



Consolidated and separate financial statements for the year ended 30 June 2020

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milan, Italy

VAT Number and Tax Number 09554160151

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

Milan Register of Companies 290680-Vol. 7394 Chamber of Commerce 1302132

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

Please note that the Italian original version shall always prevail in case of any discrepancy or inconsistency between Italian version and its English translation

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Board of Directors

Lidia Florean	Director ⁽²⁾
Abramo Galante	Chairman and Management Director ⁽¹⁾
Davide Galante	Director ⁽²⁾
Raffaele Galante	Managing Director ⁽¹⁾
Luciana La Maida	Director ⁽³⁾
Irene Longhin	Director ⁽³⁾
Susanna Pedretti	Director ⁽³⁾
Stefano Salbe	Director ⁽¹⁾⁽⁴⁾
Laura Soifer	Director ⁽³⁾⁽⁵⁾
Dario Treves	Director ⁽¹⁾

⁽¹⁾ Executive director

⁽²⁾ Non-executive director

⁽³⁾ Independent director

⁽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
Susanna Pedretti
Laura Soifer (Chairman)

Remuneration and Appointments Committee

Luciana La Maida (Chairman)
Irene Longhin
Susanna Pedretti

Permanent Related Parties Committee

Luciana La Maida
Susanna Pedretti
Laura Soifer (Chairman)

Board of Statutory Auditors

Maria Pia Maspes	Statutory auditor
Luca Pizio	Statutory auditor
Paolo Villa	Chairman
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 ended 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.

The Shareholders' Meeting of 25 October 2019 appointed directors Paola Carrara and Susanna Pedretti who had already been co-opted by the Board of Directors on 6 June 2019; they will remain in office until the end of the mandate of the current Board of Directors.

Director Paola Carrara resigned on 28 February 2020. Until that date, she fulfilled the roles of Independent Director, Lead Independent Director, Chairman of the Internal Control and Risk Committee and Chairman of the Permanent Related Parties Committee. On 5 March 2020, the Board of Directors co-opted director Laura Soifer. After confirming that she satisfied independent requirements, the Board also appointed Laura Soifer as a member of the Internal Control and Risk Committee, as a member of the Permanent Related Parties Committee and as Lead Independent Director.

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 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 consolidated and separate financial statements of the Digital Bros Group for the year ended 30 June 2020 was authorised by a resolution of the Board of Directors of 22 September 2020.

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

DIRECTORS' REPORT

1. GROUP STRUCTURE

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 retail sales network and via digital marketplaces such as Steam, Sony PlayStation Network, Microsoft Xbox Live, Epic Game Store etc.

Video games not produced directly by development companies owned by the Group are normally acquired under exclusive licence and with international exploitation rights valid for several years. The brand name used for publication on a global scale 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., which developed and published the Assetto Corsa video game, is consolidated in this operating segment.

During the period, the Group completed the acquisition of two new companies: 100% of the quota capital of AvantGarden S.r.l., originally Ovosonico S.r.l., of which the Group already held 49%; and 60% of Dutch company Rasplata B.V..

The former company is an Italian videogame developer with a team of around 25 people while the latter is a Dutch company that holds the rights to intellectual property currently at the development stage.

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 less complex than Premium Games but, if successful, may have a longer lifespan. The video game is continuously developed and improved after its launch in order to keep players 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 holds the rights to the Hawken series video games.

The brand used for publication on a worldwide scale is 505 Games Mobile.

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

This business is 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.

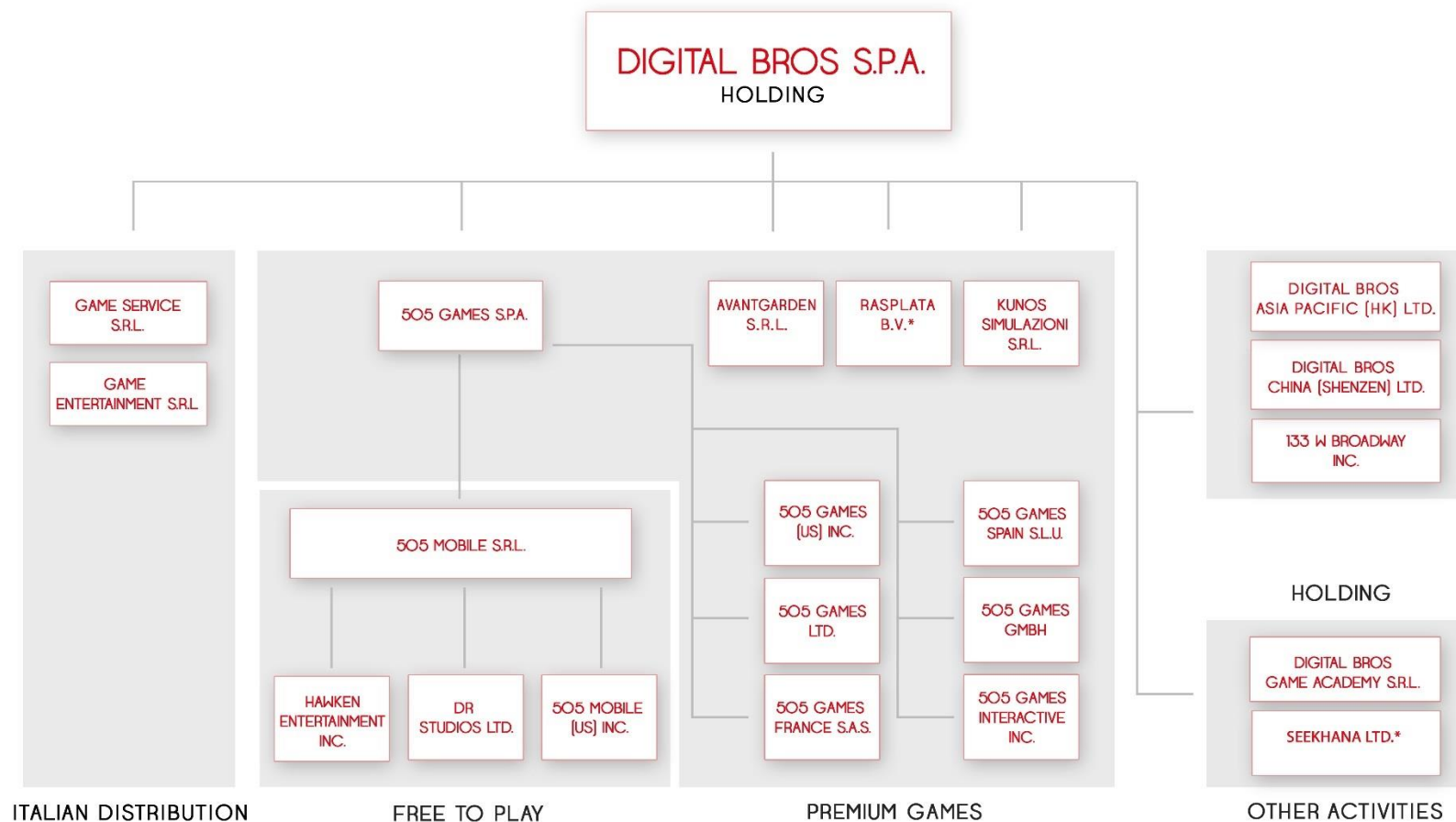
Other Activities: this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for reporting purposes. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses. It also includes the activities of subsidiary Game Network S.r.l. whose activities were suspended in June 2018 and which was put into liquidation in October 2018. During the reporting period, the Group completed the acquisition of 25.23% of the equity of UK company Seekhana Ltd; added to the existing interest of 34.77%, this took the Group's total investment to 60%.

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 Digital Bros Asia Pacific (HK) Ltd which have operated as business developers for Asian markets. In June 2020, these two companies were joined by 505 Games Japan K.K. which will become operational from the next reporting period. 133 W Broadway Inc. which, until October 2018, owned the property in Eugene, Oregon, USA, forms part of this operating segment. Digital Bros Holdings Ltd was inactive during the period.

All of the investments mentioned are 100% owned, except for those in Raspata B.V. and Seekhana Ltd which are 60% interests.

The organisation chart at 30 June 2020 below shows the companies that were operational during the period:

GROUP STRUCTURE AT 30 JUNE 2020



[*] INVESTMENT AT 60%

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

Company	Address	Activities
Digital Bros S.p.A.	Via Tortona, 37 Milan	Offices
Digital Bros S.p.A.	Via Boccaccio 95, Trezzano sul Naviglio (MI)	Logistics
AvantGarden S.r.l. ⁽¹⁾	Via Tortona, 37 Milan	Offices
Digital Bros Asia Pacific (HK) Ltd.	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. ⁽²⁾	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 Japan K.K. ⁽³⁾	WeWork Jimbocho, 11-15, Kanda Jimbocho 2-chome Chiyoda-ku, Tokyo, Japan	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. in liquidation	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
Rasplata B.V. ⁽⁴⁾	Churchill-Jaan 131 2, Amsterdam, Netherlands	Offices
Seekhana Ltd. ⁽⁴⁾	4 Linford Forum, Rockingham Drive, Milton Keynes, U.K.	Offices
133 W Broadway, Inc.	133 W. Broadway, Suite 200, Eugene, Oregon, U.S.A.	Offices

(1) Consolidated from March 2020

(2) Pursuant to section 479A of the Companies Act 2006, the accounts for Digital Bros Holdings Ltd (Company number: 09949560) for the 2020 financial year, which are included in the consolidated financial statements of Digital Bros S.p.A, have not been audited. This is permitted on the basis that Digital Bros S.p.A guarantees all the outstanding liabilities to which Digital Bros Holdings Ltd is subject to as at the yearend under section 479C.”

(3) Incorporated in June 2020, will become operational during the next reporting period

(4) Consolidated 60%

The acquisition of the remaining 51% of the quota capital of Ovoso S.r.l. was completed on 3 March 2020 so the company has been consolidated on a line-by-line basis with effect from March 2020. At the same time, the name of the company was changed to AvantGarden S.r.l..

During the reporting period, the parent company acquired 60% of the share capital of Dutch company Rasplata B.V.

On 27 June 2020, the Group completed the acquisition of a further 25.23% of the shares of UK company Seekhana Ltd. – previously 34.77% owned – thus taking its total interest to 60%.

Both Rasplata B.V. and Seekhana Ltd have been consolidated line-by-line while recognising the amounts pertaining to non-controlling interests.

As at 30 June 2020, the Group did not hold any investments in associated companies, except as highlighted in relation to Avantgarden S.r.l. and Seekhana Ltd. During the reporting period, it completed the disposal of the investment held in Delta DNA Ltd..

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



Developers

Developers are creators and programmers of games which are usually based on an original idea, a successful brand, a film or sports simulations, etc. The developers 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. Very often, the rights are acquired on a permanent basis.

Console manufacturers

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

Distributors

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

Retailers

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

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



The main marketplaces on which console video games are sold to end consumers are: Sony's PlayStation Store, Microsoft's Xbox Live and Nintendo's eShop. Steam marketplace is the global leader in the digital distribution of games for personal computers. The launch of a new marketplace for PC games, Epic Games

Store, managed by US company Epic, was announced during the previous fiscal year in the wake of the success enjoyed by the Fortnite video game which is owned by Epic.

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. Google and Apple have set up similar structures more recently with the Stadia and Apple Arcade platforms, respectively.

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

Digital distribution has significantly extended the lifespan of individual games. In fact, the availability of a game is no longer strictly limited to the launch period as occurs in the retail channel. Rather, the product remains available on the various marketplaces, even subsequently, thus making it possible to generate a constant flow of sales that may be influenced – sometimes significantly – by temporary communications policies and promotional pricing. The extension of product life cycle is also greatly affected by product policies adopted by publishers when, after the launch of 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).

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 less influenced by seasonality than Premium video games. Indeed, 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 well-known brands. Promotions have a significant impact on revenue trends but, unlike the Premium video games market, promotions are frequently repeated and do not greatly distort the quarterly 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. The significant reduction in physical distribution revenues as a percentage of total consolidated revenues results in lower volatility of financial position items.

4. SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The most significant events during the period were as follows:

- On the 28 October 2019, the subsidiary 5050 Games announced the contract with Kojima Productions for the global publishing rights for the personal computer version of the Death Stranding video game. The Group expects this contract to generate revenue in excess of Euro 50 million going forward. On 2 March 2020, subsidiary 505 Games S.p.A. then announced that the PC version of Death Stranding would be released on 2 June 2020. On 21 April 2020, 505 Games S.p.A. postponed the launch of the game until 14 July 2020 as a result of the temporary closure of Kojima Productions because of the COVID-19 emergency;
- On 28 February 2020, Independent Director Paola Carrara resigned for personal reasons;
- On 3 March 2020, Digital Bros S.p.A. acquired 51% of the quotas of Ovostonico S.r.l. – in which it already held a 49% interest – for a price of Euro 210 thousand. This company is developing a video game for the Group and has now changed its name to AvantGarden S.r.l.;
- On 5 March 2020, the Group signed a settlement agreement with the Italian Tax Authorities in relation to a tax dispute regarding the years from 2011 to 2015 inclusive. The dispute regarded certain operations of subsidiary 505 Games S.p.A. which, based on the assessments conducted by the Tax Authorities, should have been treated as royalties and, therefore, subjected to withholding taxes. Although the Group did not agree with either the merits or the legal basis for the amounts requested by the Tax Authorities – the Group believes that the transactions in question involved purchases of goods and/or services – it decided to sign the settlement agreement solely in order to reach a settlement and avoid a long and expensive dispute.

The settlement led to an update of tax liabilities at 31 December 2019 with the recognition of non-recurring expenses of Euro 1,398 thousand. The amount includes interest of Euro 580 thousand, penalties of Euro 224 thousand and Euro 594 thousand of bad debts in respect of receivables the Group recorded under advances to suppliers in relation to withholding advances paid to the Tax Authorities on their behalf that are not expected to be recovered;

- On 5 March 2020, the Board of Directors co-opted director Laura Soifer. After confirming that she satisfied independent requirements, the Board also appointed Laura Soifer as a member of the Internal Control and Risk Committee, as a member of the Permanent Related Parties Committee and as Lead Independent Director.

Relations with Starbreeze and Starbreeze shareholders

In prior years, the Digital Bros Group and the Starbreeze Group were party to numerous commercial and financial relations as summarised below:

- in May 2016, the Group sold its PAYDAY 2 rights to Starbreeze in return for a payment of USD 30 million and a potential earn out of USD 40 million in relation to 33% of net revenues from the video game PAYDAY 3 to be published in future;
- in April 2015, the two groups signed a contract for the development and publication of the console version of a video game inspired by TV Series The Walking Dead. The contract foresaw a development budget of USD 10 million to be borne by subsidiary 505 Games S.p.A. As at 30 June 2020, the subsidiary 505 Games S.p.A. had paid USD 4.8 million for the development of this video game. In November 2018, Starbreeze launched the PC version of the video game but sales were lower than expected. On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the video game OVERKILL's The Walking Dead and, consequently, on 8 April 2019, the subsidiary 505 Games S.p.A. requested the termination of the contract with Starbreeze for the development and publication of the console version of the video game;
- since November 2018, Digital Bros has acquired 4,096,809 Starbreeze STAR A shares, as traded on Nasdaq Stockholm, at an average price of SEK 2.14 per share. On 4 June 2019, Stefano Salbe, an Executive Director of the Group, joined the Board of Directors of the Swedish company as a non-Executive Director;
- on 21 November 2018, Digital Bros S.p.A. granted a loan of Euro 2 million to Varvtr AB. Varvtr AB is a Swedish company owned by the former Managing Director of Starbreeze AB who, at that date, held 19,021,541 Starbreeze A shares and 1,305,142 Starbreeze B shares, representing 5.61% of the share capital and 16.92% of the voting rights of Starbreeze AB at 30 June 2020.

As a result of financial problems connected with the lack of success of the OVERKILL's The Walking Dead video game, on 3 December 2018, Starbreeze AB and five subsidiaries petitioned the Swedish District Court for admission to a corporate restructuring plan. The Swedish Court approved the restructuring request and it was later extended several times until 3 December 2019. On 6 December 2019, Starbreeze AB successfully completed the corporate restructuring process, proposing a payment plan to its creditors.

In January and February 2020, the Group carried out the following transactions:

- on 15 January 2020, Digital Bros S.p.A. acquired 18,969,395 Starbreeze A shares held by Swedish company Varvtr AB for a consideration of around SEK 25.8 million, at a price of SEK 1.36 per share, plus a potential earn-out in case of a gain on disposal realised in the 60 months after the acquisition. The consideration was paid, in part, by waiving the loan granted to Varvtr AB. The shares acquired represent 5.24% of share capital and 16.76% of voting rights.

- on 26 February 2020, Digital Bros S.p.A. completed the acquisition of all of the assets held by Smilegate Holdings in Starbreeze AB for a price of Euro 19.2 million. The assets acquired have a nominal value of Euro 35.3 million, as detailed below:
 - a) a convertible bond of SEK 215 million (around Euro 19.7 million) issued by Starbreeze AB for a total of Euro 16.9 million. Any conversion of the bond would lead to the issue of 95,578,667 new Starbreeze B shares, representing 20.87% of share capital and 7.79% of voting rights;
 - b) a loan receivable of around USD 16.3 million (around Euro 14.8 million) for consideration of Euro 100 thousand. This loan falls under the Starbreeze AB corporate restructuring process and will be repaid based on the terms of payment approved by the Swedish District Court and not later than December 2024;
 - c) 3,601,083 Starbreeze STAR A shares and 6,018,948 Starbreeze STAR B shares which, at 30 June 2020, represented 2.66% of Starbreeze AB share capital and 3.71% of voting rights, for a total amount of Euro 2.2 million.

The total consideration is payable as follows: Euro 9.2 million was paid on the closing date of the transaction and Euro 10 million will be paid by 28 February 2021.

In order to maintain unchanged its percentage stake in share capital and its percentage of voting rights, on 23 June 2020, the Group signed a binding agreement for the pro-quota subscription of the share issue to be approved by a future General Meeting of Starbreeze. This share issue was finalised in September 2020.

Also as a result of minor purchases after 30 June 2020, the Group holds 26,695,287 Starbreeze A shares and 9,733,948 Starbreeze B shares representing 10.05% of share capital and 24.45% of voting rights.

Despite the continuing contractual relations and the equity interest held in the Swedish company, the Group does not believe it has any influence over Starbreeze. Accordingly, it has decided to classify the investment under other investments as in previous reporting periods. Non-Executive Director Stefano Salbe has not been confirmed in his role with Starbreeze. If the circumstances should change as a result of substantive changes in the relations between the two groups, the Group would reassess and alter the classification of the investment in its Statement of Financial Position.

COVID-19

Following the outbreak of the COVID-19 pandemic and based on Ministerial guidelines issued from March 2020 and still in force even now, in order to guarantee the health and safety of its employees and collaborators, the Group adopted remote working arrangements whereby the majority of its employees and collaborators in Italy and abroad are able to work from home. These arrangements are still in place in many cases, although to a lesser extent than in the first few weeks of the lockdown. From an operational perspective, the homeworking arrangements have not had a notable impact on the main areas of the Group business.

The most significant effects of the pandemic on the video games market may be summarised as follows:

- increased use of video games during the lockdown period, especially of mass market products, by casual gamers and for products subject to particular promotions;
- general growth in digital revenues;
- wipe-out of revenues from traditional distribution channels, except for the small share generated by e-commerce sales.

In terms of video game development, as carried out by development teams situated all around the world, the homeworking arrangements have inevitably led to production delays. These delays have been most evident especially on large development teams and in the last few months prior to the product's launch when teams are normally required to cooperate to a greater extent.

For this reason, the Group had to postpone the launch of the PC version of *Death Stranding* by six weeks, scheduling it after the end of the reporting period on 14 July 2020. The Group did not encounter any particular problems in relation to other development processes. In most cases, such activities are carried out by teams whose size makes it possible to achieve a high level of efficiency even when working remotely. The gradual digitalisation of the market was accelerated because consumers were physically unable to go to stores. Consequently, in the last quarter, the Group's revenues were largely generated on digital marketplaces. This led to a sharp increase in operating margin thanks to both a higher unit margin and to significant savings in terms of production and logistics costs.

The higher incidence of digital revenues means greater concentration of revenues on a small number of customers, all of whom have far more solid equity and financial structures than customers involved in the traditional distribution of products; these customers also pay more quickly on average. Therefore, the Group did not have to record any significant effect in the form of adjustments due to expected credit losses on trade receivables (IFRS 9). The performance of impairment tests on licences to video games already on sale or under development had almost no effect. Although impairment adjustments for the reporting period amounted to Euro 2,606 thousand, they were not a direct consequence of the effects of COVID-19 and are in line with prior periods.

The sudden fall in revenues from traditional distribution accelerated a process that had already been in progress for some years. Therefore, the drastic slump recorded in March led to a reduction in the prices of products in inventory and to increased obsolescence of finished goods inventories. The Group took account

of this factor and adjusted the valuation of inventories at the reporting date by Euro 4,772 thousand i.e. by 40% of the carrying amount of inventories.

5. ANALYSIS OF CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2020

	Euro Thousands	30 June 2020		30 June 2019		Change	
1	Gross revenue	139,033	104.4%	81,317	105.6%	57,716	71.0%
2	Revenue adjustments	(5,810)	-4.4%	(4,309)	-5.6%	(1,501)	34.8%
3	Net revenue	133,223	100.0%	77,008	100.0%	56,215	73.0%
4	Purchase of products for resale	(16,743)	-12.6%	(14,675)	-19.1%	(2,068)	14.1%
5	Purchase of services for resale	(8,857)	-6.6%	(6,586)	-8.6%	(2,271)	34.5%
6	Royalties	(34,600)	-26.0%	(20,671)	-26.8%	(13,929)	67.4%
7	Changes in inventories of finished products	(5,920)	-4.4%	(1,150)	-1.5%	(4,770)	n.s.
8	Total cost of sales	(66,120)	-49.6%	(43,082)	-55.9%	(23,038)	53.5%
9	Gross profit (3+8)	67,103	50.4%	33,926	44.1%	33,177	97.8%
10	Other income	3,458	2.6%	3,406	4.4%	52	1.5%
11	Costs for services	(13,559)	-10.2%	(9,070)	-11.8%	(4,489)	49.5%
12	Lease and rental expenses	(247)	-0.2%	(1,460)	-1.9%	1,213	-83.1%
13	Labour costs	(20,908)	-15.7%	(17,903)	-23.2%	(3,005)	16.8%
14	Other operating costs	(1,169)	-0.9%	(1,223)	-1.6%	54	-4.5%
15	Total operating costs	(35,883)	-26.9%	(29,656)	-38.5%	(6,227)	21.0%
16	Gross operating margin (EBITDA) (9+10+15)	34,678	26.0%	7,676	10.0%	27,002	n.s.
17	Depreciation and amortisation	(13,266)	-10.0%	(6,970)	-9.1%	(6,296)	90.3%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(2,206)	-1.7%	(2,051)	-2.7%	(155)	7.5%
20	Reversal of impairment losses and non-monetary income	849	0.6%	0	0.0%	849	n.s.
21	Total non-monetary operating income and costs	(14,623)	-11.0%	(9,021)	-11.7%	(5,602)	62.1%
22	Operating margin (EBIT) (16+21)	20,055	15.1%	(1,345)	-1.7%	21,400	n.s.
23	Interest and financial income	4,037	3.0%	1,438	1.9%	2,599	n.s.
24	Interest expense and financial expenses	(3,409)	-2.6%	(1,406)	-1.8%	(2,003)	n.s.
25	Net financial income (expenses)	628	0.5%	32	0.0%	596	n.s.
26	Profit before tax (22+25)	20,683	15.5%	(1,313)	-1.7%	21,996	n.s.
27	Current tax	(6,363)	-4.8%	28	0.0%	(6,391)	n.s.
28	Deferred tax	629	0.5%	(228)	-0.3%	857	n.s.
29	Total income tax expense	(5,734)	-4.3%	(200)	-0.3%	(5,534)	n.s.
30	Net profit/(loss) (26+29)	14,949	11.2%	(1,513)	-2.0%	16,462	n.s.
	attributable to parent company shareholders	14,970	11.2%	(1,513)	-2.0%	16,484	n.s.
	attributable to non-controlling interests	(21)	0.0%	0	0.0%	(21)	n.s.
	Earnings per share:						
33	Basic earnings per share (in Euro)	1,05		(0,11)		1,16	n.s.
34	Diluted earnings per share (in Euro)	1,03		(0,11)		1,14	n.s.

The portion of the net profit pertaining to non-controlling interests regards the 40% interests in Dutch company Rasplata B.V. and in UK company Seekhana Ltd held by other shareholders.

As described in Significant Events during the Reporting Period, on 5 March 2020, the Group signed a settlement agreement with the Italian Tax Authorities in relation to a tax dispute regarding the years from 2011 to 2015 inclusive. The dispute regarded certain operations of subsidiary 505 Games S.p.A. which, based on the assessments conducted by the Tax Authorities, should have been treated as royalties and, therefore, subjected to withholding taxes. As a result of the settlement, the Group recorded non-recurring expenses of Euro 1,398 thousand at 30 June 2020. This amount consists of an estimated of the losses on receivables the Group will suffer in relation to withholding advances it will pay on behalf of suppliers plus interest and penalties totalling Euro 856 thousand in excess of the provision for risks already created in prior years.

As a result of the above, we also present the Statement of Profit or Loss net of non-recurring items in order to provide a clear representation of the operating performance.

	Euro Thousands	30 June 2020		
		Total	Of which non-recurring	Total net of non-recurring items
1	Gross revenue	139,033	0	139,033
2	Revenue adjustments	(5,810)	0	(5,810)
3	Net revenue	133,223	0	133,223
4	Purchase of products for resale	(16,743)	0	(16,743)
5	Purchase of services for resale	(8,857)	0	(8,857)
6	Royalties	(34,600)	0	(34,600)
7	Changes in inventories of finished products	(5,920)	0	(5,920)
8	Total cost of sales	(66,120)	0	(66,120)
9	Gross profit (3+8)	67,103	0	67,103
10	Other income	3,458	0	3,458
11	Costs for services	(13,559)	0	(13,559)
12	Lease and rental expenses	(247)	0	(247)
13	Labour costs	(20,908)	0	(20,908)
14	Other operating costs	(1,169)	0	(1,169)
15	Total operating costs	(35,883)	0	(35,883)
16	Gross operating margin (EBITDA) (9+10+15)	34,678	0	34,678
17	Depreciation and amortisation	(13,266)	0	(13,266)
18	Allocations to provisions	0	0	0
19	Impairment losses recognised on assets	(2,206)	(594)	(1,612)
20	Reversal of impairment losses and non-monetary income	849	0	849
21	Total non-monetary operating income and costs	(14,623)	(594)	(14,029)
22	Operating margin (EBIT) (16+21)	20,055	(594)	20,649
23	Interest and financial income	4,037	0	4,037
24	Interest expense and financial expenses	(3,409)	(580)	(2,829)
25	Net financial income (expenses)	628	(580)	1,208
26	Profit before tax (22+25)	20,683	(1,174)	21,857
27	Current tax	(6,363)	(224)	(6,139)
28	Deferred tax	629	0	629
29	Total income tax expense	(5,734)	(224)	(5,510)
30	Net profit/(loss) (26+29)	14,949	(1,398)	16,347
	attributable to parent company shareholders	14,970	(1,398)	16,368
	attributable to non-controlling interests	(21)	0	(21)

During the annual reporting period, video games such as Control, Indivisible and Journey to the Savage Planet were launched in all formats. The releases complete the video game launch plan that started with Bloodstained during the final quarter of the last annual reporting period. The launch plan has led to strong growth in revenue and profit margins.

Since January 2020, the COVID-19 pandemic spread gradually both in Italy and internationally. The precautionary measures introduced by the government authorities to limit contagion forced people to remain at home and led to the closure of numerous stores and retail chains. Increased free time away from work and school led to significant growth in utilisation of video games in digital format. This resulted in a higher percentage of Group revenues generated by digital distribution and, consequently, to higher operating margins.

Gross revenue increased by 71% over the period from Euro 81,317 thousand in the year ended 30 June 2019 to Euro 139,033 thousand in the year ended 30 June 2020. The following table contains a breakdown of revenue by operating segment for the year ended 30 June 2020 with comparatives for prior year:

Euro Thousands	Gross revenue				Net revenue			
	2020	2019	Change		2020	2019	Change	
Premium Games	122,287	60,432	61,855	102.4%	116,521	57,883	58,638	101.3%
Italian Distribution	8,653	13,741	(5,088)	-37.0%	8,609	11,981	(3,372)	-28.1%
Free to Play	7,476	6,573	903	13.7%	7,476	6,573	903	13.7%
Other Activities	617	571	46	8.0%	617	571	46	8.0%
Total gross revenue	139,033	81,317	57,716	71.0%	133,223	77,008	56,215	73.0%

The Premium Games operating segment generated 88% of consolidated revenue. It recorded a significant, Euro 61,855 thousand increase in gross revenue in the period thanks to sales of the video games Control (released on 27 August 2019), Bloodstained (released at the end of the previous annual reporting period) and Journey to the Savage Planet (released in January 2020).

A breakdown of gross revenue by video game in the Premium Games segment is provided below:

Euro Thousands	30 June 2020	30 June 2019	Change	
Control	34,357	9,490	24,867	n.s.
Journey to the Savage Planet	12,082	0	12,082	n.s.
Bloodstained	11,781	13,888	(2,107)	-15.2%
Terraria	14,969	5,379	9,590	n.s.
Assetto Corsa	16,500	7,020	9,480	n.s.
Indivisible	4,775	0	4,775	n.s.
PAYDAY 2	5,188	4,477	711	15.9%
Other products	18,172	9,806	8,366	85.3%
Retail products	4,463	10,372	(5,909)	-57.0%
Premium Games total gross revenue	122,287	60,432	61,855	102.4%

Control – considered the game of the year by numerous game industry experts – generated gross revenue of Euro 34,357 thousand. The product was developed by Remedy Entertainment, a Finnish company listed on the Nasdaq First North Growth market. The game is available on Epic Games Store video game

marketplace for PC and on Sony Playstation 4 and Microsoft XboX consoles in both digital format and as a physical product.

Bloodstained generated revenue of Euro 13,888 thousand in the year ended 30 June 2019. In the year ended 30 June 2020, it generated a further Euro 11,781 thousand thanks to the launch of the game on Far Eastern markets and the launch of the Nintendo Switch version.

Video game Journey to the Savage Planet, produced by Canadian developer Typhoon Studios, came onto the market in January with versions for PC, PlayStation 4 and Microsoft XboX while the Nintendo Switch was released in May 2020.

The video game Terraria benefited from the launch of the Nintendo Switch at the end of prior year and generated revenue of Euro 14,969 thousand in the year ended 30 June 2020, also thanks to highly successful marketing campaigns.

The PC version of Assetto Corsa Competizione, the official game of the Blancpain GT Series car racing championship, was launched in the final quarter of the last annual reporting period while the console versions were released in the final quarter of the year ended 30 June 2020. It generated revenue of Euro 16,500.

Revenue from the console version of PAYDAY2 have increased by 15.9%. The PC version is published by Swedish developer Starbreeze.

The lockdown period for retail stores imposed by the authorities in response to COVID-19 health emergency heightened the fall in revenue for the Italian Distribution operating segment. Revenue in the segment fell by Euro 5,088 thousand, a 37% decrease compared to prior year.

Gems of War, a Free to Play game launched by the Group more than five years ago and constantly updated and improved, has proven highly resilient and continues to show revenue growth. The Free to Play operating segment as a whole recorded a 13.7% increase in revenue.

In line with the gross revenue trend, net revenue increased by 73% compared to prior year to stand at Euro 133,223 thousand.

Cost of sales increased by Euro 23,038 thousand – a 53.5% increase, less than the percentage increase in revenue. The increase included Euro 13,929 thousand of additional royalties relating to new products and a Euro 4,770 thousand decrease in inventories. Gross profit increased by Euro 33,177 thousand.

Other revenue remained substantially unchanged and amounted to Euro 3,458 thousand. It almost entirely consisted of the capitalisation of in-house work on the development of video games to be launched soon. In particular, during the reporting period, these activities included the development of the new Free to Play version of Hawken by the subsidiary DR Studios Ltd.

Operating costs increased by Euro 6,227 thousand - a much lower percentage increase compared to the percentage recorded for revenues – because of higher advertising expenditure following the launch of new

products and higher labour costs following payment of employee bonuses in contrast to prior year. The decrease in lease and rental costs is due to application of the new IFRS 16.

Gross operating margin/EBITDA increased by Euro 27,002 thousand and represented 26.9% of gross revenue.

Depreciation and amortisation has increased by Euro 6,296 thousand compared to the year ended 30 June 2020. This is due to both additional amortisation of the intellectual property owned by the Group and the application of the new IFRS 16 (Euro 1,259 thousand). Impairment adjustments amount to Euro 2,206 thousand compared to Euro 2,051 thousand at 30 June 2019). This is due to the cancellation of certain development projects (Euro 1,096 thousand), to the writedown of Euro 594 thousand applied to certain amounts receivable by 505 Games S.p.A. from developers following the settlement agreement signed with the Tax Authorities and to other impairment adjustments/writedowns.

Operating margin/EBIT is positive by Euro 20,055 thousand compared to a loss of Euro 1,345 thousand for the year ended 30 June 2019. Excluding non-recurring items, EBIT amounts to Euro 20,649 thousand i.e. 14.9% of gross revenue.

Net financial income amounted to Euro 628 thousand against Euro 32 thousand in prior year. This was due to a Euro 2,559 thousand increase in interest and financial income. The increase mainly included Euro 1,032 thousand for the restatement of the loan of around USD 16.3 million due from Starbreeze as acquired for consideration of Euro 100 thousand and Euro 864 thousand of higher exchange gains.

Interest and financial expenses amount to Euro 3,409 thousand and have increased by Euro 2,003 thousand compared to the year ended 30 June 2019. The increase is mainly because of the equity valuation of investments in associated companies Avantgarden S.r.l. and Seekhana Ltd. (656 thousand) until the date of consolidation, the booking of Euro 580 thousand of interest payable to the Tax Authorities under the settlement agreed with them and higher exchange losses. Excluding non-recurring items, net financial income amounts to Euro 1,208 thousand.

The profit before taxation for the year ended 30 June 2020 amounted to Euro 20,683 thousand, an improvement of Euro 21,996 thousand compared to the loss before taxation of Euro 1,313 thousand reported for the year ended 30 June 2019.

The consolidated net profit amounts to Euro 14,949 thousand compared to a net loss of Euro 1,513 thousand for the year ended 30 June 2019. Net profit adjusted to exclude non-recurring items amounts to Euro 16,347 thousand.

Profit attributable to parent company shareholders amounts to Euro 14,970 thousand.

Basic earnings per share and diluted earnings per share stand at Euro 1.05 and Euro 1.03, respectively, compared to the net loss per share of Euro 0.11 in the year ended 30 June 2019.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	8,837	3,584	5,253	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	33,248	18,341	14,907	81.3%
4	Equity investments	5,488	1,706	3,782	n.s.
5	Non-current receivables and other assets	6,744	9,322	(2,578)	-27.7%
6	Deferred tax assets	3,482	2,745	737	26.8%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	75,050	37,640	37,410	99.4%
	Current assets				
8	Inventories	7,989	13,909	(5,920)	-42.6%
9	Trade receivables	28,168	27,660	508	1.8%
10	Current tax assets	3,100	6,076	(2,976)	-49.0%
11	Other current assets	32,816	29,078	3,738	n.s.
12	Cash and cash equivalents	8,527	4,767	3,760	78.9%
13	Other financial assets	0	2,277	(2,277)	n.s.
	Total current assets	80,600	83,767	(3,167)	-3.8%
	TOTAL ASSETS	155,650	121,407	34,243	28.2%
	Consolidated equity				
14	Share capital	(5,704)	(5,704)	0	0.0%
15	Reserves	(20,960)	(21,223)	263	-1.2%
16	Treasury shares	0	0	0	0.0%
17	(Retained earnings) accumulated losses	(52,288)	(37,298)	(14,990)	40.2%
	Equity attributable to parent company shareholders	(78,952)	(64,225)	(14,727)	22.9%
	Equity attributable to non-controlling interests	(979)	0	(979)	n.s.
	Total consolidated equity	(79,931)	(64,225)	(15,706)	24.5%
	Non-current liabilities				
18	Employee benefits	(659)	(573)	(86)	15.0%
19	Non-current provisions	(81)	(81)	0	0.7%
20	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
21	Financial liabilities	(6,369)	(4,302)	(2,067)	48.0%
	Total non-current liabilities	(7,578)	(5,879)	(1,699)	28.9%
	Current liabilities				
22	Trade payables	(41,140)	(24,631)	(16,509)	67.0%
23	Current tax liabilities	(5,473)	(1,138)	(4,335)	n.s.
24	Current provisions	(0)	(856)	856	n.s.
25	Other current liabilities	(4,721)	(3,761)	(960)	n.s.
26	Financial liabilities	(16,807)	(20,917)	4,110	-19.6%
	Total current liabilities	(68,141)	(51,303)	(16,838)	32.8%
	TOTAL LIABILITIES	(75,719)	(57,182)	(18,537)	32.4%
	TOTAL LIABILITIES AND EQUITY	(155,650)	(121,407)	(34,243)	28.2%

In order to better represent the significant changes in the balance sheet structure as a result of the gradual increase in importance of the Premium Games and Free to Play operating segments, the Group has decided to change the lay-out of its statement of financial position, adopting a more traditional structure with assets and liabilities shown separately; prior year comparative amounts have been reclassified accordingly. Further explanations are provided in the Notes to the Consolidated Financial Statements.

Non-current assets have increased by Euro 37,410 thousand.

Property, plant and equipment have increased by Euro 5,253 thousand, mainly as a result of application of the new IFRS 16 which led to the recognition of buildings of Euro 5,432 thousand, net of depreciation for the reporting period. Intangible assets have increased by Euro 14,907 thousand due to investment in new video games minus amortisation and impairment adjustments for the period.

Current assets have decreased by Euro 3,167 thousand.

Inventories have decreased by Euro 5,920 thousand, following the adjustment of Euro 4,772 thousand made to restate the value of finished goods after the COVID-19 pandemic which led to a drastic fall in the selling prices of products in inventory.

Non-current liabilities have increased by Euro 1,699 thousand while current liabilities have increased by Euro 16,838 thousand.

Trade payables, amounting to Euro 41,140 thousand at 30 June 2020, have increased by Euro 16,509 thousand compared to 30 June 2019 because of higher payables for royalties and for the physical production of the video games of 505 Games S.p.A.; these increases are in line with the revenue growth of the Premium Games operating segment.

The following table contains a breakdown of the net financial position with comparative figures at 30 June 2019:

	Euro Thousands	30 June 2020	30 June 2019	Change	
12	Cash and cash equivalents	8,527	4,767	3,760	78,9%
13	Other current financial assets	0	2,277	(2,277)	n.s.
26	Current financial liabilities	(16,807)	(20,917)	4,110	-19,6%
	Current net financial position	(8,280)	(13,873)	5,593	-40,3%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
21	Non-current financial liabilities	(6,369)	(4,302)	(2,067)	48,0%
	Non-current net financial position	10,882	(2,360)	13,242	n.s.
	Total net financial position	2,602	(16,233)	18,835	n.s.

The net financial position has improved considerably and shows net cash of Euro 2,602 thousand compared to net debt of Euro 16,233 thousand at 30 June 2019, despite the investments made by the Group during the reporting period. The improvement amounts to Euro 18,835 thousand compared to 30 June 2019, taking account of the fact that application of the new IFRS 16 has led to recognition of a financial liability of Euro

5,336 thousand. Without the application of the new IFRS 16, the improvement in the net financial position over the reporting period would have amounted to Euro 24,171 thousand.

7. PERFORMANCE BY OPERATING SEGMENT

Premium Games

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Premium Games					
		30 June 2020		30 June 2019		Change	
1	Gross revenue	122,287	104.9%	60,432	104.4%	61,855	102.4%
2	Revenue adjustments	(5,766)	-4.9%	(2,549)	-4.4%	(3,217)	n.s.
3	Net revenue	116,521	100.0%	57,883	100.0%	58,638	101.3%
4	Purchase of products for resale	(11,291)	-9.7%	(6,141)	-10.6%	(5,150)	83.9%
5	Purchase of services for resale	(6,528)	-5.6%	(3,812)	-6.6%	(2,716)	71.2%
6	Royalties	(34,207)	-29.4%	(20,180)	-34.9%	(14,027)	69.5%
7	Changes in inventories of finished products	425	0.4%	(435)	-0.8%	860	n.s.
8	Total cost of sales	(51,601)	-44.3%	(30,568)	-52.8%	(21,033)	68.8%
9	Gross profit (3+8)	64,920	55.7%	27,315	47.2%	37,605	n.s.
10	Other income	1,336	1.1%	1,344	2.3%	(8)	-0.6%
11	Cost of services	(10,352)	-8.9%	(5,875)	-10.1%	(4,477)	76.2%
12	Lease and rental charges	(81)	-0.1%	(623)	-1.1%	542	-86.9%
13	Labour costs	(11,144)	-9.6%	(8,760)	-15.1%	(2,384)	27.2%
14	Other operating costs	(398)	-0.3%	(394)	-0.7%	(4)	1.0%
15	Total operating costs	(21,975)	-18.9%	(15,652)	-27.0%	(6,323)	40.4%
16	Gross operating margin (EBITDA) (9+10+15)	44,281	38.0%	13,007	22.5%	31,274	n.s.
17	Depreciation and amortisation	(11,025)	-9.5%	(4,693)	-8.1%	(6,332)	n.s.
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.s.
19	Impairment adjustments to assets	(1,860)	-1.6%	(1,565)	-2.7%	(295)	18.8%
20	Reversal of impairment adjustments and non-monetary income	259	0.2%	0	0.0%	259	0.0%
21	Total non-monetary income and operating costs	(12,626)	-10.8%	(6,258)	-10.8%	(6,368)	n.s.
22	Operating margin (EBIT) (16+21)	31,655	27.2%	6,749	11.7%	24,906	n.s.

During the period, video games Control, Indivisible and Journey to the Savage Planet were launched in all formats. These launches complete the video game release plan which began with Bloodstained in the final quarter of prior year and will continue with Journey to the Savage Planet in the third quarter of the current year. The release plan has led to a sharp increase in revenue and profitability.

The Premium Games operating segment has enjoyed strong gross revenue growth totalling Euro 61,855 thousand thanks to sales of Control (released on 27 August 2019), Bloodstained (released at the end of the previous annual reporting period) and Journey to the Savage Planet (launched in the third quarter of the current reporting period).

Gross revenue by video game in the Premium Games segment was as follows:

Euro Thousanda	30 June 2020	30 June 2019	Change	
Control	34,357	9,490	24,867	n.s.
Journey to the Savage Planet	12,082	0	12,082	n.s.
Bloodstained	11,781	13,888	(2,107)	-15.2%
Terraria	14,969	5,379	9,590	n.s.
Assetto Corsa	16,500	7,020	9,480	n.s.
Indivisible	4,775	0	4,775	n.s.
PAYDAY 2	5,188	4,477	711	15.9%
Other products	18,172	9,806	8,366	85.3%
Retail products	4,463	10,372	(5,909)	-57.0%
Total Premium Games gross revenue	122,287	60,432	61,855	102.4%

Control – considered the game of the year by numerous game industry experts – generated gross revenue of Euro 34,357 thousand. The product was developed by Remedy Entertainment, a Finnish company listed on the Nasdaq First North Growth market. The game is available on the Epic Games Store video game marketplace for PC and on the Sony Playstation 4 and Microsoft Xbox consoles in both digital format and as a physical product.

Bloodstained generated revenue of Euro 13,888 thousand in the year ended 30 June 2019. In the year ended 30 June 2020, it generated a further Euro 11,781 thousand thanks to the launch of the game on Far Eastern markets and the launch of the Nintendo Switch version.

Video game Journey to the Savage Planet, produced by Canadian developer Typhoon Studios, came onto the market in January with versions for PC, PlayStation 4 and Microsoft Xbox while the Nintendo Switch was released in May 2020.

The video game Terraria benefited from the launch of the Nintendo Switch at the end of prior year and generated revenue of Euro 14,969 thousand in the year ended 30 June 2020, also thanks to highly successful marketing campaigns.

The PC version of Assetto Corsa Competizione, the official game of the Blancpain GT Series car racing championship, was launched in the final quarter of the last annual reporting period while the console versions were released in the final quarter of the year ended 30 June 2020. It generated revenue of Euro 16,500.

Revenues from the console version of PAYDAY2 have increased by 15.9%. The PC version is published by Swedish developer Starbreeze.

A breakdown of revenue by type is provided below:

Euro Thousands	30 June 2020	30 June 2019	Change	
Retail distribution revenue	33,250	19,080	14,170	74.3%
Digital distribution revenue	80,048	35,766	44,282	n.s.
Sub-licensing revenue	8,760	5,586	3,174	56.8%
Revenue from services	229	0	229	n.s.
Total Premium Games revenue	122,287	60,432	61,855	102.4%

Retail distribution revenue increased by Euro 14,170 thousand in the period ended 30 June 2020 but decreased from 32% of total Premium Games revenue in prior year to 27% in the current period. Meanwhile digital distribution revenue increased by Euro 44,282 thousand and rose from 59% to 65% of total Premium Games revenue.

Sub-licensing revenue arises from the sub-licensing of game rights to publishers on markets where the Group does not operate directly, especially on Far East markets.

Digital distribution revenue for the period ended 30 June 2020 may be broken down by console type as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	
Sony Playstation	24,132	7,118	17,014	n.s.
Microsoft Xbox	14,336	4,502	9,834	n.s.
Nintendo Switch	7,133	2,391	4,742	n.s.
Total consoles	45,601	14,011	31,590	n.s.
Personal computer	25,258	20,051	5,207	26.0%
Mobile	9,189	1,703	7,486	n.s.
Total digital distribution revenue	80,048	35,766	44,282	n.s.

Digital distribution revenue has increased considerably on all platforms.

In line with the gross revenue trend, net revenue has doubled compared to prior year to reach Euro 116,521 thousand.

The total cost of sales of the Premium Games operating segment has increased by Euro 21,033 thousand also because of Euro 14,027 thousand of additional royalties on new products. Gross profit has increased by Euro 37,605 thousand.

Other revenue remains largely unchanged at Euro 1,336 thousand and consists almost entirely of capitalised costs for in-house development of video games.

Operating costs increased by Euro 6,323 thousand - a smaller percentage increase than that recorded by revenue – because of higher advertising expenditure following the launch of new products and higher labour costs after employee bonuses were paid in contrast to in prior year. The decrease in lease and rental costs is due to application of the new IFRS 16.

Gross operating margin/EBITDA has increased by Euro 31,274 thousand. It represented 38% of net revenue compared to 22.5% in prior year.

Operating margin/EBIT is positive by Euro 31,655 thousand (27.2% of net revenue) with an increase of Euro 24,906 thousand compared to Euro 6,749 thousand for the year ended 30 June 2019.

The assets and liabilities attributable to the Premium Games operating segment are as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	1,168	569	599	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	25,943	13,172	12,771	97.0%
4	Equity investments	(0)	0	0	0.0%
5	Non-current receivables and other assets	186	186	0	0.0%
6	Deferred tax assets	1,639	1,710	(71)	-4.2%
7	Non-current financial assets	0	0	0	0.0%
	Total non-current assets	28,936	15,637	13,299	85.0%
	Current assets				
8	Inventories	3,267	2,842	425	15.0%
9	Trade receivables	22,914	24,419	(1,505)	-6.2%
10	Current tax assets	242	971	(729)	-75.1%
11	Other current assets	27,095	27,616	(521)	-1.9%
12	Cash and cash equivalents	7,093	4,333	2,760	63.7%
13	Other financial assets	0	2,277	(2,277)	n.s.
	Total current assets	60,611	62,458	(1,847)	-3.0%
	TOTAL ASSETS	89,547	78,095	11,452	14.7%
	Non-current liabilities				
18	Employee benefits	(214)	(123)	(91)	73.7%
19	Non-current provisions	0	0	0	0.0%
20	Other non-current payables and liabilities	0	0	0	0.0%
21	Financial liabilities	(1,292)	(4,293)	3,001	-69.9%
	Total non-current liabilities	(1,506)	(4,416)	2,910	-65.9%
	Current liabilities				
22	Trade payables	(37,855)	(22,645)	(15,210)	67.2%
23	Current tax liabilities	(5,207)	(824)	(4,383)	n.s.
24	Current provisions	0	(856)	856	n.s.
25	Other current liabilities	(3,363)	(2,952)	(411)	13.9%
26	Financial liabilities	(4,508)	(9,071)	4,563	-50.3%
	Total current liabilities	(50,933)	(36,348)	(14,585)	40.1%
	TOTAL LIABILITIES	(52,439)	(40,765)	(11,674)	28.6%

The increase in intangible assets is due to investment in new video games net of amortisation and impairment adjustments for the reporting period. Meanwhile, the increase in trade payables is due to higher payables for royalties and for the physical production of the video games of 505 Games S.p.A., in line with the increase in revenue for the operating segment.

Free to Play

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Free to Play					
		30 June 2020		30 June 2019		Change	
1	Gross revenue	7,476	100.0%	6,573	100.0%	903	13.7%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	7,476	100.0%	6,573	100.0%	903	13.7%
4	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	(2,189)	-29.3%	(2,088)	-31.8%	(101)	4.8%
6	Royalties	(363)	-4.9%	(464)	-7.1%	101	-21.8%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(2,552)	-34.1%	(2,552)	-38.8%	(0)	0.0%
9	Gross profit (3+8)	4,924	65.9%	4,021	61.2%	903	22.5%
10	Other income	2,039	27.3%	1,829	27.8%	210	11.5%
11	Costs for services	(271)	-3.6%	(240)	-3.7%	(31)	12.7%
12	Lease and rental costs	(19)	-0.3%	(49)	-0.7%	30	-61.3%
13	Labour costs	(4,440)	-59.4%	(3,609)	-54.9%	(831)	23.0%
14	Other operating costs	(82)	-1.1%	(190)	-2.9%	108	-56.8%
15	Total operating costs	(4,812)	-64.4%	(4,088)	-62.2%	(724)	17.7%
16	Gross operating margin (EBITDA) (9+10+15)	2,151	28.8%	1,762	26.8%	389	22.1%
17	Depreciation and amortisation	(1,127)	-15.1%	(1,760)	-26.8%	633	-36.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(346)	-4.6%	(286)	-4.4%	(60)	20.9%
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	(1,473)	-19.7%	(2,046)	-31.1%	573	-28.0%
22	Operating margin (EBIT) (16+21)	678	9.1%	(284)	-4.3%	962	n.s.

Gems of War, a Free to Play game launched by the Group more than five years ago and constantly updated and improved, has proven highly resilient and continues to show revenue growth. The Free to Play operating segment as a whole recorded a 13.7% increase in revenue. The following table contains a breakdown of revenue by video game:

Euro Thousands	30 June 2020	30 June 2019	Change
Gems of War	5,687	4,674	1,013
Battle Islands	872	1,162	(290)
Prominence Poker	849	666	183
Other products	68	71	(3)
Total Free to Play revenue	7,476	6,573	903

Purchases of services for resale have increased by Euro 101 thousand because of higher expenditure on live support services. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Live support	1,341	1,262	79
Quality assurance	115	188	(73)
Hosting	548	491	57
Other	185	147	38
Total purchases of services for resale	2,189	2,088	101

Live support consists of game development and improvement after the initial launch in order to ensure players remain interested thanks to additional content that is added periodically.

Other revenue has increased by Euro 210 thousand compared to the year ended 30 June 2019. It mainly comprises the internal development costs incurred by the Group for the development of the future Free to Play version of the Hawken series video game whose launch is scheduled for next year.

Operating costs have increased by Euro 724 thousand compared to prior year. This is due to a Euro 831 thousand following the recognition of employee bonuses, in contrast to prior year.

Gross operating margin / EBITDA amounts to Euro 2,151 thousand and has increased by Euro 389 thousand compared to the year ended 30 June 2019.

Depreciation and amortisation have decreased by Euro 633 thousand due to completion of the amortisation period of several products. Impairment adjustments of Euro 346 thousand refer to the decision to terminate the commercial exploitation of the Chef Emma video game as it was deemed unprofitable after its launch.

The EBIT/operating profit of the operating segment amounts to Euro 678 thousand, an improvement of Euro 962 thousand on the operating loss for the year ended on 30 June 2019.

The assets and liabilities attributable to the Free to Play operating segment are as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	174	74	100	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	6,061	4,657	1,404	30.1%
4	Equity investments	0	0	0	0.0%
5	Non-current receivables and other assets	0	0	0	0.0%
6	Deferred tax assets	490	329	161	48.7%
7	Non-current financial assets	0	0	0	0.0%
	Total non-current assets	6,725	5,060	1,665	32.9%
	Current assets				
8	Inventories	0	0	0	0.0%
9	Trade receivables	1,737	1,449	288	n.s.
10	Current tax assets	98	142	(44)	-30.5%
11	Other current assets	1,767	58	1,709	n.s.
12	Cash and cash equivalents	318	284	34	12.1%
13	Other financial assets	0	0	0	0.0%
	Total current assets	3,920	1,933	1,987	n.s.
	TOTAL ASSETS	10,645	6,993	3,652	52.2%
	Non-current liabilities				
18	Employee benefits	0	0	0	0.0%
19	Non-current provisions	0	0	0	0.0%
20	Other non-current payables and liabilities	0	0	0	0.0%
21	Financial liabilities	(62)	0	(62)	n.s.
	Total non-current liabilities	(62)	0	(62)	n.s.
	Current liabilities				
22	Trade payables	(1,023)	(447)	(576)	n.s.
23	Current tax liabilities	(91)	(147)	56	-37.9%
24	Current provisions	(0)	0	0	0.0%
25	Other current liabilities	(42)	(40)	(2)	6.8%
26	Financial liabilities	(54)	0	(54)	n.s.
	Total current liabilities	(1,210)	(634)	(576)	91.1%
	TOTAL LIABILITIES	(1,272)	(634)	(638)	n.s.

Non-current assets have increased by Euro 1,665 thousand.

The increase in intangible assets is due to capitalisation of the internal costs the Group is incurring for the development of the future version of Hawken series Free to Play video game. The increases in trade receivables and trade payables are in line with the revenue growth of the operating segment while the increase in other current assets relates to upfront expenses, especially for programming, in relation to video games that will be launched in future.

Current assets have increased by Euro 1,987 thousand.

Other current assets comprise upfront production costs incurred for video games that will be launched during the next reporting period.

Italian Distribution

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Italian Distribution					
		30 June 2020		30 June 2019		Change	
1	Gross revenue	8,653	100.5%	13,741	114.7%	(5,088)	-37.0%
2	Revenue adjustments	(44)	-0.5%	(1,760)	-14.7%	1,716	n.s.
3	Net revenue	8,609	100.0%	11,981	100.0%	(3,372)	-28.1%
4	Purchases of products for resale	(5,452)	-63.3%	(8,534)	-71.2%	3,082	-36.1%
5	Purchases of services for resale	(128)	-1.5%	(657)	-5.5%	529	-80.6%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	(6,345)	-73.7%	(715)	-6.0%	(5,630)	n.s.
8	Total cost of sales	(11,925)	138.5%	(9,906)	-82.7%	(2,019)	20.4%
9	Gross profit (3+8)	(3,316)	-38.5%	2,075	17.3%	(5,391)	n.s.
10	Other income	0	0.0%	0	0.0%	0	n.s.
11	Costs for services	(1,208)	-14.0%	(1,252)	-10.4%	44	-3.5%
12	Lease and rental costs	(29)	-0.3%	(34)	-0.3%	5	-15.7%
13	Labour costs	(1,365)	-15.9%	(1,370)	-11.4%	5	-0.4%
14	Other operating costs	(188)	-2.2%	(218)	-1.8%	30	-13.7%
15	Total operating costs	(2,790)	-32.4%	(2,874)	-24.0%	84	-2.9%
16	Gross operating margin (EBITDA) (9+10+15)	(6,106)	-70.9%	(799)	-6.7%	(5,307)	n.s.
17	Depreciation and amortisation	(173)	-2.0%	(262)	-2.2%	89	-33.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	0	0.0%	(67)	-0.6%	67	n.s.
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	(173)	-2.0%	(329)	-2.7%	156	-47.6%
22	Operating margin (EBIT) (16+21)	(6,279)	-72.9%	(1,128)	-9.4%	(5,151)	n.s.

The lockdown period for retail stores imposed by the authorities in response to the COVID-19 health emergency heightened the fall in revenue for the Italian Distribution operating segment. Revenue in the segment fell by Euro 5,088 thousand, a 37% decrease compared to prior year.

Gross revenue is analysed by type as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	
Distribution of video games for consoles	6,165	8,440	(2,275)	-27.0%
Distribution of trading cards	2,076	4,624	(2,548)	-55.1%
Distribution of other products and services	412	677	(265)	-39.1%
Total gross revenue – Italian Distribution	8,653	13,741	(5,088)	-37.0%

Gross revenue by console type is analysed as follows:

Euro Thousands	30 June 2020		30 June 2019		Change	
	Units	Revenue	Units	Revenue	Units	Revenue
Sony Playstation 4	163,768	5,158	196,348	6,637	-16.6%	-22.3%
Microsoft Xbox One	20,996	687	29,758	1,032	-29.4%	-33.4%
Nintendo Switch	12,894	300	21,705	709	-40.6%	-57.7%
Other consoles	12,790	19	20,109	62	-36.4%	-69.1%
Total console revenues	210,448	6,165	267,920	8,440	-21.5%	-27.0%

In line with the life cycle of consoles, revenue from the distribution of video games for Sony PlayStation 3 and Microsoft Xbox 360 has almost dried up and is now classified under other consoles.

Sales of trading cards have decreased by 55.1%.

Cost of sales amounts to Euro 11,925 thousand and has decreased by Euro 2,019 thousand compared to 30 June 2019, also because of the Euro 4,248 thousand adjustment to the value of finished goods inventories because of a drastic rise in inventory obsolescence.

Operating costs amount to Euro 2,790 thousand and have decreased slightly compared to the year ended 30 June 2019 when they totalled Euro 2,874 thousand. As a result, gross operating margin/EBITDA is negative by Euro 6,106 thousand (a deterioration of Euro 5,307 thousand compared to prior year) while net operating margin/EBIT has deteriorated by Euro 5,151 compared to prior year to stand at a negative figure of Euro 6,279 thousand.

The assets and liabilities attributable to the Italian Distribution operating segment are as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	2,352	2,381	(29)	-1.2%
2	Investment property	0	0	0	0.0%
3	Intangible assets	0	0	0	0.0%
4	Equity investments	0	0	0	0.0%
5	Non-current receivables and other assets	6	5	1	21.3%
6	Deferred tax assets	1,346	695	651	93.8%
7	Non-current financial assets	0	0	0	0.0%
	Total non-current assets	3,704	3,081	623	20.2%
	Current assets				
8	Inventories	4,722	11,067	(6,345)	-57.3%
9	Trade receivables	1,904	1,782	122	6.8%
10	Current tax assets	986	1,041	(55)	-5.2%
11	Other current assets	238	330	(92)	-27.8%
12	Cash and cash equivalents	865	93	772	n.s.
13	Other financial assets	0	0	0	0.0%
	Total current assets	8,715	14,313	(5,598)	-39.1%
	TOTAL ASSETS	12,419	17,394	(4,795)	-13.2%
	Non-current liabilities				
18	Employee benefits	(429)	(436)	7	-1.6%
19	Non-current provisions	(81)	(81)	0	0.0%
20	Other non-current payables and liabilities	0	0	0	0.0%
21	Financial liabilities	0	0	0	0.0%
	Total non-current liabilities	(510)	(517)	7	-1.4%
	Current liabilities				
22	Trade payables	(698)	(918)	220	-24.0%
23	Current tax liabilities	(158)	(145)	(13)	9.0%
24	Current provisions	0	0	0	0.0%
25	Other current liabilities	(868)	(609)	(259)	42.5%
26	Financial liabilities	(568)	(98)	(470)	479.9%
	Total current liabilities	(2,292)	(1,770)	(522)	29.4%
	TOTAL LIABILITIES	(2,802)	(2,287)	(515)	22.5%

The most significant change is the Euro 6,345 thousand decrease in inventories. This is because of the aforementioned adjustment for obsolescence and the decrease in inventories due to a reduction in the volume of business of the operating segment.

Other Activities

Reclassified P&L highlights

Consolidated amounts in Euro Thousands		Other Activities					
		30 June 2020		30 June 2019		Change	
1	Gross revenue	617	100.0%	571	100.0%	46	8.1%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	617	100.0%	571	100.0%	46	8.1%
4	Purchases of products for resale	0	0.1%	0	0.1%	0	0.0%
5	Purchases of services for resale	(12)	-1.9%	(29)	-5.1%	17	-60.1%
6	Royalties	(30)	-4.9%	(27)	-4.8%	(3)	66.6%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(42)	-6.8%	(56)	-9.8%	14	-24.7%
9	Gross profit (3+8)	575	93.2%	515	90.3%	60	11.5%
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Costs for services	(163)	-26.4%	(154)	-27.0%	(9)	5.9%
12	Lease and rental costs	(1)	-0.2%	(5)	-0.8%	4	-66.6%
13	Labour costs	(324)	-52.6%	(543)	-95.2%	219	-40.3%
14	Other operating costs	(32)	-5.1%	(38)	-6.7%	6	-17.2%
15	Total operating costs	(520)	-84.3%	(740)	-129.7%	220	-29.7%
16	Gross operating margin (EBITDA) (9+10+15)	55	9.0%	(225)	-39.5%	280	n.s.
17	Depreciation and amortisation	(110)	-17.8%	(85)	-14.9%	(25)	29.2%
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	(110)	-17.8%	(85)	-14.9%	(25)	29.2%
22	Operating margin (EBIT) (16+21)	(55)	-8.9%	(310)	-54.4%	255	-82.2%

The revenue of the Other Activities operating segment has increased by Euro 46 thousand from Euro 571 thousand to Euro 617 thousand in the year ended 30 June 2020.

Operating costs have decreased by Euro 220 thousand mainly because of lower labour costs which, in the prior year, included one-off costs for the liquidation of Game Network S.r.l.

There is an operating loss/negative EBIT of Euro 55 thousand, much smaller than the operating loss of Euro 310 thousand for the year ended 30 June 2019.

The assets and liabilities attributable to the Other Activities operating segment are as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	83	123	(40)	-32.4%
2	Investment property	0	0	0	0.0%
3	Intangible assets	1,048	254	794	n.s.
4	Equity investments	0	0	0	0.0%
5	Non-current receivables and other assets	0	0	0	0.0%
6	Deferred tax assets	7	11	(4)	-37.3%
7	Non-current financial assets	0	0	0	0.0%
	Total non-current assets	1,138	388	750	n.s.
	Current assets				
8	Inventories	0	0	0	0.0%
9	Trade receivables	5	10	(5)	-43.9%
10	Current tax assets	7	9	(2)	-26.1%
11	Other current assets	230	262	(32)	-12.1%
12	Cash and cash equivalents	131	27	104	n.s.
13	Other financial assets	0	0	0	0.0%
	Total current assets	373	308	65	21.2%
	TOTAL ASSETS	1,511	696	815	n.s.
	Non-current liabilities				
18	Employee benefits	(16)	(14)	(2)	14.9%
19	Non-current provisions	0	0	0	0.0%
20	Other non-current payables and liabilities	0	0	0	0.0%
21	Financial liabilities	0	0	0	n.s.
	Total non-current liabilities	(16)	(14)	(2)	14.9%
	Current liabilities				
22	Trade payables	(136)	(136)	0	0.0%
23	Current tax liabilities	(17)	(22)	5	-22.7%
24	Current provisions	0	0	0	0.0%
25	Other current liabilities	(105)	(138)	33	-23.9%
26	Financial liabilities	0	0	0	0.0%
	Total current liabilities	(258)	(296)	38	-12.9%
	TOTAL LIABILITIES	(274)	(310)	36	-11.7%

The increase in intangible assets is due to the capitalisation of development costs for video games under production by Seekhana Ltd..

Holding

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Holding					
		30 June 2020		30 June 2019		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	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	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	83	0.0%	233	0.0%	(150)	-64.3%
11	Costs for services	(1,565)	0.0%	(1,549)	0.0%	(16)	1.0%
12	Lease and rental costs	(117)	0.0%	(749)	0.0%	632	-84.4%
13	Labour costs	(3,635)	0.0%	(3,621)	0.0%	(14)	0.4%
14	Other operating costs	(469)	0.0%	(383)	0.0%	(86)	22.7%
15	Total operating costs	(5,786)	0.0%	(6,302)	0.0%	516	-8.2%
16	Gross operating margin (EBITDA) (9+10+15)	(5,703)	0.0%	(6,069)	0.0%	366	-6.0%
17	Depreciation and amortisation	(831)	0.0%	(171)	0.0%	(660)	n.s.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	0	0.0%	(132)	0.0%	132	n.s.
20	Reversal of impairment adjustments	590	0.0%	0	0.0%	590	0.0%
21	Total non-monetary operating costs	(241)	0.0%	(303)	0.0%	62	-20.7%
22	Operating margin (EBIT) (16+21)	(5,944)	0.0%	(6,372)	0.0%	428	-6.7%

Other income has decreased by Euro 150 thousand. In the previous year, it included the gain of Euro 169 thousand realised on the sale of the property owned by 133 W Broadway Inc.

Operating costs amounted to Euro 5,786 thousand, a Euro 516 thousand decrease compared to the period ended on 30 June 2019. The decrease in lease and rental costs – countered by the increase in depreciation and amortisation – is due to application of the new IFRS 16.

Reversal of impairment adjustments involve the updated percentages used in applying IFRS 9 to the receivable of USD 10 million, plus interest, for the sale of Pipeworks Inc..

Operating margin/EBIT was negative by Euro 5,944 thousand compared to a negative figure of Euro 6,372 thousand for the year ended 30 June 2019.

The assets and liabilities attributable to the operating segment are as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	5,060	437	4,623	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	196	258	(62)	-24.3%
4	Equity investments	5,488	1,706	3,782	n.s.
5	Non-current receivables and other assets	6,552	9,131	(2,579)	-28.2%
6	Deferred tax assets	0	0	0	0.0%
7	Non-current financial assets	17,251	1,942	15,309	0.0%
	Total non-current assets	34,547	13,474	21,073	n.s.
	Current assets				
8	Inventories	0	0	0	0.0%
9	Trade receivables	0	0	0	0.0%
10	Current tax assets	1,767	3,913	(2,146)	-54.8%
11	Other current assets	5,094	812	4,282	n.s.
12	Cash and cash equivalents	120	30	90	n.s.
13	Other financial assets	0	0	0	n.s.
	Total current assets	6,981	4,755	2,226	46.8%
	TOTAL ASSETS	41,528	18,229	23,299	n.s.
	Non-current liabilities				
18	Employee benefits	0	0	0	0.0%
19	Non-current provisions	0	0	0	0.0%
20	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
21	Financial liabilities	(5,015)	(9)	(5,006)	n.s.
	Total non-current liabilities	(5,484)	(932)	(4,552)	n.s.
	Current liabilities				
22	Trade payables	(1,428)	(485)	(943)	n.s.
23	Current tax liabilities	0	0	0	0.0%
24	Current provisions	0	0	0	0.0%
25	Other current liabilities	(343)	(22)	(321)	n.s.
26	Financial liabilities	(11,677)	(11,748)	71	-0.6%
	Total current liabilities	(13,448)	(12,254)	(1,194)	9.7%
	TOTAL LIABILITIES	(18,932)	(13,186)	(5,746)	43.6%

The increases in property, plant and equipment and in non-current financial liabilities are the result of application of the new IFRS 16 while the increase in investments is due to the acquisition of shares in Swedish company Starbreeze AB. The increase in non-current financial assets is due to the acquisition from the Korean company Smilegate Holdings of the convertible bond issued by Starbreeze AB, as described in the section Significant Events during the Reporting Period.

The increase in other current assets is due to the inclusion under this caption of portion of the total receivable of USD 10 million arising from the sale of US company Pipeworks Inc., as increased by interest maturing within a year.

The increase in non-current financial liabilities is due to recognition of such liabilities following application of the new IFRS 16.

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 in Europe.

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

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. and 505 Games S.p.A. for personnel costs and general costs relating to employees involved in production and marketing for the Free to Play operating segment.

Prior to its acquisition, DR Studios Ltd. was already 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.

Digital Bros China Ltd and Digital Bros Asia Pacific Ltd. bill 505 Games S.p.A. for costs relating to their business development activities on Asian markets.

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

Prior to its acquisition, Avantgarden S.r.l. was already 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.

Digital Bros S.p.A. debits Avantgarden S.r.l. with the cost of leasing part of the property in Via Tortona, Milan which is 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.

Digital Bros S.p.A. has made a loan to Rasplata B.V. on which interest accruing is charged quarterly.

Other minor transactions regarding administrative, financial, legal and general services 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.

When preparing the consolidated financial statements for the year ended 30 June 2020, the impact of intercompany transactions on the results and financial position was eliminated in full.

Transactions with other related parties

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.;
- video game development work by Ovosonico S.r.l. on behalf of 505 Games S.p.A..

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

The effects of related party transactions on profit or loss and on the financial position are disclosed in paragraph 12 of the Notes.

9. TREASURY SHARES

Pursuant to Art. 2428(2)(3) of the Italian Civil Code, it is hereby disclosed that, at 30 June 2020, Digital Bros S.p.A. did not hold any treasury shares and did not carry out any transactions in treasury shares during the reporting period.

10. RESEARCH AND DEVELOPMENT

During the reporting period, the Group incurred development costs of Euro 2,933 thousand compared to Euro 2,982 thousand in the year ended 30 June 2019. These development activities were carried out by subsidiaries DR Studios Ltd., 505 Mobile (US) Inc., Kunos Simulazioni S.r.l. and Avantgarden S.r.l. and regarded the development of the Assetto Corsa and Rebound video games and of the new version of the Hawken series of video games.

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

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

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

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

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

Operational risks

The most significant operational risks are:

- risk regarding ability to predict demand for products;
- exclusion of the publisher and failure to control intellectual property;
- product obsolescence risk;
- risk of dependence on key personnel;
- risk regarding management of development projects.

Risk regarding ability to predict demand for products

Like the entertainment industry as a whole, the video games market is exposed to a range of risks that the Group cannot control but which are connected to the public appeal of the products published. If the Group were unable to satisfy consumer tastes and keep up with rapid changes, its revenues and margins could be seriously affected and its business plan targets could prove hard to achieve.

This risk is mitigated by experienced management and by the procedure implemented by the Group for the acquisition of licensing and development contracts; this involves close examination of a product's economic potential through ongoing market analysis throughout the development stage of the video game. For larger investments, the Group also uses market research and/or specific studies conducted by independent experts into the product's potential. Forecasts are reviewed quarterly so that any corrective action can be taken.

Exclusion of the publisher and failure to control intellectual property

The gradual digitalisation of video game distribution has led to the shortening of the value chain. The possibility of a further shortening in the near future could cast doubts on the role of the publisher, should it no longer own intellectual property and/or have contractual control over it.

In order to mitigate this risk, the Group has pursued a strategy of acquiring controlling interests in developers in order to increase its level of control over intellectual property. Moreover, the Group has set up organisational units designed to identify new intellectual property and plays an active role in the establishment of start-ups.. The risk is still considered high and, accordingly, the Group has implemented all of the measures necessary to ensure it is mitigated by contractual arrangements whereby it acquires the rights to new games.

Product obsolescence risk

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

The decision to invest in a given product is often made years before its actual release. Therefore, management must estimate the price a game will sell for in subsequent periods. A sudden acceleration in the obsolescence of a game or its supporting hardware could result in lower retail prices than originally foreseen, with the result that revenues and margins are lower than forecast; this occurred in relation to the COVID-19 pandemic, as described in the specific section of this Directors' Report.

Risk of dependence on key personnel

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

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

This risk is mitigated by the fact that the two Managing Directors are also major shareholders in the Group and by the fact that a long-term incentive plan has been implemented for the CFO.

Management of development projects

The Group manages the game development process largely through external developers who contractually guarantee game release dates. Any failure by the Group to manage game development process timings could cause their market launch to be delayed. In the case of products tied into specific events and/or in case of contractual restrictions with any licensors, this would have a significant impact on the sales potential of the game and on the development costs.

Any delay in the launch of products could lead to actual results different than those budgeted or forecast. Delays could be worsened as a result of the COVID-19 pandemic, as described in the relevant section of the Directors' Report.

The Group is focusing on products not linked to events and has adopted a contract acquisition procedure that requires, for significant projects, a thorough analysis by the Board of Directors of the curriculum vitae and track record of the game development firm. A project management procedure with constant monitoring of the development process by specific figures within the organisation (project manager, brand manager and producer) has also been adopted.

Management of financial risks

The main financial instruments used by the Group are:

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring of trade receivables and advances on notes)
- Finance leases
- Medium-term product development financing.

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

Credit facilities granted to the Group and utilised at 30 June 2020 are as follows:

Euro Thousands	Facility	Utilised	Available
Bank overdrafts	2,650	0	2,650
Import financing	11,750	0	11,750
Advances on invoices and cash orders subject to collection	20,567	547	20,020
Factoring	15,280	21	15,259
Medium-term product development financing	8,378	7,059	1,319
Total	58,625	7,627	50,998

Parent company Digital Bros S.p.A. and 505 Games S.p.A. manages all financial risks, also on behalf of the other subsidiaries. This is except in relation to other financial instruments not listed above i.e. trade payables and receivables arising from operating activities for which each subsidiary remains responsible for the financial risk.

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

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

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

- Exchange rate risk
- Interest rate risk
- Liquidity risk
- Risk of dependence on key customers and collection risk.

Exchange rate risk

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

The Group is indirectly exposed to the risk of fluctuation in the value of the Chinese Renminbi. Sales on digital marketplaces are converted daily into US Dollars. Any significant fluctuation in the USD/CNY exchange rate could lead to a significant loss on revenues. The risk is limited thanks to the possibility of acting swiftly to make changes to product price lists in local currency.

The risk is mitigated by the fact that foreign currency payments are often made in advance. The Group books actual royalty costs in advance and manages to reflect any additional expenses due to exchange rate fluctuation in its selling prices. The Group can also take action to adjust selling prices in order to offset the effect of any exchange rate fluctuation. Another mitigating factor is the possibility of entering into contracts in the same currency so as to mitigate the effect of any negative exchange rate fluctuation.

Interest rate risk

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

This risk is mitigated by the low level of debt and by the adoption of a short-term cash flowing procedure.

Liquidity risk

The liquidity risk regards difficulty in accessing the credit market.

It often takes several years to develop a video game. This means it is necessary to find additional lines of credit to cover the period between the investment and the return on invested capital after the product launch.

The mitigating factors that can reduce this risk are listed below:

- cash flows, financing requirements and liquidity requirements are monitored centrally by the Group Treasury Function with the aim of ensuring effective and efficient management of financial resources and guaranteeing an appropriate level of available liquidity;
- the Group's level of capitalisation means it only has to use leverage to a marginal extent.

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

Risk of dependence on key customers and credit risk

During the reporting period, the top ten global customers accounted for around 74% of trade receivables while the top 50 customers accounted for 98%. Gradual market digitalisation will necessarily lead to a further increase in the level of receivables concentration as sales will be made on marketplaces operating on a global scale. The concentration of revenues on a small number of key customers makes the Group reliant on the decisions made by a handful of companies. Indeed, there is a risk that if a specific product is not selected for purchase, it might not have the necessary visibility on store shelves, in case of physical distribution, but also on digital platforms, thus leading to the loss of expected sales potential. In contrast, a product may acquire additional sales potential if it gains particularly favourable positioning, especially on digital marketplaces.

The concentration of sales on a small number of customers increases the credit risk.

This risk is mitigated through extensive use of credit insurance which reduces potential bad debts, by the potential entry of new marketplaces onto the video game digital distribution market and by the high concentration of digital revenues on a handful of marketplaces with high credit ratings (i.e. Sony, Microsoft, Apple, etc).

12. 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 the net revenue that Starbreeze shall realise on sales of PAYDAY3. At the reporting date, the Group considered this contractual right as a contingent activity as in the prior fiscal year.

13. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 30 June 2020.

14. BUSINESS OUTLOOK

The reporting period ending on 30 June 2021 will see the launch of the PC version of Death Stranding in the first quarter followed by the release of new game Ghostrunner in October and the new generation consoles versions of Control (i.e. for Sony PlayStation 5 and for Microsoft Xbox Serie X) by the end of the third quarter. The Free to Play operating segment will see the global launch of Puzzle Quest 3 and of the massive multiplayer version of Portal Knights during the third quarter. Meanwhile, development of the new version of Hawken is expected to be completed in the fourth quarter.

The continuous launches of new products, together with sales of recently released products, lead us to expect revenue growth in the year ahead, albeit to a lesser extent than the significant growth achieved in the year ended 30 June 2020.

The increase in revenues should not have any effect on operating margins and they are expected to remain almost stable. This is particularly because of the increase in costs to be incurred for marketing campaigns in support of new Free to Play products.

The Net Financial Position was already positive at 30 June 2020 and is expected to improve constantly.

The Group will continue to monitor the effects of the spread of the COVID-19 pandemic, adopting appropriate mitigation measures as necessary and reporting to the market on any issues not already considered to a sufficient degree.

15. OTHER INFORMATION

EMPLOYEES

The following table contains analysis of the number of employees at 30 June 2020 with comparative figures at 30 June 2019:

Category	30 June 2020	30 June 2019	Change
Managers	7	7	0
Office workers	206	184	22
Blue-collar workers and apprentices	6	4	2
Total employees	219	195	24

The increase in the number of office workers is the result of the acquisition of Avantgarden S.r.l. on 3 March 2020.

The following table contains details of the number of employees of non-Italian companies at 30 June 2020 with comparative figures at 30 June 2019:

Category	30 June 2020	30 June 2019	Change
Managers	2	2	0
Office workers	129	119	10
Total employees outside Italy	131	121	10

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 2020	Average no in 2019	Change
Managers	7	8	(1)
Office workers	189	174	15
Blue-collar workers and apprentices	6	4	2
Total employees	202	186	16

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

Category	Average no in 2020	Average no in 2019	Change
Managers	2	3	(1)
Office workers	124	112	12
Total employees outside Italy	126	115	11

Employees of most of the Group's Italian companies are hired under the current Confcommercio national collective employment agreement for the commercial, distribution and services sector. Meanwhile, employees of the two Italian development companies currently consolidated - Kunos Simulazioni S.r.l. and AvantGarden S.r.l. – are hired under the national collective agreement for the mechanical engineering industry.

ENVIRONMENT

At 30 June 2020, there were no environmental issues.

16. EXEMPTION FROM PRESENTATION OF NON-FINANCIAL STATEMENT

The Group does not fall within the scope of application of Legislative Decree no 254 of 30 December 2016, in terms of Article 2, so it has not prepared a Non-Financial Statement.

17. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

The report on corporate governance and ownership structure, which describes how Digital Bros Group complies with the Corporate Governance Code for Listed Companies endorsed by Borsa Italiana S.p.A. and which provides the additional information required by Art. 123-bis of the Consolidated Finance Act, is published in Italian and English in the investors section of the website at www.digitalbros.com.

18. REPORT ON THE POLICY REGARDING REMUNERATION AND FEES PAID

The Report on the policy regarding remuneration and fees paid, containing the information required by Art. 123-ter of the Consolidated Finance Act, is published in Italian and English in the *Governance* section of the website at www.digitalbros.com.



Consolidated financial statements for the year ended 30 June 2020

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position at 30 June 2020

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	8,837	3,584	5,253	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	33,248	18,341	14,907	81.3%
4	Equity investments	5,488	1,706	3,782	n.s.
5	Non-current receivables and other assets	6,744	9,322	(2,578)	-27.7%
6	Deferred tax assets	3,482	2,745	737	26.8%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	75,050	37,640	37,410	99.4%
	Current assets				
8	Inventories	7,989	13,909	(5,920)	-42.6%
9	Trade receivables	28,168	27,660	508	1.8%
10	Current tax assets	3,100	6,076	(2,976)	-49.0%
11	Other current assets	32,816	29,078	3,738	n.s.
12	Cash and cash equivalents	8,527	4,767	3,760	78.9%
13	Other financial assets	0	2,277	(2,277)	n.s.
	Total current assets	80,600	83,767	(3,167)	-3.8%
	TOTAL ASSETS	155,650	121,407	34,243	28.2%
	Consolidated equity				
14	Share capital	(5,704)	(5,704)	0	0.0%
15	Reserves	(20,960)	(21,223)	263	-1.2%
16	Treasury shares	0	0	0	0.0%
17	(Retained earnings) accumulated losses	(52,288)	(37,298)	(14,990)	40.2%
	Equity attributable to parent company shareholders	(78,952)	(64,225)	(14,727)	22.9%
	Equity attributable to non-controlling interests	(979)	0	(979)	n.s.
	Total consolidated equity	(79,931)	(64,225)	(15,706)	24.5%
	Non-current liabilities				
18	Employee benefits	(659)	(573)	(86)	15.0%
19	Non-current provisions	(81)	(81)	0	0.7%
20	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
21	Financial liabilities	(6,369)	(4,302)	(2,067)	48.0%
	Total non-current liabilities	(7,578)	(5,879)	(1,699)	28.9%
	Current liabilities				
22	Trade payables	(41,140)	(24,631)	(16,509)	67.0%
23	Current tax liabilities	(5,473)	(1,138)	(4,335)	n.s.
24	Current provisions	(0)	(856)	856	n.s.
25	Other current liabilities	(4,721)	(3,761)	(960)	n.s.
26	Financial liabilities	(16,807)	(20,917)	4,110	-19.6%
	Total current liabilities	(68,141)	(51,303)	(16,838)	32.8%
	TOTAL LIABILITIES	(75,719)	(57,182)	(18,537)	32.4%
	TOTAL LIABILITIES AND EQUITY	(155,650)	(121,407)	(34,243)	28.2%

Digital Bros Group
Consolidated statement of profit or loss for the year ended 30 June 2020

	Euro Thousands	30 June 2020		30 June 2019		Change	
1	Gross revenue	139,033	104.4%	81,317	105.6%	57,716	71.0%
2	Revenue adjustments	(5,810)	-4.4%	(4,309)	-5.6%	(1,501)	34.8%
3	Net revenue	133,223	100.0%	77,008	100.0%	56,215	73.0%
4	Purchase of products for resale	(16,743)	-12.6%	(14,675)	-19.1%	(2,068)	14.1%
5	Purchase of services for resale	(8,857)	-6.6%	(6,586)	-8.6%	(2,271)	34.5%
6	Royalties	(34,600)	-26.0%	(20,671)	-26.8%	(13,929)	67.4%
7	Changes in inventories of finished products	(5,920)	-4.4%	(1,150)	-1.5%	(4,770)	n.s.
8	Total cost of sales	(66,120)	-49.6%	(43,082)	-55.9%	(23,038)	53.5%
9	Gross profit (3+8)	67,103	50.4%	33,926	44.1%	33,177	97.8%
10	Other income	3,458	2.6%	3,406	4.4%	52	1.5%
11	Costs for services	(13,559)	-10.2%	(9,070)	-11.8%	(4,489)	49.5%
12	Lease and rental charges	(247)	-0.2%	(1,460)	-1.9%	1,213	-83.1%
13	Labour costs	(20,908)	-15.7%	(17,903)	-23.2%	(3,005)	16.8%
14	Other operating costs	(1,169)	-0.9%	(1,223)	-1.6%	54	-4.5%
15	Total operating costs	(35,883)	-26.9%	(29,656)	-38.5%	(6,227)	21.0%
16	Gross operating margin (EBITDA) (9+10+15)	34,678	26.0%	7,676	10.0%	27,002	n.s.
17	Depreciation and amortisation	(13,266)	-10.0%	(6,970)	-9.1%	(6,296)	90.3%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(2,206)	-1.7%	(2,051)	-2.7%	(155)	7.5%
20	Reversal of impairment adjustments and non-monetary income	849	0.6%	0	0.0%	849	n.s.
21	Total non-monetary income and operating costs	(14,623)	-11.0%	(9,021)	-11.7%	(5,602)	62.1%
22	Operating margin (EBIT) (16+21)	20,055	15.1%	(1,345)	-1.7%	21,400	n.s.
23	Interest and financial income	4,037	3.0%	1,438	1.9%	2,599	n.s.
24	Interest and financial expenses	(3,409)	-2.6%	(1,406)	-1.8%	(2,003)	n.s.
25	Net financial income (costs)	628	0.5%	32	0.0%	596	n.s.
26	Profit before taxation (22+25)	20,683	15.5%	(1,313)	-1.7%	21,996	n.s.
27	Current tax	(6,363)	-4.8%	28	0.0%	(6,391)	n.s.
28	Deferred tax	629	0.5%	(228)	-0.3%	857	n.s.
29	Total income tax expense	(5,734)	-4.3%	(200)	-0.3%	(5,534)	n.s.
30	Profit (Loss) for the year (26+29)	14,949	11.2%	(1,513)	-2.0%	16,462	n.s.
	of which attributable to parent company shareholders	14,970	11.2%	(1,513)	-2.0%	16,484	n.s.
	of which attributable to non-controlling interests	(21)	0.0%	0	0.0%	(21)	n.s.
	Earnings per share:						
33	Basic earnings per share (in Euro)	1.05		(0.11)		1.16	n.s.
34	Diluted earnings per share (in Euro)	1.03		(0.11)		1.14	n.s.

Digital Bros Group**Consolidated statement of comprehensive income for the year ended 30 June 2020**

Euro Thousands	30 June 2020	30 June 2019	Change
Profit (Loss) for the period (A)	14,949	(1,513)	16,462
Items that will not be subsequently recycled through profit or loss (B)	0	0	0
Actuarial gain (loss)	11	(32)	43
Income tax relating to the actuarial gain (loss)	(2)	8	(10)
Exchange differences on translation of foreign operations	(46)	91	(137)
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as “available for sale”	(706)	(350)	(356)
Tax effect regarding fair value measurement of shares designated as “available for sale”	169	84	85
Items that will subsequently be recycled through profit or loss (C)	(574)	(199)	(375)
Total other comprehensive income D= (B)+(C)	(574)	(199)	(375)
Total comprehensive income (loss) (A)+(D)	14,375	(1,712)	16,087
Attributable to:			
Parent company shareholders	14,396	(1,712)	16,087
Non-controlling interests	(21)	0	(21)

Digital Bros Group
Consolidated statement of cash flows for the year ended 30 June 2020

	Euro Thousands	30 June 2020	30 June 2019
A. Opening cash and cash equivalents		4,767	4,282
B. Cash flows from operating activities			
Profit (loss) for the year attributable to the Group		14,949	(1,513)
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment adjustments		2,206	2,051
Amortisation of intangible assets		11,400	4,778
Depreciation of property, plant and equipment		1,866	528
Net change in deferred tax assets		(737)	(380)
Net change in other provisions		0	1
Net change in employee benefit provisions		86	57
Net change in other non-current liabilities		(454)	22
SUBTOTAL B.		29,316	5,544
C. Change in net working capital			
Inventories		5,920	1,150
Trade receivables		(588)	(20,089)
Current tax assets		2,976	(1,760)
Other current assets		(4,768)	1,932
Trade payables		16,509	3,820
Current tax liabilities		4,335	117
Current provisions		(856)	2
Other current liabilities		960	2,520
SUBTOTAL C.		24,488	(12,308)
D. Cash flows from investing activities			
Net investment in intangible assets		(27,403)	(9,035)
Net investment in property, plant and equipment		(7,119)	1,888
Net investment in non-current financial assets		(1,204)	(364)
SUBTOTAL D.		(35,726)	(7,511)
E. Cash flows from financing activities			
Proceeds from capital increases		0	0
Change in financial liabilities		(2,043)	18,580
Change in financial assets		(13,032)	(2,945)
SUBTOTAL F.		(15,075)	15,635
F. Changes in consolidated equity			
Dividends paid		0	0
Change in treasury shares held		0	0
Increases (decreases) in other equity components		757	(875)
SUBTOTAL G.		757	(875)
G. Cash flows for the period (B+C+D+E+F)		3,760	485
H. Closing net cash and cash equivalents (A+G)		8,527	4,767

Digital Bros Group

Consolidated statement of changes in equity

Euro Thousands	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 year	Total retained earnings (D)	Equity of parent company shareholders (A+B+C+D)	Equity of non-controlling interests	Total equity
Total at 1 July 2018	5,704	18,486	1,141	1,367	(1,441)	1,071	20,624	0	31,110	9,174	40,284	66,612	0	66,612
Application of IFRS 9							0		(1,473)		(1,473)	(1,473)	0	(1,473)
Allocation of profit for the year							0		9,174	(9,174)	0	0	0	0
Other changes						798	798				0	798	0	798
Comprehensive income (loss)					91	(290)	(199)			(1,513)	(1,513)	(1,712)	0	(1,712)
Total at 30 June 2019	5,704	18,486	1,141	1,367	(1,350)	1,579	21,223	0	38,811	(1,513)	37,298	64,225	0	64,225
Total at 1 July 2019	5,704	18,486	1,141	1,367	(1,350)	1,579	21,223	0	38,811	(1,513)	37,298	64,225	0	64,225
Allocation of profit for the year							0		(1,513)	1,513	0	0	0	0
Other changes					(20)	331	311			20	20	331	1,000	1,331
Comprehensive income (loss)					(46)	(528)	(574)			14,970	14,970	14,396	(21)	14,375
Total at 30 June 2020	5,704	18,486	1,141	1,367	(1,416)	1,382	20,960	0	37,298	14,990	52,288	78,952	979	79,931

Gruppo Digital Bros

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

	Euro Thousands	30 June 2020		30 June 2019	
		Total	Of which with related parties	Total	Of which with related parties
1	Gross revenue	139,033	0	81,317	0
2	Revenue adjustments	(5,810)	0	(4,309)	0
3	Net revenue	133,223	0	77,008	0
4	Purchase of products for resale	(16,743)	0	(14,675)	0
5	Purchase of services for resale	(8,857)	0	(6,586)	0
6	Royalties	(34,600)	0	(20,671)	0
7	Changes in inventories of finished products	(5,920)	0	(1,150)	0
8	Total cost of sales	(66,120)	0	(43,082)	0
9	Gross profit (3+8)	67,103	0	33,926	0
10	Other income	3,458	36	3,406	29
11	Costs for services	(13,559)	(348)	(9,070)	(262)
12	Lease and rental charges	(247)	(85)	(1,460)	(1,148)
13	Labour costs	(20,908)	0	(17,903)	0
14	Other operating costs	(1,169)	0	(1,223)	0
15	Total operating costs	(35,883)	(433)	(29,656)	(1,410)
16	Gross operating margin (EBITDA) (9+10+15)	34,678	(397)	7,676	(1,381)
17	Depreciation and amortisation	(13,266)	(1,029)	(6,970)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(2,206)	0	(2,051)	0
20	Reversal of impairment adjustments and non-monetary income	849	0	0	0
21	Total non-monetary income and operating costs	(14,623)	(1,029)	(9,021)	0
22	Operating margin (EBIT) (16+21)	20,055	(1,426)	(1,345)	(1,381)
23	Interest and financial income	4,037	0	1,438	0
24	Interest and financial expenses	(3,409)	(65)	(1,406)	0
25	Net financial income (expenses)	628	(65)	32	0
26	Profit before tax (22+25)	20,683	(1,491)	(1,313)	(1,381)
27	Current tax	(6,363)	0	28	0
28	Deferred tax	629	0	(228)	0
29	Total income tax expense	(5,734)	0	(200)	0
30	Net profit (loss) for the period (26+29)	14,949	(1,491)	(1,513)	(1,381)
	Net profit (loss) for the period	(1,513)	(1,381)	9,174	(1,441)

Digital Bros Group
Consolidated statement of financial position in accordance with CONSOB Resolution no- 15519 of 27 July 2006

	Euro Thousands	30 June 2020		30 June 2019	
			Of which with related parties		Of which with related parties
	Non-current assets				
1	Property, plant and equipment	8.837	0	3.584	0
2	Investment property	0	0	0	0
3	Intangible assets	33.248	0	18.341	0
4	Equity investments	5.488	0	1.706	0
5	Non-current receivables and other assets	6.744	767	9.322	765
6	Deferred tax assets	3.482	0	2.745	0
7	Non-current financial assets	17.251	0	1.942	0
	Total non-current assets	75.050	767	37.640	765
	Current assets				
8	Inventories	7.989	0	13.909	0
9	Trade receivables	28.168	0	55.070	21
10	Current tax assets	3.100	0	6.076	0
11	Other current assets	32.816	0	1.668	210
12	Cash and cash equivalents	8.527	0	4.767	0
13	Other financial assets	0	0	2.277	0
	Total current assets	80.600	0	83.767	231
	TOTAL ASSETS	155.650	767	121.407	996
	Consolidated equity				
14	Share capital	(5.704)	0	(5.704)	0
15	Reserves	(20.960)	0	(21.223)	0
16	Treasury shares	0	0	0	0
17	(Retained earnings) accumulated losses	(52.288)	0	(37.298)	0
	Equity attributable to parent co. shareholders	(78.952)	0	(64.225)	0
	Equity attributable to non-controlling interests	(979)	0	0	0
	Total consolidated equity	(79.931)	0	(64.225)	0
	Non-current liabilities				
18	Employee benefits	(659)	0	(573)	0
19	Non-current provisions	(81)	0	(81)	0
20	Other non-current payables and liabilities	(469)	0	(923)	0
21	Financial liabilities	(6.369)	(3.889)	(4.302)	0
	Total non-current liabilities	(7.578)	(3.889)	(5.879)	0
	Current liabilities				
22	Trade payables	(41.140)	(88)	(24.631)	(127)
23	Current tax liabilities	(5.473)	0	(1.138)	0
24	Current provisions	0	0	(856)	0
25	Other current liabilities	(4.721)	0	(3.761)	0
26	Financial liabilities	(16.807)	(803)	(20.917)	0
	Total current liabilities	(68.141)	(891)	(51.303)	(127)
	TOTAL LIABILITIES	(75.719)	(4.780)	(57.182)	(127)
	TOTAL LIABILITIES AND EQUITY	(155.650)	(4.780)	(121.407)	(127)

Digital Bros Group
Consolidated statement of profit or loss in accordance with CONSOB Resolution no. 15519 of 27 July 2006

	Euro Thousands	30 June 2020		30 June 2019	
		Total	Of which non-recurring	Total	Of which non-recurring
1	Gross revenue	139,033	0	81,317	0
2	Revenue adjustments	(5,810)	0	(4,309)	0
3	Net revenue	133,223	0	77,008	0
4	Purchase of products for resale	(16,743)	0	(14,675)	0
5	Purchase of services for resale	(8,857)	0	(6,586)	0
6	Royalties	(34,600)	0	(20,671)	0
7	Changes in inventories of finished products	(5,920)	0	(1,150)	0
8	Total cost of sales	(66,120)	0	(43,082)	0
9	Gross profit (3+8)	67,103	0	33,926	0
10	Other income	3,458	0	3,406	0
11	Costs for services	(13,559)	0	(9,070)	0
12	Lease and rental charges	(247)	0	(1,460)	0
13	Labour costs	(20,908)	0	(17,903)	0
14	Other operating costs	(1,169)	0	(1,223)	0
15	Total operating costs	(35,883)	0	(29,656)	0
16	Gross operating margin (EBITDA) (9+10+15)	34,678	0	7,676	0
17	Depreciation and amortisation	(13,266)	0	(6,970)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(2,206)	(594)	(2,051)	0
20	Reversal of impairment adjustments and non-monetary income	849	0	0	0
21	Total non-monetary income and operating costs	(14,623)	(594)	(9,021)	0
22	Operating margin (EBIT) (16+21)	20,055	(594)	(1,345)	0
23	Interest and financial income	4,037	0	1,438	0
24	Interest and financial expenses	(3,409)	(580)	(1,406)	0
25	Net financial income (expense)	628	(580)	32	0
26	Profit before taxation (22+25)	20,683	(1,174)	(1,313)	0
27	Current tax	(6,363)	(224)	28	0
28	Deferred tax	629		(228)	0
29	Total income tax expense	(5,734)	(224)	(200)	0
30	Net profit (loss) for the period (26+29)	14,949	(1,398)	(1,513)	0
	- attributable to parent company shareholders	14,970	(1,398)	(1,513)	0
	- attributable to non-controlling interests	(21)	0	0	0



Notes to the consolidated financial statements at 30 June 2020

1. FORM, CONTENT AND OTHER GENERAL INFORMATION

The main operating activities, including those of the subsidiaries, are described in the Directors' Report.

The consolidated financial statements for the year ended 30 June 2020 have been prepared on a going concern basis. The Group has concluded that the risks and uncertainties to which it is exposed, as described in the Directors' Report, do not create any uncertainty as to its ability to operate as a going concern. The Group will continue to monitor the effects of the spread of the COVID-19 pandemic which, for now, has had no effect on its ability to operate as a going concern. It will adopt appropriate mitigation measures, as necessary, and will report to the market on any issues not already considered to a sufficient degree.

Accounting standards adopted and declaration of compliance with IAS/IFRS

The consolidated financial statements of Digital Bros Group for the year ended 30 June 2020 have been prepared in accordance with Art. 154-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments thereto. They have been prepared in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as based on the text published in the Official Journal of the European Union. The term "IFRS" encompasses International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts included in the consolidated financial statements for the year ended 30 June 2020 are stated in Euro thousands, unless otherwise specified.

Reporting formats

The consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with IAS/IFRS and with the related interpretations (SIC/IFRIC) endorsed by the European Commission as of the reporting date.

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

In order better to represent the significant changes in the balance sheet structure as a result of the gradual increase in importance of the Premium Games and Free to Play operating segments, the Group has decided to change the lay-out of its statement of financial position, adopting a more traditional structure with assets and liabilities shown separately; prior year comparative amounts have been reclassified accordingly.

Non-current assets consist of investments in rights to new video games and have come to represent the most significant portion of the Group's assets. The structure adopted until last year was better suited to a distribution company with close attention paid to working capital dynamics.

The financial statements comprise:

- consolidated statement of financial position at 30 June 2020 with comparative figures at 30 June 2019 (the annual reporting date for the previous consolidated financial statements);
- consolidated statement of profit or loss for the period from 1 July 2019 to 30 June 2020 together with comparative figures for the period from 1 July 2018 to 30 June 2019;

- consolidated statement of comprehensive income for the period from 1 July 2019 to 30 June 2020 together with comparative figures for the period from 1 July 2018 to 30 June 2019;
- consolidated statement of cash flows from 1 July 2019 to 30 June 2020 with comparative figures for the period from 1 July 2018 to 30 June 2019;
- consolidated statement of changes in equity from 1 July 2019 to 30 June 2020 and from 1 July 2018 to 30 June 2019.

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

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

- non-current assets;
- current assets;
- equity;
- current liabilities;
- non-current liabilities.

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

Current assets consist of items of a short-term nature such as inventories, trade receivables, cash and cash equivalents and other current financial assets.

Equity consists of share capital, reserves and retained earnings (profit for the year plus prior year profits not allocated to specific reserves by the shareholders in general meeting) with amounts attributable to non-controlling interests disclosed separately.

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, particularly the provision for employee termination indemnities pertaining to the parent company and its Italian subsidiaries, and, in general, payables that fall due beyond 30 June 2021.

Current liabilities include liabilities due by 30 June 2021, mainly trade payables, tax liabilities and current financial liabilities.

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

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

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

Basic earnings per share and diluted earnings per share are shown after net profit / (loss) for the year i.e. the difference between profit before tax and total income tax income (expense).

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2018 and 30 June 2020; non-controlling interests are disclosed separately.

2. ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards and their interpretations in force at that date.

The consolidated financial statements have been prepared on the basis of financial statements prepared by the Group companies included in the scope of consolidation for the year ended 30 June 2020, adjusted, as necessary, to bring them into line with Group accounting policies and IAS/IFRS. All prior fiscal years comparative figures have been adjusted, as necessary, in order to render them compliant with IAS/IFRS.

The measurement criteria used to prepare the consolidated financial statements for the year ended 30 June 2020 are consistent with those used to prepare the consolidated financial statements for the year ended 30 June 2019, except as described below for the new standards applied from 1 July 2019.

Property, plant and equipment

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

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

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

Buildings	2.56%-3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%
Leasehold improvements	17%

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

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

Land is not depreciated but impairment adjustments are made if recoverable amount i.e. the greater of fair value and value in use falls below reported cost.

Intangible assets

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

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

The amortisation rates applied are as follows:

- Intellectual property, long-term user rights and licences, based on useful lives of related assets;
- Microsoft Dynamics Navision licences and other long-term licences/user rights 20%;
- Brands and trademarks 20%.

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

The Group applies amortisation on a straight-line basis (over the contract term and, in any event, over a period not exceeding five years).

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

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration transferred as of the acquisition date plus the amount of any non-controlling interest held in the acquiree. For each business combination, the Group decides whether to measure any non-controlling interest in the acquiree at fair value or in proportion to the non-controlling interest's attributable portion of the acquiree's net identifiable assets. Acquisition-related expenses are generally recognised in profit or loss and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired and the liabilities assumed in accordance with the relevant contractual terms and the economic and other conditions existing at the acquisition date.

If a business combination is achieved in several steps, the Group's previously held equity interest in the acquiree as measured using the equity method is restated at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration is recognised at its acquisition-date fair value. A change in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it need not be remeasured until settlement of the contingency is reflected in equity. The subsequent transaction will be accounted for in equity.

Goodwill is initially stated at cost, measured as the excess of the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by the Group. If the consideration paid is less than the fair value of the net assets acquired, the difference is recognised in profit or loss.

If it is only possible to make a preliminary determination of the fair value of the assets, liabilities and contingent liabilities, the business combination is recognised using these preliminary amounts. Any adjustments arising from completion of the valuation process are recognised within twelve months of the acquisition and the comparatives are restated.

After its initial recognition, goodwill is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. The goodwill associated with the operation disposed of is measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations are accounted for using the acquisition method in accordance with IFRS 3. At the effective acquisition date, the assets and liabilities that form part of the transaction are recognised at their fair value, except for deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements that are recognised in accordance with the relevant accounting standards. Acquisition-related expenses are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. This is except for the following which are measured in accordance with the relevant accounting standards:

- deferred tax assets and liabilities;
- assets or liabilities related to employee benefit arrangements;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree;
- discontinued operations.

Investments in associated companies and other entities

Investments in associated companies are initially recognised at cost and adjusted for any impairment.

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

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

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

In accordance with IFRS 9, investments in companies other than subsidiaries and associates, constituting non-current financial assets which are not held for trading, are classified as financial assets held to collect and sell and are measured at fair value, except in situations where fair value cannot be reliably determined: in such cases, the cost method is adopted.

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

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

Impairment of assets

IAS 36 requires intangible assets, property, plant and equipment and investments in associated companies and other entities to be tested for impairment based on discounted future cash flows.

Accordingly, at least once a year, the Group tests the recoverability of the carrying amount of the above assets. If an impairment loss is identified, the recoverable amount of the asset is estimated in order to determine the extent of the adjustment required. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

An impairment loss is recognised if recoverable amount is less than carrying amount. If impairment is subsequently reduced or reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed

the carrying amount that would have been determined had no impairment adjustment been recognised. This is except for goodwill in relation to which impairment adjustments cannot be reversed. A reversal of an impairment adjustment is recognised immediately in profit or loss.

Inventories

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

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

Receivables and payables

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

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

Payables are stated at nominal amount.

Factoring of trade receivables

The Group factors trade receivables on a non-recourse basis with various factoring companies. In accordance with IFRS 9, factored assets may be derecognised only when the associated risks and rewards have been substantially transferred. Accordingly, receivables factored without recourse that include provisions limiting the transfer of these risks and rewards at the time of the transaction, such as deferred payments or deductibles by the transferor, or that imply continued significant exposure to the trend in inflows deriving from the receivables, remain in the consolidated financial statements even though said receivables have been transferred. An amount equal to the sums advanced for factored receivables not yet collected is therefore recognised in the consolidated financial statements under other current financial liabilities.

Employee benefits

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

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

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

Current and non-current provisions

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

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

Financial assets and liabilities

Current financial assets, non-current financial assets and current and non-current financial liabilities are recognised in accordance with IFRS 9 – Financial Instruments.

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

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

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

Financial assets measured at fair value through profit or loss

In accordance with IFRS 9 this category includes the following cases:

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

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

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

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

Fair value is the amount for which an asset could be exchanged, or to be paid to transfer the liability (“exit price”) in an arm’s length transaction between well-informed and independent parties. In the case of

securities traded on regulated markets, fair value is determined with reference to bid prices at the end of trading on the reporting date.

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

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

Derivative financial instruments

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

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

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

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

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

- *Fair value hedge* – If a derivative financial instrument is designated as a hedge against changes

in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value measurement of the hedge is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of that item and is recognised in profit or loss.

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

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

Revenue

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

- identification of the contract with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract;
- revenue recognition criteria when the entity satisfies each performance obligation.

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

Revenue is recognised when the obligation to transfer the goods to the customer is fulfilled and the amount of the revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a revenue recognition at the same time as the sale is recognised.

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

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

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

Costs

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

Advertising costs are upon receipt of the service.

Cost of sales

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

Changes in inventories consist of the change in the period in the gross carrying amount of period end inventories.

Royalties paid for the exploitation of international and Italian licenses are treated as a component of cost of sales.

If royalty advances are wholly recouped, the calculation method involves determining recoupment by multiplying the unit royalty by the quantities sold during the period. In the case of partial recoupment, the degree of recoupment is calculated separately for each contract on the basis of estimated future use.

Dividends received

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

Interest income/expenses and financial income/expenses

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

Current tax

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

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

Deferred tax

Deferred tax is calculated under the balance sheet liability method. It is calculated on all temporary differences between the accounting and tax value of an asset or liability, except for non-deductible goodwill and differences deriving from investments in subsidiaries that are not expected to reverse in the foreseeable future.

Deferred tax assets on tax losses and unused tax credits available for carry forward are recognised to the extent that there is likely to be sufficient enough future taxable income against which to recover them. Deferred tax assets and liabilities are computed using the tax rates expected to be in force in the respective jurisdictions in which the Group operates in the tax periods when the temporary differences are likely to be realised or reversed.

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

Earnings per share

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

Foreign currency transactions

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

Discontinued operations

A discontinued operation is a part of the Group whose operations and cash flows are clearly distinguishable from the rest of the Group and which:

- represents an important autonomous business segment or geographical area of activity;
- forms part of a single, coordinated plan to dispose of an important business segment or geographical area of activity;
- is a subsidiary purchased solely with the intention of reselling it.

An operation is classified as discontinued at the earlier of the time of sale and the moment when it satisfies the conditions for classification in the category defined as held for sale.

When an operation is classified as discontinued, the comparative statement of profit or loss is restated as if the operation had been discontinued from the start of the comparative period.

Assets forming part of disposal groups are classified as discontinued if their carrying amount has been or will be recovered primarily through a sale transaction, rather than through continuous use. After classification of the assets as discontinued operations, the related carrying amount is measured at the lower of carrying amount and fair value less costs to sell.

In the financial statements, the net profit/(loss) from discontinued operations is disclosed separately in the statement of profit or loss, after tax effects and, in case of sell, after selling costs, together with any gain or loss realised.

New accounting standards

Accounting standards, amendments and IFRS interpretations applied from 1 July 2019

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 are indicated below:

- IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 – Leases which has replaced IAS 17 – *Leases*, as well as the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard provides a new definition of a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts. It identifies the following differentiating features: identification of the asset, the right to replacement of the asset, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.

The standard sets out a single model for the recognition and measurement of lease contracts for a lessee that requires the recognition of assets held under leases, inclusive of operating leases, as balance sheet assets with an opposite entry to financial liabilities. Meanwhile, the standard does not include any significant amendments for lessors.

The following table sets out the effects of adoption of IFRS at the transition date:

Euro Thousands	Effect at transition date (1 July 2019)
1) Property, plant and equipment	6,374
Total non-current assets	6,374
21) Non-current financial liabilities	(5,133)
26) Current financial liabilities	(1,241)
Total financial liabilities	(6,374)

The Group has made use of the exemption granted by IFRS 16:5(b) in relation to leases for which the underlying asset is a low-value asset (i.e. where the value of the individual underlying asset does not exceed Euro 5 thousand, when new). The leases for which the exemption has been applied mainly fall into the following categories:

- computers, telephones and tablet devices;
- printers.

The Group has analysed all of its leases and has determined the lease term for each of them i.e. the non-cancellable period together with the effect of any options to extend or terminate the lease whose exercise is considered reasonably certain. For property, this was assessed considering the specific facts and circumstances of each asset;

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

Adoption of this amendment did not have any effect on the Group’s consolidated financial statements.

- On 7 February 2018, the IASB published the document “**Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**”. The document clarifies how an entity should record an amendment (i.e. a curtailment or a settlement) to a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendment clarifies that, after such an event, an entity shall use the updated assumptions to measure the current service cost and interest for the rest of the period after the event. Adoption of this amendment did not have any effect on the Group’s consolidated financial statements;
- On 12 October 2017, the IASB published the document “**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**”. The document provides clarification on the need to apply IFRS 9, including requirements regarding impairment, to long-term interests in associates and joint ventures to which the equity method is not applied. Adoption of this amendment did not have any effect on the Group’s consolidated financial statements;
- On 7 June 2017, the IASB issued **IFRIC Interpretation 23 – “Uncertainty over Income Tax Treatments”**. The interpretation addresses the issue of uncertainty over income tax treatments. The document requires entities to analyse uncertain tax treatments (individually or as a whole, depending on their characteristics), always assuming that the tax authorities will examine the tax position in question, with full knowledge of all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty when measuring its current and deferred income taxes. Moreover, the interpretation does not contain any new disclosure requirements but highlights that an entity should establish whether there will be a need to provide any disclosures based on management considerations relating to any uncertainty over the accounting treatment of taxation, in accordance

with IAS 1. The new interpretation has been applied with effect from 1 July 2019. Adoption of the interpretation did not have any effect on the Group's consolidated financial statements;

- On 12 October 2017, the IASB published an amendment to **IFRS 9 “Prepayment Features with Negative Compensation”**. This document specifies that instruments with prepayment features could pass the Solely Payments of Principal and Interest (“SPPI”) test even if the *reasonable additional compensation* payable in case of prepayment is a *negative compensation* for the financing entity. Adoption of the amendment did not have any effect on the Group's consolidated financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Group at 30 June 2020:

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

The amendments introduced were endorsed on 29 November 2019 and are applicable to all transactions after 1 January 2020.

The Directors do not expect adoption of the amendment to have any significant effect on the Group's consolidated financial statements.

- On 29 March 2019, the IASB published an amendment to the “**References to the Conceptual Framework in IFRS Standards**”. The amendment is applicable for periods commencing on or after 1 January 2020 but early application is allowed.

The Conceptual Framework establishes fundamental concepts for financial disclosures and guides the Board in the development of IFRS. The document helps ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way, in order to provide useful information to investors, lenders and other creditors.

The Conceptual Framework supports businesses with the development of accounting principles when no IFRS is applicable to a particular transaction and, more generally, helps interested parties to understand and interpret the Standards.

- On 26 September 2019, the IASB published the amendment called “**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**”. This document amends IFRS 9 - *Financial Instruments* and IAS 39 - *Financial Instruments: Recognition and Measurement* as well as IFRS 7 - *Financial Instruments: Disclosures*. In more detail, the amendment modifies some of the

requirements for application of hedge accounting, introducing temporary exceptions thereto, in order to reduce the impact of uncertainty over IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide, in their financial statements, additional information on their hedging relationships that are directly affected by the uncertainty caused by the reform and to which the above exceptions apply. The amendments come into force from 1 January 2020 but companies may opt for early application. The Directors do not expect adoption of the amendment to have any effect on the Group's consolidated financial statements.

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

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

- On 22 October 2018, the IASB published the document “**Definition of a Business (Amendments to IFRS 3)**”. The document provides certain clarification on the definition of a business for the purposes of the proper application of IFRS 3. In more detail, the amendment clarifies that while a business normally produces an output, it is not strictly necessary for the identification of a business if there is an integrated set of activities/processes and assets. However, in order to satisfy the definition of a business, an integrated set of activities/processes and assets shall include, at the very least, an input and a substantive process which, together, make a significant contribution towards the ability to create outputs. Accordingly, the IASB has replaced the term “ability to create outputs” with “ability to contribute towards the creation of outputs” in order to clarify that a business may exist even without the presence of all of the inputs and processes necessary to create an output.

The amendment also introduced a concentration test – optional – that can be used to exclude the presence of a business if the price paid substantially relates to a single asset or group of assets. The amendments apply to all business combinations and asset acquisitions after 1 January 2020, but early application is permitted.

The Directors do not expect adoption of the amendments to have any significant effect on the Group's consolidated financial statements.

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

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

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

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

The main characteristics of the *General Model* are:

- estimates and assumptions of future cash flows are always the current ones;
- the measurement reflects the time value of money;
- estimates make extensive use of observable market information;
- there is current and explicit measurement of risk;
- expected profit is deferred and aggregated into groups of insurance contracts at the time of initial recognition; and
- expected profit is recognised in the contractual cover period taking account of adjustments due to changes in assumptions regarding cash flows relating to each group of contracts.

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

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

The standard is applicable from 1 January 2021 with early application permitted but only for entities that apply IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*. The Directors do not expect adoption of this standard to have a significant effect on the Group’s consolidated financial statements.

- On 11 September 2014, the IASB published an amendment to ***IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture***. The document was published in order to resolve the current conflict between IAS 28 and IFRS 10.

IAS 28 requires that the gain or losses resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in the latter is limited to the extent of the interest held in the joint venture or associate by other investors not involved in the transaction. Meanwhile, IFRS 10 requires full profit or loss recognition when a parent loses control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, inclusive of in the case of a sale or contribution of a subsidiary to a joint venture or associate. The amendments require that, in the case of a sale or contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller or contributor depends on whether the assets or the subsidiary sold or contributed consist of a

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

- On 30 January 2014, the IASB published **IFRS 14 – Regulatory Deferral Accounts** which allows first-time adopters of IFRS only to continue to account for amounts relating to Rate Regulation Activities based on the accounting principles previously adopted. As the Group is not a first-time adopter, this standard is not applicable.

3. DISCRETIONARY JUDGMENT AND SIGNIFICANT ESTIMATES

Discretionary judgment

Preparation of the consolidated financial statements for the year ended 30 June 2020 and the notes thereto required the use of discretionary judgment in order to make estimates and assumptions with an effect on the carrying amount of assets and liabilities recognised in the consolidated financial statements and on disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

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

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

Recoverable amount of intangible assets

Intangible assets are adjusted for impairment when events or a change in circumstances indicate that the carrying amount of an intangible asset is no longer recoverable. Events that may trigger an impairment adjustment include changes to the strategic plan and changes in market prices that lead to poorer operational performance and reduced exploitation of trademarks. The decision to proceed with an impairment adjustment and the quantification thereof depends on management's assessment of complex and highly uncertain factors, such as future price trends and demand conditions on a global or regional scale.

Credit risk

There are no particular risk assessment issues with regard to the trade receivables of foreign subsidiaries as the policy is not to exceed credit insurance limits for individual customers/debtors.

Measurement of inventories

The Group measures inventories on a quarterly basis, in light of the rapid obsolescence of its products. Impairment adjustments may be recorded in relation to individual products whose market value is lower than their historical cost. Any differences identified between the market value of a product held in inventory, taking account of its price category and historical cost, are recognised in profit or loss in the period they come to light.

Premium Games products are easier to measure on account of the smaller number of products distributed and in needed of measurement, as well as the lower unit cost of the products which consists solely of the physical production cost of the games; consequently, unit costs are smaller and there is less need to make impairment adjustments.

Employee benefits

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

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

Following the approval of the "2016-2026 Stock Option Plan", an actuarial measurement is required in accordance with the guidelines contained in IFRS 2 – Share-based payments. An independent professional has been appointed to perform the measurement.

Revenue adjustments

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

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

Royalties and advances to developers for licences

The method used to determine royalties varies depending on the type of contract. The number of contracts that provide for variable royalties with a guaranteed minimum and/or contracts that provide for a fixed development portion has increased over time. For these last two types of contract, it is necessary to estimate the future benefit that a contract will produce in subsequent quarters in order to match related costs and revenue. This is based on forecasts of quantities expected to be sold in subsequent periods. The sales forecasts are based on a medium/long-term (five-year) plan which is revised twice a year. When royalties for digital and/or Free to Play products are determined, the five-year revenue plan is revised at least monthly.

Deferred tax assets and liabilities

The determination of deferred tax assets and liabilities involves two areas of uncertainty. The first is recoverability and the Group reduces the related uncertainty by comparing the deferred tax assets recognised by each company with the respective business plans. The second is the tax rate to be used - it is assumed constant over time and equal to the rates currently applicable in the various countries where the Group operates and/or to amended rates if it is certain that the changes will come into force.

4. 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 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 initially recognised at acquisition cost and subsequently measured using the equity method.

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 the translation process are recognised directly in equity and reported in the translation reserve which forms part of equity reserves.

Transactions eliminated in the consolidation process

When preparing the consolidated financial statements for the year ended 30 June 2020, 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:

Company name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W Broadway	Eugene	USA	\$ 100,000	100%
Avantgarden S.r.l.	Milan	Italy	€ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,704,334.80	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	€ 300,000	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	€ 10,000,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games Japan K.K.	Tokyo	Japan	¥ 6,000,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
Game Network in liquidation S.r.l.	Milan	Italy	€ 10,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc.	Calabasas (CA)	USA	\$ 100,000	100%
Kunos Simulazioni S.r.l.	Rome	Italy	€ 10,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
Rasplata B.V.	Amsterdam	Netherlands	€ 1,750	60%
Seekhana Ltd.	Milton Keynes	United Kingdom	£ 18,500	60%

5. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER ENTITIES

At the reporting date, the Group held no investments in associated companies.

6. RECONCILIATION OF RESULT FOR THE YEAR AND EQUITY OF PARENT COMPANY TO THOSE OF GROUP

The following table provides a reconciliation of the result for the year and equity as reported by parent company Digital Bros S.p.A. to those reported by the Group:

	Profit (loss) for the year ended		Equity	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Profit (loss) for the year and equity of Digital Bros S.p.A.	(273)	840	47,068	47,539
Profit for the year and equity of subsidiaries	15,084	973	59,805	43,645
Carrying amount of equity investments	0	0	(30,666)	(27,281)
Consolidation adjustments				
Impairment of investments in subsidiaries	3,038	1,101	3,294	828
Elimination of intercompany profits	(67)	(113)	(1,678)	(1,611)
Dividends	(2,500)	(4,000)	0	0
Other adjustments	(333)	(314)	2,108	1,105
Profit for the year and equity of the Group	14,949	(1,513)	79,931	64,225

Details are provided below of consolidation adjustments at 30 June 2020 and for the fiscal year ended 30 June 2019:

	Profit (loss) for the year ended		Equity	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	34	274	35	1
Impairment of Digital Bros S.p.A.'s investment in Digital Bros Game Academy S.r.l.	93	0	93	0
Impairment of 505 Games S.p.A.'s investment in 505 Mobile S.r.l.	1,296	0	1,296	0
Impairment of Digital Bros S.p.A.'s investment in 133 W Broadway	62	255	317	255
Impairment of 505 Mobile S.r.l.'s investment in Game Entertainment S.r.l.	1,553	572	1,553	572
Total impairment of investments in subsidiaries	3,038	1,101	3,294	828
Elimination of unrealised profit in inventory	112	43	(353)	(465)
Elimination of margin on internal processing contracts	(179)	(156)	(1,325)	(1,146)
Total elimination of intercompany profits	(67)	(113)	(1,678)	(1,611)
Dividends from Kunos Simulazioni S.r.l.	(2,500)	(4,000)	0	0
Total dividends	(2,500)	(4,000)	0	0
Amortisation/Allocation of acquisition price of Kunos S.r.l., net of tax effect	(516)	(500)	1,048	1,265
Allocation of acquisition price of Rasplata B.V., net of tax effect	0	0	1,011	0
Application of IFRS 9	197	257	(323)	(520)
Other	(14)	(71)	372	360
Total other adjustments	(333)	(314)	2,108	1,105
Total consolidation adjustments	138	(3,326)	3,724	322

7. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 30 June 2020 is set out below together with comparative figures at 30 June 2019:

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	8,837	3,584	5,253	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	33,248	18,341	14,907	81.3%
4	Equity investments	5,488	1,706	3,782	n.s.
5	Non-current receivables and other assets	6,744	9,322	(2,578)	-27.7%
6	Deferred tax assets	3,482	2,745	737	26.8%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	75,050	37,640	37,410	99.4%
	Current assets				
8	Inventories	7,989	13,909	(5,920)	-42.6%
9	Trade receivables	28,168	27,660	508	1.8%
10	Current tax assets	3,100	6,076	(2,976)	-49.0%
11	Other current assets	32,816	29,078	3,738	n.s.
12	Cash and cash equivalents	8,527	4,767	3,760	78.9%
13	Other financial assets	0	2,277	(2,277)	n.s.
	Total current assets	80,600	83,767	(3,167)	-3.8%
	TOTAL ASSETS	155,650	121,407	34,243	28.2%
	Consolidated equity				
14	Share capital	(5,704)	(5,704)	0	0.0%
15	Reserves	(20,960)	(21,223)	263	-1.2%
16	Treasury shares	0	0	0	0.0%
17	(Retained earnings) accumulated losses	(52,288)	(37,298)	(14,990)	40.2%
	Equity attributable to parent company shareholders	(78,952)	(64,225)	(14,727)	22.9%
	Equity attributable to non-controlling interests	(979)	0	(979)	n.s.
	Total consolidated equity	(79,931)	(64,225)	(15,706)	24.5%
	Non-current liabilities				
18	Employee benefits	(659)	(573)	(86)	15.0%
19	Non-current provisions	(81)	(81)	0	0.7%
20	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
21	Financial liabilities	(6,369)	(4,302)	(2,067)	48.0%
	Total non-current liabilities	(7,578)	(5,879)	(1,699)	28.9%
	Current liabilities				
22	Trade payables	(41,140)	(24,631)	(16,509)	67.0%
23	Current tax liabilities	(5,473)	(1,138)	(4,335)	n.s.
24	Current provisions	(0)	(856)	856	n.s.
25	Other current liabilities	(4,721)	(3,761)	(960)	n.s.
26	Financial liabilities	(16,807)	(20,917)	4,110	-19.6%
	Total current liabilities	(68,141)	(51,303)	(16,838)	32.8%
	TOTAL LIABILITIES	(75,719)	(57,182)	(18,537)	32.4%
	TOTAL LIABILITIES AND EQUITY	(155,650)	(121,407)	(34,243)	28.2%

NON-CURRENT ASSETS

1. Property, plant and equipment

Property, plant and equipment have increased from Euro 3,584 thousand to Euro 8,837 thousand, mainly because of application of the new IFRS 16 which led to the recognition of buildings of Euro 5,320 thousand after depreciation for the reporting period.

The following tables show movements in the current and previous reporting periods:

Euro Thousands	1 July 2019	Additions	Disposals	Translation differences	Deprec'n	Use of accum. dep'n	30 June 2020
Industrial buildings	2,033	6,587	0	0	(1,363)	0	7,257
Land	635	0	0	0	0	0	635
Indust. and comm. equipment	543	219	(141)	0	(266)	138	493
Other assets	373	292	(206)	24	(237)	206	452
Total	3,584	7,098	(347)	24	(1,866)	344	8,837

Euro Thousands	1 July 2018	Additions	Disposals	Translation differences	Deprec'n	Use of accum. dep'n	30 June 2019
Industrial buildings	4,140	0	(2,087)	(55)	(119)	154	2,033
Land	600	35	0	0	0	0	635
Indust. and comm. equipment	688	173	(102)	0	(311)	95	543
Other assets	572	75	0	(17)	(257)	0	373
Total	6,000	283	(2,189)	(72)	(687)	249	3,584

As at 1 July 2019, industrial buildings consisted solely of the warehouse in Trezzano sul Naviglio and the proprietary building used as office and laboratory premises in Via Labus, Milan (the headquarters of Digital Bros Game Academy S.r.l.). During the period ended 30 June 2020, there were additions of Euro 6,587 thousand including Euro 6,579 thousand as a result of application of the new IFRS 16. This also led to additional depreciation of Euro 1,259 thousand.

The increase relates to the discounting of future lease payments for the properties, mainly in Milan (via Tortona 37), Calabasas (USA) and Milton Keynes (United Kingdom).

Land includes the land on which the warehouse in Trezzano sul Naviglio stands; it is valued at Euro 635 thousand.

Additions for the period to industrial and commercial equipment amounted to Euro 219 thousand and mainly related office furniture and office automation equipment. Meanwhile, additions of Euro 292 thousand to other assets regard the purchase of five cars under finance leases.

Reporting period ended 30 June 2020*Gross amount of property, plant and equipment*

Euro Thousands	1 July 2019	Additions	Disposals	Forex translation differences	30 June 2020
Industrial buildings	3,258	6,587	0	0	9,845
Land	635	0	0	0	635
Plant and machinery	24	0	0	0	24
Industrial & commercial equipment	4,537	219	(141)	0	4,615
Other assets	2,555	292	(206)	24	2,665
Total	11,009	7,098	(347)	24	17,784

Accumulated depreciation

Euro Thousands	1 July 2019	Depreciation	Utilised	30 June 2020
Industrial buildings	(1.225)	(1.363)	0	(2.588)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial & commercial equipment	(3.994)	(266)	138	(4.122)
Other assets	(2.182)	(237)	206	(2.213)
Total	(7.425)	(1.866)	344	(8.947)

Reporting period ended 30 June 2019*Gross amount of property, plant and equipment*

Euro Thousands	1 July 2018	Additions	Disposals	Forex translation differences	30 June 2019
Industrial buildings	5.400	0	(2.087)	(55)	3.258
Land	600	35	0	0	635
Plant and machinery	24	0	0	0	24
Industrial & commercial equipment	4.466	173	(102)	0	4.537
Other assets	2.497	75	0	(17)	2.555
Total	12.987	283	(2.189)	(72)	11.009

Accumulated depreciation

Euro Thousands	1 July 2018	Depreciation	Utilised	30 June 2019
Industrial buildings	(1.260)	(119)	154	(1.225)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial & commercial equipment	(3.778)	(311)	95	(3.994)
Other assets	(1.925)	(257)	0	(2.182)
Total	(6.987)	(687)	249	(7.425)

3. Intangible assets

Intangible assets have increased from Euro 18,341 thousand to Euro 33,248 thousand. All of the intangible assets recorded by the Group have a finite useful life.

The following tables show movements in the current and previous reporting periods:

Euro Thousands	1 July 2019	Additions	Disposals	Recl.	Impairment Adj.	Forex translation diff.	Amort'n	30 June 2020
Concessions & licences	8,369	6,595	(15)	7,589	(683)	35	(10,678)	11,212
Trademarks and similar rights	1,736	432	0	0	0	0	(713)	1,455
Other	25	18	0	0	0	0	(9)	34
Assets in progress	8,211	20,351	0	(7,589)	(426)	0	0	20,547
Total	18,341	27,396	(15)	0	(1,110)	35	(11,400)	33,248

Euro Thousands	1 July 2018	Additions	Disposals	Recl.	Impairment Adj.	Forex translation diff.	Amort'n	30 June 2019
Concessions & licences	9,978	6,021	(6)	0	(2,053)	16	(5,587)	8,369
Trademarks and similar rights	2,425	3	0	0	0	0	(692)	1,736
Other	8	21	0	0	0	0	(4)	25
Assets in progress	2,720	7,343	(1,680)	0	(172)	0	0	8,211
Total	15,131	13,388	(1,686)	0	(2,225)	16	(6,283)	18,341

Impairment adjustments amount to Euro 1,110 thousand and include both development projects abandoned by the Group during the reporting period and other projects that had to be adjusted after they achieved poorer than expected results.

Assets in progress includes the costs incurred by the Group to purchase intellectual property from third parties and the costs incurred by DR Studios Ltd., 505 Mobile US, Kunos Simulazioni S.r.l. and Avantgarden S.r.l. in relation to contracts for the development of videogames for other Group companies that had not yet been completed at the reporting date.

Capex on intangible assets during the period is shown below, together with comparative figures for prior year:

Euro Thousands	30 June 2020	30 June 2019
Premium Games user rights	6,427	5,888
Investment on development of management systems	168	133
Total capex on concessions and licences	6,595	6,021
Total capex on trademarks	432	3
Total capex on other intangible assets	18	21
Internal development contracts in progress	1,945	1,709
Assets in progress	18,406	5,308
Total additions to assets in progress	20,351	7,343
Total capex on intangible assets	27,396	13,388

4. Investments

The Group's investments in associated companies at 30 June 2020 and at 30 June 2019 are shown below:

Euro Thousands	30 June 2020	30 June 2019	Change
Delta Dna Ltd.	0	60	(60)
Ovosonico S.r.l.	0	768	(768)
Seekhana Ltd.	0	378	(378)
Total associated companies	0	1,206	(1,206)
Starbreeze AB – A shares	3,676	500	3,176
Starbreeze AB – B shares	1,363	0	1,363
Unity Software Inc.	167	0	167
Noobz from Poland S.A.	282	0	282
Total other investments	5,488	500	4,988
Total investments	5,488	1,706	3,782

Movements during the year in relation to investments in associated companies are described in the Directors' Report.

The increase in Other investments is due to:

- fair value measurement of the 26,695,287 Starbreeze A shares and the 9,733,948 Starbreeze B shares (listed on Nasdaq Stockholm), with allocation to an equity reserve of the difference between the carrying amount and the fair value at 30 June 2020 as they are financial instruments classified as held to collect and sell;
- acquisition at a price of GBP 16 per share of 9,211 shares in Unity Software Inc. which constitutes part of payment of the selling price of the investment in Delta DNA Ltd;
- acquisition of 5.08% of the share capital of Noobz from Poland S.A..

5. Non-current receivables and other assets

Non-current receivables and other assets amount to Euro 6,744 thousand and have increased by Euro 2,578 thousand compared to 30 June 2019:

Euro Thousands	30 June 2020	30 June 2019	Change
Receivable for sale of Pipeworks Inc.	4,770	8,485	(3,715)
Receivable from Starbreeze AB	1,132	0	1,132
Guarantee deposits – office rental for Italian companies	635	635	0
Guarantee deposits – office rental for non-Italian companies	202	197	5
Other guarantee deposits	5	5	0
Total non-current receivables and other assets	6,744	9,322	(2,578)

The balance mainly consists of Euro 4,770 thousand representing the non-current portion of the receivable of USD 10 million arising from the sale of Pipeworks Inc in February 2018. This amount is stated net of a provision for bad debts and increased by interest income accruing for the period ended 30 June 2020.

Non-current receivables and other assets include a receivable of Euro 1,132 thousand from Starbreeze AB that was purchased from company Smilegate Holdings. The receivable has a nominal amount of around USD 16.3 million and was purchased for consideration of Euro 100 thousand. The amount at 30 June 2020 has been restated at amortised cost. The receivable forms part of the Starbreeze AB corporate restructuring process and will be paid in accordance with the payment plan agreed by the District Court in Sweden – in any case, not later than December 2024.

6. Deferred tax assets

Deferred tax assets are calculated on tax loss carryforwards and on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis. They have been 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 30 June 2020, the balance stood at Euro 3,482 thousand and had increased by Euro 737 thousand compared to 30 June 2019.

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

Euro Thousands	30 June 2020	30 June 2019	Change
Italian companies	1,675	763	912
Non-Italian companies	1,732	1,600	132
Consolidation adjustments	75	382	(307)
Total deferred tax assets	3,482	2,745	737

The following table provides details of temporary differences pertaining to the Italian companies at 30 June 2020 and 30 June 2019:

Euro Thousands	30 June 2020	30 June 2019	Change
Taxed provision for doubtful debts	648	654	(6)
Other liabilities	4,214	197	4,017
Actuarial differences	58	75	(17)
Costs not deducted in prior years	317	118	199
Tax loss carryforwards	396	0	0
Deduction for "Economic Growth Assistance " (ACE)	13	754	(742)
Reserve for writedown of securities	1,058	350	708
Reserve for application of IFRS 9	245	1,000	(755)
Total differences	6,949	3,148	3,405
Tax rate	24.0%	24.0%	
Deferred tax assets for IRES	1,668	756	912
Deferred tax assets for IRAP	7	7	0
Total deferred tax assets	1,675	763	912

The deferred tax assets of the non-Italian subsidiaries are as follows:

Euro Thousands	30 June 2020	30 June 2019
Deferred tax assets for losses of 505 Games Spain Sl	17	0
Deferred tax assets for temporary differences 505 Games (US) Inc.	1,583	1,534
Deferred tax assets for temporary differences 505 Games Interactive	29	14
Deferred tax assets for temporary differences 505 Games Mobile US	59	52
Deferred tax assets for temporary differences Hawken Inc.	32	0
Deferred tax assets for losses of 133 W Broadway	12	0
Total deferred tax assets of non-Italian subsidiaries	1,732	1,600

Deferred tax assets of non-Italian subsidiaries relate to temporary differences considered recoverable because, based on approved business plans and forecasts, it is considered probable that each such subsidiary will generate sufficient future taxable income to enable recovery of the temporary differences.

CURRENT ASSETS

8. Inventories

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

Euro Thousands	30 June 2020	30 June 2019	Change
Italian Distribution inventories	4,722	11,067	(6,345)
Premium Games inventories	3,267	2,842	425
Total Inventories	7,989	13,909	(5,920)

Inventories have decreased from Euro 13,909 thousand at 30 June 2019 to Euro 7,989 thousand at 30 June 2020. This Euro 5,920 thousand decrease is due to the need to adjust reporting date inventories for impairment of Euro 4,772 thousand – 40% of their gross amount – as a result of the COVID-19 pandemic which led to a further decrease in prices and to increased product obsolescence.

9. Trade receivables

Changes during the period in trade receivables were as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Receivables from customers - Italy	2,473	2,508	(35)
Receivables from customers – Other EU	2,752	2,736	16
Receivables from customers - Rest of the world	23,786	23,412	374
Total receivables from customers	29,011	28,656	355
Provision for doubtful debts	(843)	(996)	153
Total trade receivables	28,168	27,660	508

Receivables from customers totalled Euro 28,168 thousand at 30 June 2020. This represented a decrease of Euro 508 thousand compared to the 30 June 2019 balance of Euro 27,660 thousand.

Receivables from customers are stated net of an estimate of potential credit notes to be issued by the Group for price repositioning or returns.

The following table contains an analysis of receivables from customers at 30 June 2020 by due date, together with comparative figures at 30 June 2019:

Euro Thousands	30 June 2020	% of total	30 June 2019	% of total
Current	27,976	96%	27,016	94%
0 -30 days overdue	132	0%	495	2%
30 - 60 days overdue	35	0%	70	0%
60 - 90 days overdue	6	0%	5	0%
> 90 days overdue	862	4%	1.070	4%
Total receivables from customers	29,011	100%	28,656	100%

The provision for doubtful debts has decreased by Euro 153 thousand from Euro 966 thousand at 30 June 2019 to Euro 843 thousand at 30 June 2020. 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.

10. Tax receivables

Tax receivables are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Receivables under domestic tax group arrangement	1,766	3,914	(2,148)
VAT receivable	694	815	(121)
Tax credit for foreign tax withholdings	114	851	(737)
IRES refund for IRAP deductibility	119	119	0
Other tax receivables	407	377	30
Total tax receivables	3,100	6,076	(2,976)

Tax receivables have decreased by Euro 2,976 thousand from Euro 6,076 thousand at 30 June 2019 to Euro 3,100 thousand at 30 June 2020. The decrease in Receivables under the domestic tax group arrangement and the decrease in the tax credit for withholding taxes suffered by subsidiary 505 Games S.p.A. on royalties income are the result of the higher taxable income for the year of the Italian companies which led to the offsetting of tax assets.

11. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They increased from Euro 29,078 thousand at 30 June 2019 to Euro 32,816 thousand at 30 June 2020. They are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Receivables for video game user licences	10,371	15,769	(5,398)
Receivables for video game development operating costs	14,651	11,641	3,010
Receivable for sale of Pipeworks Inc.	4,770	0	4,770
Advances to suppliers	2,686	799	1,887
Advances to employees	112	187	(75)
Advances to agents	14	15	(1)
Other receivables	212	667	(455)
Total other current assets	32,816	29,078	3,738

Receivables for video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They decreased by Euro 5,398 thousand over the period to stand at Euro 10,371 thousand. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Advances to developers for licences not yet used	0	4,886	(4,886)
Advances to developers for licences partially used	10,371	10,883	(512)
Total receivables for video game user licenses	10,371	15,769	(5,398)

There are no Advances to developers for licences not yet used because, for the sake of clarity, all advances paid for new contracts are now classified under intangible assets. Even if the advances are paid without the transfer of intellectual property to the Group but only with exploitation rights for a limited period of time, these rights are long-term and it is more appropriate to report them under intangible assets.

Receivables for video game development operating costs, amounting to Euro 14,651 thousand, 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 in respect of which the Group has asked for a refund.

The amount in question is analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Programming	11,729	8,204	3,525
Quality assurance	2,307	2,298	9
Other operating costs	615	1,139	(524)
Total receivables for video game development operating costs	14,651	11,641	3,010

The receivable for the sale of Pipeworks Inc. includes the current portion of the receivable of USD 10 million generated by the sale of the US company, plus interest accruing at 30 June 2020.

Advances to suppliers has increased by Euro 1,887 thousand, mainly because of the recording of Euro 1,870 thousand in relation to the portion of withholding taxes subject to the agreement with the Italian Tax Authorities that the expects to be able to recover from suppliers.

SHAREHOLDERS' EQUITY

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

Euro Thousands	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 parent company shareholders (A+B+C+D)	Consolidated equity attributable to non-controlling interests	Total consolidated equity
Total at 1 July 2019	5,704	18,486	1,141	1,367	(1,350)	1,579	21,223	0	38,811	(1,513)	37,298	64,225	0	64,225
Allocation of loss							0		(1,513)	1,513	0	0	0	0
Other changes					(20)	331	311			20	20	331	1,000	1,331
Comprehensive income (loss)					(46)	(528)	(574)			14,970	14,970	14,396	(21)	14,375
Total at 30 June 2020	5,704	18,486	1,141	1,367	(1,416)	1,382	20,960	0	37,298	14,990	52,288	78,952	979	79,931

14. Share capital

Share capital at 30 June 2020 is unchanged compared to 30 June 2019 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.

15. Reserves

The change in Other reserves includes Euro 331 thousand to restate the stock option reserve, Euro 537 thousand (negative) to restate the reserve for securities measurement and Euro 9 thousand to restate the actuarial reserve.

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

NON-CURRENT LIABILITIES

18. Employee benefits

“Employee benefits” reflects the actuarial value of the Group’s liability towards employees, as calculated by an independent actuary. It has increased by Euro 86 thousand compared to prior year.

The IAS 19 actuarial measurement at 30 June 2020 was performed using a discount rate based on the Iboxx Corporate A 10y+ index, in line with the rate used at the previous reporting date. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on the Italian companies' reporting date headcount of 88 employees.

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

- annual rate of interest of 1.05%;
- annual rate of real increase in remuneration of 1%;
- annual rate of inflation of 1.20%.

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

Euro Thousands	30 June 2020	30 June 2019
Provision for employee termination indemnities at 1 July 2019	573	516
Utilisation of provision for leavers	(12)	(18)
Allocated during period	304	226
Restatement for supplementary pension schemes	(194)	(183)
Restatement for actuarial measurement	(12)	32
Provision for employee termination indemnities at 30 June 2020	659	573

The Group is not party to any supplementary pension plans.

19. Non-current provisions

These consist entirely of the agents’ termination indemnity provision. The balance of Euro 81 thousand at 30 June 2020 is unchanged compared to 30 June 2019.

20. Other non-current payables and liabilities

At 30 June 2020, this caption amounted to Euro 469 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 non-current portion of the receivable totalling USD 10 million, already commented upon under other non-current assets.

CURRENT LIABILITIES

22. Trade payables

Trade payables amounted to Euro 41,140 thousand at 30 June 2020 and increased by Euro 16,509 thousand compared to 30 June 2019. They were mostly payable to publishers for purchases of finished products and to developers. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Trade payables – Italy	(3,119)	(2,713)	(406)
Trade payables – Other EU	(21,050)	(11,181)	(9,869)
Trade payables – Rest of World	(16,971)	(10,737)	(6,234)
Total trade payables	(41,140)	(24,631)	(16,509)

The increase in trade payables to suppliers in Other EU countries and in the Rest of the World is due to higher payables for royalties and for the physical production of video games by 505 Games S.p.A. in line with the higher sales in the Premium Games operating segment.

23. Tax payables

Tax payables have increased by Euro 4,335 thousand from Euro 1,138 thousand at 30 June 2019 to Euro 5,473 thousand at 30 June 2020. The balance is detailed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Taxes on income	(569)	(220)	(349)
VAT payable	(226)	(268)	42
Other tax payables	(4,678)	(650)	(4,028)
Total tax payables	(5,473)	(1,138)	(4,335)

The increase in other tax payables is due to the recognition by 505 Games S.p.A. of the liability for foreign withholding taxes, plus penalties and interest, covered by the settlement agreement with the Italian Tax Authorities described in the Significant events during the reporting period section of the Directors' Report.

24. Current provisions

At 30 June 2020, there were no current provisions. The amount of Euro 856 thousand reported at 30 June 2019 represented an estimate of the risk 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. It has been reclassified to Tax payables following the settlement agreement reached with the Tax Authorities.

25. Other current liabilities

Other current liabilities amount to Euro 4,721 thousand and have increased by Euro 960 thousand compared to 30 June 2019. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Amounts due to social security institutions	(448)	(341)	(107)
Amounts due to employees	(988)	(573)	(415)
Amounts due to contract staff	(42)	(47)	5
Other payables	(3,243)	(2,800)	(443)
Total other current liabilities	(4,721)	(3,761)	(960)

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the reporting period, amounts accrued for the future payment of 14th monthly salaries and amounts accrued for the portion of variable remuneration relating to the reporting period.

Other payables mainly include advance payments received by 505 Games S.p.A. from several customers (Euro 2,817 thousand), especially in relation to sub-licensing contracts for certain countries where the Group does not have a direct presence, where revenue recognition is deferred.

NET FINANCIAL POSITION

The following table contains details of the Group's Net Financial Position at 30 June 2020 together with comparative figures at 30 June 2019:

	Euro Thousands	30 June 2020	30 June 2019	Change
12	Cash and cash equivalents	8,527	4,767	3,760
13	Current bank borrowing	0	2,277	(2,277)
26	Other current financial assets and liabilities	(16,807)	(20,917)	4,110
	Current net financial position	(8,280)	(13,873)	5,593
7	Non-current financial assets	17,251	1,942	15,309
21	Non-current financial liabilities	(6,369)	(4,302)	(2,067)
	Non-current net financial position	10,882	(2,360)	13,242
	Total net financial position	2,602	(16,233)	18,835

The net financial position shows net cash of Euro 2,602 thousand with an improvement of Euro 18,835 thousand compared to the net debt reported at 30 June 2016. Excluding the effect of application of the new IFRS 16, which led to recognition of a financial liability of Euro 5,336 thousand, the reduction in net debt would have amounted to Euro 24,171 thousand.

The decrease in net debt is mainly due to a Euro 15,309 thousand increase in non-current financial assets, to a Euro 4,110 thousand decrease in current financial liabilities and to a Euro 3,760 thousand increase in cash and cash equivalents that were only partially offset by a Euro 2,277 thousand decrease in other current financial assets and by a Euro 2,067 thousand increase in non-current financial liabilities.

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change
12	Cash and cash equivalents	8,527	4,767	3,760
13	Other current financial assets	0	2,277	(2,277)
26	Current financial liabilities	(16,807)	(20,917)	4,110
	Current net financial position	(8,280)	(13,873)	5,593

12. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 8,527 thousand at 30 June 2020, an increase of Euro 3,760 thousand compared to 30 June 2019. They are unrestricted and consist entirely of current account deposits accessible on demand.

13. Other current financial assets

Other current financial assets show a zero balance at 30 June 2020 as the loan of Euro 873 thousand receivable from US company Lab Zero Inc. and the loan of Euro 1,404 thousand due from Japanese company Shinshuppatsu Junbi Co. Ltd. have been reclassified, respectively, to concessions and licences and assets in progress following the launch of the video game Indivisible and the announcement of the launch of Death Stranding.

26. Current financial liabilities

Current financial liabilities (or current bank borrowing) consists of advances on invoices and notes receivable, short-term loans and other current financial liabilities for a total amount of Euro 16,807 thousand.

Details are as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Bank borrowing – current account overdrafts	0	(1,588)	1,588
Bank borrowing – import and export finance	0	(8,938)	8,938
Bank borrowing – advances on invoices and notes	(547)	(2,055)	1,508
Instalment loans due within a year	(5,153)	(7,924)	2,771
Other current financial liabilities	(11,107)	(122)	(10,985)
Bank borrowing – unsecured loans	0	(290)	(290)
Total current bank borrowing	(16,807)	(20,917)	4,110

Instalment loans amounting to Euro 5,153 thousand comprise the portion with a maturity within 12 months of:

- the loan of Euro 2,378 thousand granted by Unicredit S.p.A. to 505 Games S.p.A. in partial funding of the investment plan for the development cost of the video games Bloodstained and Control. The loan agreement provides for one or more partial disbursements up to a maximum amount of Euro 5,000 thousand with repayment in two six-monthly instalments in arrears. The first repayment was made on 31 March 2020 while the second one will fall due on 30 September 2020; 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;
- the current portion amounting to Euro 1,781 thousand of a loan totalling Euro 4,000 thousand granted by Mediocredito Italiano S.p.A. to 505 Games S.p.A. This loan is subject to increasing quarterly, principal repayments between 31 December 2019 and 31 December 2021; 505 Games S.p.A. will make quarterly interest payments based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 1.85 percentage points.

The loan is subject to compliance with two covenants calculated based on the Group's consolidated financial statements:

- 1) the ratio of the net financial position to equity must be less than or equal to 0.35;
- 2) the ratio of the net financial position to EBITDA must be less than or equal to 2.

Both covenants were respected at 30 June 2020;

- the current portion of Euro 994 thousand of a loan totalling Euro 2 million granted by Intesa SanPaolo S.p.A. to Digital Bros S.p.A. to sustain working capital and provide financial support; the loan agreement provides for principal repayments in 8 quarterly instalments in arrears between 24/09/2020 and 24/06/2022; Digital Bros S.p.A. will make quarterly interest payments based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 1.40 percentage points.

Other current financial liabilities are detailed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Advances on trade receivables factored without recourse	(21)	(106)	85
Lease instalments due within a year	(63)	(16)	(47)
Application of IFRS 16	(1,023)	0	(1,023)
Liability to Smilegate Holdings	(10,000)	0	(10,000)
Total current financial liabilities	(11,107)	122	(10,985)

Advances on trade receivables factored without recourse totalled Euro 21 thousand and decreased by Euro 85 thousand compared to 30 June 2019.

The increase in lease instalments due within a year is due to the purchase of five new cars. The current liability at 30 June 2020 includes Euro 5 thousand representing the entire lease liability for a server and Euro 58 thousand representing the current portion of five lease contracts for cars. The finance lease agreement entered into with Unicredit Leasing for the purchase of a server provides for a financed amount of Euro 54 thousand and the payment of fifty-nine monthly instalments plus an advance payment of Euro 5 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 29 December 2020. The interest rate is variable and is determined based on the Euribor 3 month rate plus a spread of 3 percentage points.

The effect of application of the new IFRS 16 has already been described above.

The liability of Euro 10 million towards Smilegate Holdings represents the portion of the purchase price of the assets held by said Korean company in Starbreeze AB falling due on 28 February 2021, as described in the Directors' Report under Significant Events during the Period.

At 30 June 2019, bank borrowing – unsecured loans comprised the current portion of the loan from Intesa Sanpaolo S.p.A. New York Branch to 133 W. Broadway Inc. which was extinguished on 25/06/2020.

7. Non-current financial assets

Non-current financial assets consist entirely of the fair value measurement of the convertible bonds issued by Starbreeze AB with a nominal value of SEK 215 million and maturing in December 2020, as described in the Significant Events during the Period section of the Directors' Report.

21. Non-current financial liabilities

Non-current financial liabilities include instalment loans due after more than a year and other non-current financial liabilities for a total of Euro 6,369 thousand. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Instalment loans due after more than a year	(1,906)	(4,293)	2,387
Other non-current financial liabilities	(4,463)	(9)	(4,454)
Total non-current financial liabilities / bank borrowing	(6,369)	(4,302)	(2,067)

At 30 June 2020, non-current bank borrowing included:

- Euro 1,005 thousand representing the non-current portion of the loan granted by Intesa SanPaolo S.p.A. to Digital Bros S.p.A., as described above;
- Euro 901 thousand representing the non-current portion of the loan granted by Mediocredito S.p.A. to 505 Games S.p.A., as described above.

Other non-current financial liabilities amount to Euro 4,463 thousand. They include Euro 149 thousand of lease repayments due after more than a year and Euro 4,314 thousand due to application of the new IFRS 16.

Lease liabilities regard:

- a finance lease agreement entered into with MPS Leasing & Factoring for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 84 thousand and the payment of forty-seven monthly instalments plus an advance payment of Euro 8 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 10 August 2023. Lease instalments due within a year amount to Euro 19 thousand while those due after more than a year total Euro 42 thousand. There is a variable rate of interest of 2.26%;
- a finance lease agreement entered into with MPS Leasing & Factoring for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 89 thousand and the payment of forty-seven monthly instalments plus an advance payment of Euro 9 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 10 August 2023. Lease instalments due within a year amount to Euro 20 thousand while those due after more than a year total Euro 44 thousand. There is a variable rate of interest of 2.26%;
- a finance lease agreement entered into with BMW Group Segment Financial Services for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 22 thousand and

the payment of forty-eight monthly instalments plus an advance payment of Euro 2 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 11 November 2023. Lease instalments due within a year amount to Euro 4 thousand while those due after more than a year total Euro 13 thousand. There is a variable rate of interest of 5.85%;

- a finance lease agreement entered into with BMW Group Segment Financial Services for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 22 thousand and the payment of forty-eight monthly instalments plus an advance payment of Euro 2 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 11 November 2023. Lease instalments due within a year amount to Euro 4 thousand while those due after more than a year total Euro 13 thousand. There is a variable rate of interest of 5.85%;
- a finance lease agreement entered into with Volkswagen Bank for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 58 thousand and the payment of forty-eight monthly instalments plus an advance payment of Euro 12 thousand and a final purchase option of Euro 21 thousand. The finance lease expires on 15 December 2024. Lease instalments due within a year amount to Euro 6 thousand while those due after more than a year total Euro 37 thousand. There is a variable rate of interest of 3.99%.

The following table shows finance and operating lease payments by maturity:

Euro Thousands	30 June 2020	30 June 2019	Change
Within 1 year	1,086	16	1,070
1-5 years	4,463	9	4,454
More than 5 years	0	0	0
Total	4,549	25	5,524

For information purposes only, the following table sets out the net financial position in accordance with DEM/6064293 of 28 July 2006:

	Euro Thousands	30 June 2020	30 June 2019	Change	
A.	Cash	5	8	(3)	-41.1%
B.	Cash equivalents (details)	8,522	4,759	3,763	n.s.
C.	Liquidity (A) + (B)	8,527	4,767	3,760	78.9%
D.	Current and non-current financial receivables	17,251	4,219	13,032	n.s.
E.	Current bank borrowing	547	12,581	(12,034)	n.s.
F.	Current portion of non-current debt	5,153	8,214	(3,061)	-37.3%
G.	Other current financial liabilities	11,107	122	10,985	n.s.
H.	Current financial indebtedness (E)+(F)+(G)	16,807	20,917	(4,110)	-19.6%
I.	Net current financial indebtedness (H) – (D) – (C)	(8,971)	11,931	(20,902)	n.s.
J.	Non-current bank borrowing	1,906	4,293	(2,387)	-55.6%
K.	Other non-current financial liabilities	4,463	9	4,454	n.s.
L.	Non-current financial indebtedness (J) + K)	6,369	4,302	2,067	48.0%
M.	Net financial indebtedness (I) + (L)	(2,602)	16,233	(18,835)	n.s.

COMMITMENTS AND RISKS

The following table reports the Group's commitments:

Euro Thousands	30 June 2020	30 June 2019	Change
Commitments under signed contracts	48,042	31,165	16,877
Commitments for subscription of capital of Seekhana Ltd.	0	1,177	(1,177)
Commitments for subscription of capital of Starbreeze	2,395	0	2,395

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.

The commitments for subscription of capital of Seekhana Ltd no longer exist following agreements that have seen the Group come to hold 60% of the share capital of the UK company.

The commitment to subscribe a share capital increase by Starbreeze is the result of a binding agreement for the pro-quota subscription of a share capital increase to be approved at a future General Meeting, which has now been finalised in September. The amount disclosed represents the actual commitment of SEK 25.1 million, translated at the 30 June 2020 exchange rate, which the Group paid in September and was the equivalent of an average price of SEK 0.69 per class A and class B share held.

8. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

The following table contains a breakdown of revenue by operating segment for the year ended 30 June 2020. It does not include the Holding operating segment as it does not generate revenue:

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other activities	Total
1	Gross revenue	7,476	122,287	8,653	617	139,033
2	Revenue adjustments	0	(5,766)	(44)	0	(5,810)
3	Total net revenue	7,476	116,521	8,609	617	133,223

At 30 June 2019, the breakdown was as follows:

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other activities	Total
1	Gross revenue	6,573	60,432	13,741	571	81,317
2	Revenue adjustments	0	(2,549)	(1,760)	0	(4,309)
3	Total net revenue	6,573	57,883	11,981	571	77,008

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

8. Cost of sales

Cost of sales is analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Purchase of products for resale	(16,743)	(14,675)	(2,067)	14.1%
Purchase of services for resale	(8,857)	(6,586)	(2,271)	34.5%
Royalties	(34,600)	(20,671)	(13,929)	67.4%
Changes in inventories of finished products	(5,920)	(1,150)	(4,771)	n.s.
Total cost of sales	(66,120)	(43,082)	(23,038)	53.5%

Reference should be made to the Directors' Report for more detailed analysis of the individual revenue and cost of sales items. The Directors' Report contains such analysis for each of the Group's operating segments.

10. Other revenue

Other revenue amounts to Euro 3,458 thousand. It has remained substantially unchanged compared to prior year and almost entirely consists of internal costs capitalised in relation to the development of video games to be launched soon. Specifically, during the reporting period, work continued on the development of the new Free to Play version of Hawken by subsidiary DR Studios Ltd..

11. Costs for services

Costs for services are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Advertising, marketing, trade fairs and exhibitions	(8,445)	(4,315)	(4,130)	95.7%
Transport and freight	(769)	(601)	(168)	27.9%
Other sales related costs	(386)	(297)	(89)	29.8%
Subtotal: sales related services	(9,600)	(5,213)	(4,387)	84.2%
Sundry insurance	(351)	(246)	(105)	42.5%
Consulting fees	(2,258)	(2,016)	(242)	12.0%
Postage and telegraph	(200)	(234)	34	-14.4%
Travel and subsistence costs	(731)	(909)	178	-19.5%
Utilities	(203)	(246)	43	-17.5%
Maintenance	(108)	(98)	(10)	10.1%
Statutory auditors' fees	(108)	(108)	0	0.0%
Subtotal: general services	(3,959)	(3,857)	(102)	2.7%
Total costs for services	(13,559)	(9,070)	(4,489)	49.5%

Costs for services have increased by Euro 4,489 thousand mainly because higher advertising costs in relation to new video games launched during the reporting period.

12. Lease and rental costs

Lease and rental costs amount to Euro 247 thousand compared to Euro 1,460 thousand in the year ended 30 June 2019. The decrease is due to application of the new IFRS 16 and the amount for the year ended 30 June 2020 includes Euro 165 thousand of expenses relating to the rental of the offices of Group companies and Euro 82 thousand of lease costs for cars and warehouse equipment that do not fall within the scope of application of IFRS 16 because of their modest amount or the short residual duration of the lease.

13. Labour costs

Labour costs, including directors' fees approved by the shareholders, amounts paid to temporary workers and contract staff and the cost of cars assigned to employees, totalled Euro 20,908 thousand and increased by Euro 3,005 thousand compared to prior year:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Wages and salaries	(14,178)	(11,422)	(2,756)	24.1%
Social contributions	(3,322)	(2,899)	(423)	14.6%
Employee termination indemnity	(243)	(228)	(15)	6.7%
Stock option plan	(330)	(796)	466	-58.5%
Directors' fees	(1,121)	(956)	(165)	17.3%
Temporary labour and contract staff	(1,617)	(1,527)	(90)	5.9%
Agents' commission	(31)	(31)	0	-0.5%
Other labour costs	(66)	(44)	(22)	49.6%
Total labour costs	(20,908)	(17,903)	(3,005)	16.8%

Labour costs have increased compared to prior year due to both the higher number of employees and non-payment of variable remuneration which was not paid in prior year.

Labour costs, in the narrow sense, consist of employee wages and salaries, social contributions and the cost of employee termination indemnities. They have increased by Euro 3,196 thousand compared to prior year while the average cost per employee has risen by 12.3%

:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Wages and salaries	(14,178)	(11,420)	(2,758)	24.1%
Social contributions	(3,322)	(2,899)	(423)	14.6%
Employee termination indemnity	(243)	(228)	(15)	6.7%
Total labour costs	(17,743)	(14,547)	(3,196)	22.0%
Average number of employees	202	186	16	8.6%
Average cost per employee	(87.8)	(78.2)	(9.6)	12.3%

A breakdown of the Group's workforce by employee category at 30 June 2020 is provided in the Directors' Report.

14. Other operating costs

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

Euro Thousands	30 June 2020	30 June 2019	Change	%
Purchases of sundry materials	(55)	(69)	14	-20.5%
General & Administrative costs	(868)	(970)	102	-10.5%
Entertainment expenses	(37)	(51)	14	-26.8%
Sundry bank charges	(209)	(133)	(76)	56.8%
Total other operating costs	(1.169)	(1.223)	54	-4.5%

Other operating costs have decreased by 4.5% from Euro 1,223 thousand in prior year to Euro 1,169 thousand in the year ended 30 June 2020, mainly because of lower general and administrative costs as partially offset by higher bank charges.

21. Non-monetary operating income and expenses

Non-monetary operating expenses include:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Depreciation and amortisation	(13,266)	(6,970)	(6,296)	90.3%
Impairment adjustments to assets	(2,206)	(2,051)	(155)	7.6%
Reversal of previous adjustments	849	0	849	n.s.
Total non-monetary operating income expenses	(14,623)	(9,021)	(5,602)	62.1%

Net non-operating expenses, amounting to Euro 14,623 thousand, have increased by Euro 5,602 thousand compared to the year ended 30 June 2019. Depreciation and amortisation has increased by Euro 6,296 thousand because of video games launched during the period and the application of the new IFRS 16.

Impairment adjustments to assets, amounting to Euro 2,206 thousand, mainly refer to the decision to abandon certain ongoing development projects.

Reversal of previous adjustments is the result of changes to depreciation and amortisation rates applied because of IFRS 9.

25. Net financial income / (expenses)

This item may be analysed as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	%
23	Interest and financial income	4,037	1,438	2,599	n.s.
24	Interest and financial expenses	(3,409)	(1,406)	(2,003)	n.s.
25	Net financial income / (expenses)	628	32	596	n.s.

There is net financial income of Euro 628 thousand compared to Euro 32 thousand in prior year. The increase is the net result of a Euro 2,599 thousand increase in interest and financial income and a Euro 2,003 thousand increase in interest and financial expenses.

Interest and financial income may be analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Financial income	2,275	524	1,751	n.s.
Exchange gains	1,754	890	864	97.1%
Other	8	24	(16)	-67.0%
Total interest and financial income	4,037	1,438	2,599	n.s.

Interest and financial income have increased by Euro 2,599 thousand because of a Euro 1,751 thousand increase in financial income and a Euro 864 thousand rise in exchange gains. Financial income includes Euro 1,032 thousand due to the restatement of the loan of around USD 16.3 million receivable from Starbreeze as acquired for consideration of Euro 100 thousand and the gain of Euro 383 thousand realised on the sale of the investment in Delta Dna Ltd.

Interest and financial expenses amount to Euro 3,409 thousand. They have increased by Euro 2,003 thousand compared to the year ended 30 June 2019, mainly because of the equity valuation of investments in associated companies Avantgarden S.r.l. and Seekhana Ltd. (656 thousand) until the date of consolidation, the booking of Euro 580 thousand of interest payable to the Tax Authorities under the settlement agreed with them and higher exchange losses.

Interest and financial expenses are analysed in detail as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Interest expenses on current accounts and trade finance	(285)	(285)	0	0,0%
Other interest expenses	(587)	0	(587)	n.s.
Interest expenses on loans and leases	(411)	(223)	(188)	84,3%
Factoring interest expenses	(5)	(5)	0	0,0%
Total interest expenses on sources of finance	(1,288)	(513)	(775)	n.s.
Exchange losses	(1,465)	(850)	(615)	72,3%
Equity valuation of investments	(656)	(43)	(613)	n.s.
Total interest and financial expenses	(3,409)	(1,406)	(2,003)	n.s.

29. Taxation

Current and deferred taxes for the year ended 30 June 2020 are detailed below:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Current taxes	(6,363)	28	(6,391)	n.s.
Deferred taxes	629	(228)	857	n.s.
Total taxes	(5,734)	(200)	(5,534)	n.s.

Current taxes are analysed in more detail as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
IRES	(5,384)	640	(6,024)	n.s.
IRAP	(214)	(185)	(29)	15.7%
Current taxes of non-Italian companies	(481)	(427)	(54)	12.6%
Other current taxes	(284)	0	(284)	n.s.
Total current taxes	(6,363)	28	(6,391)	n.s.

IRES for the year was determined as follows:

Euro Thousands	30 June 2020	30 June 2019
Taxable income for IRES purposes (A)	19,612	(3,004)
IRES rate (B)	24.0%	24.0%
IRES for the period (A)*(B)	(4,707)	721
Taxes relating to prior period	(677)	(81)
IRES for the period	(5,384)	640

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

Euro Thousands	30 June 2020		30 June 2019	
Parent company profit before taxation	(851)		520	
IRES rate	24.0%		24.0%	
Theoretical taxation	204	-24.0%	(125)	-24.0%
Tax effect of non-deductible costs	562	-66%	769	148%
Tax effect of utilisation of tax losses not previously utilised	0		0	
Net tax effect of reversal of deferred tax assets not included in above items	(58)		59	
IRES on gain classified under financial income	0		0	
Tax effect of share of profits of subsidiaries	(5,416)		17	
Prior year taxation	(677)		(80)	
Taxes on income for the year and effective tax rate	(5,384)	633%	640	123%

IRAP for the period was determined as follows:

Euro Thousands	30 June 2020	30 June 2019
Taxable income for IRAP purposes	5,128	4,769
IRAP rate	3.9%	3.9%
IRAP for the period	(200)	(186)
IRAP relating to prior year	(14)	1
IRAP for the period	(214)	(185)

The IRAP expense for the year may be reconciled with the result reported in the financial statements as follows:

Euro Thousands	30 June 2020		30 June 2019	
Operating margin/EBIT of Parent Company	(5,330)		(3,508)	
IRAP rate	3.9%		3.9%	
Theoretical IRAP	0	0.0%	0	0.0%
Tax effect of non-deductible costs	0	0.0%	0	0.0%
Tax effect of share of results of subsidiaries	(214)	4.0%	(185)	3.5%
Tax on income for the period and effective tax rate	(214)	4.0%	(185)	3.5%

32. Basic earnings per share

Basic earnings per share is determined based on the following figures:

Euro Thousands	30 June 2020	30 June 2019
Total net result	14,970	(1,513)
Total average number of shares in issue	14,260,837	14,260,837
Earnings per share in Euro	1.05	(0.11)

Basic earnings per share is calculated by dividing the result for the period by the average number of shares in issue (excluding treasury shares).

33. Diluted earnings per share

Following the maturation on 1 July 2019 of 216,000 rights to subscribe new shares in terms of the stock option plan 2016/2026 – available on the Company web site – diluted earnings per share is calculated as follows:

Euro Thousands	30 June 2020	30 June 2019
Total net result	14,970	(1,513)
Total average number of shares in issue	14,476,837	14,260,837
Earnings per share in Euro	1.03	(0.11)

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (IFRS 7)

The main financial instruments used by the Group are:

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Medium-term loans for product development.

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

Parent company Digital Bros S.p.A. and 505 Games S.p.A. manage all financial risks on behalf of itself and its subsidiaries. This is except for other financial instruments not listed above i.e. trade payables and receivables arising from operating activities for which the financial risk remains the responsibility of each individual subsidiary.

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

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

The additional disclosures required by IFRS 7 in order to evaluate the significance of financial instruments to the Group's results and financial position are provided in the following tables for the years ended 30 June 2020 and 2019.

Financial Instruments: Statement of Financial Position at 30 June 2020

Category of financial assets in terms of IFRS 9

Financial Instruments – Assets at 30 June 2020 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying amount at 30 June 2020	Note
Non-current receivables and other assets	-	6,744	-	6,744	5
Trade receivables	17,251	-	-	17,251	7
Other current assets	-	28,168	-	28,168	9
Cash and cash equivalents	-	32,816	-	32,816	11
Other current financial assets	-	8,527	-	8,527	12
Other non-current financial assets	-	0	-	0	13
Total	17,251	76,255	-	93,506	

Category of financial liabilities in terms of IFRS 9

Financial Instruments – Liabilities at 30 June 2020 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	Carrying amount at 30 June 2020	Note
Non-current financial liabilities	-	6,369	-	6,369	21
Trade payables	-	41,140	-	41,140	22
Other current liabilities	-	4,721	-	4,721	25
Current financial liabilities	-	16,807	-	16,807	26
Total	-	69,037	-	69,037	

Financial Instruments: Statement of Financial Position at 30 June 2019

Category of financial assets in terms of IFRS 9

Financial Instruments – Assets at 30 June 2019 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying Amount at 30 June 2019	Note
Non-current receivables and other assets	-	9,322	-	9,322	5
Trade receivables	-	1,942	-	1,942	7
Other current assets	-	55,070	-	27,660	9
Cash and cash equivalents	-	1,668	-	29,078	11
Other current financial assets	-	4,767	-	4,767	12
Other non-current financial assets	-	2,277	-	2,277	13
Total	-	75,046	-	75,046	

Category of financial liabilities in terms of IFRS 9

Financial Instruments - Liabilities at 30 June 2019 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	Carrying Amount at 30 June 2019	Note
Non-current financial liabilities	-	4,302		4,302	21
Trade payables	-	24,631		24,631	22
Other current liabilities	-	3,761		3,761	25
Current financial liabilities	-	20,917		20,917	26
Total	-	53,610		53,610	

The main risks to which the Group is subject are:

- interest rate risk
- liquidity risk
- exchange rate risk
- risk of dependence on key customers and collection risk.

Interest rate risk

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

This risk is mitigated by the low level of debt and by the adoption of a short-term cash flowing procedure.

Liquidity risk

The liquidity risk relates to problems in accessing the credit market.

It often takes several years to develop a video game. This means it is necessary to find additional lines of credit to cover the period between the investment and the return on invested capital after the product launch.

The mitigating factors that can reduce this risk are listed below:

- cash flows, financing requirements and liquidity requirements are monitored centrally by the Group Treasury Function with the aim of ensuring effective and efficient management of financial resources and guaranteeing an appropriate level of available liquidity;
- the Group's level of capitalisation means it only has to use leverage to a marginal extent.

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

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

Financial liabilities at 30 June 2020 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Non-current financial liabilities	6,369		2,753	750	691	642	1,532	6,369	21
Current financial liabilities	16,807	16,807						16,807	26
Total	23,176	16,807	3,400	902	0	0	0	23,176	

Financial liabilities at 30 June 2019 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Non-current financial liabilities	4,302		3,400	902				4,302	21
Current financial liabilities	20,917	20,917						20,917	26
Total	25,219	20,917	3,400	902	0	0	0	25,219	

The Group has sufficient financial resources to satisfy its debt maturing within one year. These financial resources include cash and cash equivalents, unutilised credit facilities totalling around Euro 51 million at the reporting date and cash flows from operating activities.

Exchange rate risk

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

The risk is mitigated by the fact that foreign currency payments are often made in advance. The Group books actual royalty costs in advance and manages to reflect any additional expenses due to exchange rate fluctuation in its selling prices. The Group can also take action to adjust selling prices in order to offset the effect of any exchange rate fluctuation. Another mitigating factor is the possibility of entering into contracts in the same currency so as to mitigate the effect of any negative exchange rate fluctuation.

The Group is indirectly exposed to the risk of fluctuation in the value of the Chinese Renminbi. Sales on digital marketplaces are converted daily into US Dollars. Any significant fluctuation in the USD/CNY exchange rate could lead to a significant loss on revenues. The risk is limited thanks to the possibility of acting swiftly to make changes to product price lists in local currency.

Risk of dependence on key customers and collection risk

During the reporting period, the top ten global customers accounted for around 74% of trade receivables while the top 50 customers accounted for 98%. Gradual market digitalisation will necessarily lead to a further increase in the level of receivables concentration as sales will be made on marketplaces operating on a global scale. The concentration of revenues on a small number of key customers makes the Group reliant on the decisions made by a handful of companies. Indeed, there is a risk that if a specific product is not selected for purchase, it might not have the necessary visibility on store shelves, in case of physical distribution, but also on digital platforms, thus leading to the loss of expected sales potential. In contrast, a product may acquire additional sales potential if it gains particularly favourable positioning.

The concentration of sales on a small number of customers increases the credit risk.

This risk is mitigated through extensive use of credit insurance which reduces potential bad debts, by the potential entry of new marketplaces onto the video game digital distribution market and by the high concentration of digital revenues on a handful of marketplaces with high credit ratings (i.e. Sony, Microsoft, Apple, etc).

The following table provides details of receivables from customers by due date at 30 June 2020 and 2019:

Euro Thousands	30 June 2020	% of total	30 June 2019	% of total
Not overdue	27,976	96%	27,016	94%
0 -30 days overdue	132	0%	495	2%
30 - 60 days overdue	35	0%	70	0%
60 - 90 days overdue	6	0%	5	0%
> 90 days overdue	862	4%	1,070	4%
Total receivables from customers	29,011	100%	28,656	100%

Fair value of financial assets and liabilities and calculation models used

The table below presents the fair value of assets and liabilities based on the calculation methods and models used. Financial assets whose fair value cannot be reasonably determined have not been included.

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

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

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

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

Euro Thousands	Carrying amount at 30 June 2020	Mark to Market Fair Value	Mark to Model Fair Value	Total Fair Value	Note
Other non-current financial assets	17,251	0	17,251	17,251	7
Cash and cash equivalents	8,527	8,527		8,527	12
Other current financial assets	0	0		0	13
Non-current financial liabilities	(6,369)	(6,369)		(6,369)	21
Current financial liabilities	(16,807)	(16,807)		(16,807)	26
Total	2,602	(14,649)	17,251	2,602	

Euro Thousands	Carrying amount at 30 June 2019	Mark to Market Fair Value	Mark to Model Fair Value	Total Fair Value	Note
Other non-current financial assets	1,942	1,942		1,942	7
Cash and cash equivalents	4,767	4,767		4,767	12
Other current financial assets	2,277	2,277		2,277	13
Non-current financial liabilities	(4,302)	(4,302)		(4,302)	21
Current financial liabilities	(20,917)	(20,917)		(20,917)	26
Total	(16,233)	(16,233)		(16,233)	

Exchange rate risk: sensitivity analysis

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

The Group has performed a sensitivity analysis that measures the estimated impact on profit or loss and on the statement of financial position of an exchange rate fluctuation of +/-10% compared to the rates in effect at 30 June 2019 for each class of financial instrument, with all other variables remaining constant. The analysis is purely illustrative, as such changes rarely take place in an isolated manner.

At 30 June 2020, the Group was not exposed any additional risks, such as the commodity risk.

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

The table below shows the impact on the net financial position and on profit before taxation of a 10% increase/decrease in the EUR/USD exchange rate compared to the budgeted rate of USD 1.15/EUR 1:

Type of change	Effect on net financial position	Effect on profit before taxation
+10% USD	(1,161)	(169)
-10% USD	1,419	206

Fair Value hierarchy

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

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

The Group uses various measurement and valuation models to determine the fair value of financial instruments. The following table contains a summary of such financial instruments at 30 June 2020 and 30 June 2019:

Caption at 30 June 2020	Instrument	Level 1	Level 2	Level 3	Total	Note
Investments	Listed shares	5,039			5,039	4
Non-current financial assets	Bonds		17,251		17,251	7

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

10. NON-RECURRING INCOME AND EXPENSES

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

During the year, the Group accounted for non-recurring expenses as described in the Directors' Report. In prior year, no non-recurring income and expenses were recorded.

11. 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 years ended 30 June 2020 and 2019 are set out below. See the Directors' Report for related comments.

Consolidated statement of profit or loss by operating segment for the year ended 30 June 2020

	Consolidated figures Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	7,476	122,287	8,653	617	0	139,033
2	Revenue adjustments	0	(5,766)	(44)	0	0	(5,810)
3	Total revenue	7,476	116,521	8,609	617	0	133,223
4	Purchase of products for resale	0	(11,291)	(5,452)	0	0	(16,743)
5	Purchase of services for resale	(2,189)	(6,528)	(128)	(12)	0	(8,857)
6	Royalties	(363)	(34,207)	0	(30)	0	(34,600)
7	Changes in inventories of finished products	0	425	(6,345)	0	0	(5,920)
8	Total cost of sales	(2,552)	(51,601)	(11,925)	(42)	0	(66,120)
9	Gross profit (3+8)	4,924	64,920	(3,316)	575	0	67,103
10	Other income	2,039	1,336	(0)	0	83	3,458
11	Costs for services	(271)	(10,352)	(1,208)	(163)	(1,565)	(13,559)
12	Lease and rental costs	(19)	(81)	(29)	(1)	(117)	(247)
13	Labour costs	(4,440)	(11,144)	(1,365)	(324)	(3,635)	(20,908)
14	Other operating costs	(82)	(398)	(188)	(32)	(469)	(1,169)
15	Total operating costs	(4,812)	(21,975)	(2,790)	(520)	(5,786)	(35,883)
16	Gross operating margin (EBITDA) (9+10+15)	2,151	44,281	(6,106)	55	(5,703)	34,678
17	Depreciation and amortisation	(1,127)	(11,025)	(173)	(110)	(831)	(13,266)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	(346)	(1,860)	0	0	0	(2,206)
20	Reversal of impairment adjustments and non-monetary income	0	259	0	0	590	849
21	Total non-monetary operating income and expenses	(1,473)	(12,626)	(173)	(110)	(241)	(14,623)
22	Operating margin (EBIT) (16+21)	678	31,655	(6,279)	(55)	(5,944)	20,055

Information by operating segment

Consolidated statement of financial position at 30 June 2020

	Consolidated figures in Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
	Non-current assets						
1	Property, plant and equipment	174	1,168	2,352	83	5,060	8,837
2	Investment property	0	0	0	0	0	0
3	Intangible assets	6,061	25,943	0	1,048	196	33,248
4	Equity interests	0	(0)	0	0	5,488	5,488
5	Non-current receivables and other assets	0	186	6	0	6,552	6,744
6	Deferred tax assets	490	1,639	1,346	7	0	3,482
7	Non-current financial assets	0	0	0	0	17,251	17,251
	Total non-current assets	6,725	28,936	3,704	1,138	34,547	75,050
	Current assets						
8	Inventories	0	3,267	4,722	0	0	7,989
9	Trade receivables	1,737	22,914	1,904	5	0	28,168
10	Tax receivables	98	242	986	7	1,767	3,100
11	Other current assets	1,767	27,095	238	230	5,094	32,816
12	Cash and cash equivalents	318	7,093	865	131	120	8,527
13	Other financial assets	0	0	0	0	0	0
	Total current assets	3,920	60,611	8,715	373	6,981	80,600
	TOTAL ASSETS	10,645	89,547	12,419	1,511	41,528	155,650
	Non-current liabilities						
18	Employee benefits	0	(214)	(429)	(16)	0	(659)
19	Non-current provisions	0	0	(81)	0	0	(81)
20	Other non-current payables and liabilities	0	0	0	0	(469)	(469)
21	Financial liabilities	(62)	(1,292)	0	0	(5,015)	(6,369)
	Total non-current liabilities	(62)	(1,506)	(510)	(16)	(5,484)	(7,578)
	Current liabilities						
22	Trade payables	(1,023)	(37,855)	(698)	(136)	(1,428)	(41,140)
23	Current tax liabilities	(91)	(5,207)	(158)	(17)	(0)	(5,473)
24	Current provisions	(0)	0	0	0	0	0
25	Other current liabilities	(42)	(3,363)	(868)	(105)	(343)	(4,721)
26	Financial liabilities	(54)	(4,508)	(568)	0	(11,677)	(16,807)
	Total current liabilities	(1,210)	(50,933)	(2,292)	(258)	(13,448)	(68,141)
	TOTAL LIABILITIES	(1,272)	(52,439)	(2,802)	(274)	(18,932)	(75,719)

Statement of profit or loss by operating segment for the year ended 30 June 2019

	Consolidated figures in Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	6,573	60,432	13,741	571	0	81,317
2	Revenue adjustments	0	(2,549)	(1,760)	0	0	(4,309)
3	Total revenue	6,573	57,883	11,981	571	0	77,008
4	Purchase of products for resale	0	(6,141)	(8,534)	0	0	(14,675)
5	Purchase of services for resale	(2,088)	(3,812)	(657)	(29)	0	(6,586)
6	Royalties	(464)	(20,180)	0	(27)	0	(20,671)
7	Changes in inventories of finished products	0	(435)	(715)	0	0	(1,150)
8	Total cost of sales	(2,552)	(30,568)	(9,906)	(56)	0	(43,082)
9	Gross profit (3+8)	4,021	27,315	2,075	515	0	33,926
10	Other income	1,829	1,344	0	0	233	3,406
11	Costs for services	(240)	(5,875)	(1,252)	(154)	(1,549)	(9,070)
12	Lease and rental costs	(49)	(623)	(34)	(5)	(749)	(1,460)
13	Labour costs	(3,609)	(8,760)	(1,370)	(543)	(3,621)	(17,903)
14	Other operating costs	(190)	(394)	(218)	(38)	(383)	(1,223)
15	Total operating costs	(4,088)	(15,652)	(2,874)	(740)	(6,302)	(29,656)
16	Gross operating margin (EBITDA) (9+10+15)	1,762	13,007	(799)	(225)	(6,069)	7,676
17	Depreciation and amortisation	(1,759)	(4,693)	(262)	(85)	(171)	(6,970)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	(286)	(1,565)	(67)	0	(132)	(2,051)
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0	0	0
21	Total non-monetary operating income and expenses	(2,046)	(6,258)	(329)	(85)	(303)	(9,021)
22	Operating margin (EBIT) (16+21)	(284)	6,749	(1,128)	(310)	(6,372)	(1,345)

Information by operating segment

Consolidated statement of financial position at 30 June 2019

	Consolidated figures in Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
	Non-current assets						
1	Property, plant and equipment	2,381	123	74	569	437	3,584
2	Investment property	0	0	0	0	0	0
3	Intangible assets	0	254	4,657	13,172	258	18,341
4	Equity interests	0	0	0	0	1,706	1,706
5	Non-current receivables and other assets	5	0	0	186	9,131	9,322
6	Deferred tax assets	695	11	329	1,710	0	2,745
7	Non-current financial assets	0	0	0	0	1,942	1,942
	Total non-current assets	3,081	388	5,060	15,637	13,474	37,640
	Current assets						
8	Inventories	11,067	0	0	2,842	0	13,909
9	Trade receivables	1,782	10	1,449	24,419	0	27,660
10	Tax receivables	1,041	9	142	971	3,913	6,076
11	Other current assets	330	262	58	27,616	812	29,078
12	Cash and cash equivalents	93	27	284	4,333	30	4,767
13	Other financial assets	0	0	0	2,277	0	2,277
	Total current assets	14,312	308	1,933	62,459	4,755	83,767
	TOTAL ASSETS	17,393	696	6,993	78,096	18,229	121,407
	Non-current liabilities						
18	Employee benefits	(436)	(14)	0	(123)	0	(573)
19	Non-current provisions	(81)	0	0	0	0	(81)
20	Other non-current payables and liabilities	0	0	0	0	(923)	(923)
21	Financial liabilities	0	0	0	(4,293)	(9)	(4,302)
	Total non-current liabilities	(517)	(14)	0	(4,416)	(932)	(5,879)
	Current liabilities						
22	Trade payables	(918)	(136)	(447)	(22,645)	(485)	(24,631)
23	Current tax liabilities	(145)	(22)	(147)	(824)	(0)	(1,138)
24	Current provisions	(0)	0	0	(856)	0	(856)
25	Other current liabilities	(609)	(138)	(40)	(2,952)	(22)	(3,761)
26	Financial liabilities	(98)	0	0	(9,071)	(11,748)	(20,917)
	Total current liabilities	(1,770)	(296)	(633)	(36,349)	(12,254)	(51,303)
	TOTAL LIABILITIES	(2,287)	(310)	(633)	(40,765)	(13,186)	(57,182)

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 retail sales network and via digital marketplaces such as Steam, Sony PlayStation Network, Microsoft Xbox Live, Epic Game Store etc.

Video games not produced directly by development companies owned by the Group are normally acquired under exclusive licence and with international exploitation rights valid for several years. The brand name used for publication on a global scale 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., which developed and published the Assetto Corsa video game, is consolidated in this operating segment.

During the period, the Group completed the acquisition of two new companies: 100% of the quota capital of AvantGarden S.r.l., originally Ovosonico S.r.l., of which the Group already held 49%; and 60% of Dutch company Rasplata B.V..

The former company is an Italian videogame developer with a team of around 25 people while the latter is a Dutch company that holds the rights to intellectual property currently at the development stage.

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 less complex than Premium Games but, if successful, may have a longer lifespan. The video game is continuously developed and improved after its launch in order to keep players 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 holds the rights to the Hawken series video games.

The brand used for publication on a worldwide scale is 505 Games Mobile.

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

This business is 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 reporting purposes. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses. It also includes the activities of subsidiary Game Network S.r.l. whose activities were suspended in June 2018 and which was put into liquidation in October 2018. During the reporting period, the Group completed the acquisition of 25.23% of the equity of UK company Seekhana Ltd; added to the existing interest of 34.77%, this took the Group's total investment to 60%.

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 Digital Bros Asia Pacific (HK) Ltd which have operated as business developers for Asian markets. In June 2020, these two companies were joined by 505 Games Japan K.K. which will become operational from the next reporting period. 133 W Broadway Inc. which, until October 2018, owned the property in Eugene, Oregon, USA, forms part of this operating segment. Digital Bros Holdings Ltd was inactive during the period.

Information by geographical area

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

Euro Thousands	30 June 2020		30 June 2019		Change	
Europe	27,036	19%	13,354	16%	13,682	n.s.
Americas	82,586	59%	47,116	58%	35,470	75.3%
Rest of the World	20,141	14%	6,535	8%	13,606	n.s.
Total foreign revenue	129,763	93%	67,005	82%	62,758	93.7%
Italy	9,270	7%	14,312	18%	(5,042)	-35.2%
Total consolidated gross revenue	139,033	100%	81,317	100%	57,716	71.0%

Foreign revenue represented 93% of consolidated gross revenue compared to 82% in prior year and increased by Euro 62,758 thousand compared to the year ended 30 June 2019.

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

The most significant portion of foreign revenue is generated by the Premium Games operating segment which generated foreign revenue of Euro 122,287 thousand i.e. 94% of total foreign revenue.

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

Euro Thousands	30 June 2020		30 June 2019		Change	
Free to Play	7,476	6%	6,573	10%	903	13.7%
Premium Games	122,287	94%	60,432	90%	61,855	n.s.
Total gross foreign revenue	129,763	100%	67,005	100%	62,758	93.7%

12. 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 already been described in section 8 of the Directors' Report.

Other related parties

Other 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.;
- property leases by the parent company to Ovosonico S.r.l.;
- video game development work by Ovosonico S.r.l. on behalf of 505 Games S.p.A..

On 3 March 2020, the parent company acquired 100% of Ovosonico S.r.l. which was then renamed Avantgarden, S.r.l. and consolidated line-by-line from that date. The total of the transactions until that date is reported below.

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

The following table contains details of reporting date statement of financial position balances and total transactions for the period, together with prior year comparatives:

Euro Thousands	Receivables		Payables		Revenues	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	0	0	0	0	36	0
Dario Treves	0	0	(88)	0	0	(348)
Matov Imm. S.r.l.	0	635	0	(4,478)	0	(733)
Matov LLC	0	132	0	(214)	0	(446)
Total	0	767	(88)	(4,692)	36	(1,527)

Euro Thousands	Receivables		Payables		Revenues	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	21	210	0	0	29	0
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(728)
Matov LLC	0	130	(105)	0	0	(420)
Total	21	975	(127)	0	29	(1,410)

Digital Bros S.p.A.'s financial receivable from Matov Imm. S.r.l. refers to the guarantee deposit paid in relation to lease instalments due for the 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.

The financial liabilities towards Matov Imm. S.r.l. and Matov LLC are the result of application of IFRS 16.

During the period, Digital Bros S.p.A. paid Matov Imm S.r.l. rent totalling Euro 691 thousand for its Milan office premises.

The rent paid by 505 Games France S.as. to Matov Imm S.r.l. for the offices in Francheville amounted to Euro 42 thousand for the year.

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 lease was renewed in November 2018. 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 provides for an annual lease charge of USD 493 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 arrangements prejudicial to any of the participating companies.

13. 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.

14. INFORMATION ON ASSETS REVALUED UNDER SPECIAL LAWS

None of the Group's assets have been revalued in terms of Art. 10 of Law 72/83.

15. LOANS GRANTED TO MEMBERS OF MANAGEMENT, GOVERNANCE AND SUPERVISORY BODIES

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

16. EXTERNAL AUDIT FEES

Pursuant to Article 149-duodecies of the Listing Rules, the following table provides details of the fees payable for the reporting period to Deloitte & Touche, the external auditor of Digital Bros S.p.A., and to other auditing firms not pertaining to the main auditor's network:

Nature of service	Fees pertaining to FY 2019/20				
	Parent company auditor			Parent company auditor's network	Auditors not pertaining to parent network
	to parent company	to other companies	Total	to other companies	to other companies
Audit	182,268	96,391	278,659	0	40,674
Certification services					
Tax advisory services					
Other services (to be detailed)					
- Fairness opinions					
- Accounting, tax, legal and administrative due diligence					
- Agreed upon procedures					
- Advisory services to the financial reporting manager (Art. 154-bis CFA)					
- Opinions on the application of new accounting standards					
- Consultancy on accounting matters					
- Other services					
Total	182,268	96,391	278,659	0	40,674
					319,333

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for the period 1 July 2019 - 30 June 2020. No significant issues have arisen.

We also confirm that:

1. the consolidated financial statements of Digital Bros Group for the year ended 30 June 2020:
 - a) have been prepared in accordance with applicable International Financial Reporting Standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
 - b) reflect the accounting books and records;
 - c) give a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;
2. the Directors' Report accompanying the consolidated and separate financial statements includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which Digital Bros S.p.A. and the consolidated entities are exposed.

Milan, 22 September 2020

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe