receivable from Matov Imm. S.r.l. regards the guarantee deposit paid in relation to the rental of premises at Via Tortona 37, Milano.

Tax consolidation

Following the introduction of the consolidated taxation regime into the Italian tax system, Digital Bros S.p.A. has elected for consolidated taxation in a tax group with 505 Mobile S.r.l., Game Entertainment S.r.l., Game Service S.r.l., 505 Games S.p.A., Digital Bros Game Academy S.r.l., Game Network S.r.l. and Kunos Simulazioni S.r.l..

Membership of a domestic tax group has made it necessary to prepare an implementing regulation to govern intercompany transactions to ensure there are arrangements prejudicial to any of the participating companies.

10. ATYPICAL OR UNUSUAL TRANSACTIONS

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

11. OTHER INFORMATION

INCOME FROM EQUITY INVESTMENTS OTHER THAN DIVIDENDS

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

DIRECTORS' FEES

The fees paid to members of the Board of Directors amounted to Euro 1,148 thousand.

STATUTORY AUDITORS' FEES

During the year ended 30 June 2018, fees totalling Euro 74 thousand were paid to the members of the Board of Statutory Auditors.

FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

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

SHAREHOLDER LOANS WITH SUBORDINATION CLAUSES

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

CAPITAL EARMARKED FOR A SPECIFIC USE

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

LOANS EARMARKED FOR A SPECIFIC USE

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

OFF BALANCE SHEET AGREEMENTS

There are no off balance sheet agreements.

12. INFORMATION ON OWNERSHIP STRUCTURE (pursuant to Art. 123 bis of the TUF)

SHARE CAPITAL STRUCTURE

At 30 June 2018, share capital consisted of 14,260,837 issued and wholly paid ordinary shares with a par value of Euro 0.4 each. The Company has not issued different classes of shares or other financial instruments entitling the holder to subscribe to newly issued shares. On 11 January 2017, the General Meeeting of the Digital Bros Group shareholders approved the "2016-2026 Stock Option Plan".

RESTRICTIONS ON THE TRANSFER OF SECURITIES

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

SECURITIES CARRYING SPECIAL RIGHTS

No securities granting special rights of control have been issued.

EMPLOYEE SHARE OWNERSHIP: EXERCISE OF VOTING RIGHTS

There are no employee share ownership schemes.

RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights.

SHAREHOLDER AGREEMENTS

There are no shareholder agreements in place.

APPOINTMENT AND REPLACEMENT OF DIRECTORS AND BY-LAW AMENDMENTS

Please see the Corporate Governance section of the consolidated annual report, available in the investors section at www.digitalbros.com.

AUTHORISATION TO INCREASE SHARE CAPITAL AND/OR PURCHASE TREASURY SHARES

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

The Board has been authorised to purchase treasury shares as described in the corporate governance and ownership structure section of the consolidated annual report, available in the investors section at www.digitalbros.com.

CHANGE OF CONTROL CLAUSES

There are no change of control clauses.

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

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

13. INFORMATION ON ASSETS REVALUED UNDER SPECIFIC LAWS

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

14. LOANS GRANTED TO MEMBERS OF ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Pursuant to Art. 43 (1) of the Fourth Council Directive 78/660/EEC, it is hereby disclosed that no loans have been granted to members of the Company’s administrative, management and supervisory bodies.

15. EXTERNAL AUDIT FEES

Pursuant to Art. 149- duodecies of the Listing Rules, it is hereby disclosed that external auditors, Deloitte & Touche, received fees of Euro 183 for the year ended 30 June 2018. See the attachment in the Notes to the Consolidated Financial Statements for further information.

16. ALLOCATION OF PROFIT FOR THE YEAR

It is proposed that the net profit of Euro 15,520 thousand for the year ended 30 June 2018 should be taken to reserves.

STATEMENT PURSUANT TO ART. 154- BIS (5) OF THE TUF

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for the period 1 July 2017 - 30 June 2018. No significant issues have arisen.

We also confirm that:

1. the financial statements of Digital Bros S.p.A. for the year ended 30 June 2018:
    a) have been prepared in accordance with applicable International Financial Reporting Standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
    b) reflect the accounting books and records;
    c) give a true and fair view of the issuer's results and financial position;

2. the Directors' Report includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which the Company is exposed.

Milan, 13 September 2018

Signed

Chairman of the Board of Directors	Financial Reporting Manager
Abramo Galante	Stefano Salbe