



**Half-yearly financial report
for the six months ended 31 December 2018
(1st half of financial year 2018/2019)**

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milan, Italy

VAT No. and Company tax code 09554160151

Share capital: Euro 6,024,334.80 of which Euro 5,704,334.80 subscribed

Milan Companies Register No. 290680

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This report can be downloaded from the Investors section of the Company's website
www.digitalbros.com

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BOARD OF DIRECTORS AND SUPERVISORY BODIES

Board of Directors

Lidia Florean	Director ⁽²⁾
Abramo Galante	Chairman and Managing Director ⁽¹⁾
Davide Galante	Director ⁽²⁾
Raffaele Galante	Managing Director ⁽¹⁾
Luciana La Maida	Director ⁽³⁾
Irene Longhin	Director ⁽³⁾
Paola Mignani	Director ⁽³⁾⁽⁵⁾
Stefano Salbe	Director ⁽¹⁾⁽⁴⁾
Dario Treves	Director ⁽¹⁾

⁽¹⁾ Executive directors

⁽²⁾ Non-executive directors

⁽³⁾ Independent directors

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

⁽⁵⁾ Lead Independent Director

Internal control and risk committee

Luciana La Maida
Irene Longhin
Paola Mignani (Chair)

Remuneration committee

Luciana La Maida (Chair)
Irene Longhin
Paola Mignani

Permanent related parties committee

Luciana La Maida
Irene Longhin
Paola Mignani (Chair)

Board of statutory auditors

Maria Pia Maspes	Statutory auditor
Luca Pizio	Statutory auditor
Paolo Villa	Chair
Daniela Delfrate	Substitute statutory auditor
Christian Sponza	Substitute statutory auditor

The shareholders' meeting of 27 October 2017 appointed the members of the Board of Directors and Board of Statutory Auditors. The terms of office of the directors and statutory auditors will end with the shareholders' meeting held to approve the financial statements for the year ending 30 June 2020.

On 27 October 2017, the Board of Directors appointed Abramo Galante as Chairman of the Board of Directors and Managing Director while also appointing Raffaele Galante as Managing Director; both were given appropriate powers.

Non-Executive Director Bruno Soresina sadly passed away on 6 August 2018 while independent Directors Elena Morini and Guido Guetta resigned from the Board of Directors for personal reasons on 13 September 2018 and 8 November 2018, respectively.

The shareholders' meeting of 26 October 2018 appointed Paola Mignani as a Director. The Board of Directors' Meeting of 8 November concluded that she was independent and appointed her as Chair of the Internal Control and Risk Committee, as a member of the Remuneration Committee and as Chair of the Permanent Related Parties Committee. The Board of Directors of 8 November appointed independent Directors Luciana La Maida and Irene Longhin as members of the Internal Control and Risk Committee and of the Permanent Related Parties Committee. It also appointed Irene Longhin as a member of the Remuneration Committee. These appointments were made to replace the former members who had either resigned or died.

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

External auditors

Deloitte & Touche S.p.A.

On 26 October 2012, the a Shareholders' General Meeting appointed Deloitte & Touche S.p.A, Via Tortona 25, Milan to audit the separate and consolidated financial statements of Digital Bros S.p.A. until the approval of the financial statements for the year ending 30 June 2021.

Other information

Publication of the Half Yearly Financial Report of Digital Bros Group for the Six Months ended 31 December 2018 was authorised by a resolution of the Board of Directors of 28 February 2019.

Digital Bros S.p.A. is a joint stock company incorporated and domiciled in Italy. It is listed on the STAR segment of the MTA market managed by Borsa Italiana S.p.A

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DIRECTORS' REPORT

1. GROUP STRUCTURE

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

The Group is organised into five operational business segments:

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

The video games are normally acquired under exclusive licence and with international exploitation rights valid for several years. The brand name used by the Group is 505 Games.

During the period, Premium Games operations were conducted by the subsidiary 505 Games S.p.A. - said company coordinates the operating segment - together with 505 Games France S.a.s., 505 Games Ltd., 505 Games (US) Inc., 505 Games Spain Slu and 505 Games GmbH which operate on the French, UK, U.S., Spanish and German markets, respectively. 505 Games Interactive (US) Inc. provides consulting services on behalf of 505 Games S.p.A.

Italian company Kunos Simulazioni S.r.l., developer and publisher of the *Assetto Corsa* video game, is well established in this operating segment.

Free to Play: this business regards the development and publishing of video games and/or apps that are available free of charge on digital marketplaces and which allow the gamer to make purchases during later stages of the game. Compared to Premium video games, Free to Play games are generally simpler but, if successful, may have a longer lifespan. The video game is continuously developed and improved after its launch in order to keep the public interested and extend the game's life cycle.

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

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

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

Business operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand, and by subsidiary Game Entertainment S.r.l. which performs distribution – mainly of trading cards - through the newsstand distribution channel.

Other Activities: this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for presentation of the results. It includes the operations of

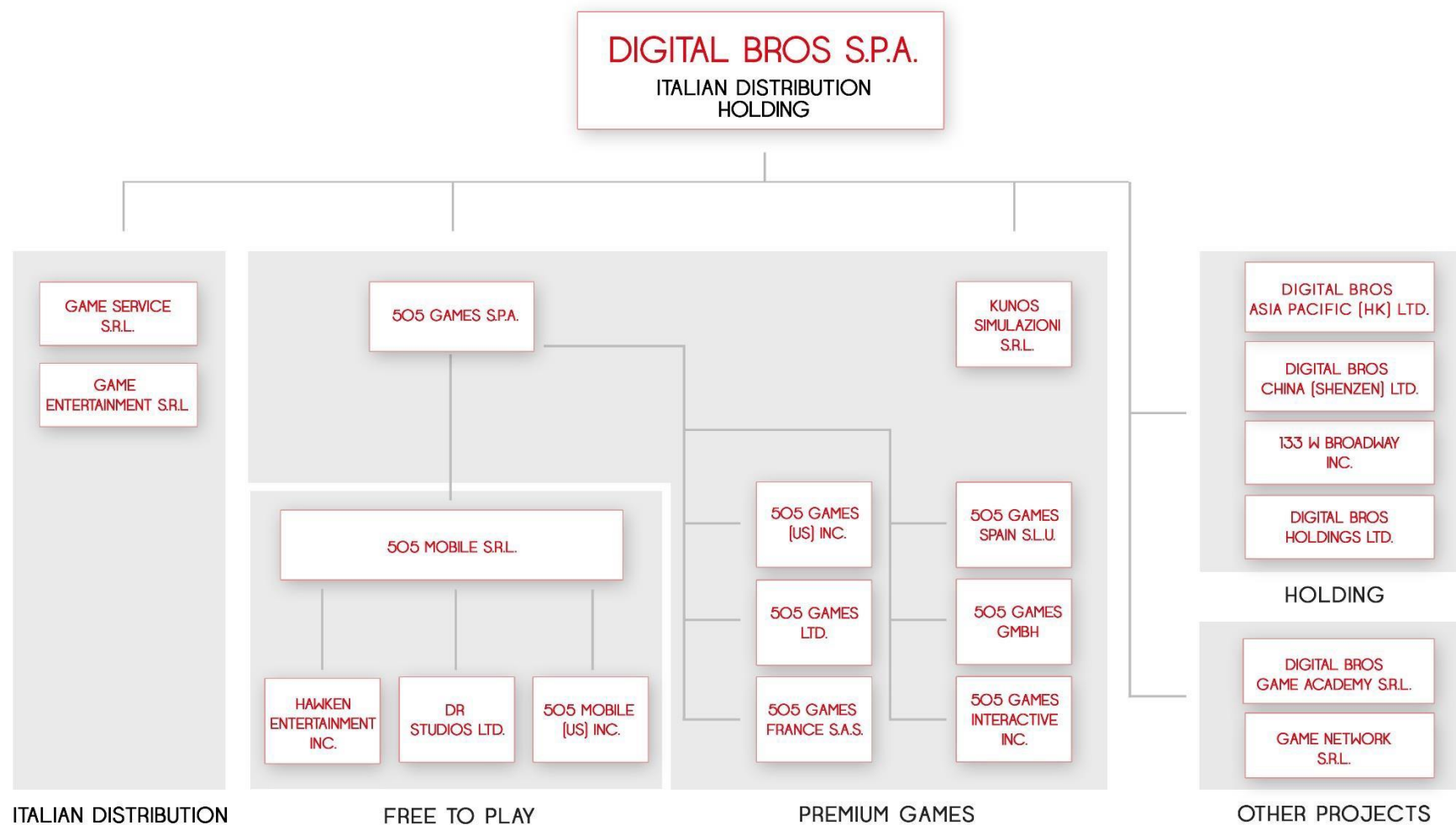
subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l.. Until last year, Game Network S.r.l. managed paid games under concession from AAMS (Italian State Monopoly Administration), However, given the limited profitability of the paid games under concession, the Group decided not to take part in the new competitive tendering process for future concessions and, consequently, it ended its activities under the AAMS concession in June 2018.

Holding: this includes all the coordinating functions carried out directly by Digital Bros S.p.A.. The Holding operating segment also handles administration, management control and business development activities. The holding company has also been supported by Digital Bros China Ltd. and by newly incorporated company Digital Bros Asia Pacific (HK) Ltd which have operated as business developers for Asian markets. It has also been supported by 133 W Broadway Inc. which, until October 2018, owned the property in Eugene, Oregon, USA which was leased to US company Pipeworks Inc, formerly a subsidiary of the Group. Digital Bros Holdings Ltd and Digital Bros Asia Pacific (HK) Ltd were inactive during the period.

All of the investments reported are 100% owned.

The Group organisation chart at 31 December 2018 is shown below:

GROUP STRUCTURE AT 31 DECEMBER 2018



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

Company	Address	Function
Digital Bros S.p.A.	Via Tortona, 37 Milan	Offices
Digital Bros S.p.A.	Via Boccaccio 95, Trezzano sul Naviglio (MI)	Logistics
133 W Broadway, Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, U.S.A.	Offices
Digital Bros Asia Pacific (HK) Ltd. ⁽¹⁾	33-35 Hillier Street, Sheung Wan, Hong Kong	Offices
Digital Bros China (Shenzhen) Ltd.	Wang Hai Road, Nanshan district, Shenzhen 518062, China	Offices
Digital Bros Game Academy S.r.l.	Via Labus, 15 Milan	Offices
Digital Bros Holdings Ltd. ⁽¹⁾	402 Silbury Court, Silbury Boulevard, Milton Keynes, U.K.	Offices
DR Studios Ltd.	4 Linford Forum, Rockingham Drive, Milton Keynes, U.K.	Offices
Game Entertainment S.r.l.	Via Tortona, 37 Milan	Offices
505 Games S.p.A.	Via Tortona, 37 Milan	Offices
505 Games France S.a.s.	2,Chemin de la Chauderaie, Francheville, France	Offices
505 Games Spain Slu	Calle Cabo Rufino Lazaro 15, Las Rozas de Madrid, Spain	Offices
505 Games Ltd.	402 Silbury Court, Silbury Boulevard, Milton Keynes, U.K.	Offices
505 Games (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
505 Games GmbH	Brunnfeld 2-6, Burglengenfeld, Germany	Offices
505 Games Interactive (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
Game Network S.r.l.	Via Tortona, 37 Milan	Offices
Game Service S.r.l.	Via Tortona, 37 Milan	Offices
Hawken Entertainment Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices
Kunos Simulazioni S.r.l.	Via degli Olmetti 39, Formello (Rome)	Offices
505 Mobile S.r.l.	Via Tortona, 37 Milan	Offices
505 Mobile (US) Inc.	5145 Douglas Fir Road, Calabasas, California, U.S.A.	Offices

⁽¹⁾ Inactive in the period

Digital Bros Asia Pacific (HK) Ltd. was incorporated on 19 September 2018 with a view to developing the Group's activities in Asian countries other than China which is handled by Digital Bros China (Shenzhen) Ltd.

At 31 December 2018, the Group held investments in the associated companies listed below. The related carrying amounts are also shown (in thousands of Euro):

Name	Location	Holding	Carrying amount
Delta DNA Ltd.	Edinburgh, UK	1.04%	60
Ovosonico S.r.l.	Varese	49%	776
Seekhana Ltd.	Milton Keynes, UK	34.77%	396
Total investments in associated companies			1,232

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

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



Developers

Developers are creators and programmers of games which are usually based on an original idea, a successful brand, a film or sports simulations, etc. The developers often 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, the key players when it comes to completing the game, raising its awareness, enhancing its reputation and distributing it internationally through their direct and indirect international, 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 of the risks. Together

with the developer, it benefits from all the opportunities that the video game may produce if it is a success. Publishers usually finance the game development stage.

Console manufacturers

The console manufacturer is the company that designs, engineers, produces and markets the hardware or platform on which consumers play the game. Sony is the Sony Playstation 4 console manufacturer, Microsoft is the Microsoft Xbox One console manufacturer and Nintendo is the Nintendo Switch console manufacturer. The console manufacturer produces the physical support format on behalf of 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 market place for PC games was announced during the period ended 31 December 2018 – 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 of 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.

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 made it possible to extend 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, 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.

3. 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 publication and marketing of video games on digital marketplaces partially reduces the variability of a publisher's results from one quarter to the next. In fact, in case of digital distribution, revenue is recognized when the end consumer purchases a game on the marketplace. This process occurs more gradually over time and is not so concentrated in the days immediately after the launch, unlike traditional distribution for which revenue is recognized upon shipment of the finished product to the distributor/dealer, regardless of when it is purchased by the end consumer. The fact that it is possible to organise promotional campaigns for products on the main digital marketplaces in a fairly rapid and effective manner tends to concentrate revenue during such short periods. Clearly, publishers try to plan their promotional campaigns for the most favourable phases of the market e.g. the Christmas season for European markets or Black Friday for the American market.

The Free to Play video games revenue trend is much less affected by seasonality than the Premium Games trend. Indeed, until now at least, successful Free to Play video games have achieved revenue growth over time without any particular peaks in the launch period except in a few cases of highly anticipated Free to Play video games and with very well-known brands. Promotions have a significant impact on revenue trends but, unlike the Premium Games market, promotions are frequently repeated and do not greatly distort the monthly revenue trend for each video game.

The financial position is also closely linked to the revenue trend. The physical distribution of a product in a quarter 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.

4. 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 13 September 2018, as a result of the above, the Board of Directors appointed new members to the three sub-committees of the Board. They now all have the following Non-Executive Directors as members: Guido Guetta, Luciana La Maida and Irene Longhin;
- On 19 September 2018, Digital Bros Asia Pacific (HK) Ltd was incorporated with the intention of focusing on business development in Asian countries other than China;
- 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 19 October 2018, the sale of the property owned by 133 W. Broadway was completed and the selling price was not significantly different to the carrying amount of the asset;
- The liquidation of subsidiary Game Network S.r.l. was approved on 26 October 2018 following the discontinuation of the in prize games under concession from the AAMS (Italian State Monopoly Association);
- On 8 November 2018, independent Director Guido Guetta resigned from the Board of Directors for personal reasons;
- On 8 November 2018, 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.

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 on 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 future PAYDAY 3.

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 filed for reconstruction with the Swedish District Court. The Swedish Court approved the restructuring request until March 2019.

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 Varvtré AB. Varvtré AB is controlled by Bo Andersson Klint, former Managing Director of Starbreeze, who holds 6.25% of the stock capital and 23.77% of the voting rights of Starbreeze AB. Following the vicissitudes described above, Bo Andersson Klint resigned 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;
- In November and December 2018, it acquired 3,800,000 Starbreeze A shares, as traded on Nasdaq Stockholm, for an average price of SEK 2.23 per share; the share purchased represent 1.17% of stock capital and 4.72% of voting rights.

On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the video game OVERKILL's The Walking Dead.

If the contract between the subsidiary 505 Games S.p.A. and the Swedish company was terminated, it would no longer be necessary to complete the total investment of USD 10 million. So far, the Group has paid USD 4.8 million on account and it would request a refund of this amount.

5. ANALYSIS OF CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2018

	Euro Thousands	31 December 2018		31 December 2017		Change	
1	Gross revenue	30,216	107.2%	44,062	108.3%	(13,846)	-31.4%
2	Revenue adjustments	(2,042)	-7.2%	(3,364)	-8.3%	1,322	-39.3%
3	Net revenue	28,174	100.0%	40,698	100.0%	(12,524)	-30.8%
4	Purchase of products for resale	(7,348)	-26.1%	(11,076)	-27.2%	3,728	-33.7%
5	Purchase of services for resale	(3,370)	-12.0%	(3,190)	-7.8%	(180)	5.6%
6	Royalties	(5,514)	-19.6%	(9,517)	-23.4%	4,004	-42.1%
7	Changes in inventories of finished products	261	0.9%	564	1.4%	(303)	-53.8%
8	Total cost of sales	(15,971)	-56.7%	(23,219)	-57.1%	7,248	-31.2%
9	Gross profit (3+8)	12,203	43.3%	17,479	42.9%	(5,276)	-30.2%
10	Other income	1,546	5.5%	1,091	2.7%	455	41.7%
11	Cost of services	(3,912)	-13.9%	(4,637)	-11.4%	725	-15.6%
12	Lease and rental charges	(711)	-2.5%	(719)	-1.8%	8	-1.1%
13	Personnel costs	(8,451)	-30.0%	(8,991)	-22.1%	540	-6.0%
14	Other operating costs	(539)	-1.9%	(563)	-1.4%	24	-4.4%
15	Total operating costs	(13,613)	-48.3%	(14,910)	-36.6%	1,297	-8.7%
16	Gross operating margin/EBITDA (9+10+15)	136	0.5%	3,660	9.0%	(3,524)	n.m.
17	Depreciation and amortisation	(3,593)	-12.8%	(3,721)	-9.1%	128	-3.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(665)	-2.4%	(80)	-0.2%	(585)	n.m.
20	Reversal of imp. losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary income and operating costs	(4,258)	-15.1%	(3,801)	-9.3%	(457)	12.0%
22	Operating margin/EBIT (16+21)	(4,122)	-14.6%	(141)	-0.3%	(3,981)	n.m.
23	Interest and financial income	670	2.4%	763	1.9%	(93)	-12.2%
24	Interest expense and financial expenses	(491)	-1.7%	(535)	-1.3%	44	-8.3%
25	Net financial income (expenses)	179	0.6%	228	0.6%	(49)	-21.3%
26	Profit/(Loss) before tax (22+25)	(3,943)	-14.0%	87	0.2%	(4,029)	n.m.
27	Current tax	688	2.4%	(430)	-1.1%	1,118	n.m.
28	Deferred tax	95	0.3%	195	0.5%	(100)	-51.4%
29	Total income tax expense	783	2.8%	(235)	-0.6%	1,018	n.m.
30	Net profit/(loss) from continuing operations (26+29)	(3,160)	-11.2%	(148)	-0.4%	(3,012)	n.m.
	Net profit/(loss) from discontinued operations	0	0.0%	166	0.4%	(166)	n.m.
	Net profit/(loss)	(3,160)	-11.2%	18	0.0%	(3,178)	n.m.

Earnings per share

	Earnings per share (in Euro):	31 December 2018	31 December 2017	Change	
33	Basic earnings (loss) per share from continuing operations	(0.22)	(0.01)	(0.21)	n.m.
33	Basic earnings (loss) per share from discontinued operations	0.00	0.00	0.00	n.m.
33	Total basic earnings (loss) per share	(0.22)	(0.01)	(0.21)	n.m.
34	Diluted earnings (loss) per share from continuing operations	(0.22)	(0.01)	(0.21)	n.m.
34	Diluted earnings (loss) per share from discontinued operations	0.00	0.00	0.00	n.m.
34	Total diluted earnings (loss) per share	(0.22)	(0.01)	(0.21)	n.m.

In line with expectations, in the six months ended 31 December 2018, the Group did not launch any significant new products. Consolidated revenue decreased by 31.4% compared to the first half of prior year. The following table contains a breakdown of revenue by operating segment for the six months ended 31 December 2018 with comparatives for the corresponding period in prior year:

Euro Thousand	Gross Revenue				Net Revenue			
	2018	2017	Change		2018	2017	Change	
Premium Games	19,787	30,584	(10,797)	-35.3%	18,633	28,293	(9,660)	-34.1%
Italian Distribution	7,029	10,375	(3,346)	-32.3%	6,141	9,403	(3,262)	-34.7%
Free to Play	3,169	2,699	470	17.4%	3,169	2,699	470	17.4%
Other Activities	231	404	(173)	-42.8%	231	303	(72)	-23.8%
Total gross revenue	30,216	44,062	(13,846)	-31.4%	28,174	40,698	(12,524)	-30.8%

The largest reduction in gross revenue was recorded by the Premium Games segment with a 35.3% fall, while the Italian Distribution operating segment recorded a 32.3% decrease. The Free to Play operating segment bucked this trend and saw its revenue increase by Euro 470 thousand or by 17.4%.

Net revenue decreased by 30.8%.

The following table contains a detailed breakdown of Premium Games segment gross revenue by video game title:

Euro Thousand	31 December 2018	31 December 2017	Change	
Assetto Corsa	3,554	3,456	98	3%
PAYDAY 2	2,391	3,833	(1,442)	-38%
Terraria	2,288	3,793	(1,505)	-40%
Other products	4,618	6,521	(1,903)	-29%
Retail products	6,936	12,981	(6,045)	-47%
Premium Games total gross revenue	19,787	30,584	(10,797)	-35%

Revenue from *Assetto Corsa*, a video game owned by the Group, increased slightly after benefiting from the launch of the *Assetto Corsa Competizione* version which was made available in early access on the Steam marketplace and will be launched in its final version to coincide with the GT Blancpain European Championship in April 2019. Given the lack of any significant updates, sales of *Terraria* and *PAYDAY2* decreased, as did sales of other products.

The most significant fall was recorded by retail video games which saw revenue decrease by Euro 6,045 thousand or by 47%. These are video games launched by third party publishers on digital marketplaces in respect of which the Group has signed international distribution agreements for the retail distribution channel. In prior year, sales of these products were boosted by the strong performances of Dead by Deadlight, Pillars of Eternity and Inside/limbo whereas, in the current reporting period, the only retail product launches were No Man's Sky and Hellblade which sold well but were unable to replicate the previous year's revenue flow.

Italia Distribution revenue decreased by 32% compared to the first half of prior year because of a fall in sales of video games and a reduction in revenue from the distribution of trading cards.

Revenue from the Free to Play operating segment grew by 17% and was driven by the particularly strong performance of the Gems of War video game. This product is now in its fourth year of life but generated more than two-thirds of the operating segment's sales.

Gross profit decreased by Euro 5,276 thousand, in line with the revenue trend.

Operating costs have decreased by 8.7%, a smaller percentage decrease than that recorded by revenue. Personnel costs – the most significant operating cost item – amounted to Euro 8,451 thousand and fell by just 6% because the organisational structure has already been prepared for forthcoming product launches from the third quarter of the current financial year.

Depreciation and amortisation have decreased by Euro 128 thousand due to completion of the amortisation period of several items of intellectual property owned by the Group. Impairment adjustments amount to Euro 665 thousand and mainly refer to the decision not to continue with certain projects under development (Euro 379 thousand) and to the increased allocation to the bad debt provision following application of the new IFRS 9 (Euro 273 thousand).

Net financial income amounted to Euro 179 thousand against Euro 228 thousand for the six months ended 31 December 2017.

A loss before taxation of Euro 3,943 thousand is reported for the period ended 31 December 2018, a deterioration of Euro 4,029 thousand compared to the profit before taxation of Euro 87 thousand reported for the six months ended 31 December 2017.

The consolidated net loss amounts to Euro 3,160 thousand compared to the net loss of Euro 148 thousand for the period ended 31 December 2017.

The basic and diluted loss per share amounts to Euro 0.22 compared to a loss per share of Euro 0.01 for the first half of prior year.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Euro Thousand	31 December 2018	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,785	6,000	(2,215)	-36.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	12,870	15,131	(2,261)	-14.9%
4	Equity investments	1,688	1,270	418	32.9%
5	Non-current receivables and other assets	9,099	9,524	(425)	-4.5%
6	Deferred tax assets	2,948	2,365	583	24.6%
	Total non-current assets	30,390	34,290	(3,900)	-11.4%
	Non-current liabilities				
7	Employee benefits	(519)	(516)	(3)	0.6%
8	Non-current provisions	(80)	(80)	0	0.7%
9	Other non-current payables and liabilities	(917)	(901)	(16)	1.8%
	Total non-current liabilities	(1,516)	(1,497)	(19)	1.3%
	Net working capital				
10	Inventories	15,320	15,059	261	1.7%
11	Trade receivables	43,073	35,854	7,219	20.1%
12	Current tax assets	6,201	4,316	1,885	43.7%
13	Other current assets	1,953	3,600	(1,647)	-45.7%
14	Trade payables	(18,120)	(20,811)	2,691	-12.9%
15	Current tax liabilities	(1,429)	(1,021)	(408)	40.0%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(2,699)	(1,241)	(1,458)	n.m.
	Total net working capital	43,443	34,902	8,541	24.5%
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(20,826)	(20,624)	(202)	1.0%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(35,651)	(40,284)	4,633	-11.5%
	Total equity	(62,181)	(66,612)	4,431	-6.7%
	Total net assets	10,136	1,083	9,053	n.m.
22	Cash and cash equivalents	3,693	4,282	(589)	-13.7%
23	Current bank debt	(14,233)	(1,975)	(12,258)	n.m.
24	Other current financial assets and liabilities	128	(206)	334	n.m.
	Current net financial position	(10,412)	2,101	(12,513)	n.m.
25	Non-current financial assets	3,283	1,374	1,909	n.m.
26	Non-current bank debt	(2,990)	(4,533)	1,543	-34.1%
27	Other non-current financial liabilities	(17)	(25)	8	-31.8%
	Non-current net financial position	276	(3,184)	3,460	n.m.
	Total net financial position	(10,136)	(1,083)	(9,053)	n.m.

Non-current assets have decreased by Euro 3,900 thousand mainly because of a Euro 2,215 thousand reduction in Property, plant and equipment following the sale of the property owned by US subsidiary 133 W Broadway Inc. and a Euro 2,261 thousand decrease in intangible assets due to amortisation for the period.

Net working capital has increased by Euro 8,541 thousand compared to 30 June 2018 due to a Euro 7,219 thousand increase in trade receivables. The following table contains a breakdown of net working capital with comparative figures at 30 June 2018:

Euro Thousand	31 December 2018	30 June 2018	Change	
Inventories	15,320	15,059	261	1.7%
Trade receivables	43,073	35,854	7,219	20.1%
Tax receivables	6,201	4,316	1,885	43.7%
Other current assets	1,953	3,600	(1,647)	-45.7%
Trade payables	(18,120)	(20,811)	2,691	-12.9%
Tax payables	(1,429)	(1,021)	(408)	40.0%
Current provisions	(856)	(854)	(2)	0.2%
Other current liabilities	(2,699)	(1,241)	(1,458)	n.m.
Total net working capital	43,443	34,902	8,541	24.5%

As expected, the net financial position is negative by Euro 10,136 thousand. This represents a Euro 9,053 thousand rise in net debt compared to 30 June 2018, as a result of major investment on new products to be launched from the third quarter of the financial year.

The following table contains a breakdown of the net financial position with comparative figures at 30 June 2018:

Euro Thousand	31 December 2018	30 June 2018	Change	
Cash and cash equivalents	3,693	4,282	(589)	-13.7%
Current bank borrowing	(14,233)	(1,975)	(12,258)	n.m.
Other current financial assets and liabilities	128	(206)	334	n.m.
Current net financial position – (debt)/cash	(10,412)	2,101	(12,513)	n.m.
Non-current financial assets	3,283	1,374	1,909	n.m.
Non-current bank borrowing	(2,990)	(4,533)	1,543	-34.1%
Other non-current financial liabilities	(17)	(25)	8	-31.8%
Non-current net financial position – (debt)/cash	276	(3,184)	3,460	n.m.
Total net (debt)/cash	(10,136)	(1,083)	(9,053)	n.m.

7. RESULTS BY OPERATING SEGMENT

Premium Games

Financial highlights (Reclassified)

	Euro Thousand	Premium Games					
		31 December 2018		31 December 2017		Change	
1	Gross revenue	19,787	106.2%	30,584	108.1%	(10,797)	-35.3%
2	Revenue adjustments	(1,154)	-6.2%	(2,291)	-8.1%	1,137	-49.6%
3	Net revenue	18,633	100.0%	28,293	100.0%	(9,660)	-34.1%
4	Purchase of products for resale	(2,509)	-13.5%	(4,396)	-15.5%	1,887	-42.9%
5	Purchase of services for resale	(1,950)	-10.5%	(1,212)	-4.3%	(738)	60.9%
6	Royalties	(5,238)	-28.1%	(9,371)	-33.1%	4,133	-44.1%
7	Changes in inventories of finished products	(266)	-1.4%	(173)	-0.6%	(93)	53.9%
8	Total cost of sales	(9,963)	-53.5%	(15,152)	-53.6%	5,189	-34.2%
9	Gross profit (3+8)	8,670	46.5%	13,141	46.4%	(4,472)	-34.0%
10	Other income	571	3.1%	294	1.0%	277	94.3%
11	Cost of services	(2,150)	-11.5%	(2,507)	-8.9%	357	-14.2%
12	Lease and rental charges	(307)	-1.6%	(279)	-1.0%	(28)	9.7%
13	Labour costs	(4,067)	-21.8%	(4,360)	-15.4%	293	-6.7%
14	Other operating costs	(190)	-1.0%	(199)	-0.7%	9	-4.6%
15	Total operating costs	(6,714)	-36.0%	(7,345)	-26.0%	631	-8.6%
16	Gross operating margin (EBITDA) (9+10+15)	2,527	13.6%	6,090	21.5%	(3,563)	-58.5%
17	Depreciation and amortisation	(2,367)	-12.7%	(2,164)	-7.6%	(203)	9.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(181)	-1.0%	(7)	0.0%	(174)	n.m.
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary income and operating costs	(2,548)	-13.7%	(2,171)	-7.7%	(377)	17.4%
22	Operating margin (EBIT) (16+21)	(21)	-0.1%	3,919	13.9%	(3,940)	n.m.

As expected, there were no significant new product launches in the six months ended 31 December 2018. The gross revenue of this operating segment amounted to Euro 19,787 thousand, down by 35.3% compared to the figure of Euro 30,584 thousand reported for the first half of prior year. Net revenue totalled Euro 18,633 thousand, a 34.1% decrease compared to the figure of Euro 28,293 thousand reported for the six months ended 31 December 2017.

The following table contains a detailed breakdown of Premium Games segment gross revenue by video game title:

Euro Thousand	31 December 2018	31 December 2017	Change	
Assetto Corsa	3,554	3,456	98	3%
PAYDAY 2	2,391	3,833	(1,442)	-38%
Terraria	2,288	3,793	(1,505)	-40%
Other products	4,618	6,521	(1,903)	-29%
Retail products	6,936	12,981	(6,045)	-47%
Premium Games total gross revenue	19,787	30,584	(10,797)	-35%

Revenue from *Assetto Corsa*, a video game owned by the Group, increased slightly after benefiting from the launch of the *Assetto Corsa Competizione* version which was made available in early access on the Steam marketplace and will be launched in its final form to coincide with the GT Blancpain European Championship in April 2019. Given the lack of any significant updates, sales of *Terraria* and *PAYDAY2* decreased, as did sales of other products.

The most significant fall was recorded by retail video games which saw revenue decrease by Euro 6,045 thousand or by 47%. These are video games launched by third party publishers on digital marketplaces in respect of which the Group has signed international distribution agreements for the retail distribution channel. In prior year, sales of these products were boosted by the strong performances of *Dead by Daylight*, *Pillars of Eternity* and *Inside/limbo* whereas, in the current reporting period, the only retail product launches were *No Man's Sky* and *Hellblade* which sold well but were unable to replicate the previous year's revenue flow.

A breakdown of revenue by distribution channel is provided below:

Euro Thousands	31 December 2018	31 December 2017	Change	
Retail distribution revenue	8,661	15,831	(7,170)	-45.3%
Digital distribution revenue	10,086	14,080	(3,994)	-28.4%
Sub-licensing revenue	1,040	673	367	54.5%
Total Premium Games revenue	19,787	30,584	(10,797)	-35.3%

Sub-licensing revenue has increased due to the greater presence of revenue from B2B activities on digital marketplaces.

Digital distribution revenue for the period ended 31 December 2018 may be broken down by digital marketplace as follows:

Euro Thousand	31 December 2018	31 December 2017	Change	
Sony Playstation Network	3,486	4,856	(1,370)	-28.2%
Steam	3,028	4,046	(1,018)	-25.2%
Microsoft Xbox Live	2,000	3,156	(1,156)	-36.6%
iTunes	422	718	(296)	-41.2%
Google	323	407	(84)	-20.6%
Other marketplaces	827	897	(70)	-7.8%
Total digital distribution revenue	10,086	14,080	(3,994)	-28.4%

In line with the revenue trend, revenue adjustments have decreased from Euro 2,291 thousand to Euro 1,154 thousand at 31 December 2018. This line item includes an estimate of credit notes the Group expects to have to issue to customers in the near future for unsold products in the retail distribution channel. As a percentage of gross retail distribution revenue, the figure for the period of 6.2% is well done on the first half of prior year.

The net revenue of the operating segment has decreased by 34.1%.

In line with the reduction in net revenue, cost of sales has decreased by 34.2%, resulting in a gross profit of Euro 8,670 thousand which is down by Euro 4,472 thousand compared to 31 December 2017.

Operating costs have decreased by 8.6%, a smaller percentage decrease than for the operating segment's revenue. Personnel costs – the most significant operating cost item – amounted to Euro 4,067 thousand and fell by just 6.7% because the organisational structure has already been prepared for forthcoming product launches from the third quarter of the current financial year.

The gross operating margin/EBITDA fell from Euro 6,090 thousand to Euro 2,527 thousand for the six months ended 31 December 2018.

Operating margin/EBIT was negative by Euro 21 thousand, a decrease of Euro 3,940 thousand compared to the positive EBIT of Euro 3,919 thousand reported for the six months ended 31 December 2017. The decrease was partly due to the additional amount allocated to the bad debt provision following application of the new IFRS 9.

Free to Play

Income Statement highlights (Reclassified)

	Euro Thousand	Free to Play					
		31 December 2018		31 December 2017		Change	
1	Gross revenue	3,169	100.0%	2,699	100.0%	470	17.4%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	3,169	100.0%	2,699	100.0%	470	17.4%
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	(1,035)	-32.7%	(1,283)	-47.6%	248	-19.3%
6	Royalties	(265)	-8.4%	(129)	-4.8%	(136)	n.m.
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(1,300)	-41.0%	(1,412)	-52.3%	112	-8.0%
9	Gross profit(3+8)	1,869	59.0%	1,287	47.7%	582	45.2%
10	Other income	792	25.0%	718	26.6%	74	10.3%
11	Cost of services	(113)	-3.6%	(264)	-9.8%	151	-57.0%
12	Lease and rental charges	(29)	-0.9%	(45)	-1.7%	16	-36.9%
13	Personnel costs	(1,589)	-50.1%	(1,591)	-59.0%	2	-0.2%
14	Other operating costs	(40)	-1.3%	(33)	-1.2%	(7)	22.4%
15	Total operating costs	(1,771)	-55.9%	(1,933)	-71.6%	162	-8.4%
16	Gross operating margin (EBITDA) (9+10+15)	890	28.1%	72	2.7%	818	n.m.
17	Depreciation and amortisation	(948)	-29.9%	(1,106)	-41.0%	158	-14.3%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(286)	-9.0%	0	0.0%	(286)	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary income and operating costs	(1,234)	-38.9%	(1,106)	-41.0%	(128)	11.6%
22	Operating margin (EBIT) (16+21)	(344)	-10.9%	(1,034)	-38.3%	690	-66.7%

The 17.4% revenue growth achieved by the Free to Play operating segment is thanks to the particularly positive performance of the Gems of War video game which is now in its fourth year of existence. Sales of other products fell. As in the corresponding period of prior year, there were no new product launches during the six-month period. A breakdown of revenue by video game is provided below:

Euro Thousand	31 December 2018	31 December 2017	Change
Gems of War	2,212	1,484	728
Battle Islands	614	783	(169)
Prominence Poker	305	345	(40)
Other products	38	87	(49)
Total Free to Play revenue	3,169	2,699	470

The significant reduction in purchases of services for resale is due to both lower costs for live support services and savings on game hosting costs. Details are provided below:

Euro Thousand	31 December 2018	31 December 2017	Change
Live support	594	771	(177)
Quality assurance	123	118	5
Hosting	240	288	(48)
Other	78	106	(28)
Total purchase of services	1,035	1,283	(248)

Other income has increased by Euro 74 thousand compared to prior year and mainly consists of the internal production costs that the Group is incurring for the launch of the future version of the Hawken series video game, whose launch is scheduled for the end of the current financial year.

Operating costs have decreased by Euro 162 thousand in the first half the year, in contrast to the revenue trend. This was thanks to a Euro 151 thousand reduction in costs incurred to acquire new players.

Gross operating margin/EBITDA amounts to Euro 890 thousand and has increased by Euro 818 thousand compared to the first half of prior year thanks to the cost reduction and the revenue growth described above.

Depreciation and amortisation has decreased by Euro 158 thousand due to completion of the amortisation period of the Battle Islands brand which was recognised upon the acquisition of DR Studios Ltd. in September 2014. Impairment losses of Euro 286 thousand recognised on assets refer to the decision to abandon development of several ongoing projects because forecast revenue was lower than originally envisaged.

The operating loss/EBIT of this operating segment was Euro 344 thousand compared to an operating loss of Euro 1,034 thousand for the first half of prior year.

Italian Distribution

Reclassified income statement highlights

	Euro Thousand	Italian Distribution					
		31 December 2018		31 December 2017		Change	
1	Gross revenue	7,029	114.4%	10,375	110.3%	(3,346)	-32.3%
2	Revenue adjustments	(888)	-14.5%	(972)	-10.3%	84	-8.6%
3	Net revenue	6,141	100.0%	9,403	100.0%	(3,262)	-34.7%
4	Purchase of products for resale	(4,839)	-78.8%	(6,680)	-71.0%	1,841	-27.6%
5	Purchase of services for resale	(368)	-6.0%	(671)	-7.1%	303	-45.1%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	527	8.6%	737	7.8%	(210)	-28.5%
8	Total cost of sales	(4,680)	-76.2%	(6,614)	-70.3%	1,934	-29.2%
9	Gross profit (3+8)	1,461	23.8%	2,789	29.7%	(1,328)	-47.6%
10	Other income	14	0.2%	12	0.1%	2	20.8%
11	Cost of services	(734)	-12.0%	(854)	-9.1%	120	-14.0%
12	Lease and rental charges	(17)	-0.3%	(21)	-0.2%	4	-17.2%
13	Personnel costs	(673)	-11.0%	(754)	-8.0%	81	-10.8%
14	Other operating costs	(98)	-1.6%	(92)	-1.0%	(6)	6.0%
15	Total operating costs	(1,522)	-24.8%	(1,721)	-18.3%	199	-11.5%
16	Gross operating margin (EBITDA) (9+10+15)	(47)	-0.8%	1,080	11.5%	(1,127)	n.m.
17	Depreciation and amortisation	(153)	-2.5%	(158)	-1.7%	5	-3.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(92)	-1.5%	(53)	-0.6%	(39)	73.8%
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	(0)	0.0%
21	Total non-monetary income and operating costs	(245)	-4.0%	(211)	-2.2%	(34)	15.8%
22	Operating margin (EBIT) (16+21)	(292)	-4.8%	869	9.2%	(1,161)	n.m.

Italian Distribution revenues have decreased by 32.3% compared to the first half of prior year because of a drop in sales of both video games and trading cards. Gross revenue is analysed by type in the following table:

Euro Thousand	31 December 2018	31 December 2017	Change	
Distribution of video games for consoles	4,434	6,477	(2,043)	-31.5%
Distribution of trading cards	2,229	3,421	(1,192)	-34.9%
Distribution of other products and services	366	477	(111)	-23.3%
Total gross revenue – Italian Distribution	7,029	10,375	(3,346)	-32.3%

Gross revenue by console type is analysed as follows:

Euro Thousand	31 December 2018		31 December 2017		% Change	
	Units	Revenue	Units	Revenue	Units	Revenue
Sony Playstation 4	104,939	3,234	143,248	4,616	-26.7%	-29.9%
Nintendo Switch	17,400	603	6,741	211	n.m.	n.m.
Microsoft Xbox One	16,805	539	25,333	798	-33.7%	-32.5%
Other consoles	11,385	58	41,433	852	n.m.	n.m.
Total console revenue	150,529	4,434	216,755	6,477	-30.6%	-31.5%

In line with the life cycle of consoles, revenue from the distribution of video games for the Sony Playstation 3 and Microsoft Xbox 360 has almost dried up and is now classified under other consoles (down by Euro 794 thousand). Revenue from more recent consoles Sony PlayStation 4 and the Microsoft Xbox One has also decreased by 30% and by 32%, respectively.

Sales of trading cards have fallen by 35% as a result of growing interest in types of product other than those distributed by the Group.

Cost of sales has decreased by 29.2% in line with the revenue trend while operating costs have recorded a smaller reduction of Euro 199 thousand or 11.5%. As a result of all of this, gross operating margin/EBITDA has decreased to a negative figure of Euro 47 thousand, a Euro 1,127 thousand deterioration compared to the first half of prior year. Meanwhile, net operating margin/EBIT has decreased by Euro 1,161 thousand as depreciation & amortisation was almost unchanged compared to the period ended 31 December 2017.

Other Activities

Reclassified Income Statement highlights

Euro Thousand		Other Activities					
		31 December 2018		31 December 2017		Change	
1	Gross revenue	231	100.0%	404	133.1%	(173)	-42.8%
2	Revenue adjustments	0	0.1%	(101)	-33.4%	101	n.m.
3	Net revenue	231	100.0%	303	100.0%	(72)	-24.0%
4	Purchases of products for resale	0	0.2%	0	0.1%	0	0.0%
5	Purchases of services for resale	(17)	-7.5%	(24)	-7.9%	7	-27.6%
6	Royalties	(11)	-4.7%	(17)	-5.7%	6	-37.4%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(28)	-12.1%	(41)	-13.5%	13	-32.0%
9	Gross profit (3+8)	203	87.9%	262	86.2%	(59)	-22.4%
10	Other income	0	0.0%	0	0.0%	0	n.m.
11	Costs for services	(84)	-36.2%	(256)	-84.3%	172	-67.3%
12	Lease and rental costs	(5)	-2.0%	(6)	-1.9%	1	-16.7%
13	Labour costs	(335)	-145.2%	(460)	-151.7%	125	-27.2%
14	Other operating costs	(23)	-9.8%	(24)	-7.9%	1	-6.0%
15	Total operating costs	(447)	-193.7%	(746)	-245.9%	299	-40.1%
16	Gross operating margin (EBITDA) (9+10+15)	(244)	-105.7%	(484)	-159.4%	240	-49.6%
17	Depreciation and amortisation	(40)	-17.2%	(192)	-63.4%	152	-79.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary operating income and costs	(40)	-17.2%	(192)	-63.4%	152	-79.4%
22	Operating margin (EBIT) (16+21)	(284)	-122.9%	(676)	-222.8%	392	-58.0%

The revenue of the Other Activities operating segment has decreased by Euro 173 thousand from Euro 404 thousand to Euro 231 thousand in the six months ended 31 December 2018. The decrease is due to the absence of revenue from the Daily Fantasy Sport Fantasfida (Euro 146 thousand) following the decision to discontinue that activity with effect from June 2018 and to a Euro 27 thousand reduction in revenue from courses organised by subsidiary Digital Bros Academy. The decrease in revenue for Digital Bros Academy is entirely due to the fact that, during the current six-month period, there was a period of interruption between one academic year and the next one which only commenced in September; in prior year, there was operating activity – and revenue – throughout the six-month period.

Operating costs have decreased by Euro 299 thousand and take account of certain costs incurred on a one-off basis following the decision taken to put Game Network S.r.l. into liquidation in October 2018.

Holding

Reclassified Income Statement highlights

Euro Thousand		Holding					
		31 December 2018		31 December 2017		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	0	0.0%	0	0.0%	0	0.0%
4	Purchase of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	0	0.0%	0	0.0%	(0)	0.0%
9	Gross profit (3+8)	0	0.0%	0	0.0%	(0)	0.0%
10	Other income	169	0.0%	67	0.0%	102	n.m.
11	Cost of services	(831)	0.0%	(756)	0.0%	(75)	9.9%
12	Lease and rental charges	(353)	0.0%	(368)	0.0%	15	-4.2%
13	Personnel costs	(1,787)	0.0%	(1,826)	0.0%	39	-2.1%
14	Other operating costs	(188)	0.0%	(215)	0.0%	27	-12.3%
15	Total operating costs	(3,159)	0.0%	(3,165)	0.0%	6	-0.2%
16	Gross operating margin / EBITDA (9+10+15)	(2,990)	0.0%	(3,098)	0.0%	108	-3.5%
17	Depreciation and amortisation	(85)	0.0%	(101)	0.0%	16	-16.1%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(106)	0.0%	(20)	0.0%	(86)	n.m.
20	Rev. of impairment losses and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary income and operating costs	(191)	0.0%	(121)	0.0%	(70)	57.8%
22	Operating margin / EBIT (16+21)	(3,181)	0.0%	(3,219)	0.0%	38	-1.2%

Operating costs amount to Euro 3,159 thousand, in line with the six months ended 31 December 2017.

The operating margin/EBIT was negative by Euro 3,181 thousand compared to a negative figure of Euro 3,219 thousand at 31 December 2017.

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

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

Intercompany transactions

The main intercompany transactions regard the sale of video games by 505 Games S.p.A. to local distribution companies.

505 Games S.p.A. invoices royalties to U.S. subsidiary 505 Games (US) Inc. for products distributed on the American market.

505 Games Ltd. and 505 Games (US) Inc. bill 505 Games S.p.A. for personnel costs and certain general expenses relating to employees involved in production and international marketing for the Premium Games operating segment.

505 Games Interactive Inc. bills 505 Games S.p.A. for personnel costs and general costs relating to employees involved in product management for the Premium Games operating segment.

505 Mobile (US) Inc. bills 505 Mobile S.r.l. for personnel costs and general costs relating to employees involved in production and marketing for the Free to Play operating segment.

At the time of its acquisition, DR Studios Ltd was party to development and live support contracts for several video games with 505 Games S.p.A. and 505 Mobile S.r.l.; these contracts have remained unchanged. New development contracts signed after the business combination have been regulated by a framework agreement providing for the chargeback of direct project costs incurred plus a percentage mark-up.

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

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

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

Digital Bros S.p.A. invoices 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 leasing the property located in Via Labus, Milan, the subsidiary's operational headquarters.

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

Other minor transactions regarding administrative, financial, legal and general services have taken place and are usually carried out by Digital Bros S.p.A. on behalf of other Group companies. The parent company also operates a 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 the parent company Digital Bros S.p.A. in accordance with domestic tax group arrangements.

Upon preparation of the half-yearly financial report for the six months ended 31 December 2018, the impact of intercompany transactions on the results and financial position has been eliminated in full.

Related party transactions

Related party transactions regard:

- Legal advisory services provided by director Dario Treves;
- Property leases by Matov Imm. S.r.l. to the parent company and to subsidiary 505 Games France S.a.s.;
- Property leases by Matov LLC to subsidiary 505 Games (US) Inc.

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

The effects of related party transactions are disclosed in paragraph 8 of the Notes.

Atypical transactions

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

9. TREASURY SHARES

Pursuant to Art. 2428(2)(3) of the Italian Civil Code, it is hereby disclosed that, at 31 December 2018, Digital Bros S.p.A. did not hold any treasury shares.

10. RECONCILIATION BETWEEN RESULT FOR THE PERIOD AND EQUITY OF THE PARENT COMPANY AND THOSE OF THE GROUP

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

Euro Thousand	Profit for the period ended		Shareholders' equity	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit (loss) for the period and equity of Digital Bros S.p.A.	2,784	7,639	49,097	38,598
Profit for the period and equity of subsidiaries	(1,859)	5,008	40,801	45,302
Carrying amount of equity investments	0	0	(27,281)	(29,292)
Consolidation adjustments				
Impairment of investments in subsidiaries	274	0	0	2,388
Elimination of intercompany profits	52	32	(1,443)	(1,427)
Other adjustments	(4,411)	(12,661)	1,007	2,322
Profit (loss) and equity of the Group	(3,160)	18	62,181	57,891

Other adjustments for the periods ended 31 December 2018 and 31 December 2017 are detailed as follows:

Euro Thousand	Profit for the period ended		Shareholders' equity at	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Impairment of investment held by Digital Bros S.p.A. in Game Network S.r.l.	274	0	0	1,156
Impairment of investment held by Digital Bros S.p.A. in Digital Bros Game Academy S.r.l.	0	0	0	90
Impairment of investment held by 505 Games S.p.A. in 505 Mobile S.r.l.	0	0	0	1,142
Total impairment adjustments to investments in subsidiaries	274	0	0	2,388
Elimination of unrealised profit in inventory	16	(37)	(488)	(399)
Profit on intercompany sales for DR Studios Ltd. and 505 Mobile (US) Inc.	36	69	(955)	(1,028)
Total elimination of intercompany profits	52	32	(1,443)	(1,427)
Dividends from Kunos Simulazioni S.r.l.	(4,000)	0	0	0
Dividends from 505 Games Ltd.	0	(3,402)	0	0
Dividends from Pipeworks Inc.	0	(1,292)	0	0
Dividends from 505 Games S.p.A.	0	(6,000)	0	0
Dividends from Game Entertainment S.r.l.	0	(400)	0	0
Statutory gain for Digital Bros S.p.A. on disposal of Pipeworks Inc.	0	(1,287)	0	0
Amortisation/allocation of purchase price of DR Studios Ltd ⁽¹⁾	0	(53)	0	0
Amortisation/Allocation of acquisition price of Pipeworks Inc ⁽¹⁾	0	(53)	0	0
Amortisation/Allocation of acquisition price of Kunos S.r.l. ⁽¹⁾	(249)	(249)	1,487	2,015
Application of IFRS 9	(142)	0	(920)	0
Other adjustments	(20)	75	440	307
Total other adjustments	(4,411)	(12,661)	1,007	2,322

⁽¹⁾ Stated net of related tax effect

11. CONTINGENT ASSETS AND LIABILITIES

The sale of rights to PAYDAY2 by the Group to Starbreeze in May 2016 gave the Group the chance to earn up to a maximum of USD 40 million to be computed as 33% of net revenue that Starbreeze would realise on sales of PAYDAY3. At the reporting date, the Group considered this contractual right as a contingent asset, as it did at the previous reporting date.

12. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the OVERKILL's The Walking Dead video game.

If the contract between subsidiary 505 Games S.p.A. and the Swedish company was terminated, it would no longer be necessary to complete the total investment of USD 10 million. So far, the Group has paid USD 4.8 million on account and it would request a refund of this amount.

13. BUSINESS OUTLOOK

As a result of the decision to postpone the launch of the console version of OVERKILL's The Walking Dead until an undetermined future date, in the wake of the less successful than expected launch of the PC version published directly by Starbreeze, the Group revised its revenue guidance of between Euro 145 million and Euro 190 million, as originally communicated in December 2018. The initial guidance, announced in February 2018 and later confirmed, was based on the presumed launch of the OVERKILL's the Walking Dead, Control and Bloodstained video games.

In light of the fact that game launch schedule has been radically changed compared to initial expectations, also because of the likely cancellation of OVERKILL's The Walking Dead following the recent termination of the contract by licensee Skybound and taking account of the fact that Bloodstained and Indivisible will be launched in the final quarter of the year (the latter in PC version only), the Group believes that revenue for the financial year ended 30 June 2019 should be in line with those reported for prior year.

The launches scheduled for the final quarter are expected to result in a pre-tax profit that will lead to an improvement for the year as a whole.

Net debt will increase further in the second half of the financial year as a result of investment on new products before improving considerably from the first quarter of the next financial year.

14. OTHER INFORMATION

EMPLOYEES

The following table contains analysis of the number of employees at 31 December 2018 with comparative figures at 31 December 2017:

Category	31 December 2018	31 December 2017	Change
Managers	8	10	(2)
Office workers	176	247	(71)
Blue-collar workers and apprentices	4	4	0
Total employees	188	261	(73)

The decrease in the number of employees is due to the disposal of US subsidiary Pipeworks Inc. in February 2018.

The following table contains details of the number of employees of non-Italian companies at 31 December 2018 with comparative figures at 31 December 2017:

Category	31 December 2018	31 December 2017	Change
Managers	3	5	(2)
Office workers	112	179	(67)
Total employees outside Italy	115	184	(69)

In order to enable a proper comparison between 31 December 2018 and 31 December 2017 figures, the following table contains the 31 December 2017 figures as restated to exclude Pipeworks Inc. employees:

Category	31 December 2018	31 December 2017	Change
Managers	8	9	(1)
Office workers	176	171	5
Blue-collar workers and apprentices	4	4	0
Total employees	188	184	4

The average number of employees for the period is calculated as the mean number of employees at the end of each month. It is shown below with corresponding prior year figures:

Category	Average no in 2019	Average no in 2018	Change
Managers	8	10	(2)
Office workers	171	252	(81)
Blue-collar workers and apprentices	4	4	0
Total employees	183	266	(83)

The average number of employees of the non-Italian companies is as follows:

Category	Average no in 2019	Average no in 2018	Change
Managers	3	5	(2)
Office workers	109	180	(71)
Total employees outside Italy	112	185	(73)

Employees of the Group's Italian companies are hired under the current *Confcommercio* national collective employment agreement for the commercial, distribution and services sector.

ENVIRONMENT

At 31 December 2018, there were no environmental issues and, as the Group's activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

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**Condensed consolidated financial statements
for the period ended 31 December 2018**

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position as at 31 December 2018

	Euro Thousand	31 December 2018	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,785	6,000	(2,215)	-36.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	12,870	15,131	(2,261)	-14.9%
4	Equity investments	1,688	1,270	418	32.9%
5	Non-current receivables and other assets	9,099	9,524	(425)	-4.5%
6	Deferred tax assets	2,948	2,365	583	24.6%
	Total non-current assets	30,390	34,290	(3,900)	-11.4%
	Non-current liabilities				
7	Employee benefits	(519)	(516)	(3)	0.6%
8	Non-current provisions	(80)	(80)	0	0.7%
9	Other non-current payables and liabilities	(917)	(901)	(16)	1.8%
	Total non-current liabilities	(1,516)	(1,497)	(19)	1.3%
	Net working capital				
10	Inventories	15,320	15,059	261	1.7%
11	Trade receivables	43,073	35,854	7,219	20.1%
12	Current tax assets	6,201	4,316	1,885	43.7%
13	Other current assets	1,953	3,600	(1,647)	-45.7%
14	Trade payables	(18,120)	(20,811)	2,691	-12.9%
15	Current tax liabilities	(1,429)	(1,021)	(408)	40.0%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(2,699)	(1,241)	(1,458)	n.m.
	Total net working capital	43,443	34,902	8,541	24.5%
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(20,826)	(20,624)	(202)	1.0%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(35,651)	(40,284)	4,633	-11.5%
	Total equity	(62,181)	(66,612)	4,431	-6.7%
	Total net assets	10,136	1,083	9,053	n.m.
22	Cash and cash equivalents	3,693	4,282	(589)	-13.7%
23	Current bank debt	(14,233)	(1,975)	(12,258)	n.m.
24	Other current financial assets and liabilities	128	(206)	334	n.m.
	Current net cash/debt	(10,412)	2,101	(12,513)	n.m.
25	Non-current financial assets	3,283	1,374	1,909	n.m.
26	Non-current bank debt	(2,990)	(4,533)	1,543	-34.1%
27	Other non-current financial liabilities	(17)	(25)	8	-31.8%
	Non-current net cash/debt	276	(3,184)	3,460	n.m.
	Total net financial position	(10,136)	(1,083)	(9,053)	n.m.

Digital Bros Group
Consolidated statement of profit or loss for the six months ended 31 December 2018

	Euro Thousand	31 December 2018		31 December 2017		Change	
1	Gross revenue	30,216	107.2%	44,062	108.3%	(13,846)	-31.4%
2	Revenue adjustments	(2,042)	-7.2%	(3,364)	-8.3%	1,322	-39.3%
3	Net revenue	28,174	100.0%	40,698	100.0%	(12,524)	-30.8%
4	Purchase of products for resale	(7,348)	-26.1%	(11,076)	-27.2%	3,728	-33.7%
5	Purchase of services for resale	(3,370)	-12.0%	(3,190)	-7.8%	(180)	5.6%
6	Royalties	(5,514)	-19.6%	(9,517)	-23.4%	4,004	-42.1%
7	Changes in inventories of finished products	261	0.9%	564	1.4%	(303)	-53.8%
8	Total cost of sales	(15,971)	-56.7%	(23,219)	-57.1%	7,248	-31.2%
9	Gross profit (3+8)	12,203	43.3%	17,479	42.9%	(5,276)	-30.2%
10	Other income	1,546	5.5%	1,091	2.7%	455	41.7%
11	Costs for services	(3,912)	-13.9%	(4,637)	-11.4%	725	-15.6%
12	Lease and rental charges	(711)	-2.5%	(719)	-1.8%	8	-1.1%
13	Labour costs	(8,451)	-30.0%	(8,991)	-22.1%	540	-6.0%
14	Other operating costs	(539)	-1.9%	(563)	-1.4%	24	-4.4%
15	Total operating costs	(13,613)	-48.3%	(14,910)	-36.6%	1,297	-8.7%
16	Gross operating margin (EBITDA) (9+10+15)	136	0.5%	3,660	9.0%	(3,524)	n.m.
17	Depreciation and amortisation	(3,593)	-12.8%	(3,721)	-9.1%	128	-3.4%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(665)	-2.4%	(80)	-0.2%	(585)	n.m.
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary income and operating costs	(4,258)	-15.1%	(3,801)	-9.3%	(457)	12.0%
22	Operating margin (EBIT) (16+21)	(4,122)	-14.6%	(141)	-0.3%	(3,981)	n.m.
23	Interest and financial income	670	2.4%	763	1.9%	(93)	-12.2%
24	Interest and financial expenses	(491)	-1.7%	(535)	-1.3%	44	-8.3%
25	Net financial income (costs)	179	0.6%	228	0.6%	(49)	-21.3%
26	Profit before taxation (22+25)	(3,943)	-14.0%	87	0.2%	(4,029)	n.m.
27	Current tax	688	2.4%	(430)	-1.1%	1,118	n.s.
28	Deferred tax	95	0.3%	195	0.5%	(100)	-51.4%
29	Total income tax expense	783	2.8%	(235)	-0.6%	1,018	n.m.
30	Profit /(Loss) from continuing operations (26+29)	(3,160)	-11.2%	(148)	-0.4%	(3,012)	n.m.
	Profit from discontinued operations	0	0.0%	166	0.4%	(166)	n.m.
	Net profit	(3,160)	-11.2%	18	0.0%	(3,178)	n.m.

Digital Bros Group

Consolidated statement of comprehensive income for the period ended 31 December 2018

Euro Thousand	31 December 2018	31 December 2017	Change
Profit (Loss) for the period (A)	(3,160)	18	(3,178)
Items that will not be subsequently recycled through profit or loss (B)			
Actuarial gain (loss)	5	(5)	10
Income tax relating to the actuarial gain (loss)	(1)	1	(2)
Exchange differences on translation of foreign operations	79	(452)	531
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as “available for sale”	(369)	0	(369)
Tax effect regarding fair value measurement of shares designated as “available for sale”	89	0	89
Disposal of 12.5% investment in Pipeworks Inc.	0	1,164	(1,164)
Income tax relating to disposal of 12.5% investment in Pipeworks Inc.	0	136	(136)
Items that will subsequently be recycled through profit or loss (C)	(197)	844	(1,041)
Total other comprehensive income D= (B)+(C)	(197)	844	(1,041)
Total comprehensive income (loss) (A)+(D)	(3,357)	862	(4,219)
Attributable to:			
Parent company shareholders	(3,357)	862	(4,219)

Digital Bros Group
Consolidated statement of cash flows for the period ended 31 December 2018

	Euro Thousand	31 December 2018	31 December 2017
A. Opening net financial position		(1,083)	12,027
B. Cash flows from operating activities			
Profit (loss) for the year attributable to the Group		(3,160)	18
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment adjustments		601	80
Amortisation of intangible assets		3,621	3,396
Depreciation of property, plant and equipment		350	325
Net change in other provisions		0	0
Net change in employee benefit provisions		3	9
Net change in other non-current liabilities		16	0
SUB TOTAL B.		1,431	3,828
C. Change in net working capital			
Inventories		(261)	(564)
Trade receivables		(7,400)	5,263
Current tax assets		(1,885)	(596)
Other current assets		1,647	(83)
Trade payables		(2,691)	(10,804)
Current tax liabilities		408	(3,809)
Current provisions		2	0
Other current liabilities		1,458	(808)
SUB TOTAL C.		(8,721)	(11,401)
D. Cash flows from investing activities			
Net investment in intangible assets		(1,739)	(1,346)
Net investment in property, plant and equipment		1,865	202
Net investment in non-current financial assets		(617)	13
SUB TOTAL D.		(492)	(1,131)
E. Assets and liabilities destined for sale		0	(84)
SUB TOTAL E.		0	(84)
F. Cash flows from financing activities			
Capital increases		0	0
Increase in share premium reserve		0	0
SUB TOTAL F.		0	0
G. Movements on consolidated shareholders' equity			
Dividends paid		0	(2,139)
Change in treasury shares held		0	0
Increases (decreases) in other equity items		(1,271)	1,238
SUB TOTAL G.		(1,271)	(901)
H. Cash flows for the period (B+C+D+E+F+G)		(9,053)	(9,689)
I. Closing net financial position (A+H)		(10,136)	2,338
of which NFP of continuing operations		0	830
of which NFP of assets destined for sale		(10,136)	1,508

Notes to the statement of cash flows

Details of cash flows by maturity:

Euro Thousand	31 December 2018	31 December 2017
Increase (decrease) in securities and cash and cash equivalents	(589)	(6,419)
Decrease (increase) in current bank borrowing	(12,258)	(2,471)
Decrease (increase) in other current financial assets and liabilities	334	(1,201)
Cash flows for the period pertaining to current net cash/debt	(12,513)	(10,092)
Cash flows for the period pertaining to non-current net cash/debt	3,460	(1,105)
Cash flows from assets destined for sale	0	1,508
Cash flows for the period	(9,053)	(9,689)

Digital Bros Group

Consolidated statement of changes in equity

Euro Thousands	Share capital (A)	Share premium	Legal reserve	IAS transition reserve	Currency translation reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (accumulated losses)	Profit (loss) for the period	Total retained earnings (D)	Consolidated equity attributable to Group (A+B+C+D)
Total at 30 June 2017	5,704	18,486	1,129	1,367	(1,447)	270	19,805	0	21,968	11,297	33,265	58,774
Allocation of profit			12				12		11,285	(11,297)	(12)	0
Payment of dividends							0		(2,139)		(2,139)	(2,139)
Other changes						398	398		(4)		(4)	394
Comprehensive income (loss)					(452)	(4)	(456)		1,300	18	1,318	862
Total at 31 December 2017	5,704	18,486	1,141	1,367	(1,899)	664	19,759	0	32,410	18	32,428	57,891
Total at 30 June 2018	5,704	18,486	1,141	1,367	(1,441)	1,071	20,624	0	31,110	9,174	40,284	66,612
Application of IFRS 9							0		(1,473)		(1,473)	(1,473)
Allocation of profit							0		9,174	(9,174)	0	0
Other changes						399	399				0	399
Comprehensive income (loss)					79	(276)	(197)			(3,160)	(3,160)	(3,357)
Total at 31 December 2018	5,704	18,486	1,141	1,367	(1,362)	1,194	20,826	0	38,811	(3,160)	35,651	62,181



**Notes to the condensed consolidated
financial statements for the period ended
31 December 2018**

1. INTRODUCTION

The half-yearly consolidated financial report includes the condensed half-yearly consolidated financial statements prepared in accordance with IAS 34 and Art. 154 ter of the Consolidated Finance Act and, accordingly, it does not include all the disclosures required for annual financial statements and should thus be read together with the Group's consolidated financial statements for the year ended 30 June 2018.

The condensed half-yearly consolidated financial statements of the Digital Bros Group have been prepared on a going concern basis, applying the same accounting policies used to prepare the annual financial statements for the year ended 30 June 2018, except as stated below for the new standards applicable in the six-month reporting period.

For details of form and content and other general information, as well as the use of estimates, reference should be made to the notes to the consolidated financial statements for the year ended 30 June 2018.

New accounting standards

Accounting standards, amendments and IFRS interpretations applied from 1 July 2018

The accounting standards, amendments and interpretations issued by the IASB and endorsed by the European Union that must be adopted in the financial statements for the annual reporting period commencing on 1 July 2018 are indicated below:

- IFRS 9: Financial instruments.
- IFRS 15: Revenue from contracts with customers.
- Amendments to IFRS 15: Revenue from contracts with customers.
- Annual improvements to IFRS: 2014-2016 Cycle (except for amendments to IFRS 12 – Disclosure of interest in other entities, effective retroactively from 1 January 2017).
- Amendments to IFRS 2: Share based payments.
- Interpretation of IFRIC 22 – Foreign currency transactions and advance consideration.

Application of the interpretations and new standards listed above has not had any significant effect on the Group's consolidated financial statements (whether in terms of classification or determination of amounts) except as indicated below in relation to IFRS 9.

The following table shows the effects of application of the new accounting standard on amounts reported at 31 December 2018:

	Euro Thousand	Effect on opening equity	Effect on P&L at 31/12/18	Total
	Non-current assets			
5	Receivables and other non-current assets	(726)	(28)	(754)
6	Deferred tax assets	465	66	531
	Total non-current assets	(261)	38	(223)
	Net working capital			
11	Trade receivables	(1,097)	(181)	(1,278)
	Total net working capital	(1,097)	(181)	(1,278)
	Shareholders' equity			
19	Reserves	1,473	0	1,473
21	(Retained earnings) Accumulated losses	0	207	207
	Total shareholders' equity	1,473	207	1,680
25	Non-current financial assets	(115)	(64)	(179)
	Non-current net financial position	(115)	(64)	(179)

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Group at 1 July 2018

The accounting standards, amendments and interpretations issued by the IASB and endorsed by the European Union that must be adopted in the financial statements for the annual reporting period commencing on 1 July 2019 only include IFRS 16: Leasing (applicable from 1 July 2019 as the Group did not opt for early adoption as at 1 July 2018).

The new IFRS 16 requires that assets and liabilities for all leases be reported in the Statement of Financial Position (this implies the determination of net present value at 1 July 2019 by discounting guaranteed minimum instalments), based on alternative accounting methods permitted by the standard which may have different effects on the assets and liabilities recognised upon first-time application of the standard. The new standard will only affect the disclosure of lease agreements from 1 July 2019. The Group has established a specific analysis program to determine the related accounting effects based on analysis of its lease agreements and the terms and conditions thereof. The effect is not expected to be particularly significant for the Group.

2. CONSOLIDATION METHODS

Subsidiaries

Subsidiaries are companies over which the Group exercises control. Control exists when the Group has the power, directly or indirectly, to influence the financial and operating policies of a subsidiary in such a way as to obtain benefits from its operations. The financial statements of subsidiaries are included in the condensed consolidated financial statements for the period ended 31 December 2018 from the date control is obtained until the date control ceases to exist.

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

Investments in associated companies are accounted for at cost, as adjusted for impairment.

Translation of foreign currency financial statements

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

- assets and liabilities are translated using the exchange rate in force at the consolidated reporting date;
- profit or loss items are translated using the average exchange rate for the period;
- equity items are translated at historical exchange rates.

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

Transactions eliminated in the consolidation process

When preparing the condensed consolidated financial statements for the period ended 31 December 2018, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies were eliminated, as were unrealised profits and losses on intragroup transactions.

Scope of consolidation

The tables below provide details of companies consolidated on a line-by-line basis and using the equity method. The respective stock capital is shown in local currency.

Line-by-line consolidation method:

Name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W Broadway	Eugene	USA	\$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,964,334.80	Parent company
Digital Bros Asia Pacific (HK) Ltd.	Hong Kong	Hong Kong	€ 100,000	100%
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 50,000	100%
Digital Bros Holdings Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
505 Games S.p.A.	Milan	Italy	€ 100,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	\$ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 100,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%

Equity consolidation method

Company name	Operational headquarters	Capital	% directly held	% indirectly held
Ovosonico S.r.l.	Milan	€ 100,000	49%	0%
Seekhana Ltd.	Milton Keynes, UK	£ 11,345	35%	0%

Investments in other entities:

Company name	Operational headquarters	Capital	% directly held	% indirectly held
Delta DNA Ltd. ⁽¹⁾	Edinburgh, UK	£3,005	1.04%	0%

⁽¹⁾ formerly Games Analytics Ltd.

3. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER ENTITIES

At 31 December 2018, the Group companies held the following investments:

- A 49% investment in Ovostonico S.r.l., as carried at Euro 776 thousand. The acquisition cost originally recognised was Euro 720 thousand including Euro 49 thousand of capital and a quota premium of Euro 671 thousand. At 31 December 2018, the carrying amount was adjusted to reflect the Group share of the results of the associated company since the date of acquisition of the quotas held by the Group;
- a 34.77% investment in Seekhana Ltd., as carried at Euro 396 thousand. The acquisition cost originally recognised was Euro 562 thousand including Euro 5 thousand of capital and a share premium of Euro 557 thousand. At 31 December 2018, the carrying amount was adjusted to reflect the Group share of the results achieved by the associated company;
- a 1.04% investment in Delta DNA Ltd., acquired on 3 July 2013 and recorded at acquisition cost of Euro 60 thousand (GBP 50 thousand).

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

4. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 31 December 2018 is set out below together with comparative figures at 30 June 2018:

	Euro Thousand	31 December 2018	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,785	6,000	(2,215)	-36.9%
2	Investment property	0	0	0	0.0%
3	Intangible assets	12,870	15,131	(2,261)	-14.9%
4	Equity investments	1,688	1,270	418	32.9%
5	Non-current receivables and other assets	9,099	9,524	(425)	-4.5%
6	Deferred tax assets	2,948	2,365	583	24.6%
	Total non-current assets	30,390	34,290	(3,900)	-11.4%
	Non-current liabilities				
7	Employee benefits	(519)	(516)	(3)	0.6%
8	Non-current provisions	(80)	(80)	0	0.7%
9	Other non-current payables and liabilities	(917)	(901)	(16)	1.8%
	Total non-current liabilities	(1,516)	(1,497)	(19)	1.3%
	Net working capital				
10	Inventories	15,320	15,059	261	1.7%
11	Trade receivables	43,073	35,854	7,219	20.1%
12	Current tax assets	6,201	4,316	1,885	43.7%
13	Other current assets	1,953	3,600	(1,647)	-45.7%
14	Trade payables	(18,120)	(20,811)	2,691	-12.9%
15	Current tax liabilities	(1,429)	(1,021)	(408)	40.0%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(2,699)	(1,241)	(1,458)	n.m.
	Total net working capital	43,443	34,902	8,541	24.5%
	Shareholders' equity				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(20,826)	(20,624)	(202)	1.0%
20	Treasury shares	0	0	0	0.0%
21	Retained earnings (accumulated losses)	(35,651)	(40,284)	4,633	-11.5%
	Total shareholders' equity	(62,181)	(66,612)	4,431	-6.7%
	Total net assets	10,136	1,083	9,053	n.m.
	Current net financial position				
22	Cash and cash equivalents	3,693	4,282	(589)	-13.7%
23	Current bank borrowing	(14,233)	(1,975)	(12,258)	n.m.
24	Other current financial assets and liabilities	128	(206)	334	n.m.
	Current net financial position	(10,412)	2,101	(12,513)	n.m.
	Non-current net financial position				
25	Non-current financial assets	3,283	1,374	1,909	n.m.
26	Non-current bank debt	(2,990)	(4,533)	1,543	-34.1%
27	Other non-current financial liabilities	(17)	(25)	8	-31.8%
	Non-current net financial position	276	(3,184)	3,460	n.m.
	Total net financial position	(10,136)	(1,083)	(9,053)	n.m.

NON-CURRENT ASSETS

1. Property, plant and equipment

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

This caption has decreased from Euro 6,000 thousand to Euro 3,785 thousand. Movements during the period were as follows:

Euro Thousand	1 July 2018	Additions	Disposals	Translation differences	Deprec'n	Use of accum. dep'n	31 December 2018
Industrial buildings	4,140	0	(2,211)	69	(68)	153	2,083
Land	600	0	0	0	0	0	600
Indust. & and comm. equipment	688	84	(8)	0	(158)	5	611
Other assets	572	66	0	(23)	(124)	0	491
Total	6,000	150	(2,219)	46	(350)	158	3,785

The sale of the property held by 133 W. Broadway was completed during the period. The disposal price was not significantly different to the carrying amount of the property.

Industrial buildings includes the Trezzano sul Naviglio warehouse and the owned building used as office and laboratory premises in Via Labus, Milan (the headquarters of Digital Bros Game Academy S.r.l.).

Land includes the land on which the warehouse in Trezzano sul Naviglio stands; it is valued at Euro 600 thousand.

Total additions for the period amount to Euro 150 thousand and mainly comprise office automation equipment.

3. Intangible assets

All of the intangible assets recognised by the Group have finite useful lives.

The following table shows movements during the six months ended 31 December 2018:

Euro Thousand	1 July 2017	Additions	Disposals	Translation differences	Amort'n	31 December 2018
Concessions and licences	9,978	1,273	(207)	18	(2,895)	8,167
Trademarks and similar rights	2,425	0	0	0	(346)	2,079
Other assets	8	6	0	0	(2)	12
Assets in progress	2,720	1,530	(1,638)	0	0	2,612
Total	15,131	2,809	(1,845)	18	(3,243)	12,870

Assets in progress includes costs incurred by the Group to purchase intellectual property and the costs incurred by DR Studios Ltd., Hawken Entertainment Inc., 505 Mobile (US) Inc. and Kunos Simulazioni S.r.l. in relation to contracts for the development of video games for other Group companies which had not yet been completed at the reporting date.

Capex on intangible assets during the period was as follows:

Euro Thousand	31 December 2018
<i>Assetto Corsa Competizione</i> user rights	1,210
Investment on development of management systems	63
Total capex on concessions and licences	1,273
Total capex on other intangible assets	6
Internal development contracts in progress	1,530
Total capex on intangible assets in progress	1,530
Total capex on intangible assets	2,809

When preparing this half-yearly financial report, the Directors did not identify any indicators of impairment to non-current assets, also based on sales forecast and estimated in the approved strategic plan.

4. Investments

The investments held by the Group at 31 December 2018 and 30 June 2018 are as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Delta Dna Ltd.	60	60	0
Ebooks&Kids S.r.l.	0	38	(38)
Ovosonico S.r.l.	776	751	25
Seekhana Ltd.	396	421	(25)
Total investments in associated companies	1,232	1,270	(38)
Starbreeze AB A shares	456	0	456
Total other investments	456	0	456
Total investments	1,688	1,270	418

Movements during the period on investments in associated companies are described in Note 3 “Investments in associated companies and other entities”.

The increase in Other investments is due to the acquisition of 3,800,000 Starbreeze A shares (listed on Nasdaq Stockholm First North Premier), as already described under Significant Events. These shares have been measured at fair value while recognising in an equity reserve the difference between carrying amount and fair value at 31 December 2018 as these financial instruments are classified as held to collect and sale.

5. Non-current receivables and other assets

This caption amounts to Euro 9,099 thousand and has decreased by Euro 425 thousand compared to 30 June 2018, mainly because of application of the new IFRS 9 to the medium-long term receivable of USD 10 million arising from the sale of Pipeworks Inc.

The remainder of the balance consists of guarantee deposits for contractual obligations. The total balance is analysed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Receivable for sale of Pipeworks Inc.	8,275	8,699	(424)
Guarantee deposits – office rental for Italian companies	635	635	0
Guarantee deposits – office rental for non-Italian companies	186	187	(1)
Guarantee deposits – utilities	3	3	0
Total non-current receivables and other assets	9,099	9,524	(425)

6. Deferred tax assets

Deferred tax assets are calculated on tax loss carryforwards and temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis. They are measured at the tax rates 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.

At 31 December 2018, the balance stood at Euro 2,948 thousand, an decrease of Euro 583 thousand compared to 30 June 2018.

The following table provides a breakdown of the Group's deferred tax assets between Italian companies, foreign companies and consolidation adjustments:

Euro Thousand	31 December 2018	30 June 2018	Change
Italian companies	855	527	328
Foreign companies	1,665	1,750	(85)
Consolidation adjustments	428	88	340
Total deferred tax assets	2,948	2,365	583

NON-CURRENT LIABILITIES

7. Employee benefits

“Employee benefits” reflects the actuarial value of the Group's effective liability towards employees, as calculated by an independent actuary in accordance with IAS 19. It has increased by Euro 3 thousand compared to 30 June 2018.

The IAS 19 actuarial valuation at 31 December 2018 was performed using a discount rate based on the Iboxx Corporate A 10y+ index, consistent with the rate used at 30 June 2018. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on a period end headcount at the Italian companies of 73 employees.

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

- annual interest rate: 1.97%;
- annual rise in real pay: 1%;
- annual inflation rate of 1.50%.

The following table shows movements in the provision for employee termination indemnities in the period ended 31 December 2018 and in the corresponding prior year period:

Euro Thousand	31 December 2018	30 June 2018
Provision for employee termination indemnities at July 1st	516	545
Utilisation of provision for leavers	(18)	(72)
Allocated during period	116	207
Restatement for supplementary pension schemes	(90)	(157)
Restatement for actuarial measurement	(5)	(7)
Provision for employee termination indemnities at December 31st	519	516

The Group is not party to any supplementary pension plans.

8. Non-current provisions

This caption consists entirely of the agents' leaving indemnity provision. The balance of Euro 80 thousand at 31 December 2018 is almost unchanged compared to 30 June 2018.

9. Other non-current payables and liabilities

At 31 December 2018, this caption amounted to Euro 917 thousand and entirely consisted of the amount payable for advisory services received by the Parent Company in relation to the disposal of Pipeworks Inc. which will be settled upon collection of the amount of USD 10 million reported under other non-current assets.

NET WORKING CAPITAL

10. Inventories

Inventories consist of finished products for resale. The following table contains a breakdown of inventories by distribution channel:

Euro Thousand	31 December 2018	30 June 2018	Change
Italian Distribution inventories	7,914	7,387	527
Premium Games inventories	7,406	7,672	(266)
Total Inventories (A+B)	15,320	15,059	261

Inventories have increased by Euro 261 thousand from Euro 15,059 thousand at 30 June 2018 to Euro 15,320 thousand at 31 December 2018.

11. Trade receivables

Changes in trade receivables over the reporting period are as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Receivables from customers - Italy	2,644	2,741	(96)
Receivables from customers – Other EU	1,796	851	946
Receivables from customers - Rest of the world	3,712	2,982	730
Total receivables from customers	8,152	6,574	1,578
Receivables for video game user licences	28,564	23,676	4,888
Receivables for video game development operating costs	8,323	6,292	2,031
Total receivables for video game development	36,887	29,968	6,919
Provision for doubtful debts	(1,966)	(688)	(1,278)
Total trade receivables	43,073	35,854	7,219

At 31 December 2018, total receivables from customers amounted to Euro 8,152 thousand, an increase of Euro 1,578 thousand compared to the figure of Euro 6,574 thousand at 30 June 2018.

Receivables from customers are stated net of the estimated credit notes the Group may have to issue for price repositioning or returns.

Receivables for video game user licenses consist of advances paid towards the purchase of video game licences whose utilisation had not begun or had not been completed at the reporting date. They increased by Euro 4,888 thousand during the period to stand at Euro 28,564 thousand. Details are provided as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Advances to developers for licences not yet used	18,681	17,190	1,491
Advances to developers for licences partially used	9,883	6,486	3,397
Total receivables for video game user licenses	28,564	23,676	4,888

Receivables for video game development operating costs include expenses incurred in advance, specifically in relation to video game programming services, quality assurance and other operating costs. This caption mainly consists of the amount of USD 4.8 million paid to Starbreeze for programming costs relating to the video game Overkill's The Walking Dead. As described in Note 12 Significant events after the reporting period, the Group will request the reimbursement of this amount. The amount is considered recoverable notwithstanding the uncertainty over the success of the Starbreeze restructuring procedure.

The amount is analysed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Programming	6,193	4,623	1,570
Quality assurance	1,476	1,088	388
Other operating costs	654	581	73
Total receivables for video game development operating costs	8,323	6,292	2,031

The provision for doubtful debts has increased by Euro 1,278 thousand from Euro 688 thousand at 30 June 2018 to Euro 1,966 thousand at 31 December 2018. The bad debt provision is estimated based on both a detailed analysis of each balance in order to assess customers' ability to pay and application of the new IFRS 9. The increase at 31 December 2018 is entirely due to application of the new accounting standard.

12. Tax receivables

Tax receivables are analysed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Receivables under domestic tax group arrangement	2,606	1,458	1,148
VAT receivable	740	868	(128)
Tax credit for foreign tax withholdings	2,200	1,435	765
IRES refund for IRAP deductibility	119	119	0
Other tax receivables	536	436	100
Total tax receivables	6,201	4,316	1,885

Tax receivables have increased by Euro 1,885 thousand from Euro 4,316 thousand at 30 June 2018 to Euro 6,201 thousand at 31 December 2018.

The increase in Receivables under the domestic tax group arrangement is due to the lower taxable income of the Italian companies (Euro 1,146 thousand) while the increase in the Tax credit for foreign tax withholdings is due to taxes withheld at source from subsidiary 505 Games S.p.A. on collections of royalties income (Euro 765 thousand).

13. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They decreased from Euro 3,600 thousand at 30 June 2018 to Euro 1,953 thousand at 31 December 2018. They are analysed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Advances to suppliers	692	774	(82)
Advances to employees	183	194	(11)
Advances to agents	11	12	(1)
Other receivables	1,067	2,620	(1,553)
Total other current assets	1,953	3,600	(1,647)

Other receivables amount to Euro 1,067 thousand and have decreased by Euro 1,553 thousand, mainly because of collection of the current portion of the receivable resulting from the sale of the investment in Pipeworks Inc. with 12 months maturity.

Advances to suppliers are detailed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Advertising	64	32	32
Insurance	65	99	(34)
Rent	202	194	8
Other operating costs	287	349	(62)
Other expenses paid in advance	74	100	(26)
Total other current assets	692	774	(82)

14. Trade payables

Trade payables amounted to Euro 18,120 thousand at 31 December 2018 and decreased by Euro 2,691 thousand compared to 30 June 2018. They were mostly payable to publishers for purchases of finished products and to developers. Details are provided below:

Euro Thousand	31 December 2018	30 June 2018	Change
Trade payables - Italy	(2,582)	(2,978)	396
Trade payables - EU	(9,878)	(10,044)	166
Trade payables - rest of the world	(5,660)	(7,789)	2,129
Total trade payables	(18,120)	(20,811)	2,691

The decrease, especially regarding trade payables to suppliers in the rest of the world, is due to lower royalties payable and lower payables for the physical production of video games of 505 Games S.p.A. in line with the reduction in sales in the Premium Games operating segment in the entire six-month period.

15. Tax payables

Tax payables have increased by Euro 408 thousand from Euro 1,021 thousand at 30 June 2018 to Euro 1,429 thousand at 30 December 2018. The balance is detailed as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Taxes on income	(572)	(289)	(283)
VAT payable	(125)	(33)	(92)
Other tax payables	(732)	(699)	(33)
Total tax payables	(1,429)	(1,021)	(408)

The increase mainly regards corporate taxes on income of the UK and German subsidiaries.

16. Current provisions

This caption amounts to Euro 856 thousand at 31 December 2018 and has increased by Euro 2 thousand compared to 30 June 2018 due to the updating of interest expenses. It represents the Directors' estimate – also considering the opinion of their tax advisors – of the liabilities emerging from the tax inspection report issued to subsidiary 505 Games S.p.A. in July 2017 and, then, incorporated in the tax demand issued in December 2017. The Directors assessed the contingent liabilities resulting from the tax inspection process and concluded that, on the whole, they could not make a reliable estimate, except in relation to certain findings regarding royalties received by software developers. The Directors concluded that there was a probable risk in that case and have created a provision for risks and charges of Euro 856 thousand. The Company has not made any provision in respect of the other findings although there is a risk of future liabilities as is typical in such processes.

17. Other current liabilities

Other current liabilities amount to Euro 2,699 thousand and have increased by Euro 1,458 thousand compared to 30 June 2018. Details are provided below:

Euro Thousand	31 December 2018	30 June 2018	Change
Amounts due to social security institutions	(343)	(365)	22
Amounts due to employees	(408)	(664)	256
Amounts due to contract staff	(107)	(52)	(55)
Other payables	(1,841)	(160)	(1,681)
Total other current liabilities	(2,699)	(1,241)	(1,458)

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the reporting period and amounts accrued for the future payment of the 14th monthly salary.

Other payables mainly include advance payments received by 505 Games S.p.A. from several customers (Euro 1,333 thousand) and advance registration fees for training courses already received by Digital Bros Game Academy S.r.l. but attributable to the next six-month period.

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 Thousand	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (Accumulated losses)	Profit (Loss) for the period	Total retained earnings (D)	Consolidated equity attributable to Group (A+B+C+D)
Total at 30 June 2018	5,704	18,486	1,141	1,367	(1,441)	1,071	20,624	0	31,110	9,174	40,284	66,612
Application of IFRS 9							0		(1,473)		(1,473)	(1,473)
Allocation of profit							0		9,174	(9,174)	0	0
Other changes						399	399				9	399
Comprehensive income (loss)					79	(276)	(197)			(3,160)	(3,160)	(3,357)
Total at 31 December 2018	5,704	18,486	1,141	1,367	(1,362)	1,194	20,826	0	38,811	(3,160)	35,651	62,181

Share capital at 31 December 2018 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 5,704,334.80. No other shares of any nature are in issue. There are no rights, liens or restrictions associated with the ordinary shares.

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

The caption Other changes relating to Retained earnings (Accumulated losses) regards the application of the new IFRS 9 while the change in Other reserves includes Euro 399 thousand to restate the stock option reserve, a negative amount of Euro 280 thousand to restate the reserve for securities measurement and a positive amount of Euro 4 thousand to restate the IAS 19 reserve.

NET FINANCIAL POSITION

The following table contains details of the Group's Net Financial Position at 31 December 2018 together with comparative figures at 30 June 2018:

	Euro Thousand	31 December 2018	30 June 2018	Change
22	Cash and cash equivalents	3,693	4,282	(589)
23	Current bank borrowing	(14,233)	(1,975)	(12,258)
24	Other current financial assets and liabilities	128	(206)	334
	Current net financial position	(10,412)	2,101	(12,513)
25	Non-current financial assets	3,283	1,374	1,909
26	Non-current bank borrowing	(2,990)	(4,533)	1,543
27	Other non-current financial liabilities	(17)	(25)	8
	Non-current net financial position	276	(3,184)	3,460
	Total net financial position	(10,136)	(1,083)	(9,053)

The net financial position shows net debt of Euro 10,136 thousand, a deterioration of Euro 9,053 thousand compared to 30 June 2018 when it showed net debt of Euro 1,083 thousand.

The increase in net debt is mainly due to a Euro 12,258 thousand increase in current bank borrowing that was only partially offset by a Euro 1,909 thousand increase in non-current financial assets and by a Euro 1,543 thousand decrease in non-current bank borrowing.

The only financial liability due after more than five years regards the amount of Euro 254 thousand that forms part of the unsecured loan granted to 133 W Broadway, Inc. by Intesa San Paolo S.p.A. New York Branch.

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousand	31 December 2018	30 June 2018	Change
22	Cash and cash equivalents	3,693	4,282	(589)
23	Current bank borrowing	(14,233)	(1,975)	(12,258)
24	Other current financial assets and liabilities	128	(206)	334
	Net financial position, current	(10,412)	2,101	(12,513)

22. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 3,693 thousand at 31 December 2018, a decrease of Euro 589 thousand compared to 30 June 2018. They are unrestricted and consist entirely of current account deposits accessible on demand.

23. Current bank borrowing

Current bank borrowing consists of advances on invoices and notes receivable, import loans and other short-term loans for a total of Euro 14,019 thousand, plus the current portion of Euro 214 thousand of the unsecured loan granted to 133 W Broadway, Inc. by Intesa San Paolo S.p.A. New York Branch.

Details are as follows:

Euro Thousand	31 December 2018	30 June 2018	Change
Bank borrowing – current account overdrafts	(1,726)	0	(1,726)
Bank borrowing – import and export finance	(2,208)	0	(2,208)
Bank borrowing – advances on invoices and notes	(6,247)	(1,709)	(4,538)
Instalment loans due within a year	(3,838)	0	(3,838)
Bank borrowing – unsecured loans	(214)	(266)	52
Total bank borrowing - current	(14,233)	(1,975)	(12,258)

The instalment loan due within a year has been granted by Unicredit S.p.A. to 505 Games S.p.A. and provides for one or more partial disbursements of up to a maximum of Euro 3,900,000 for use in partially funding the capex plan for the development cost of the video game called Bloodstained. The loan was originally due to expire on 30 September 2018 but it has been extended until 1 December 2019. 505 Games S.p.A. undertakes to repay the amount borrowed in two quarterly instalments in arrears to be paid on 1 September 2019 and 1 December 2019. 505 Games S.p.A. will make quarterly interest payments on each loan disbursement based on a variable quarterly rate equal to the Euribor 3 Month rates. In periods in which the Euribor rate or the substitute rate are negative, the rate applied will be equal to the spread only.

The unsecured loan from Intesa Sanpaolo S.p.A. New York Branch to 133 W. Broadway Inc. was disbursed on 30 October 2017 in the amount of USD 2,050 thousand. The loan is repayable in 28 quarterly instalments between 31 January 2018 and 31 October 2024. The interest rate is variable and is determined based on the LIBOR USD 12 month rate plus a spread of 2 percentage points.

24. Other current financial assets and liabilities

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

Euro Thousand	31 December 2018	30 June 2018	Change
Advances on trade receivables factored without recourse	(325)	(191)	(134)
Lease instalments due within a year	(16)	(15)	(1)
Loan to developers	469	0	469
Total other current financial assets and liabilities	128	(206)	434

Advances on trade receivables factored without recourse totalled Euro 325 thousand and increased by Euro 134 thousand compared to 30 June 2018.

The loan to developers was granted to US developer Lab Zero which is developing the video game Indivisible for 505 Games. The loan is for up to a maximum amount of USD 1,002 thousand, of which USD 537 thousand had been disbursed by 31 December 2018. This loan generates interest at a rate of 4% per annum on the first USD 400 thousand disbursed and will be repaid before the launch of the video game. If repayment does not occur or if only partial repayment is made, the amount not repaid will be automatically recovered from the royalties accruing.

Non-current net financial position

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

	Euro Thousand	31 December 2018	30 June 2018	Change
25	Non-current financial assets	3,283	1,374	1,909
26	Non-current bank borrowing	(2,990)	(4,533)	1,543
27	Other non-current financial liabilities	(17)	(25)	8
	Non-current net financial position	276	(3,184)	3,460

25. Non-current financial assets

At 31 December 2018, this caption includes:

- Euro 1,330 thousand regarding a loan made by 505 Games S.p.A. to Shinshuppatsu Junbi Co. Ltd in the original amount of JPY 150,000,000. The loan generates interest at a rate of 7% per annum. It is repayable on demand but the Group expects the borrower company to utilise the loan for at least two more years. The loan was granted to said company as part of a broader commercial agreement on video game development. The increase compared to 30 June 2018 is due to the calculation of interest for the period, the restatement of the loan due to changes in the JPY/Euro exchange rate and restatement following the introduction of IFRS 9;

- Euro 1,953 thousand representing a loan made by Digital Bros S.p.A. to Vartvre AB which is the majority owner of Starbreeze AB. The loan was originally for Euro 2 million. It expires on 21 November 2020, generates interest at a rate of 5% per annum and is secured by the pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares. The amount at 31 December 2018 includes interest accruing at that date and the restatement of the nominal amount of the loan following the introduction of IFRS 9.

26. Non-current bank borrowing

At 31 December 2018, non-current bank borrowing included:

- Euro 1,343 thousand representing the portion of the previously mentioned unsecured loan from Intesa Sanpaolo S.p.A. New York Branch to 133 W Broadway, Inc. that is payable after more than a year;
- Euro 1,647 thousand representing the non-current portion of the loan granted by Unicredit S.p.A. to 505 Games S.p.A.. This loan provides for one or more partial disbursements up to a maximum of Euro 5,000,000 for use in supplementing the loan of Euro 3,900,000 previously mentioned. The loan is intended to finance the investment plan for the development of the video games Bloodstained and Control. 505 Games S.p.A. undertakes to repay the amounts borrowed in two six-monthly instalments in arrears to be paid on 31 March 2020 and 30 September 2020. As for the other loan granted by Unicredit S.p.A, 505 Games S.p.A. will make quarterly interest payments on each loan disbursement based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 3 percentage points. In periods in which the Euribor rate or the substitute rate are negative, the rate applied will be equal to the spread only.

27. Other non-current financial liabilities

Other non-current financial liabilities amount to Euro 17 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 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 10 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 7 thousand. There is a variable rate of interest of 1.41%.

The following table shows finance lease payments by maturity:

Euro Thousand	31 December 2018	30 June 2018	Change
Within 1 year	16	15	1
1-5 years	17	25	(8)
More than 5 years	0	0	0
Total	33	40	(7)

COMMITMENTS AND RISKS

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

Euro Thousand	31 December 2018	30 June 2018	Change
Commitments under signed contracts	29,875	37,809	(7,934)
Commitments for subscription of capital of Seekhana Ltd.	1,170	1,149	21

Commitments made under signed contracts relate to future expenses for the Group in relation to licences and user rights to video games not yet completed or for which production had not yet begun at the reporting date.

Commitments to subscribe to Seekhana Ltd.'s capital relate to an agreement signed on 18 January 2016 for the subscription of an amount of USD 2 million, of which USD 660 thousand had already been paid as at 31 December 2018.

5. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

The following table contains a breakdown of revenue by operating segment. It does not include the Holding operating segment as it does not generate revenue:

	Euro Thousand	Free to Play	Premium Games	Italian Distribution	Other activities	Total
1	Gross revenue	3,169	19,787	7,029	231	30,216
2	Revenue adjustments	0	(1,154)	(888)	0	(2,042)
3	Total net revenue	3,169	18,633	6,141	231	28,174

At 31 December 2017, the breakdown was as follows:

	Euro Thousand	Free to Play	Premium Games	Italian Distribution	Other activities	Total
1	Gross revenue	2,699	30,584	10,375	404	44,062
2	Revenue adjustments	0	(2,291)	(972)	(101)	(3,364)
3	Total net revenue	2,699	28,293	9,403	303	40,698

Comments on net revenues can be found in the Directors' Report.

25. Net financial income/(expense)

This caption includes:

	Euro Thousand	31 December 2018	31 December 2017	Change	%
23	Interest and financial income	670	763	(93)	-12,2%
24	Interest and financial expenses	(491)	(535)	44	-8,3%
25	Net financial income / (expense)	179	228	(49)	-21,3%

Net finance income totalled Euro 179 thousand against Euro 228 thousand for the six months ended 31 December 2017. The decrease was due to the lower exchange gains realised.

Interest and financial income is detailed as follows:

Euro Thousand	31 December 2018	31 December 2017	Change	%
Exchange gains	399	643	(244)	-38.0%
Financial income	242	119	123	n.m.
Other	29	0	29	n.m.
Total interest and financial income	670	763	(93)	-12.2%

Interest and financial expenses amounted to Euro 491 thousand, some Euro 44 thousand less than for the six months ended 31 December 2017 because of lower exchange losses.

Interest and financial expenses are detailed as follows:

Euro Thousand	31 December 2018	31 December 2017	Change	%
Interest expense on current accounts and trading activities	(88)	(35)	(53)	n.m.
Interest expense on loans and leases	(99)	(73)	(27)	36.5%
Interest on factoring	(4)	(6)	2	-32.1%
Total interest expenses on sources of finance	(191)	(114)	(77)	67.8%
Exchange losses	(276)	(421)	145	-34.5%
Equity valuation of investments	(24)	0	(24)	n.m.
Total interest and financial expenses	(491)	(535)	43	-8.3%

29. Taxes

Details of current and deferred taxes for the period ended 31 December 2018 are provided below:

Euro Thousand	31 December 2018	31 December 2017	Change	%
Current tax	688	(430)	1,118	n.m.
Deferred tax	95	195	(100)	-51.4%
Total income tax	783	(235)	1,018	n.m.

6. NON-RECURRING INCOME AND EXPENSES

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

7. INFORMATION BY OPERATING SEGMENT

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

The Group is organised into five operating segments:

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

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

The results by operating segment for the periods ended 31 December 2018 and 31 December 2017 are set out below.

Consolidated statement of profit or loss by operating segment for the period ended 31 December 2018

	Euro Thousand	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	3,169	19,787	7,029	231	0	30,216
2	Revenue adjustments	0	(1,154)	(888)	(0)	0	(2,042)
3	Total revenue	3,169	18,633	6,141	231	0	28,174
4	Purchase of products for resale	0	(2,509)	(4,839)	0	0	(7,348)
5	Purchase of services for resale	(1,035)	(1,950)	(368)	(17)	0	(3,370)
6	Royalties	(265)	(5,238)	0	(11)	0	(5,514)
7	Changes in inventories of finished products	0	(266)	527	0	0	261
8	Total cost of sales	(1,300)	(9,963)	(4,680)	(28)	0	(15,970)
9	Gross profit (3+8)	1,869	8,670	1,461	203	0	12,202
10	Other income	792	571	14	0	169	1,546
11	Costs for services	(113)	(2,150)	(734)	(84)	(831)	(3,912)
12	Lease and rental costs	(29)	(307)	(17)	(5)	(353)	(711)
13	Labour costs	(1,589)	(4,067)	(673)	(335)	(1,787)	(8,451)
14	Other operating costs	(40)	(190)	(98)	(23)	(188)	(539)
15	Total operating costs	(1,771)	(6,714)	(1,522)	(447)	(3,159)	(13,613)
16	Gross operating margin (EBITDA) (9+10+15)	890	2,527	(47)	(244)	(2,990)	136
17	Depreciation and amortisation	(948)	(2,367)	(153)	(40)	(85)	(3,593)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	(286)	(181)	(92)	0	(106)	(665)
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0	0	0
21	Total non-monetary operating income and expenses	(1,234)	(2,548)	(245)	(40)	(191)	(4,258)
22	Operating margin (EBIT) (16+21)	(344)	(21)	(292)	(284)	(3,181)	(4,122)

Consolidated statement of profit or loss by operating segment for the period ended 31 December 2017

	Euro Thousand	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	2,699	30,584	10,375	404	0	44,062
2	Revenue adjustments	0	(2,291)	(972)	(101)	0	(3,364)
3	Total revenue	2,699	28,293	9,403	303	0	40,698
4	Purchase of products for resale	0	(4,396)	(6,680)	0	0	(11,076)
5	Purchase of services for resale	(1,283)	(1,212)	(671)	(24)	0	(3,190)
6	Royalties	(129)	(9,371)	0	(17)	0	(9,517)
7	Changes in inventories of finished products	0	(173)	737	0	0	564
8	Total cost of sales	(1,412)	(15,152)	(6,614)	(41)	0	(23,219)
9	Gross profit (3+8)	1,287	13,141	2,789	262	0	17,479
10	Other income	718	294	12	0	67	1,091
11	Costs for services	(264)	(2,507)	(854)	(256)	(756)	(4,637)
12	Lease and rental costs	(45)	(279)	(21)	(6)	(368)	(719)
13	Labour costs	(1,591)	(4,360)	(754)	(460)	(1,826)	(8,991)
14	Other operating costs	(33)	(199)	(92)	(24)	(215)	(563)
15	Total operating costs	(1,933)	(7,345)	(1,721)	(746)	(3,165)	(14,910)
16	Gross operating margin (EBITDA) (9+10+15)	72	6,090	1,080	(484)	(3,098)	3,660
17	Depreciation and amortisation	(1,106)	(2,164)	(158)	(192)	(101)	(3,721)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	0	(7)	(53)	0	(20)	(80)
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0	0	(0)
21	Total non-monetary operating income and expenses	(1,106)	(2,171)	(211)	(192)	(121)	(3,801)
22	Operating margin (EBIT) (16+21)	(1,034)	3,919	869	(676)	(3,219)	(141)

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

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

During the period, Premium Games operations were conducted by the subsidiary 505 Games S.p.A (which coordinates the operating segment) together with 505 Games France S.a.s., 505 Games Ltd., 505 Games (US) Inc., 505 Games Spain Slu and 505 Games GmbH which operate on the French, UK, U.S., Spanish and German markets, respectively. 505 Games Interactive (US) Inc. provides consulting services on behalf of 505 Games S.p.A.

Italian company Kunos Simulazioni S.r.l., developer and publisher of the Assetto Corsa video game is an integral part of this operating segment.

Free to Play: this business regards the development and publishing of video games and/or apps that are available free of charge on digital marketplaces and which allow the gamer to make purchases during later stages of the game. Free to Play games are generally simpler than Premium video games but, if successful, may have a longer lifespan. The video game is continuously developed and improved after its launch in order to keep the public interested and prolong the game's life cycle.

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

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

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

Business operations are conducted by the parent, Digital Bros S.p.A., under the Halifax brand, and by subsidiary Game Entertainment S.r.l. which performs distribution – mainly of trading cards - through the newsstand distribution channel.

Other Activities: this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for presentation of the results. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l.. Until last year, Game Network S.r.l. managed paid games under concession from AAMS (Italian State Monopoly Administration). However, given the limited profitability of the paid games under concession, the Group decided not to take part in the new competitive tendering process for future concessions and, consequently, it ended its activities under the AAMS concession in June 2018.

Holding: this includes all the coordinating functions carried out directly by Digital Bros S.p.A.. The Holding operating segment also handles administration, management control and business development activities. The holding company has also been supported by Digital Bros China Ltd. and by newly incorporated company Digital Bros Asia Pacific (HK) Ltd which have operated as business developers for Asian markets. It has also been supported by 133 W Broadway Inc. which, until October 2018, owned the property in Eugene, Oregon, USA which was leased to US company Pipeworks Inc, formerly a subsidiary of the Group. Digital Bros Holdings Ltd and Digital Bros Asia Pacific (HK) Ltd were inactive during the period.

Information by geographical area

Gross revenue may be broken down by geographical area as follows:

Euro Thousand	31 December 2018		31 December 2017		Change	
Europe	6,138	20%	8,591	19%	(2,453)	-28.6%
Americas	15,419	51%	22,615	50%	(7,196)	-31.8%
Rest of the World	1,399	5%	2,077	3%	(678)	-32.7%
Total foreign revenue	22,956	76%	33,283	72%	(10,327)	-31.0%
Italy	7,261	24%	10,779	28%	(3,518)	-32.6%
Total consolidated gross revenue	30,216	100%	44,062	100%	(13,846)	-31.4%

Foreign revenue represented 76% of consolidated gross revenue compared to 72% in prior year figure and decreased by 31% compared to the period ended 31 December 2017.

Rest of the world revenue relates to sales made by the subsidiaries 505 Games S.p.A. in China and Japan and 505 Games Ltd., mainly in Australia, the Middle East and South Africa.

The most significant portion of foreign revenue is generated by the Premium Games operating segment which generated foreign revenue of Euro 19,787 thousand i.e. 86% of total foreign revenue.

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

Euro Thousand	31 December 2018		31 December 2017		Change	
Premium Games	19,787	86%	30,584	92%	(10,797)	-35.3%
Free to Play	3,169	14%	2,699	8%	470	17.4%
Total gross foreign revenue	22,956	100%	33,282	100%	(10,327)	-31.0%

8. RELATED PARTY TRANSACTIONS

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

Intercompany transactions

Intercompany transactions have been described in section 8 of the Directors' Report on intercompany and related party transactions and atypical/unusual transactions.

Other related parties

Related party transactions regard:

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

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

Related party balances at 31 December 2018 are summarised below:

Euro Thousand	Receivables		Payables		Revenues	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	0	210	0	0	0	0
Dario Treves	0	0	0	0	0	(131)
Matov Imm. S.r.l.	0	635	0	0	0	(364)
Matov LLC	0	130	0	0	0	(206)
Total	0	1,104	0	0	0	(701)

At 31 December 2017, they were as follows:

Euro Thousand	Receivables		Payables		Revenues	Costs
	Trade	Financial	Trade	Financial		
Dario Treves	0	0	(7)	0	0	(138)
Matov Imm. S.r.l.	0	635	0	0	0	(368)
Matov LLC	0	124	0	0	0	(197)
Total	0	759	(7)	0	0	(703)

Digital Bros S.p.A.'s financial receivable from Matov Imm. S.r.l. relates to a guarantee deposit paid for the rental of office premises at Via Tortona 37, Milan.

505 Games (US) Inc.'s financial receivable from Matov LLC relates to a guarantee deposit paid for the rental of office premises in Calabasas, California, where several US subsidiaries are based.

During the period, Digital Bros S.p.A. paid Matov Imm S.r.l. rent totalling Euro 341 thousand for its Milan office premises.

The rent paid by 505 Games France S.a.s. for the offices in Francheville during the period amounted to Euro 23 thousand.

In November 2013, a lease agreement was entered into between the subsidiary 505 Games (US) Inc. and Matov LLC, a related party owned by the Galante family. The transaction was governed by the “Procedure for related party transactions” adopted by Digital Bros S.p.A. pursuant to Consob Regulation 17221 of 12 March 2010 and envisages an annual lease charge of USD 408 thousand.

Tax consolidation

Following the introduction of the consolidated taxation regime into the Italian tax system, parent company 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 no arrangements prejudicial to any of the participating companies.

9. 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.

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

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

- appropriateness in relation to the characteristics of the business and
- the effective application of the administrative and accounting procedures for the preparation of the half-yearly financial report for the six months ended 31 December 2018. No issues have been identified.

We also confirm that:

1. Digital Bros Group's half-yearly financial report for the six months ended 31 December 2018:
 - a) has been prepared in accordance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
 - b) reflects the contents of the accounting books and records;
 - c) gives a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;
2. the Directors' Report contains a reliable analysis of the operating performance and results, as well as of Digital Bros S.p.A. and the other consolidated entities, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 28 February 2019

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe