



Digital Bros S.p.A.

**Separate financial statements
for the year ended 30 June 2019**

(Financial Year 2018/2019)

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milano, Italia

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 Notes to the Separate Financial Statements.

1. THE VIDEO GAMES MARKET

The video games market is an important segment of the broader entertainment industry. Cinema, 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, ever better, 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 aimed at adult gamers and women only gamers.

As is typical of technology-based 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 marketplace, 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 thanks to their direct and indirect sales network.

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 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 the publishers. The console manufacturer and the video game publisher are often one and the same.

Distributors

The role of the distributor varies from country to country. 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 local public relations. On certain markets, such as the UK and the U.S., the high concentration of retailers means that publishers usually have a direct presence. Due to the increasing digitalisation of the market, more recently incorporated video game publishers have opted not to create their own traditional, international retail sales structures but to use the distribution structures of other publishers.

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 retail web sites that sell directly to the public.

Console manufacturers have developed marketplaces where video games can be sold direct to end consumers in digital format without involving a distributor or retailer. In this case, as for smartphone and tablet games, the value chain is less complex, as shown below:



The main marketplaces on which console video games 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 launch of a new marketplace for PC games was announced during the year ended 30 June 2019 – it is managed by Epic - in the wake of the success enjoyed by the Fortnite video game.

Gradual digitalisation of the market has led both Microsoft (with Microsoft Xbox Game Pass and Microsoft Xbox Games with Gold) and Sony (with Sony PlayStation Now) to create digital platforms where, rather than making single purchases, gamers access all the games available on the marketplace by paying a subscription fee valid for a given period of time. Revenues to publishers are recognised directly or indirectly based on end consumers' usage of their video games. Google and Apple have adopted the same strategy with the Stadia and Apple Arcade platforms, respectively.

Free to Play video games are available to the public in digital format only. The marketplaces used are the App Store for iPhone and iPad video games, the PlayStore for Android video games for Western markets and a huge number of different marketplaces 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 significantly extended the lifespan of individual games. In fact, the availability of a game is no longer strictly limited to the launch period as in the retail channel. Rather, the product remains available on the various marketplaces, even subsequently, thus making it possible to generate a constant flow of sales that may be influenced – sometimes significantly – 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), after the launch of the main game.

2. MARKET SEASONALITY

Market seasonality is influenced by the launch of popular products. The launch of a successful game in a given period can lead to significant revenue variations from one quarter to another. 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:

- Sadly, Non-Executive Director Bruno Soresina passed away on 6 August 2018;
- On 13 September 2018, Non-Executive Director Elena Morini resigned from the Board of Directors for personal reasons;
- On 26 October 2018, the Shareholders' General Meeting of Digital Bros S.p.A. approved the Group's consolidated financial statements for the year ended 30 June 2018, the separate financial statements of Digital Bros S.p.A. for the same period and the Remuneration Report in terms of Article 123-ter of Legislative Decree no 58 of 24 February 1998. Moreover, following the death of Director Bruno Soresina and the resignation of Director Elena Morini, the Board reduced the number of members of the Company Board of Directors – previously approved at eleven by the Shareholders' General Meeting of 27 October 2017 – to ten members, who will remain in office until approval of the financial statements for the period ending 30 June 2020. The Board also appointed Paola Mignani as a Director and she will remain in office for the rest of the mandate of the current Board of Directors;
- On 8 November 2018, independent Director Guido Guetta resigned as a member of the Board of Directors for personal reasons. As a result of the above, the Board of Directors appointed new members to the three sub-committees of the Board. All three now have the following independent Directors as members: Luciana La Maida, Irene Longhin and Paola Mignani;
- On 6 June 2019, following the resignation of independent Director Paola Mignani, the Board of Directors co-opted Paola Carrara and Susanna Pedretti as new independent directors, restoring the number of Board members to ten, as approved by the Shareholders' General Meeting of 26 October 2018. At the same, the Board of Directors appointed new members to the three sub-committees of the Board. The two new directors will remain in office until the next Shareholders' General Meeting.

Relations with Starbreeze and Starbreeze shareholders

In recent years, the Digital Bros Group and the Starbreeze Group have had numerous commercial relations, commencing with PAYDAY 2. In May 2016, after many years of success, the Group sold its rights to PAYDAY 2 to Starbreeze in return for a payment of USD 30 million and a potential earn out of 33% of net revenues from the video game PAYDAY 3 to be published in future.

In April 2015, the two groups signed a contract for the development and publication of the console version of a video game inspired by TV Series The Walking Dead. The contract provided for a development budget of USD 10 million to be borne by subsidiary 505 Games S.p.A. To date, 505 Games S.p.A. has paid USD 4.8 million. In November 2018, Starbreeze launched the PC version of the video game and sales were lower than expected. On 3 December 2018, Starbreeze AB and five subsidiaries petitioned the Swedish District Court for admission to a corporate restructuring plan. The Swedish Court approved the restructuring request and it has since been extended several times until 3 December 2019. On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the video game OVERKILL's The Walking Dead and, on 8 April 2019, 505 Games S.p.A. requested the termination of the contract with Starbreeze for development and publication of the console version of the video game OVERKILL's The Walking Dead.

In recent months, in order to safeguard both its investment in OVERKILL's The Walking Dead and the earn out of USD 40 million envisaged in relation to rights to PAYDAY 3, holding company Digital Bros S.p.A. has taken the following action:

- On 21 November 2018, it granted a loan of Euro 2 million to Varvtre AB. Varvtre AB is controlled by Bo Andersson Klimt, former Managing Director of Starbreeze, who holds 6.17% of the stock capital and 23.65% of the voting rights of Starbreeze AB. Following the matters described above, Bo Andersson Klimt resigned as Chief Executive Officer on 3 December 2018. The loan matures on 21 November 2020, earns interest at a rate of 5% per annum and is secured by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares;
- since November 2018, it has acquired 4,096,809 Starbreeze A shares, as traded on Nasdaq Stockholm, for an average price of SEK 2.14 per share; the shares purchased represent 1.24% of stock capital and 5.06% of voting rights. Consequently, on 4 June 2019, Stefano Salbe, an Executive Director of the Group, joined the Board of Directors of the Swedish company as a non-Executive Director. The company has been deemed not to be an associated company.

4. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2019

The following table sets out the Company's results for the year ended 30 June 2019 together with comparative figures for the year ended 30 June 2018:

	Euro Thousands	30 June 2019		30 June 2018		Change	
1	Gross revenue	12,380	109.6%	16,578	107.8%	(4,198)	-25.3%
2	Revenue adjustments	(1,086)	-9.6%	(1,198)	-7.8%	112	-9.3%
3	Net revenue	11,294	100.0%	15,380	100.0%	(4,086)	-26.6%
4	Purchase of products for resale	(8,534)	-75.6%	(11,248)	-73.1%	2,714	-24.1%
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	59	0.5%	(270)	-1.8%	329	n.s.
8	Total cost of sales	(8,475)	-75.0%	(11,518)	-74.9%	3,043	-26.4%
9	Gross profit (3+8)	2,819	25.0%	3,862	25.1%	(1,043)	-27.0%
10	Other income	2,675	23.7%	2,772	18.0%	(97)	-3.5%
11	Costs for services	(2,440)	-21.6%	(2,684)	-17.5%	244	-9.1%
12	Lease and rental costs	(727)	-6.4%	(730)	-4.7%	3	-0.5%
13	Labour costs	(4,934)	-43.7%	(5,315)	-34.6%	381	-7.2%
14	Other operating costs	(532)	-4.7%	(536)	-3.5%	4	-0.7%
15	Total operating costs	(8,633)	-76.4%	(9,265)	-60.2%	632	-6.8%
16	Gross operating margin (EBITDA) (9+10+15)	(3,139)	-27.8%	(2,631)	-17.1%	(508)	19.3%
17	Depreciation and amortisation	(369)	-3.3%	(389)	-2.5%	20	-5.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(623)	-5.5%	(1,235)	-8.0%	612	-49.6%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	n.s.
21	Total non-monetary operating income and costs	(992)	-8.8%	(1,624)	-10.6%	632	-38.9%
22	Operating margin (EBIT) (16+21)	(4,131)	-36.6%	(4,255)	-27.7%	124	-2.9%
23	Interest and financial income	5,047	44.7%	20,087	130.6%	(15,040)	n.s.
24	Interest expense and financial expenses	(652)	-5.8%	(714)	-4.6%	62	-8.7%
25	Net financial income (expenses)	4,395	38.9%	19,373	126.0%	(14,978)	-77.3%
26	Profit before tax (22+25)	264	2.3%	15,118	98.3%	(14,854)	-98.3%
27	Current tax	638	5.6%	476	3.1%	162	34.1%
28	Deferred tax	(62)	-0.5%	(74)	-0.5%	12	-17.3%
29	Total income tax expense	576	5.1%	402	2.6%	174	43.2%
30	Net profit (26+29)	840	7.4%	15,520	100.9%	(14,680)	-94.6%

Gross revenue has decreased by 25.3% to Euro 12,380 thousand from the prior year figure of Euro 16,578 thousand because of a significant drop in sales of video games. Meanwhile, sales of trading cards have increased.

Gross revenue is analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Revenue from video games for consoles	9,536	14,343	(4,807)	-33.5%
Revenue from trading cards	2,550	1,683	867	51.5%
Revenue from other products and services	294	552	(258)	-46.7%
Total gross revenue	12,380	16,578	(4,198)	-25.3%

Following the large decreases recorded in prior years, inventories increased slightly by Euro 59 thousand.

Other income decreased by Euro 97 thousand from Euro 2,772 thousand in the year ended 30 June 2018 to Euro 2,675 thousand in the year ended 30 June 2019. It mainly consists of income for services provided on behalf of Group companies.

Operating costs amount to Euro 8,633 thousand. They have decreased by Euro 632 thousand compared to prior year because of a Euro 244 thousand reduction in costs for services and a Euro 381 thousand reduction in labour costs following the non-recognition of the variable portion of remuneration.

Gross operating margin/EBITDA was negative by Euro 3,139 thousand with a deterioration of Euro 508 thousand of the negative amount of Euro 2,631 thousand in prior year.

Non-monetary operating costs decreased from Euro 1,624 thousand in prior year to Euro 992 thousand in the current reporting period as a result of a Euro 612 thousand reduction in impairment adjustments to assets.

EBIT has improved slightly from a negative total of Euro 4,255 thousand in prior year to a negative total of Euro 4,131 thousand in the year ended 30 June 2019.

There was net financial income of Euro 4,395 thousand compared to a total of Euro 19,373 thousand in prior year. The decrease was mainly due to a Euro 15,040 thousand reduction in interest and financial income. Last year's figure was boosted by the net gain of Euro 11,509 thousand on the sale of a non-strategic investment in Pipeworks Inc..

The following table contains a breakdown of interest and financial income:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Gain on disposal of Pipeworks Inc.	0	11,509	11,509	n.m.
Dividends from subsidiaries	4,000	7,292	(3,292)	-45.1%
Exchange gains	613	1,163	(550)	-47.3%
Other interest and financial income	434	123	311	n.m.
Total interest and financial income	5,047	20,087	(15,040)	n.m.

The dividends were received from Kunos Simulazioni S.r.l..

Other interest and financial income for the year ended 30 June 2019 mainly comprises Euro 350 thousand of interest accruing from the buyer of Pipeworks Inc. on the medium/long-term receivable of USD 10 million.

Profit before taxation for the year ended 30 June 2019 amounts to Euro 264 thousand against Euro 15,118 thousand in prior year. Meanwhile, a net profit of Euro 840 thousand is reported compared to a net profit of Euro 15,520 thousand in prior year.

5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

The Company's statement of financial position at 30 June 2019 is shown below together with comparative figures at 30 June 2018:

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	2,817	2,982	(165)	-5.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	256	302	(46)	-15.2%
4	Equity investments	16,968	16,432	536	3.3%
5	Non-current receivables and other assets	9,126	9,337	(211)	-2.3%
6	Deferred tax assets	582	330	252	76.4%
	Total non-current assets	29,749	29,383	366	1.2%
	Non-current liabilities				
7	Employee benefits	(436)	(419)	(17)	4.1%
8	Non-current provisions	(81)	(80)	(1)	0.8%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	(1,440)	(1,400)	(40)	2.8%
	Net working capital				
10	Inventories	3,747	3,688	59	1.6%
11	Trade receivables	1,260	1,802	(542)	-30.1%
12	Receivables from subsidiaries	28,136	23,233	4,903	21.1%
13	Tax receivables	4,492	1,968	2,524	n.m.
14	Other current assets	1,003	2,957	(1,954)	-66.1%
15	Trade payables	(916)	(2,012)	1,096	-54.5%
16	Payables to subsidiaries	(9,088)	(8,933)	(155)	1.7%
17	Current tax liabilities	(145)	(216)	71	-32.9%
18	Current provisions	(256)	(2,393)	2,137	-89.3%
19	Other current liabilities	(621)	(753)	132	-17.6%
	Total net working capital	27,612	19,341	8,271	42.8%
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(21,084)	(20,577)	(507)	2.5%
22	Treasury shares	0	0	0	0.0%
23	(Retained earnings) accumulated losses	(20,751)	(20,606)	(145)	0.7%
	Total equity	(47,539)	(46,887)	(652)	1.4%
	Total net assets	8,382	437	7,945	n.m.
24	Cash and cash equivalents	83	609	(526)	-86.3%
25	Current bank borrowing	(10,284)	(845)	(9,439)	n.m.
26	Other current financial assets and liabilities	(114)	(176)	62	-35.2%
	Current net financial position	(10,315)	(412)	(9,903)	n.m.
27	Non-current financial assets	1,942	0	1,942	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net financial position	1,933	(25)	1,958	n.m.
	Total net financial position	(8,382)	(437)	(7,945)	n.m.

The following table contains an analysis of net working capital together with comparative figures at 30 June 2018:

Net working capital	30 June 2019	30 June 2018	Change	
Inventories	3,747	3,688	59	1.6%
Trade receivables	1,260	1,802	(542)	-30.1%
Receivables from subsidiaries	28,136	23,233	4,903	21.1%
Tax receivables	4,492	1,968	2,524	n.m.
Other current assets	1,003	2,957	(1,954)	-66.1%
Trade payables	(916)	(2,012)	1,096	-54.5%
Payables to subsidiaries	(9,088)	(8,933)	(155)	1.7%
Current tax liabilities	(145)	(216)	71	-32.9%
Current provisions	(256)	(2,393)	2,137	-89.3%
Other current liabilities	(621)	(753)	132	-17.6%
Total net working capital	27,612	19,341	8,271	42.8%

At 30 June 2019, net working capital amounted to Euro 27,612 thousand, representing an increase of Euro 8,271 thousand compared to 30 June 2018 when it stood at Euro 19,341 thousand. The most significant change relates to receivables from subsidiaries which have increased by Euro 4,903 thousand, in line with the Group's revenue trend which saw sales concentrated in the last month of the reporting period.

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

The decrease in other current assets is mainly due to collection of the current portion of the receivable for the sale of Pipeworks Inc.; at 30 June 2018, said receivable amounted to Euro 2,144 thousand.

The decrease in current provision is due to utilisation of amounts provided at 30 June 2018 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 8,382 thousand compared to net debt of Euro 437 thousand at 30 June 2018.

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 costs directly incurred on its behalf and with a percentage of the total indirect costs incurred by it for the coordination of the acquisition of games and for administrative, financial, legal, logistics and IT services.

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

Other 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. and the property lease and services provided to associated company Ovosonico S.r.l..

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, as defined by Consob Communication DEM 6064293 of 28 July 2006, in the reporting period just ended or in the previous reporting period.

7. TREASURY SHARES

In terms of Article 2428(2) and (3) of the Italian Civil Code, Digital Bros S.p.A. did not hold any treasury shares at 30 June 2019 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.

Management of financial risks and financial instruments

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

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

Credit facilities granted to the Company and utilised at 30 June 2019 are as follows:

Euro Thousands	Facility	Utilised	Available
Bank overdrafts	1,200	628	572
Import financing	11,750	8,938	2,812
Advances on invoices and cash orders subject to collection	7,250	634	6,616
Factoring	1,000	98	902
Total	21,200	10,298	10,902

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 in line with forecast performance. 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
- risk of dependence on key customers and collection 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 and EUR/GBP exchange rate risk, the Company has decided to consider 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 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 - 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.

Risk of dependence on key customers and 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 2019 – as at 30 June 2018 – there were no contingent assets or liabilities.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 30 June 2019.

12. BUSINESS OUTLOOK

Gradual digitalisation of the market in recent years has triggered a gradual reduction in sales of video games in Italy and this is likely to continue. Meanwhile, it is hard to believe that the temporary increase in sales of trading cards during the reporting period will be repeated in future.

The Company will increasingly focus on its Group coordination activities which will lead to an increase in other income.

As a result of the results reported by the subsidiaries for the period, only Kunos Simulazioni S.r.l. will distribute dividends. Given the expected improvement in Group performance in the next reporting period, this source of income will become more significant with effect from the year after next.

A result close to breakeven is expected for the forthcoming reporting period.

Net financial indebtedness will decrease over the reporting period.

13. OTHER INFORMATION

EMPLOYEES

The following table contains details of the number of employees at 30 June 2019 with comparative figures at 30 June 2018:

Category	30 June 2019	30 June 2018	Change
Managers	5	5	0
Office workers	40	40	0
Blue-collar workers and apprentices	4	4	0
Total employees	49	49	0

The average headcount for the year ended 30 June 2019, 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 2019	Average no in 2018	Change
Managers	5	5	0
Office workers	41	41	0
Blue-collar workers and apprentices	4	4	0
Total employees	50	50	0

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 2019, 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.

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FINANCIAL STATEMENTS

Digital Bros S.p.A

Statement of financial position at 30 June 2019

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	2,817	2,982	(165)	-5.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	256	302	(46)	-15.2%
4	Equity investments	16,968	16,432	536	3.3%
5	Non-current receivables and other assets	9,126	9,337	(211)	-2.3%
6	Deferred tax assets	582	330	252	76.4%
	Total non-current assets	29,749	29,383	366	1.2%
	Non-current liabilities				
7	Employee benefits	(436)	(419)	(17)	4.1%
8	Non-current provisions	(81)	(80)	(1)	0.8%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	(1,440)	(1,400)	(40)	2.8%
	Net working capital				
10	Inventories	3,747	3,688	59	1.6%
11	Trade receivables	1,260	1,802	(542)	-30.1%
12	Receivables from subsidiaries	28,136	23,233	4,903	21.1%
13	Tax receivables	4,492	1,968	2,524	n.m.
14	Other current assets	1,003	2,957	(1,954)	-66.1%
15	Trade payables	(916)	(2,012)	1,096	-54.5%
16	Payables to subsidiaries	(9,088)	(8,933)	(155)	1.7%
17	Current tax liabilities	(145)	(216)	71	-32.9%
18	Current provisions	(256)	(2,393)	2,137	-89.3%
19	Other current liabilities	(621)	(753)	132	-17.6%
	Total net working capital	27,612	19,341	8,271	42.8%
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(21,084)	(20,577)	(507)	2.5%
22	Treasury shares	0	0	0	0.0%
23	(Retained earnings) accumulated losses	(20,751)	(20,606)	(145)	0.7%
	Total equity	(47,539)	(46,887)	(652)	1.4%
	Total net assets	8,382	437	7,945	n.m.
24	Cash and cash equivalents	83	609	(526)	-86.3%
25	Current bank borrowing	(10,284)	(845)	(9,439)	n.m.
26	Other current financial assets and liabilities	(114)	(176)	62	-35.2%
	Current net financial position	(10,315)	(412)	(9,903)	n.m.
27	Non-current financial assets	1,942	0	1,942	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net financial position	1,933	(25)	1,958	n.m.
	Total net financial position	(8,382)	(437)	(7,945)	n.m.

Digital Bros S.p.A.

Separate statement of profit or loss for the year ended 30 June 2019

	Euro Thousands	30 June 2019		30 June 2018		Change	
1	Revenue	12,380	109.6%	16,578	107.8%	(4,197)	-25.3%
2	Revenue adjustments	(1,086)	-9.6%	(1,198)	-7.8%	112	-9.3%
3	Total net revenue	11,294	100.0%	15,380	100.0%	(4,086)	-26.6%
4	Purchases of products for resale	(8,534)	-75.6%	(11,248)	-73.1%	2,714	-24.1%
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	59	0.5%	(270)	-1.8%	329	n.m.
8	Total cost of sales	(8,475)	-75.0%	(11,518)	-74.9%	3,043	-26.4%
9	Gross profit (3+8)	2,819	25.0%	3,862	25.1%	(1,043)	-27.0%
10	Other income	2,675	23.7%	2,772	-18.0%	(97)	-3.5%
11	Costs for services	(2,440)	-21.6%	(2,684)	-17.5%	244	-9.1%
12	Lease and rental costs	(727)	-6.4%	(730)	-4.7%	3	-0.5%
13	Labour costs	(4,934)	-43.7%	(5,315)	-34.6%	381	-7.2%
14	Other operating costs	(532)	-4.7%	(536)	-3.5%	4	-0.7%
15	Total operating costs	(8,633)	-76.4%	(9,265)	-60.2%	632	-6.8%
16	Gross operating margin / EBITDA (9+10+15)	(3,139)	-27.8%	(2,631)	-17.1%	(508)	19.3%
17	Depreciation and amortisation	(369)	-3.3%	(389)	-2.5%	20	-5.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(623)	-5.5%	(1,235)	-8.0%	612	-49.6%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	n.m.
21	Total non-monetary operating income and costs	(992)	-8.8%	(1,624)	-10.6%	632	-38.9%
22	Operating margin / EBIT (16+21)	(4,131)	-36.6%	(4,255)	-27.7%	124	-2.9%
23	Interest and financial income	5,047	44.7%	20,087	130.6%	(15,040)	n.m.
24	Interest and financial expenses	(652)	-5.8%	(714)	-4.6%	62	-8.7%
25	Net financial income /(expenses)	4,395	38.9%	19,373	126.0%	(14,978)	-77.3%
26	Profit before taxation (22+25)	264	2.3%	15,118	98.3%	(14,854)	-98.3%
27	Current tax	638	5.6%	476	3.1%	162	34.1%
28	Deferred tax	(62)	-0.5%	(74)	-0.5%	12	-17.3%
29	Total taxes on income	576	5.1%	402	2.6%	174	43.2%
30	Net profit (26+29)	840	7.4%	15,520	100.9%	(14,680)	-94.6%

Separate statement of comprehensive income for the year ended 30 June 2019

Euro Thousands	30 June 2019	30 June 2018	Change
Profit (Loss) for the period (A)	840	15,520	(14,680)
Items that will not be subsequently recycled through profit or loss (B)			
Actuarial gain (loss)	(33)	7	(40)
Income tax relating to the actuarial gain (loss)	8	(2)	10
Fair value measurement of shares held to collect and sell	(350)	0	(350)
Tax effect of fair value measurement of shares held to collect and sell	84	0	84
Items that will subsequently be recycled through profit or loss (C)	(291)	5	(296)
Total other comprehensive income D= (B)+(C)	(291)	5	(296)
Total comprehensive income (loss) (A)+(D)	549	15,525	(14,976)
Attributable to:			
Company Shareholders	549	15,525	(14,976)
Non-controlling interests	0	0	0

Digital Bros S.p.A.**Statement of cash flows for the year ended 30 June 2019**

	Euro Thousands	30 June 2019	30 June 2018
A. Opening net financial position		(437)	5,173
B. Cash flows from operating activities			
Profit (loss) for the year attributable to the Group		840	15,521
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment adjustments		623	89
Amortisation of intangible assets		147	154
Depreciation of property, plant and equipment		222	235
Net change in other provisions		1	1
Net change in employee benefit provisions		17	2
Net change in other non-current liabilities		22	901
SUB TOTAL B.		1,872	16,902
C. Change in net working capital			
Inventories		(59)	270
Trade receivables		568	320
Receivables due from subsidiaries		(4,903)	(3,006)
Tax receivables		(2,524)	(1,641)
Other current assets		1,954	(2,521)
Trade payables		(1,096)	(294)
Payables to subsidiaries		155	(7,329)
Current tax liabilities		(71)	(399)
Current provisions		(2,137)	1,147
Other current liabilities		(132)	(1,524)
SUB TOTAL C.		(8,245)	(14,976)
D. Cash flows from investing activities			
Net investment in intangible assets		(101)	(89)
Net investment in property, plant and equipment		(57)	(57)
Net investment in non-current financial assets		(1,226)	(6,051)
SUB TOTAL D.		(1,384)	(6,198)
E. Cash flows from financing activities			
Proceeds from capital increases		0	0
Increase in share premium reserve		0	0
SUB TOTAL E.		0	0
F. Changes in equity			
Dividends distributed		0	(2,139)
Increases (decreases) in other equity items		(188)	801
SUB TOTAL F.		(188)	(1,338)
G. Cash flows for the period (B+C+D+E+F)		(7,945)	(5,610)
H. Closing net financial position (A+G)		(8,382)	(437)

Details of cash flows by maturity:

Euro Thousands	30 June 2019	30 June 2018
Increase (decrease) in securities and cash and cash equivalents	(526)	(3,263)
Decrease (increase) in current bank borrowing	(9,439)	713
Decrease (increase) in other current financial assets and liabilities	62	(3,075)
Cash flows for the period pertaining to current net financial position	(9,903)	(5,625)
Cash flows for the period pertaining to non-current net financial position	1,958	15
Cash flows for the period	(7,945)	(5,610)

Digital Bros S.p.A.

Statement of changes in equity at 30 June 2019

Euro Thousands	Share capital (A)	Share premium reserve	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 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 1 July 2018	5,704	18,486	1,141	(142)	(80)	1,172	20,577	0	5,086	15,520	20,606	46,887
Application of IFRS 9							0		(695)		(695)	(695)
Allocation of profit for the year							0		15,520	(15,520)	0	0
Other changes						798	798				0	798
Comprehensive income (loss)						(291)	(291)			840	840	549
Total at 30 June 2019	5,704	18,486	1,141	(142)	(80)	1,679	21,084	0	19,911	840	20,751	47,539

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 2019		30 June 2018	
		Total	of which with related parties	Total	of which with related parties
1	Gross revenue	12,380	0	16,578	0
2	Revenue adjustments	(1,086)	0	(1,198)	0
3	Total net revenue	11,294	0	15,380	0
4	Purchases of products for resale	(8,534)	0	(11,248)	0
5	Purchases of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Change in inventories of finished products	59	0	(270)	0
8	Total cost of sales	(8,475)	0	(11,518)	0
9	Gross profit (3+8)	2,819	0	3,862	0
10	Other income	2,675	29	2,772	0
11	Costs for services	(2,440)	(262)	(2,684)	(335)
12	Lease and rental costs	(727)	(682)	(730)	(690)
13	Labour costs	(4,934)	0	(5,315)	0
14	Other operating costs	(532)	0	(536)	0
15	Total operating costs	(8,633)	(944)	(9,265)	(1,025)
16	Gross operating margin / EBITDA (9+10+15)	(3,139)	(915)	(2,631)	(1,025)
17	Depreciation and amortisation	(369)	0	(389)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(623)	0	(1,235)	0
20	Reversal of impairment adjustments and non-monetary income	0	0	(0)	0
21	Total non-monetary operating income and costs	(992)	0	(1,624)	0
22	Operating margin / EBIT (16+21)	(4,131)	(915)	(4,255)	(1,025)
23	Interest and financial income	5,047	0	20,087	0
24	Interest and financial expenses	(652)	0	(714)	0
25	Net financial income / (expenses)	4,395	0	19,373	0
26	Profit before taxation (22+25)	264	(915)	15,118	(1,025)
27	Current tax	638	0	476	0
28	Deferred tax	(62)	0	(74)	0
29	Total income tax	576	0	402	0
30	Net profit (26+29)	840	(915)	15,520	(1,025)

Digital Bros S.p.A.
Statement of financial position in accordance with Consob Resolution no. 15519 of 27 July 2006

	Euro Thousands	30 June 2019		30 June 2018	
		Total	of which with related parties	Total	of which with related parties
	Non-current assets				
1	Property, plant and equipment	2,817	0	2,982	0
2	Investment property	0	0	0	0
3	Intangible assets	256	0	302	0
4	Equity investments	16,968	0	16,432	0
5	Non-current receivables and other assets	9,126	635	9,216	635
6	Deferred tax assets	582	0	330	0
	Total non-current assets	29,749	635	29,262	635
	Non-current liabilities				
7	Employee benefits	(436)	0	(419)	0
8	Non-current provisions	(81)	0	(80)	0
9	Other non-current payables and liabilities	(923)	0	(901)	0
	Total non-current liabilities	(1,440)	0	(1,400)	0
	Net working capital				
10	Inventories	3,747	0	3,688	0
11	Trade receivables	1,260	21	1,802	0
12	Receivables from subsidiaries	28,136	210	23,233	210
13	Tax receivables	4,492	0	1,968	0
14	Other current assets	1,003	0	3,078	0
15	Trade payables	(916)	(22)	(2,012)	(48)
16	Payables to subsidiaries	(9,088)	0	(8,933)	0
17	Tax payables	(145)	0	(216)	0
18	Current provisions	(256)	0	(2,393)	0
19	Other current liabilities	(621)	0	(753)	0
	Total net working capital	27,612	209	19,462	162
	Capital and reserves				
20	Share capital	(5,704)	0	(5,704)	0
21	Reserves	(21,084)	0	(20,577)	0
22	Treasury shares	0	0	0	0
23	(Retained earnings) accumulated losses	(20,751)	0	(20,606)	0
	Total equity	(47,539)	0	(46,887)	0
	Total net assets	8,382	844	437	797
24	Cash and cash equivalents	83	0	609	0
25	Current bank borrowing	(10,284)	0	(845)	0
26	Other current financial assets and liabilities	(114)	0	(176)	0
	Current net financial position	(10,315)	0	(412)	0
27	Non-current financial assets	1,942	0	0	0
28	Non-current bank borrowing	0	0	0	0
29	Other non-current financial liabilities	(9)	0	(25)	0
	Non-current net financial position	1,933	0	(25)	0
	Total net financial position	(8,382)	0	(437)	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 2019		30 June 2018	
		Total	of which non-recurring	Total	of which non-recurring
1	Gross revenue	12,380	0	16,578	0
2	Revenue adjustments	(1,086)	0	(1,198)	0
3	Total net revenue	11,294	0	15,380	0
4	Purchases of products for resale	(8,534)	0	(11,248)	0
5	Purchases of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Change in inventories of finished products	59	0	(270)	0
8	Total cost of sales	(8,475)	0	(11,518)	0
9	Gross profit (3+8)	2,819	0	3,862	0
10	Other income	2,675	0	2,772	0
11	Costs for services	(2,440)	0	(2,684)	0
12	Lease and rental costs	(727)	0	(730)	0
13	Labour costs	(4,934)	0	(5,315)	0
14	Other operating costs	(532)	0	(536)	0
15	Total operating costs	(8,633)	0	(9,265)	0
16	Gross operating margin / EBITDA (9+10+15)	(3,139)	0	(2,631)	0
17	Depreciation and amortisation	(369)	0	(389)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(623)	0	(1,235)	0
20	Rvrsl of impairment adjustments and non-monetary income	0	0	(0)	0
21	Total non-monetary operating income and costs	(992)	0	(1,624)	0
22	Operating margin / EBIT (16+21)	(4,131)	0	(4,255)	0
23	Interest and financial income	5,047	0	20,087	0
24	Interest and financial expenses	(652)	0	(714)	0
25	Net financial income / (expenses)	4,395	0	19,373	0
26	Profit before taxation (22+25)	264	0	15,118	0
27	Current tax	638	0	476	0
28	Deferred tax	(62)	0	(74)	0
29	Total income tax	576	0	402	0
30	Net profit (26+29)	840	0	15,520	0

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**Notes to the separate financial statements
for the year ended 30 June 2019**

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 separate financial statements for the year ended 30 June 2019 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 2019 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 2019 are stated in Euro thousands, unless otherwise specified.

Reporting format

The separate financial statements for the year ended 30 June 2019 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 contain 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 2018.

The financial statements comprise:

- statement of financial position at 30 June 2019 with comparative figures at 30 June 2018 (the annual reporting date for the previous separate financial statements);
- statement of profit or loss for the period from 1 July 2018 to 30 June 2019 together with comparative figures for the period from 1 July 2017 to 30 June 2018;
- statement of comprehensive income for the period from 1 July 2018 to 30 June 2019 together with comparative figures for the period from 1 July 2017 to 30 June 2018;
- statement of cash flows from 1 July 2018 to 30 June 2019 with comparative figures for the period from 1 July 2017 to 30 June 2018;
- statement of changes in equity from 1 July 2018 to 30 June 2019 and from 1 July 2017 to 30 June 2018.

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 a Shareholders' 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).

Earnings per share is shown after net profit / (loss) for the year i.e. the difference between profit before tax and total income tax income (expense) and net profit / (loss) from discontinued operations.

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2017 and 30 June 2019.

2. ACCOUNTING POLICIES

The separate financial statements for the year ended 30 June 2019 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 2019.

The measurement criteria used to prepare the separate financial statements for the year ended 30 June 2019 are consistent with those used to prepare the separate financial statements for the year ended 30 June 2018, except as described below for the new standards applied from 1 July 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 recoverable amount (the greater of fair value and value in use) 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 life.

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 IFRS 9, investments in companies other than subsidiaries and associates, constituting non-current financial assets which are not held for trading, are classified as financial assets held to collect and sell 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”.

Impairment of assets

At the 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 separate financial statements even though said receivables have been transferred. An amount equal to the sums advanced for factored receivables not yet collected is therefore recognised in the separate financial statements under other current financial liabilities.

Employee benefits

Employee termination indemnities (*trattamento di fine rapporto or TFR*) - 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 IFRS 9 – Financial Instruments.

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 IFRS 9 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.

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 Company commits to purchase or sell the asset. In cases where fair value cannot be reliably determined, the financial asset is measured at cost, with disclosure in the notes of its type and related reasons.

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

Derivative financial instruments

The new hedge accounting requirements of IFRS 9 have confirmed the existence of three types of hedging. Nonetheless, greater flexibility has been introduced with regard to the types of transaction that qualify for hedge accounting. Specifically, the types of instrument that qualify as hedging instruments and the types of risk components relating to non-financial elements that are eligible for hedge accounting have been extended. Moreover, the effectiveness test has been replaced with an “economic relationship” principle. Also, the retrospective determination of the effectiveness of the hedge is no longer required.

IFRS 9 requires that income and expenses resulting from hedges be recognised as adjustments to the initial carrying amount of the hedged non-financial items (basis adjustments). Moreover, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments in terms of IAS 1 Presentation of Financial Statements. Hedging income and losses subject to basis adjustments are classified as amounts that will not subsequently be recycled through profit (loss) for the year or in other items of comprehensive income. This is consistent with the practice followed by the Group prior to adoption of IFRS 9.

As in prior years, when a forward contract is used in a cash flow hedge or a fair value hedge relationship, the Group has designated the change in the fair value of the entire forward contract, including forward points, as a hedging instrument.

When option contracts are used to hedge highly probable, planned operations, the Group designates only the intrinsic value of the options as a hedging instrument. Under IAS 39, changes in the fair value of the time value of the option (the part not designated) were immediately recorded in profit (loss) for the period. Under IFRS 9, changes in the time value of options relating to the hedged item are recognised as other items of comprehensive income and accumulated in the hedging reserve in equity. Amounts accumulated in equity are either recycled in profit (loss) for the period when the hedged item affects profit (loss) for the period or removed directly from equity and included in the carrying amount of the non-financial item. IFRS 9 requires that the accounting treatment relating to the non-designated time value of an option be applied retrospectively. This applies solely to hedging relationships that existed as at 1 July 2018.

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

On 28 May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers. The standard establishes a new revenue recognition model providing for:

- 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 contract;
- revenue recognition criteria when the entity satisfies each performance obligation.

Accordingly, revenue from sales of goods and purchase costs are measured at the fair value of the consideration received or due, taking account of the amount of any returns, bonuses, trade discounts and volume-related premiums.

Revenue is recognised when the obligation to transfer the goods to the customer is fulfilled and the amount of the revenue can be measured reliably. If it is probable that discounts will be granted and the amount

can be measured reliably, the discount is recognised as a revenue recognition at the same time as the sale is recognised.

Goods are transferred when the counterparty acquires control of them i.e. when it is able to decide on the use of the asset and to enjoy the benefits. In the case of retail sale, transfer generally occurs at the time of delivery of the goods and upon payment of the consideration by the end consumer. In the case of wholesale sales, transfer normally occurs when the goods arrive at the customer's warehouse.

Revenue and costs relating to services are recognised based on the state of completion of the service at the reporting date. The state of completion is determined based on an assessment of the work done. When the services under a single contract are rendered in more than one reporting period, the consideration is allocated to the various services based on their fair value.

When the Group acts as agent rather than as principal in a sales transaction, the revenue recognised is equal to the Group's net commission.

Chargebacks to third parties of costs incurred on their account are recorded as reductions to the related cost.

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 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 2018

The Company has applied the following accounting standards, amendments and IFRS interpretations for the first time from 1 July 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 establishes 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 contract;
- revenue recognition criteria when the entity satisfies a performance obligation.

The standard has been applied with effect from 1 July 2018 and has not had any significant effect on the Company's financial statements;

- On 24 July 2014, the IASB published the final version of **IFRS 9 – Financial instruments: recognition and measurement**. The document contains the results of the IAS 39 replacement project. The new standard must be applied for annual reporting periods commencing 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 transaction 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 following table summarises the effects of application of the new accounting standard on balances at 30 June 2019:

	Euro Thousands	Effect on opening equity	Effect on profit or loss at 30/06/19	Total
	Non-current assets			
5	Non-current receivables and other assets	(726)	(47)	(773)
6	Deferred tax assets	220	14	234
	Total non-current assets	(506)	(33)	(539)
	Net working capital			
11	Trade receivables	(189)	44	(145)
	Total net working capital	(189)	44	(145)
	Equity			
19	Reserves	695	0	695
21	(Retained earnings) accumulated losses	0	47	47
	Total equity	695	47	742
25	Other current financial assets and liabilities	0	(58)	(58)
	Current net financial position	0	(58)	(58)

- On 20 June 2016, the IASB published an amendment to **IFRS 2 “Classification and measurement of share-based payment transactions”** 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 have been applied from 1 July 2018. Adoption of these amendments has not had a significant effect on the Company's 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 has been 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 has been 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 has been applied from 1 July 2018.

Adoption of these amendments has not had any effect on the Company’s financial statements;

- On 8 December 2016, the IASB published an amendment to **IAS 40 “Transfers of Investment Property”**. 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 have been applied from 1 July 2018. Adoption of the amendments has not had a significant effect on the Company’s financial statements;
- On 8 December 2016, the IASB published interpretation “**Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)**”. The interpretation 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 has been applied from 1 July 2018. Adoption of the interpretation has not had any effect on the Company's 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 2019:

- 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. Meanwhile, the standard does not include any significant amendments for lessors.

The standard is applicable for the Company from 1 July 2019, but early application is permitted.

The Group has completed its preliminary assessment of the potential effects of applying the new standard at the transition date (1 July 2019). This process involved several phases, including the complete mapping of contracts potentially capable of containing a lease and analysis thereof in order to ascertain the main clauses relevant for IFRS 16 purposes.

The Company has chosen to apply the standard retrospectively. However, it has recorded the cumulative effect of applying the standard in equity at 1 July 2019, as provided by IFRS 16 paragraphs C7-C13. In particular, for leases previously classified as operating leases, the Company will account for:

- a) a financial liability estimated at around Euro 5 million, equal to the present value of remaining future payments at the transition date, as discounted using, for each contract, the incremental borrowing rate applicable at the transition date;
- b) a right of use of the assets equal to the financial liability at the transition date, net of any prepaid expenses and accrued income / accrued expenses and deferred income relating to the lease and recorded in the statement of financial position at the reporting date for these financial statements.

When adopting IFRS 16, the Company intends to use the exemption granted by IFRS 16 paragraph 5(a) in relation to short-term leases.

Likewise, the Company intends to use the exemption granted by IFRS 16 paragraph 5(b) with regard to lease contracts where the underlying asset is a low-value asset (i.e. where the value of the assets under the lease does not exceed Euro 5,000 when new). The leases for which the exemption has been applied fall mainly into the following categories:

- computers, telephones and tablet devices;
- printers;
- other electronic devices;
- furniture and fittings.

For these contracts, the introduction of IFRS 16 will not involve recognition of the financial liability under the lease and the related right of use. Rather, the lease payments will be recorded in profit or loss on a straight-line basis over the period of the respective contracts.

The Company intends to make use of the following practical options under IFRS 16:

- *Separation of non-lease components*: the Company intends to make use of the exemption granted by IFRS 16 paragraph 15 for the following asset categories:
 - Property
 - Motor vehicles.

The *non-lease components* of such assets will not be split and recorded separately from the lease components but will be considered together with the lease components when determining the financial liability under the lease and the related right of use.

Moreover, with regard to the transition rules, the Company intends to make use of the following practical options which are available if the amended retrospective transition method is chosen:

- Classification of contracts expiring within twelve months of the transition date as short-term leases. For these contracts, lease payments will be recorded in profit or loss on a straight-line basis;
- Use of information available at the transition date to determine the lease term, with reference to the exercise of options to extend and/or unwind the lease;
- On 12 October 2017, the IASB published an amendment to **IFRS 9 “Prepayment Features with Negative Compensation”**. This document specifies that instruments with prepayment features could pass the Solely Payments of Principal and Interest (“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 Company’s financial statements;

- On 7 June 2017, the IASB issued **IFRIC Interpretation 23 – “Uncertainty over Income Tax Treatments”**. The interpretation addresses the issue of uncertainty over income tax treatments. The document requires entities to analyse uncertain tax treatments (individually or as a whole, depending on their characteristics), always assuming that the tax authorities will examine the tax position in question, with full knowledge of all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty when measuring its current and deferred income taxes. 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 for the Company from 1 July 2019, but early application is permitted. The Directors do not expect adoption of this interpretation to have a significant effect on the Company’s 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 standard also lays 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:

- estimates and assumptions of future cash flows are always the current ones;
- the measurement reflects the time value of money;
- estimates make extensive use of observable market information;
- there is current and explicit measurement of risk;
- expected profit is deferred and aggregated into groups of insurance contracts at the time of initial recognition; and

- expected profit is recognised in the contractual cover period taking account of adjustments due to changes in assumptions regarding cash flows relating to each group of contracts.

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

The entity shall apply the new standard to all insurance contracts issued, including reinsurance contracts issued, to reinsurance contracts held and to 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 Company’s 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 July 2019, but early application is permitted.

The Directors do not expect adoption of these amendments to have a significant effect on the Company’s 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 July 2019, but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the Company's financial statements;

- On 7 February 2018, the IASB published the document “**Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**”. 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 Company's financial statements;
- On 31 October 2018, the IASB published the document “**Definition of Material (Amendments to IAS 1 and IAS 8)**”. The document introduced a change to the definition of “material” contained in *IAS 1 – Presentation of Financial Statements* and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*. The objective of the amendment is to render the definition of “material” more specific and it introduced the concept of “obscured information” alongside the concepts of omitted or misstated information already present in the two standards amended. The amendment clarifies that information is “obscured” when it is described in such a way as to produce for the primary users of financial statements an effect similar to that which would have been produced had the information been omitted or misstated.

The Directors do not expect any significant effect on the Company's 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 interest held in the joint venture or associate by other investors not involved in the transaction. 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 constitute 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 Company's financial statements.

3. DISCRETIONARY JUDGMENT AND SIGNIFICANT ESTIMATES

Discretionary judgment

Preparation of the separate financial statements for the year ended 30 June 2019 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 Group, 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 required. 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 tables makes the estimate reliable over time. Many customers submit sales and inventory figures on a weekly basis, thus facilitating the estimation process.

Deferred tax

Deferred tax is calculated based on the asset-liability method. It is calculated on all temporary differences emerging between the taxable base of an asset or a liability and the corresponding statutory amount, except for goodwill not deductible for tax purposes and differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future.

Deferred tax assets on tax losses and tax credits not used but available for carry forward are recognised to the extent that it is probable that future taxable income against which they can be recovered will be generated. Deferred tax assets and liabilities are determined using the tax rates expected to be applicable in the periods when the temporary differences will be realised or extinguished.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, irrespective of the period in which they are expected to be used.

4. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The statement of financial position at 30 June 2019 is set out below together with comparative figures at 30 June 2018:

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	2,817	2,982	(165)	-5.5%
2	Investment property	0	0	0	0.0%
3	Intangible assets	256	302	(46)	-15.2%
4	Equity investments	16,968	16,432	536	3.3%
5	Non-current receivables and other assets	9,126	9,337	(211)	-2.3%
6	Deferred tax assets	582	330	252	76.4%
	Total non-current assets	29,749	29,383	366	1.2%
	Non-current liabilities				
7	Employee benefits	(436)	(419)	(17)	4.1%
8	Non-current provisions	(81)	(80)	(1)	0.8%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	(1,440)	(1,400)	(40)	2.8%
	Net working capital				
10	Inventories	3,747	3,688	59	1.6%
11	Trade receivables	1,260	1,802	(542)	-30.1%
12	Receivables from subsidiaries	28,136	23,233	4,903	21.1%
13	Tax receivables	4,492	1,968	2,524	n.m.
14	Other current assets	1,003	2,957	(1,954)	-66.1%
15	Trade payables	(916)	(2,012)	1,096	-54.5%
16	Payables to subsidiaries	(9,088)	(8,933)	(155)	1.7%
17	Current tax liabilities	(145)	(216)	71	-32.9%
18	Current provisions	(256)	(2,393)	2,137	-89.3%
19	Other current liabilities	(621)	(753)	132	-17.6%
	Total net working capital	27,612	19,341	8,271	42.8%
	Capital and reserves				
20	Share capital	(5,704)	(5,704)	0	0.0%
21	Reserves	(21,084)	(20,577)	(507)	2.5%
22	Treasury shares	0	0	0	0.0%
23	(Retained earnings) accumulated losses	(20,751)	(20,606)	(145)	0.7%
	Total equity	(47,539)	(46,887)	(652)	1.4%
	Total net assets	8,382	437	7,945	n.m.
24	Cash and cash equivalents	83	609	(526)	-86.3%
25	Current bank borrowing	(10,284)	(845)	(9,439)	n.m.
26	Other current financial assets and liabilities	(114)	(176)	62	-35.2%
	Current net financial position	(10,315)	(412)	(9,903)	n.m.
27	Non-current financial assets	1,942	0	1,942	n.m.
28	Non-current bank borrowing	0	0	0	n.m.
29	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net financial position	1,933	(25)	1,958	n.m.
	Total net financial position	(8,382)	(437)	(7,945)	n.m.

NON-CURRENT ASSETS

1. Property, plant and equipment

Property, plant and equipment has decreased from Euro 2,982 thousand to Euro 2,817 thousand.

Movements during the current and previous reporting periods were as follows:

Euro Thousands	1 July 2018	Additions	Disposals	Depreciation	Use of accum. deprec'n	30 June 2019
Industrial buildings	2,134	0	0	(103)	0	2,031
Land	600	35	0	0	0	635
Plant and machinery	183	16	0	(63)	0	136
Other assets	63	6	0	(55)	0	14
Leasehold improvements	2	0	0	(1)	0	1
Total	2,982	57	0	(222)	0	2,817

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

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

Industrial buildings includes the warehouse in Trezzano sul Naviglio while land includes the land at the same location, as valued at Euro 635 thousand.

Additions for the year include Euro 35 thousand for the purchase of a plot of land next to the land already owned and purchases of electronic equipment.

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

Current year

Gross amount of property, plant and equipment

Euro Thousands	1 July 2018	Additions	Disposals	30 June 2019
Industrial buildings	3,258	0	0	3,258
Land	600	35	0	635
Plant and machinery	2,227	16	0	2,242
Other assets	1,333	6	0	1,339
Leasehold improvements	317	0	0	317
Total	7,735	57	0	7,792

Accumulated depreciation

Euro Thousands	1 July 2018	Increases	Disposals	30 June 2019
Industrial buildings	(1,124)	(103)	0	(1,227)
Land	0	0	0	0
Plant and machinery	(2,044)	(63)	0	(2,107)
Other assets	(1,270)	(55)	0	(1,325)
Leasehold improvements	(315)	(1)	0	(316)
Total	(4,753)	(222)	0	(4,975)

*Previous year**Gross 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)

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

3. Intangible assets

All 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 46 thousand after the amortisation charge for the year of Euro 147 thousand. The following table shows movements for the current year and the previous year by asset category:

Euro Thousands	1 July 2018	Additions	Disposals	Amort'n	30 June 2019
Concessions and licences	296	86	(6)	(143)	233
Trademarks and similar rights	4	0	0	(1)	3
Other intangible assets	2	21	0	(3)	20
Total	302	107	(6)	(147)	256

Euro Thousands	1 July 2017	Additions	Disposals	Amort'n	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

Concessions and licences increased by Euro 86 thousand over the year mainly because of 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 amount of intangible assets

Euro Thousands	1 July 2018	Additions	Disposals	30 June 2019
Concessions and licences	2,877	86	(6)	2,957
Trademarks and similar rights	1,514	0	0	1,514
Other intangible assets	73	21	0	94
Total	4,464	107	(6)	4,565

Accumulated amortisation

Euro Thousands	1 July 2018	Increases	Disposals	30 June 2019
Concessions and licences	(2,581)	(143)	0	(2,724)
Trademarks and similar rights	(1,510)	(1)	0	(1,511)
Other intangible assets	(71)	(3)	0	(74)
Total	(4,162)	(147)	0	(4,309)

Previous year

Gross 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)

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

4. Equity investments

Equity investments amount to Euro 16,968 thousand and have increased by Euro 536 thousand compared to prior year.

The following table contains details of equity investments at 30 June 2019, together with comparatives at 30 June 2018:

Euro Thousands	30 June 2019	30 June 2018	Change
505 Games S.p.A.	10,100	10,100	0
Game Service S.r.l.	85	85	0
Digital Bros Game Academy S.r.l.	300	300	0
Game Network S.r.l.	10	10	0
Digital Bros China (Shenzen) Ltd.	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
Digital Bros Asia Pacific (HK) Ltd.	100	0	100
Total subsidiaries	15,262	15,162	100
Ovosonico S.r.l.	768	751	17
Seekhana Ltd.	378	421	(43)
Total associated companies	1,146	1,172	(26)
Games Analytics Ltd.	60	60	0
Ebooks&Kids S.r.l.	0	38	(38)
Starbreeze AB	500	0	500
Total other equity investments	560	98	462
Total equity investments	16,968	16,432	536

The only change in equity investments in subsidiaries regards the incorporation of Digital Bros Asia Pacific (HK) Ltd on 19 September 2018 with a view to developing the Group business in Asian countries other than China which is handled by Digital Bros China (Shenzhen) Ltd..

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

The increase in Other investments is due to the acquisition of 4,096,809 Starbreeze AB A shares (listed on Nasdaq Stockholm First North Premier). These shares have been measured at fair value while recognising in an equity reserve the difference between carrying amount and fair value at 30 June 2019 as these financial instruments are classified as held to collect and sell.

The sale of the investment held in Ebooks&Kids S.r.l. was completed on 24 October 2018 at a loss on disposal of Euro 14 thousand.

At the reporting date, the carrying amount of equity investments as compared with 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	24,819	(2,229)	14,719
Game Service S.r.l.	Milan	85	50	199	(10)	114
Digital Bros Game Academy S.r.l.	Milan	300	300	262	(38)	(38)
Game Network S.r.l.	Milan	9	10	2	(282)	(7)
Digital Bros China (Shenzhen) Ltd.	Shenzhen	100	100	97	7	(3)
Digital Bros Holdings Ltd.	Milton Keynes	125	125	106	(2)	(19)
133 W Broadway Inc.	Eugene	(164)	90	(164)	(55)	0
Kunos Simulazioni S.r.l.	Rome	4,351	10	3,930	2,633	(421)
Digital Bros Asia Pacific (HK) Ltd.	Hong Kong	100	100	105	5	5
Total subsidiaries		15,006				
Games Analytics Ltd. ⁽¹⁾	Edinburgh	60	3	11	412	(49)
Total other companies		98				

⁽¹⁾ Amounts obtained from financial statements at 31 December 2018

All of the subsidiaries are 100% owned. The percentage investments held in Games Analytics Ltd. is 1.04%.

No impairment adjustment has been made to the investment in Digital Bros Game Academy S.r.l. as its medium/long-term business plan suggests that there is no permanent impairment.

The carrying amounts of the investments in Game Network S.r.l. and 133 W Broadway Inc. are stated net of impairment adjustments totalling Euro 1 thousand for Game Network S.r.l. and Euro 255 thousand for 133 W Broadway Inc.

As in prior year, Kunos Simulazioni S.r.l. reports a significant net profit for the period and its forecasts remain positive for the near future.

No impairment adjustment has been made to the investment in Games Analytics Ltd as the impairment is not considered permanent, also in light of the profit reported by the associated company for the year ended 31 December 2018.

5. Non-current receivables and other assets

Non-current receivables and other assets amounts to Euro 9,126 thousand and has decreased by Euro 211 thousand compared to 30 June 2018. The balance mainly consists of Euro 8,485 thousand representing medium-long term portion of the receivable of USD 10 million arising from the sale of Pipeworks Inc in prior year. The decrease compared to prior year is due to the creation of a provision for bad debts in accordance with IFRS 9 as increased by interest income accruing for the period.

The remaining balance of Euro 641 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 2019, deferred tax assets amount to Euro 582 thousand and have increased by Euro 252 thousand compared to 30 June 2018.

The balance includes IRES deferred tax assets of Euro 574 thousand and IRAP deferred tax assets of Euro 8 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 2019 and 30 June 2018:

Description	Temporary differences at 30 June 2018	Changes in temporary differences in the year	Temporary differences at 30 June 2019
Taxed provision for bad debts	654	0	654
Directors' emoluments not relating to period	269	(192)	77
TFR/Employee termination indemnity	39	36	75
Inventory obsolescence provision	250	(53)	197
Deduction for "Economic Growth Assistance " (ACE)	93	(93)	0
Reserve for writedown of securities	0	350	350
Reserve for application of IFRS 9	0	1,000	1,000
Other	33	8	41
Total	1,338	1,056	2,394

The following table shows the calculation of deferred tax assets for IRES purposes at 30 June 2019:

Description	Temporary differences at 30 June 2019	Deferred tax assets for IRES purposes at 30 June 2019 ^(a)
Taxed provision for bad debts	654	157
Directors' emoluments not relating to period	77	18
TFR/Employee termination indemnity	75	18
Inventory obsolescence provision	197	47
Deduction for "Economic Growth Assistance " (ACE)	0	0
Reserve for writedown of securities	350	84
Reserve for application of IFRS 9	1,000	240
Other	41	10
Total	2,394	574

^(a) Calculated as 24% of temporary differences.

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 increased by Euro 17 thousand compared to prior year.

The IAS 19 actuarial measurement at 30 June 2019 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%;
- 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 2019	30 June 2018
Provision for employee termination indemnities at 1 July 2018	419	417
Employees transferred to 505 Games S.p.A.	(12)	39
Utilisation of provision for payments to leavers	(10)	(40)
Allocations to provision in the year	151	141
Measurement of supplementary pension schemes	(145)	(131)
Actuarial measurement	33	(7)
Provisions for employee termination indemnities at 30 June 2019	436	419

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 81 thousand at 30 June 2018 was Euro 1 thousand higher than the 30 June 2018 balance of Euro 80 thousand. The increase is entirely due to allocations for the period.

9. Other non-current payables and liabilities

At 30 June 2019, other non-current payables and liabilities amounted to Euro 923 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 reported under Non-current receivables and other assets.

NET WORKING CAPITAL

At 30 June 2019, 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 2019:

	Euro Thousands	Italy	Other EU	Non EU	Total
10	Inventories	3,747	0	0	3,747
11	Trade receivables	1,195	64	1	1,260
12	Receivables from subsidiaries	26,951	605	580	28,136
13	Tax receivables	4,492	0	0	4,492
14	Other current assets	1,003	0	0	1,003
15	Trade payables	(820)	(51)	(45)	(916)
16	Payables to subsidiaries	(268)	(7,198)	(1,622)	(9,088)
17	Current tax liabilities	(145)	0	0	(145)
18	Current provisions	(256)	0	0	(255)
19	Other current liabilities	(621)	0	0	(621)
	Total net working capital	35,278	(6,580)	(1,086)	27,612

10. Inventories

Inventories entirely consist of finished products for resale. They have increased by Euro 59 thousand from Euro 3,688 thousand at 30 June 2018 to Euro 3,747 thousand at 30 June 2019. Inventories are stated net of a provision for obsolescence of Euro 197 thousand against Euro 250 thousand at 30 June 2018.

11. Trade receivables

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

Euro Thousands	30 June 2019	30 June 2018	Change
Trade receivables - Italy	1,988	2,416	(428)
Trade receivables – Other EU	64	63	1
Trade receivables - Rest of the world	1	1	0
Provision for doubtful debts	(793)	(678)	(115)
Total trade receivables	1,260	1,802	(542)

At 30 June 2019, trade receivables amounted to Euro 1,260 thousand, a decrease of Euro 542 thousand compared to Euro 1,802 thousand at 30 June 2018. 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 971 thousand to be issued by the Company for price repositioning or returns. This represents an increase compared to the amount of Euro 638 thousand estimated at 30 June 2018.

The provision for doubtful debts has increased by Euro 115 thousand from Euro 678 thousand at 30 June 2018 to Euro 793 thousand at 30 June 2019. The provision is estimated based on a detailed analysis of each trade receivable balance in order to assess its recoverability. It also takes account of the application of the new IFRS 9. The increase compared to prior year is the net result of Euro 145 thousand provided for potential bad debts minus Euro 30 thousand utilised for specific bad debts

The following table contains a breakdown of trade receivables at 30 June 2019 by due date, together with comparative figures at 30 June 2018:

Euro Thousands	30 June 2019	% of total	30 June 2018	% of total
Current	743	59%	1,224	68%
0 -30 days overdue	328	26%	227	13%
30 - 60 days overdue	36	3%	11	0%
60 - 90 days overdue	4	0	0	0%
> 90 days overdue	149	12%	340	19%
Total trade receivables	1,260	100%	1,802	100%

12. Receivables from subsidiaries

Receivables from subsidiaries amount to Euro 28,136 thousand and have increased by Euro 4,903 thousand.

Receivables from subsidiaries at 30 June 2019 and at 30 June 2018 are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
505 Mobile S.r.l.	4,961	9,169	(4,208)
Game Entertainment S.r.l.	8,235	8,081	154
Game Network S.r.l.	386	2,477	(2,091)
505 Games S.p.A.	9,293	1,248	8,045
133 W Broadway Inc.	0	576	(576)
Hawkwen Entertainment Inc.	571	571	0
Kunos Simulazioni S.r.l.	3,662	523	3,139
Game Service S.r.l.	414	406	8
505 Games France S.a.s.	605	139	466
Digital Bros Game Academy S.r.l.	0	43	(43)
Digital Bros Asia Pacific (HK) Ltd.	9	0	9
Total receivables from subsidiaries	28,136	23,233	4,903

Receivables from subsidiaries have increased by Euro 4,903 thousand – mainly in relation to 505 Games S.p.A. The increase is in line with the Group's revenue trend with sales concentrated in the last month of the reporting period

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

13. Tax receivables

At 30 June 2019, tax receivables amounted to Euro 4,492 thousand and increased by Euro 2,524 thousand compared to a balance of Euro 1,968 thousand at 30 June 2018.

Tax receivables at 30 June 2019 and at 30 June 2018 are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Receivable under domestic tax group arrangement	3,914	1,486	2,428
IRES rebate receivable	120	120	0
VAT receivable	271	112	159
Other receivables	187	250	(63)
Total tax receivables	4,492	1,968	2,524

The increase is in line with the results of the Italian companies in the Digital Bros Group that take part in the domestic tax group arrangement.

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

14. Other current assets

Other current assets have decreased from Euro 2,957 thousand at 30 June 2018 to Euro 1,003 thousand at 30 June 2019 mainly because of collection of Euro 2,144 thousand (USD 2.5 million) representing the current portion of the receivable for the sale of Pipeworks Inc. The balance may be analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Insurance refunds receivable	1	1	0
Receivables from suppliers	342	351	(9)
Advances to employees	185	192	(7)
Other receivables	475	2,413	(1,938)
Total other current assets	1,003	2,957	(1,954)

Other receivables includes loans made to associated companies Ovosonico S.r.l. and Seekhana Ltd. of Euro 210 thousand and Euro 232 thousand, respectively.

15. Trade payables

Trade payables due within a year have decreased by Euro 1,096 thousand and consist mainly of payables for services received. The balance is analysed below:

Euro Thousands	30 June 2019	30 June 2018	Change
Trade payables – Italy	(808)	(1,222)	414
Trade payables – Other EU	(56)	(543)	487
Trade payables – Rest of World	(52)	(247)	195
Total trade payables	(916)	(2,012)	1,096

16. Payables to subsidiaries

Payables to subsidiaries amount to Euro 9,088 thousand and have increased by Euro 155 thousand compared to prior year. They are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
505 Games (US) Inc.	(1,594)	(3,071)	1,477
505 Games Ltd.	(2,030)	(1,952)	(78)
505 Games GmbH	(1,018)	(1,552)	534
DR Studios Ltd.	(1,287)	(885)	(402)
505 Games Iberia Slu	(1,163)	(883)	(280)
505 Games Mobile (US)	(157)	(234)	77
505 Games Interactive Ltd.	(122)	(219)	97
Digital Bros Holdings Ltd.	(106)	(111)	5
Digital Bros China (Shenzhen Ltd.)	(75)	(26)	(49)
133 W Broadway Inc.	(1,268)	0	(1,268)
Digital Bros Game Academy S.r.l.	(268)	0	(268)
Total	(9,088)	(8,933)	(155)

The payable to 133W Broadway Inc. relates to the sale of the property owned by said subsidiary which paid over the sale proceeds to the parent company as a result of the Group cash pooling system operated by Digital Bros S.p.A..

17. Tax payables

Tax payables have decreased by Euro 71 thousand from Euro 216 thousand at 30 June 2018 to Euro 145 thousand at 30 June 2019. 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 decreased by Euro 2,137 thousand compared to the 30 June 2018 balance of Euro 2,393 thousand as a result of the amount utilised to cover the losses of subsidiaries Game Network S.r.l. and Digital Bros Game Academy S.r.l. and the utilisation of Euro 255 thousand to cover the losses of US subsidiary 133 W Broadway Inc..

Movements during the period were as follows:

Euro Thousands	30 June 2018	Allocated/Utilised	30 June 2019
Digital Bros Game Academy S.r.l.	218	(218)	0
Game Network S.r.l.	2,175	(2,174)	1
133 W Broadway Inc.	0	255	255
Total current provisions	2,393	(2,137)	256

19. Other current liabilities

Other current liabilities have decreased by Euro 132 thousand from Euro 753 thousand at 30 June 2018 to Euro 621 thousand at 30 June 2019. Details are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change
Amounts due to social security institutions	(179)	(219)	40
Amounts due to employees	(385)	(482)	97
Amounts due to contract staff	(40)	(36)	(4)
Other payables	(17)	(16)	(1)
Total other current liabilities	(621)	(753)	132

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 fact that no provision was required in relation to the variable portion of remuneration.

SHAREHOLDERS' EQUITY

Details of changes in shareholders' equity are provided in the consolidated statement of changes in equity. They may be summarised as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Share capital	5,704	5,704	0
Legal reserve	1,141	1,141	0
Share premium reserve	18,486	18,486	0
IFRS adoption reserve	(142)	(142)	0
Reserve for actuarial gains and losses	(100)	(75)	(25)
Reserve for measurement of securities	(266)	0	(266)
Stock option reserve	1,965	1,167	798
Retained earnings	20,606	5,086	15,520
Application of IFRS 9	(695)	0	(695)
Profit /(Loss) for the year	840	15,520	(14,680)
Total shareholders' equity	47,539	46,887	652

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 2019	30 June 2018	Change
Opening equity	46,887	32,705	14,182
Application of IFRS 9	(695)	0	(695)
Distribution of dividends	0	(2,139)	2,139
Actuarial gains (losses)	(25)	5	(30)
Change in reserve for measurement of securities	(266)	0	(266)
Stock option reserve	798	796	2
Profit/(Loss) for the year	840	15,520	(14,680)
Closing equity	47,539	46,887	652

Share capital at 30 June 2019 is unchanged compared to 30 June 2018 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.

Application of IFRS 9 represents the effect of the new accounting standard.

The Euro 798 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. The plan rules are available on the Company website.

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 2019 is analysed in detail below. Comparative figures at 30 June 2018 are also provided:

	Euro Thousands	30 June 2019	30 June 2018	Change
24	Cash and cash equivalents	83	609	(526)
25	Current bank borrowing	(10,284)	(845)	(9,439)
26	Other current financial assets and liabilities	(114)	(176)	62
	Net financial position – current	(10,315)	(412)	(9,903)
27	Non-current financial assets	1,942	0	1,942
28	Non-current bank borrowing	0	0	0
29	Other non-current financial liabilities	(9)	(25)	16
	Net financial position – non-current	1,933	(25)	1,958
	Total net financial position	(8,382)	(437)	(7,945)

The net financial position shows net debt of Euro 8,382 thousand, an increase of Euro 7,945 thousand compared to 30 June 2018 when it showed net debt of Euro 437 thousand.

The increase in net debt is mainly due to a Euro 9,439 thousand increase in current bank borrowing that was only partially offset by a Euro 1,942 thousand increase in other non-current financial assets.

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 2019:

Euro Thousands	Within 1 year	1 - 5 years	More than 5 years	Total
Bank overdrafts	(721)	0	0	(721)
Import and export financing	(8,938)	0	0	(8,938)
Advances on invoices and notes receivable	(625)	0	0	(625)
Total bank borrowing (A)	(10,284)	0	0	(10,284)
Other financial liabilities (B)	(114)	(9)	0	(123)
Total (A+B)	(10,398)	(9)	0	(10,407)

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousands	30 June 2019	30 June 2018	Change
24	Cash and cash equivalents	83	609	(526)
25	Current bank borrowing	(10,284)	(845)	(9,439)
26	Other current financial assets and liabilities	(114)	(176)	62
	Current net financial position	(10,315)	(412)	(9,903)

24. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 83 thousand at 30 June 2019, a decrease of Euro 526 thousand compared to 30 June 2018. They are unrestricted and consist entirely of current account deposits accessible on demand.

25. Current bank borrowing

Current bank borrowing consists of current account overdrafts, import loans and advances on invoices and notes receivable for a total of Euro 10,284 thousand.

Details are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change
Bank borrowing – current account overdrafts	(721)	0	(721)
Bank borrowing – import and export finance	(8,938)	(845)	(8,093)
Bank borrowing – advances on invoices and notes	(625)	0	(625)
Total current bank borrowing	(10,284)	(845)	(9,439)

Current bank borrowing has increased by Euro 9,439 thousand, mainly because of a Euro 8,093 increase in import finance.

26. Other current financial assets and liabilities

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

Euro Thousands	30 June 2019	30 June 2018	Change
Advances on trade receivables factored without recourse	(98)	(161)	63
Lease instalments due within a year	(16)	(15)	(1)
Total other current financial assets and liabilities	(114)	(176)	62

Advances on trade receivables factored without recourse have decreased by Euro 63 thousand compared to 30 June 2018.

Lease instalments due within a year, amounting to Euro 16 thousand, comprise the current portion of instalments due under two lease agreements signed with Unicredit Leasing.

Non-current net financial position

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

	Euro Thousands	30 June 2019	30 June 2018	Change
27	Non-current financial assets	1,942	0	1,942
28	Non-current bank borrowing	0	0	0
29	Other non-current financial liabilities	(9)	(25)	16
	Non-current net financial position	1,933	(25)	1,958

27. Non-current financial assets

Non-current financial assets includes a loan of Euro 1,942 thousand granted by Digital Bros S.p.A. to Vartvre AB which is the main shareholder of Starbreeze AB. The loan – original amount Euro 2 million – matures on 21 November 2020 and generates interest at a rate of 5% per annum. It is secured by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares. The balance at 30 June 2019 includes interest accruing at that date and the restatement of the nominal amount of the loan due to introduction of IFRS 9.

28. Non-current bank borrowing

There was no non-current bank borrowing at 30 June 2019 or at 30 June 2018.

29. Other non-current financial liabilities

Other non-current financial liabilities amount to Euro 9 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 5 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 4 thousand. There is a variable rate of interest of 1.41%.

The following table shows finance lease payments by maturity:

Euro Thousands	30 June 2019	30 June 2018	Change
Within 1 year	16	15	1
1-5 years	9	25	(16)
More than 5 years	0	0	0
Total	25	40	(15)

COMMITMENTS AND RISKS

At 30 June 2019, the Company's commitments totalled Euro 24,785 thousand and referred to credit mandates in favour of subsidiaries. At 30 June 2018, they totalled Euro 19,796 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 26.6% from Euro 15,380 thousand in prior year to Euro 11,294 thousand in the year ended 30 June 2019.

Euro Thousands	30 June 2019	30 June 2018	Change	
Gross sales – Italy	12,101	16,051	(3,950)	-24.6%
Gross sales – Other countries	279	527	(248)	-47.1%
Total gross revenue	12,380	16,578	(4,198)	-25.3%
Total revenue adjustments	(1,086)	(1,198)	112	-9.3%
Total net revenue	11,294	15,380	(4,086)	-26.6%

Gross revenue may be analysed by geographical area as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	
Gross revenue – Italy	12,101	16,051	(3,950)	-24.6%
Gross revenue – Other EU	279	527	(248)	-47.1%
Total gross revenue	12,380	16,578	(4,198)	-25.3%

8. Cost of sales

Cost of sales is analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	
Purchases of products for resale	(8,534)	(11,248)	2,714	-24.1%
Change in inventories of finished products	59	(270)	329	n.m.
Total cost of sales	(8,475)	(11,518)	3,043	-26.4%

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 2019	30 June 2018	Change	%
Advertising, marketing, trade fairs and exhibitions	(471)	(771)	300	-39.0%
Transport and freight	(154)	(177)	23	-12.8%
Sub-total: sales related services	(625)	(948)	323	-34.1%
Sundry insurance	(93)	(102)	9	-8.8%
Legal and notary fees	(1,028)	(944)	(84)	8.9%
Postage and telegraph	(88)	(106)	18	-16.8%
Travel and subsistence costs	(282)	(280)	(2)	0.7%
Utilities	(116)	(106)	(10)	9.7%
Maintenance	(70)	(62)	(8)	13.5%
Statutory auditors' fees	(74)	(74)	0	0.0%
Sub-total: general services	(1,751)	(1,674)	(77)	4.6%
Intercompany services	(64)	(62)	(2)	3.5%
Sub-total	(1,815)	(1,736)	(79)	4.6%
Total costs for services	(2,440)	(2,684)	244	-9.1%

Costs for services amount to Euro 2,440 thousand, a decrease of Euro 244 thousand compared to the year ended 30 June 2018 mainly because of lower advertising expenditure.

12. Lease and rental costs

Lease and rental costs amount to Euro 727 thousand and are unchanged compared to prior year. The amount includes Euro 682 thousand for the rental of the Company's offices at Via Tortona 37, Milan and Euro 45 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 4,934 thousand which was Euro 381 thousand less than in prior year:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Wages and salaries	(2,162)	(2,306)	144	-6.2%
Social contributions	(802)	(846)	44	-5.2%
Employee termination indemnity	(153)	(143)	(10)	8.3%
Stock option plan	(798)	(796)	(2)	0.3%
Directors' fees	(956)	(1,148)	192	-16.7%
Agents' commission	(18)	(28)	10	-34.2%
Other labour costs	(45)	(48)	3	-7.1%
Total labour costs	(4,934)	(5,315)	381	-7.2%

Labour costs, in the narrow sense, include wages and salaries, social contributions and the cost of employee termination indemnities. They have increased by Euro 178 thousand compared to prior year:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Wages and salaries	(2,162)	(2,306)	144	-6.2%
Social contributions	(802)	(846)	44	-5.2%
Employee termination indemnity	(153)	(143)	(10)	7.6%
Total labour costs	(3,117)	(3,295)	178	-5.4%
Average number of employees	50	50	0	0.0%
Average cost per employee	(62)	(66)	4	-5.4%

The average cost per employee has decreased by 5.4% as pre-set targets were not achieved. This meant that, unlike in prior year, the variable component of remuneration was not recognised.

A detailed breakdown of the Company's workforce by employee category at 30 June 2019 is provided in the Directors' Report.

14. Other operating costs

Other operating costs amount to Euro 532 thousand and are in line with the prior year total.

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

Euro Thousands	30 June 2019	30 June 2018	Change	%
Purchase of sundry materials	(63)	(40)	(23)	56.8%
General and administrative costs	(399)	(433)	34	-7.8%
Entertainment costs	(15)	(15)	0	0.0%
Sundry bank charges	(55)	(48)	(7)	15.3%
Total other operating costs	(532)	(536)	4	-0.7%

21. Depreciation and amortisation, provisions and impairment

Euro Thousands	30 June 2019	30 June 2018	Change	%
Depreciation and amortisation	(369)	(389)	20	-5.1%
Impairment adjustments to assets	(623)	(1,235)	612	-49.6%
Total non-monetary operating income and costs	(992)	(1,624)	632	-38.9%

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 2019 and 30 June 2018 are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Impairment adjustment to investment in in Game Networks S.r.l.	(274)	(1,019)	745
Impairment adjustment to investment in 133 W Broadway Inc.	(255)	0	(255)
Impairment adjustment to investment in Digital Bros Game Academy S.r.l.	0	(128)	128
Impairment adjustment to investment in Cityglance S.r.l.	0	(20)	20
Impairment adjustment to investment in Ebooks&Kids S.r.l.	(14)	(14)	0
Allocation to provision for doubtful debts	(19)	(54)	35
IFRS 9 provision	(61)	0	(61)
Total impairment adjustments to assets	(623)	(1,235)	612

25. Net financial income / (expenses)

Net financial income totalled Euro 4,935 thousand compared to Euro 19,373 thousand in prior year. The decrease was mainly due to a Euro 15,040 thousand reduction in interest and financial income. In prior year, this caption included the net gain of Euro 11,509 thousand realised on the sale of the non-strategic investment in Pipeworks Inc.. The caption may be analysed as follows:

	Euro Thousands	30 June 2019	30 June 2018	Change	%
23	Interest and financial income	5,047	20,087	(15,040)	n.m.
24	Interest and financial expenses	(652)	(714)	62	-8.7%
25	Net interest and financial income	4,395	19,373	(14,978)	-77.3%

Interest and financial income may be analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Gain on disposal of Pipeworks Inc.	0	11,509	11,509	n.m.
Dividends from subsidiaries	4,000	7,292	(3,292)	-45.1%
Exchange gains	613	1,163	(550)	-47.3%
Other interest and financial income	434	123	311	n.m.
Total interest and financial income	5,047	20,087	(15,040)	n.m.

Dividends were received from Kunos Simulazioni S.r.l..

Other interest and financial income for the year ended 30 June 2019 includes Euro 350 thousand of interest accruing from the purchaser of Pipeworks Inc. on the non-current receivable of USD 10 million.

Interest and financial expenses are analysed in detail as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Bank interest on overdrafts and trade finance	(117)	(23)	(94)	n.m.
Other interest expenses	(3)	(8)	5	-63.2%
Interest expenses on loans and leases	(1)	(20)	19	-95.3%
Factoring interest	(4)	(4)	0	0.0%
Total interest expenses on sources of financing	(125)	(55)	(70)	n.m.
Exchange losses	(484)	(518)	34	-6.5%
Losses on disposal of securities	0	0	0	n.m.
Equity measurement of investments	(43)	(141)	98	n.m.
Total interest and financial expenses	(652)	(714)	62	-8.7%

Interest and financial expenses have decreased by Euro 62 thousand to stand at Euro 652 thousand. The decrease is due to a Euro 70 thousand reduction in interest expenses on sources of financing in line with the change in the net financial position over the year and to a lower expense to restate the carrying amount of associated company Seekhana Ltd to reflect the company's share of reported losses.

29. Taxation

Details of current and deferred taxes for the year ended 30 June 2019 are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Current taxes	638	476	162	34.1%
Deferred taxes	(62)	(74)	12	-15.9%
Total taxation	576	402	174	43.2%

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

Euro Thousands	30 June 2019	30 June 2018	Change
Taxable income for IRES	(2,938)	(2,442)	(496)
IRES rate	24.0%	24.0%	
IRES for the period	705	586	119
Prior year taxes	(67)	(110)	43
IRES for the period	638	476	162

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

<i>Euro Thousands</i>	30 June 2019		30 June 2018	
Company profit before taxation	264		15,118	
IRES rate	24.0%		24.0%	
Theoretical taxation	(63)	-24.0%	(3,628)	-24.0%
Tax effect of non-deductible costs	709	268%	4,100	27%
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	59		86	
IRES on gain classified under financial income	0		28	
Prior year taxation	(67)		(110)	
Taxes on income for the year and effective tax rate	638	241.5%	476	3.1%

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

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

The credit facilities available to the Company, together with utilisation at 30 June 2019, are detailed below:

Euro Thousands	Facility	Utilised	Headroom
Bank current account overdrafts	1,200	628	572
Import finance	11,750	8,938	2,812
Advances on invoices and notes	7,250	634	6,616
Factoring	1,000	98	902
Total	21,200	10,298	10,902

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 2019

Category of financial assets in terms of IFRS 9

Financial Instruments – Assets at 30 June 2019 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying amount at 30 June 2019	Note
Non-current receivables and other assets		9,126	-	9,126	5
Trade receivables	-	1,260	-	1,260	11
Receivables from subsidiaries	-	28,136	-	28,136	12
Other current assets	-	1,003	-	1,003	14
Cash and cash equivalents	-	83	-	83	24
Other current financial assets	-	-	-	-	26
Total	-	39,608	-	39,608	

Category of financial liabilities in terms of IFRS 9

Financial Instruments - Liabilities at 30 June 2019 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	Carrying amount at 30 June 2019	Note
Trade payables	-	916	-	916	15
Payables to subsidiaries	-	9,088	-	9,088	16
Other current liabilities	-	621	-	621	19
Current bank borrowing	-	10,284	-	10,284	25
Other current financial liabilities	-	114	-	114	26
Non-current bank borrowing	-	0	-	0	28
Other non-current financial liabilities	-	9	-	9	29
Total	-	21,032	-	21,032	

Financial Instruments: Statement of Financial Position at 30 June 2018

Category of financial assets in terms of IFRS 9

Financial Instruments - Assets at 30 June 2018 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying Amount at 30 June 2018	Note
Non-current receivables and other assets		9,337	-	9,337	5
Trade receivables	-	1,802	-	1,802	11
Receivables from subsidiaries	-	23,233	-	23,233	12
Other current assets	-	2,957	-	2,957	14
Cash and cash equivalents	-	609	-	609	24
Other current financial assets	-	-	-	-	26
Total	-	37,938	-	37,938	

Category of financial liabilities in terms of IFRS 9

Financial Instruments - Liabilities at 30 June 2018 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	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	

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 2019 (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	10,284	10,284						10,284	25
Other current financial liabilities	114	114						114	26
Non-current bank borrowing	0	0						0	28
Other non-current financial liabilities	9		9					9	29
Total	10,407	10,398	9	-	-	-	-	10,407	

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	

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 11 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 analyses 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 it operates 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 2019 and at 30 June 2018:

Euro Thousands	30 June 2019	% of total	30 June 2018	% of total
Not overdue	743	59%	1,224	68%
0 -30 days overdue	328	26%	227	13%
30 - 60 days overdue	36	3%	11	0%
60 - 90 days overdue	4	0	0	0%
> 90 days overdue	149	12%	340	19%
Total trade receivables	1,260	100%	1,802	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 2019	Mark to Market Fair Value	Mark to Model Fair Value	Total Fair Value	Note
Cash and cash equivalents	83	83		83	24
Current bank borrowing	10,284	10,284		10,284	25
Other current financial assets and liabilities	114	114		114	26
Other non-current financial liabilities	9	9		9	29

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

Exchange 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 Company'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 2019 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 2019, 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.

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 1.15/EUR 1:

Type of change	Effect on net financial position	Effect on profit before taxation
+10% USD	597	(185)
-10% USD	(730)	228

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.

The Company uses various measurement and valuation models to determine the fair value of financial instruments. The following table contains a summary of such financial instruments at 30 June 2019. At 30 June 2018, there were no financial instruments measured at fair value:

Caption at 30 June 2019	Instrument	Level 1	Level 2	Level 3	Total	Note
Investments	Listed shares	500			500	4

At 30 June 2019, as at 30 June 2018, there were no financial instruments measured at fair value

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 2019 – as at 30 June 2018 – 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 2019 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	9,293	0	0	2,564	(281)
505 Mobile S.r.l.	0	4,962	0	0	0	0
Digital Bros Game Academy S.r.l.	0	0	0	(268)	67	(13)
Game Entertainment S.r.l.	0	8,235	0	0	526	0
Game Network S.r.l.	0	386	0	0	4	0
Game Service S.r.l.	0	414	0	0	0	0
Kunos Simulazioni S.r.l.	0	3,662	0	0	0	0
505 Games France S.a.s.	0	605	0	0	0	0
505 Games Ltd.	0	0	0	(2,030)	0	0
505 Games Iberia Slu	0	0	0	(1,163)	0	0
505 Games (US) Inc.	0	0	0	(1,594)	17	0
505 Games GmbH	0	0	0	(1,018)	0	0
505 Games Interactive	0	0	0	(122)	0	0
505 Games Mobile (US)	0	0	0	(157)	0	0
DR Studios Ltd.	0	0	0	(1,287)	0	0
Digital Bros Asia Pacific (Hong Kong) Ltd.	0	9	0	0	0	0
Digital Bros China (Shenzen) Ltd.	0	0	0	(75)	0	0
Digital Bros Holdings Ltd.	0	0	0	(106)	0	0
133 W Broadway Inc.	0	0	0	(1,268)	0	0
Hawkwen Entertainment Inc.	0	570	0	0	0	0
Total 30 June 2019	0	28,136	0	(9,088)	3,178	(294)

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 other related parties regard the legal advice provided by Director Dario Treves, the property lease activities by Matov Imm. S.r.l. which is owned by the Galante family and property leases to associated company Ovosonico S.r.l..

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		
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(682)
Ovosonico S.r.l.	21	210	0	0	29	0
Total 30 June 2019	21	845	(22)	0	29	(944)

Related party balances and transactions at 30 June 2018 were as follows:

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

The receivable of Euro 210 thousand from associated company Ovosonico S.r.l. relates to a loan that was disbursed during the previous reporting period.

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 956 thousand.

STATUTORY AUDITORS' FEES

During the year ended 30 June 2019, 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 Article 123 bis of the Consolidated Finance Act)

SHARE CAPITAL STRUCTURE

At 30 June 2019, 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, Digital Bros A General Meeting 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 Corporate Governance 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.

On 27 October 2017, a Shareholders' General Meeting resolved to grant the Board of Directors the power to:

- a. purchase treasury shares for a period of 18 months;
- b. hold the treasury shares without any time restrictions, in compliance with the provisions of Article 2357 of the Italian Civil Code, Articles 132 and 125-ter of the Consolidated Finance Act and Article 73 of the Issuers' Rules. Purchase operations must comply with a minimum and maximum price compared to the listed price of Digital Bros shares, as

determined based on criteria described in detail in the General Meeting resolution. In any case, purchases must be restricted to within the amount of distributable earnings and available reserves per the most recent financial statements (including interim financial statements) approved at the time the transaction takes place. Upon any purchase or disposal of treasury shares (ordinary and/or savings shares), the necessary accounting entries shall be made in accordance with applicable laws and accounting standards.

At 30 June 2019, the Company did not hold any treasury shares and there have been no transactions therein since that date. The General Meeting of 29 October 2018 did not approve any resolutions regarding the possibility of purchasing and holding treasury shares .

CHANGE OF CONTROL CLAUSES

There are no changes 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 MANAGEMENT, GOVERNANCE 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 2019. 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 840 thousand for the year ended 30 June 2019 should be taken to reserves.

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

We, the undersigned, Abramo Galante, chairman of the Board of Directors and Stefano Salbe, financial reporting manager of Digital Bros 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 2018 - 30 June 2019. 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 2019:
 - 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, 12 September 2019

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe