



Digital Bros S.p.A.

**Separate financial statements
for the year ended 30 June 2020**

(Financial Year 2019/2020)

Digital Bros S.p.A.

Via Tortona, 37 – 20144 Milano, Italia

VAT No. and tax number 09554160151

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

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

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

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

DIRECTORS' REPORT

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

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

Analysis of revenue by geographical area can be found in the Notes to the Separate Financial Statements.

1. THE VIDEO GAMES MARKET

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

The market is in constant flux and its growth rate is driven by non-stop technological advances. Gaming is no longer limited to traditional consoles, such as the various iterations of Sony PlayStation and Microsoft Xbox, but has expanded to mobile phones, tablet devices and hybrid consoles like the Nintendo Switch. Widespread connectivity at increasingly lower costs and the availability of fibre optic networks and high speed, ever better, mobile phones enable video games to become increasingly diversified, sophisticated and interactive. Widespread use of smartphones by people of all ages and walks of life has expanded the video gaming population and led to the publication of games aimed at adult and women only gamers.

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

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



Developers

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

Publishers

The video game publisher decides when the game is released onto the market, determines global pricing and commercial policy, studies product positioning, packaging design and takes on all 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 period 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 the 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).

2. MARKET SEASONALITY

Market seasonality is influenced by the launch of popular products. The launch of a successful game in a given period can lead to significant revenue variations from one quarter to another. In fact, the launch of these products leads to a concentration of sales in the first few days following their release.

The financial position is closely linked to the revenue trend. The physical distribution of a product in a quarter leads to concentration of net working capital investment. This is temporarily reflected by the level of net cash/debt until such time as the related sales revenue is collected.

3. SIGNIFICANT EVENTS DURING THE PERIOD

The most significant events during the period were as follows:

- 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 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;
- 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 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 the rights of 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 Varvtre AB. Varvtre 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 Varvtre 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 Varvtre 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 the assets held in Starbreeze AB by the Korean company Smilegate Holdings for a price of Euro 19.2 million. The assets acquired have a nominal value of Euro 35.3 million, as detailed below:
 - 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;
 - 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;
 - 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 equity interest 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 the substantive changes in the relations between the two groups, the Company 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 Company moved swiftly to adopt 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 Company 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.

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 Company took account of this factor and adjusted the valuation of inventories at the reporting date by Euro 1,386 thousand i.e. by 40% of the carrying amount of inventories.

4. ANALYSIS OF RESULTS FOR THE YEAR ENDED 30 JUNE 2020

The following table sets out the Company's results for the year ended 30 June 2020 together with comparative figures for the year ended 30 June 2019:

	Euro Thousands	30 June 2020		30 June 2019		Change	
1	Gross revenue	13,881	125.5%	14,905	109.6%	(1,024)	-6.9%
2	Revenue adjustments	(2,821)	-25.5%	(1,086)	-9.6%	(1,735)	n.s.
3	Net revenue	11,060	100.0%	13,819	100.0%	(2,759)	-20.0%
4	Purchase of products for resale	(5,515)	-49.9%	(8,534)	-75.6%	3,019	-35.4%
5	Purchase of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	(1,760)	-15.9%	59	0.5%	(1,819)	n.s.
8	Total cost of sales	(7,275)	-65.8%	(8,475)	-75.0%	1,200	-14.2%
9	Gross profit (3+8)	3,785	34.2%	5,344	25.0%	(1,559)	-29.2%
10	Other income	222	2.0%	150	23.7%	72	n.s.
11	Costs for services	(2,849)	-25.8%	(2,440)	-21.6%	(409)	16.7%
12	Lease and rental costs	(125)	-1.1%	(727)	-6.4%	602	-82.7%
13	Labour costs	(4,890)	-44.2%	(4,934)	-43.7%	44	-0.9%
14	Other operating costs	(538)	-4.9%	(532)	-4.7%	(6)	1.2%
15	Total operating costs	(8,402)	-76.0%	(8,633)	-76.4%	231	-2.7%
16	Gross operating margin (EBITDA) (9+10+15)	(4,395)	-39.7%	(3,139)	-27.8%	(1,256)	40.0%
17	Depreciation and amortisation	(935)	-8.5%	(369)	-3.3%	(566)	n.s.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(190)	-1.7%	(623)	-5.5%	433	-69.4%
20	Reversal of impairment adjustments and non-monetary income	591	5.3%	0	0.0%	591	n.s.
21	Total non-monetary operating income and costs	(534)	-4.8%	(992)	-8.8%	458	-46.2%
22	Operating margin (EBIT) (16+21)	(4,929)	-44.6%	(4,131)	-36.6%	(798)	19.3%
23	Interest and financial income	5,466	49.4%	5,047	44.7%	419	8.3%
24	Interest expense and financial expenses	(1,388)	-12.5%	(652)	-5.8%	(736)	n.s.
25	Net financial income (expenses)	4,078	36.9%	4,395	38.9%	(317)	-7.2%
26	Profit before tax (22+25)	(851)	-7.7%	264	2.3%	(1,115)	n.s.
27	Current tax	712	6.4%	638	5.6%	74	11.6%
28	Deferred tax	(134)	-1.2%	(62)	-0.5%	(72)	n.s.
29	Total income tax expense	578	5.2%	576	5.1%	2	0.3%
30	Net profit (26+29)	(273)	-2.5%	840	7.4%	(1,113)	n.s.

Gross revenue has decreased by 6.9% from Euro 14,905 thousand in prior year to Euro 13,881 thousand for the year ended 30 June 2020. This is the result of a significant drop in sales also because of the period when retail stores had to remain closed because of the COVID-19 pandemic.

Gross revenue is analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Revenue from video games for consoles	6,810	9,536	(2,726)	-28.6%
Revenue from trading cards	1,828	2,550	(722)	-28.3%
Revenue from other products and services	5,243	2,819	2,424	86.0%
Total gross revenue	13,881	14,905	(1,024)	-6.9%

Revenue from other products and services are generated under the Company's contract with other Group companies for the provision of centralised services. The increase should be viewed in the context of a greater contribution of Company resources to Group coordination activities.

Purchases of products for resale have decreased by Euro 3,019 thousand while inventories have decreased by Euro 1,819 thousand, also because of the impairment adjustment of Euro 1,386 thousand already described in relation to the COVID-19 pandemic.

Other income has increased by Euro 72 thousand 150 thousand in the year ended 30 June 2019 to Euro 222 thousand in the year ended 30 June 2020. It mainly consists of income for services provided on behalf of Group companies.

Operating costs amount to Euro 8,402 thousand. They have decreased by Euro 231 thousand compared to prior year. The Euro 620 thousand decrease in lease and rental costs is due to application of the new IFRS 16 while the Euro 409 thousand increase in costs for services is due to higher advertising and consultancy expenditure.

Gross operating margin/EBITDA was negative by Euro 4,395 thousand with a deterioration of Euro 1,256 thousand compared to the negative amount of Euro 3,139 thousand in prior year.

Non-monetary operating costs decreased from Euro 992 thousand in prior year to Euro 534 thousand in the current reporting period as a result of a Euro 433 thousand reduction in impairment adjustments to assets and a Euro 591 thousand increase in reversals of impairment adjustments, as partially offset by a Euro 566 thousand increase in depreciation and amortisation due to application of the new IFRS 16.

EBIT has deteriorated from a negative total of Euro 4,131 thousand in prior year to a negative total of Euro 4,929 thousand in the year ended 30 June 2020.

There was net financial income of Euro 4,078 thousand compared to a total of Euro 4,395 thousand in prior year. The net decrease is the result of a Euro 419 thousand increase in interest and financial income and a Euro 736 thousand increase in interest and financial expenses mainly following the line-by-line consolidation of investments in AvantGarden S.r.l. and Seekhana Ltd which generated expenses of Euro 656 thousand until the date of acquisition of control.

The loss before taxation for the year ended 30 June 2020 amounts to Euro 851 thousand against a profit before tax of Euro 264 thousand in prior year. Meanwhile, a net loss of Euro 273 thousand is reported compared to a net profit of Euro 840 thousand in prior year.

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

The Company's statement of financial position at 30 June 2020 is shown 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	7,273	2,817	4,456	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	196	256	(60)	-23.6%
4	Equity investments	24,081	16,968	7,113	41.9%
5	Non-current receivables and other assets	6,542	9,126	(2,584)	-28.3%
6	Deferred tax assets	613	582	31	5.3%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	55,956	31,691	24,265	76.6%
	Current assets				
8	Inventories	1,987	3,747	(1,760)	-47.0%
9	Trade receivables	1,866	1,260	606	48.1%
10	Receivables from subsidiaries	14,455	28,136	(13,681)	-48.6%
11	Current tax assets	2,221	4,492	(2,271)	-50.5%
12	Other current assets	5,301	1,003	4,298	n.s.
13	Cash and cash equivalents	858	83	775	n.s.
14	Other financial assets	0	0	0	n.s.
	Total current assets	26,688	38,721	(12,033)	-31.1%
	TOTAL ASSETS	82,644	70,412	12,232	17.4%
	Equity				
15	Share capital	(5,704)	(5,704)	0	0.0%
16	Reserves	(20,886)	(21,084)	198	-0.9%
17	Treasury shares	0	0	0	0.0%
18	(Retained earnings) accumulated losses	(20,478)	(20,751)	273	-1.3%
	Equity	(47,068)	(47,539)	471	-1.0%
	Non-current liabilities				
19	Employee benefits	(429)	(436)	7	-1.6%
20	Non-current provisions	(81)	(81)	0	0.2%
21	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
22	Financial liabilities	(4,941)	(9)	(4,932)	n.s.
	Total non-current liabilities	(5,920)	(1,449)	(4,471)	n.s.
	Current liabilities				
23	Trade payables	(2,026)	(916)	(1,110)	n.s.
24	Payables to subsidiaries	(13,646)	(9,088)	(4,558)	50.2%
25	Current tax liabilities	(159)	(145)	(14)	n.s.
26	Current provisions	(446)	(256)	(190)	n.s.
27	Other current liabilities	(1,205)	(621)	(584)	n.s.
28	Financial liabilities	(12,174)	(10,398)	(1,776)	17.1%
	Total current liabilities	(29,656)	(21,424)	(8,232)	38.4%
	TOTAL LIABILITIES	(35,576)	(22,873)	(12,703)	55.5%
	TOTAL LIABILITIES AND EQUITY	(82,644)	(70,412)	(12,232)	17.4%

In order to better represent the significant changes in the balance sheet structure, the Company 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 Financial Statements.

Non-current assets have increased by Euro 24,265 thousand.

Property, plant and equipment have increased by Euro 4,456 thousand, mainly as a result of application of the new IFRS 16 which led to the recognition of buildings of Euro 4,319 thousand, net of depreciation for the reporting period. Investments have increased by Euro 7,113 thousand mainly as a result of the acquisition of shares in Swedish company Starbreeze AB and the acquisition of 60% of Dutch company Rasplata B.V..

Current assets have decreased by Euro 12,033 thousand, mainly because of a Euro 13,681 thousand reduction in receivables from subsidiaries.

Non-current liabilities have increased by Euro 4,471 thousand while current liabilities have increased by Euro 8,232 thousand, primarily because of a Euro 4,558 thousand rise in payables to subsidiaries.

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	
13	Cash and cash equivalents	858	83	775	n.s.
14	Other current financial assets	0	0	0	n.s.
28	Current financial liabilities	(12,174)	(10,398)	(1,776)	0
	Current net financial position	(11,316)	(10,315)	(1,001)	0
7	Non-current financial assets	17,251	1,942	15,309	n.s.
22	Non-current financial liabilities	(4,941)	(9)	(4,932)	n.s.
	Non-current net financial position	12,310	1,933	10,377	0
	Total net financial position	994	(8,382)	9,376	0

The net financial position has improved considerably and shows net cash of Euro 994 thousand compared to net debt of Euro 8,382 thousand at 30 June 2020. The improvement amounts to Euro 9,376 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 4,335 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 13,711 thousand.

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

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

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

Digital Bros S.p.A. charges 505 Games S.p.A. for the costs directly incurred on its behalf and with a percentage of the total indirect costs incurred by it for the coordination of the acquisition of games and for administrative, financial, legal, logistics and IT services.

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

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.

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

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

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

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

Other related party transactions

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

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

Atypical transactions

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

7. TREASURY SHARES

In terms of Article 2428(2) and (3) of the Italian Civil Code, Digital Bros S.p.A. did not hold any treasury shares at 30 June 2020 nor did it purchase or sell any treasury shares during the year then ended.

8. RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

Operational risks

The most significant operational risks are:

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

Product obsolescence risk

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

The decision to invest in a given product is often made years before its actual release. Therefore, management must estimate the price a game will sell for in subsequent periods. A sudden acceleration in the obsolescence of a game or its supporting hardware could result in lower retail prices than 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 Company's success depends on the performance of certain key individuals who have made an important contribution to its development and have acquired valuable experience in the game industry.

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

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

Management of financial risks and financial instruments

The main financial instruments used by the Company are:

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

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

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

Euro Thousands	Facility	Utilised	Available
Bank overdrafts	1,200	0	1,200
Import financing	11,750	0	11,750
Advances on invoices and cash orders subject to collection	7,500	547	6,953
Factoring	1,000	21	979
Medium-term loans	2,000	2,000	0
Total	23,450	2,568	20,882

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

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

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

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

Interest rate risk

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

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

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

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

Liquidity risk

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

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

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

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

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

Risk of dependence on key customers and collection risk

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

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

10. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2020 – as at 30 June 2019 – there were no contingent assets or liabilities.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 30 June 2020.

12. BUSINESS OUTLOOK

Gradual digitalisation of the market has characterised recent years and has been heightened by the COVID-19 pandemic, triggering a gradual reduction in physical sales of video games in Italy that this is likely to continue in the near future.

The significant inventory writedowns made during the period are not expected to be repeated. Therefore, even though revenue is expected to decrease, an improvement in EBIT is forecast.

The Company will increasingly focus on its Group coordination activities which will lead to an increase in other income. At the same time, the positive performance of subsidiaries Kunos Simulazioni S.r.l. and 505 Games S.p.A. will lead to significant growth in dividends received.

As a result of the above, a healthy net profit is forecast for the forthcoming reporting period.

Net financial indebtedness will decrease over the reporting period.

The Company 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.

13. OTHER INFORMATION

EMPLOYEES

The following table contains details 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		5	5	0
Office workers		37	40	(3)
Blue-collar workers and apprentices		5	4	1
Total employees		47	49	(2)

The average headcount for the year ended 30 June 2020, calculated as the mean number of employees in service at the end of every month, is shown below with prior year comparative figures:

Category	Average no in 2020	Average no in 2019	Change
Managers	5	5	0
Office workers	38	41	(3)
Blue-collar workers and apprentices	5	4	1
Total employees	48	50	(2)

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

ENVIRONMENT

At 30 June 2020, there were no environmental issues and, as the Company's activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason why any environmental issues should emerge in the future.

FINANCIAL STATEMENTS

Digital Bros S.p.A

Statement of financial position at 30 June 2020

	Euro Thousands	30 June 2020	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	7,273	2,817	4,456	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	196	256	(60)	-23.6%
4	Equity investments	24,081	16,968	7,113	41.9%
5	Non-current receivables and other assets	6,542	9,126	(2,584)	-28.3%
6	Deferred tax assets	613	582	31	5.3%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	55,956	31,691	24,265	76.6%
	Current assets				
8	Inventories	1,987	3,747	(1,760)	-47.0%
9	Trade receivables	1,866	1,260	606	48.1%
10	Receivables from subsidiaries	14,455	28,136	(13,681)	-48.6%
11	Current tax assets	2,221	4,492	(2,271)	-50.5%
12	Other current assets	5,301	1,003	4,298	n.s.
13	Cash and cash equivalents	858	83	775	n.s.
14	Other financial assets	0	0	0	n.s.
	Total current assets	26,688	38,721	(12,033)	-31.1%
	TOTAL ASSETS	82,644	70,412	12,232	17.4%
	Equity				
15	Share capital	(5,704)	(5,704)	0	0.0%
16	Reserves	(20,886)	(21,084)	198	-0.9%
17	Treasury shares	0	0	0	0.0%
18	(Retained earnings) accumulated losses	(20,478)	(20,751)	273	-1.3%
	Total equity	(47,068)	(47,539)	471	-1.0%
	Non-current liabilities				
19	Employee benefits	(429)	(436)	7	-1.6%
20	Non-current provisions	(81)	(81)	0	0.2%
21	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
22	Financial liabilities	(4,941)	(9)	(4,932)	n.s.
	Total non-current liabilities	(5,920)	(1,449)	(4,471)	n.s.
	Current liabilities				
23	Trade payables	(2,026)	(916)	(1,110)	n.s.
24	Payables to subsidiaries	(13,646)	(9,088)	(4,558)	50.2%
25	Current tax liabilities	(159)	(145)	(14)	n.s.
26	Current provisions	(446)	(256)	(190)	n.s.
27	Other current liabilities	(1,205)	(621)	(584)	n.s.
28	Current financial liabilities	(12,174)	(10,398)	(1,776)	17.1%
	Total current liabilities	(29,656)	(21,424)	(8,232)	38.4%
	TOTAL LIABILITIES	(35,576)	(22,873)	(12,703)	55.5%
	TOTAL LIABILITIES AND EQUITY	(82,644)	(70,412)	(12,232)	17.4%

Digital Bros S.p.A.

Separate statement of profit or loss for the year ended 30 June 2020

	Euro Thousands	30 June 2020		30 June 2019		Change	
1	Revenue	13,881	125.5%	14,905	109.6%	(1,024)	-6.9%
2	Revenue adjustments	(2,821)	-25.5%	(1,086)	-9.6%	(1,735)	n.s.
3	Total net revenue	11,060	100.0%	13,819	100.0%	(2,759)	-20.0%
4	Purchases of products for resale	(5,515)	-49.9%	(8,534)	-75.6%	3,019	-35.4%
5	Purchases of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Change in inventories of finished products	(1,760)	-15.9%	59	0.5%	(1,819)	n.s.
8	Total cost of sales	(7,275)	-65.8%	(8,475)	-75.0%	1,200	-14.2%
9	Gross profit (3+8)	3,785	34.2%	5,344	25.0%	(1,559)	-29.2%
10	Other income	222	2.0%	150	23.7%	72	n.s.
11	Costs for services	(2,849)	-25.8%	(2,440)	-21.6%	(409)	16.7%
12	Lease and rental costs	(125)	-1.1%	(727)	-6.4%	602	-82.7%
13	Labour costs	(4,890)	-44.2%	(4,934)	-43.7%	44	-0.9%
14	Other operating costs	(538)	-4.9%	(532)	-4.7%	(6)	1.2%
15	Total operating costs	(8,402)	-76.0%	(8,633)	-76.4%	231	-2.7%
16	Gross operating margin / EBITDA (9+10+15)	(4,395)	-39.7%	(3,139)	-27.8%	(1,256)	40.0%
17	Depreciation and amortisation	(935)	-8.5%	(369)	-3.3%	(566)	n.s.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(190)	-1.7%	(623)	-5.5%	433	-69.4%
20	Reversal of impairment adjustments and non-monetary income	591	5.3%	0	0.0%	591	n.s.
21	Total non-monetary operating income and costs	(534)	-4.8%	(992)	-8.8%	458	-46.2%
22	Operating margin / EBIT (16+21)	(4,929)	-44.6%	(4,131)	-36.6%	(798)	19.3%
23	Interest and financial income	5,466	49.4%	5,047	44.7%	419	8.3%
24	Interest and financial expenses	(1,388)	-12.5%	(652)	-5.8%	(736)	n.s.
25	Net financial income /(expenses)	4,078	36.9%	4,395	38.9%	(317)	-7.2%
26	Profit before taxation (22+25)	(851)	-7.7%	264	2.3%	(1,115)	n.s.
27	Current tax	712	6.4%	638	5.6%	74	11.6%
28	Deferred tax	(134)	-1.2%	(62)	-0.5%	(72)	n.s.
29	Total taxes on income	578	5.2%	576	5.1%	2	0.3%
30	Net profit (26+29)	(273)	-2.5%	840	7.4%	(1,113)	n.s.

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)	(273)	840	(1,113)
Items that will not be subsequently recycled through profit or loss (B)			
Actuarial gain (loss)	11	(33)	44
Income tax relating to the actuarial gain (loss)	(2)	8	(10)
Fair value measurement of shares held to collect and sell	(706)	(350)	(356)
Tax effect of fair value measurement of shares held to collect and sell	169	84	85
Items that will subsequently be recycled through profit or loss (C)	(528)	(291)	(237)
Total other comprehensive income D= (B)+(C)	(528)	(291)	(237)
Total comprehensive income (loss) (A)+(D)	(801)	549	(1,350)

Digital Bros S.p.A.

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		83	609
B. Cash flows from operating activities			
Profit (loss) for the year attributable to the Group		(273)	840
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment adjustments		(190)	623
Amortisation of intangible assets		151	147
Depreciation of property, plant and equipment		784	222
Net change in deferred tax assets		(31)	(252)
Net change in other provisions		0	1
Net change in employee benefit provisions		(7)	17
Net change in other non-current liabilities		(453)	22
SUB TOTAL B.		(19)	1,620
C. Change in net working capital			
Inventories		1,760	(59)
Trade receivables		(606)	568
Receivables due from subsidiaries		13,681	(4,903)
Tax receivables		2,271	(2,524)
Other current assets		(4,298)	1,954
Trade payables		1,110	(1,096)
Payables to subsidiaries		4,558	155
Current tax liabilities		14	(71)
Current provisions		380	(2,137)
Other current liabilities		584	(132)
SUB TOTAL C.		19,454	(8,245)
D. Cash flows from investing activities			
Net investment in intangible assets		(91)	(101)
Net investment in property, plant and equipment		(5,240)	(57)
Net investment in non-current financial assets		(4,530)	(974)
SUB TOTAL D.		(9,861)	(1,132)
E. Cash flows from financing activities			
Proceeds from capital increases		0	0
Change in financial liabilities		6,708	9,361
Change in financial assets		(15,309)	(1,942)
SUB TOTAL E.		(8,601)	7,419
F. Changes in equity			
Dividends distributed		0	0
Increases (decreases) in other equity items		(198)	(188)
SUB TOTAL F.		(198)	(188)
G. Cash flows for the period (B+C+D+E+F)		774	(526)
H. Closing net cash and cash equivalents (A+G)		858	83

Digital Bros S.p.A.

Statement of changes in equity at 30 June 2020

Euro Thousands	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Reserve for actuarial gains and losses	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (accumulated losses)	Profit (loss) for the year	Total retained earnings (D)	Equity (A+B+C+D)
Total at 1 July 2018	5,704	18,486	1,141	(142)	(80)	1,172	20,577	0	5,086	15,520	20,606	46,887
Application of IFRS 9							0		(695)		(695)	(695)
Allocation of profit for the year							0		15,520	(15,520)	0	0
Other changes						798	798				0	798
Comprehensive income (loss)						(291)	(291)			840	840	549
Total at 30 June 2019	5,704	18,486	1,141	(142)	(80)	1,679	21,084	0	19,911	840	20,751	47,539
Allocation of profit for the year							0		840	(840)	0	0
Other changes						330	330				0	330
Comprehensive income (loss)						(528)	(528)			(273)	(273)	(801)
Total at 30 June 2020	5,704	18,486	1,141	(142)	(80)	1,481	20,886	0	20,751	(273)	20,478	47,068

^{A)} not available;

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

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

Digital Bros S.p.A.

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

	Euro Thousands	30 June 2020		30 June 2019	
		Total	Of which with related parties	Total	Of which with related parties
1	Gross revenue	13,881	0	12,380	0
2	Revenue adjustments	(2,821)	0	(1,086)	0
3	Net revenue	11,060	0	11,294	0
4	Purchase of products for resale	(5,515)	0	(8,534)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(1,760)	0	59	0
8	Total cost of sales	(7,275)	0	(8,475)	0
9	Gross profit (3+8)	3,785	0	2,819	0
10	Other income	222	36	2,675	29
11	Costs for services	(2,849)	(348)	(2,440)	(262)
12	Lease and rental charges	(125)	(76)	(727)	(682)
13	Labour costs	(4,890)	0	(4,934)	0
14	Other operating costs	(538)	0	(532)	0
15	Total operating costs	(8,402)	(424)	(8,633)	(944)
16	Gross operating margin (EBITDA) (9+10+15)	(4,395)	(388)	(3,139)	(1,005)
17	Depreciation and amortisation	(935)	(560)	(369)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(190)	0	(623)	0
20	Reversal of impairment adjustments and non-monetary income	591	0	0	0
21	Total non-monetary operating income and costs	(534)	(560)	(992)	0
22	Operating margin / EBIT (16+21)	(4,929)	(948)	(4,131)	(1,005)
23	Interest and financial income	5,466	0	5,047	0
24	Interest and financial expenses	(1,388)	(55)	(652)	0
25	Net financial income / (expenses)	4,078	(55)	4,395	0
26	Profit before taxation (22+25)	(851)	(1,003)	264	(1,005)
27	Current tax	712	0	638	0
28	Deferred tax	(134)	0	(62)	0
29	Total income tax	578	0	576	0
30	Net profit (26+29)	(273)	(1,003)	840	(1,005)

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

	Euro Thousands	30 June 2020		30 June 2019	
	Non-current assets		Of which with related parties		Of which with related parties
1	Property, plant and equipment	7,273	0	2,817	0
2	Investment property	0	0	0	0
3	Intangible assets	196	0	256	0
4	Equity investments	24,081	0	16,968	0
5	Non-current receivables and other assets	6,542	635	9,126	635
6	Deferred tax assets	613	0	582	0
7	Non-current financial assets	17,251	0	1,942	0
	Total non-current assets	55,956	635	31,691	635
	Current assets				
8	Inventories	1,987	0	3,747	0
9	Trade receivables	1,898	0	1,260	21
10	Receivables from subsidiaries	14,423	0	28,136	210
11	Current tax assets	2,221	0	4,492	0
12	Other current assets	5,301	0	1,003	0
13	Cash and cash equivalents	858	0	83	0
14	Other financial assets	0	0	0	0
	Total current assets	26,688	0	38,721	231
	TOTAL ASSETS	82,644	635	70,412	866
	Equity				
15	Share capital	(5,704)	0	(5,704)	0
16	Reserves	(20,886)	0	(21,084)	0
17	Treasury shares	0	0	0	0
18	(Retained earnings) accumulated losses	(20,478)	0	(20,751)	0
	Total equity	(47,068)	0	(47,539)	0
	Non-current liabilities				
19	Employee benefits	(429)	0	(436)	0
20	Non-current provisions	(81)	0	(81)	0
21	Other non-current payables and liabilities	(469)	0	(923)	0
22	Financial liabilities	(4,941)	(3,787)	(9)	0
	Total non-current liabilities	(5,920)	(3,787)	(1,449)	0
	Current liabilities				
23	Trade payables	(2,026)	(88)	(916)	(22)
24	Payables to subsidiaries	(13,646)	0	(9,088)	0
25	Current tax liabilities	(159)	0	(145)	0
26	Current provisions	(446)	0	(256)	0
27	Other current liabilities	(1,205)	0	(621)	0
28	Current financial liabilities	(12,174)	(549)	(10,398)	0
	Total current liabilities	(29,656)	(637)	(21,424)	(22)
	TOTAL LIABILITIES	(35,576)	(4,424)	(22,873)	(22)
	TOTAL LIABILITIES AND EQUITY	(82,644)	(4,424)	(70,412)	(22)

Digital Bros S.p.A.
Separate 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	13,881	0	12,380	0
2	Revenue adjustments	(2,821)	0	(1,086)	0
3	Net revenue	11,060	0	11,294	0
4	Purchase of products for resale	(5,515)	0	(8,534)	0
5	Purchase of services for resale	0	0	0	0
6	Royalties	0	0	0	0
7	Changes in inventories of finished products	(1,760)	0	59	0
8	Total cost of sales	(7,275)	0	(8,475)	0
9	Gross profit (3+8)	3,785	0	2,819	0
10	Other income	222	0	2,675	0
11	Costs for services	(2,849)	0	(2,440)	0
12	Lease and rental charges	(125)	0	(727)	0
13	Labour costs	(4,890)	0	(4,934)	0
14	Other operating costs	(538)	0	(532)	0
15	Total operating costs	(8,402)	0	(8,633)	0
16	Gross operating margin (EBITDA) (9+10+15)	(4,395)	0	(3,139)	0
17	Depreciation and amortisation	(935)	0	(369)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(190)	0	(623)	0
20	Reversal of impairment adjustments and non-monetary income	591	0	0	0
21	Total non-monetary operating income and costs	(534)	0	(992)	0
22	Operating margin / EBIT (16+21)	(4,929)	0	(4,131)	0
23	Interest and financial income	5,466	0	5,047	0
24	Interest and financial expenses	(1,388)	0	(652)	0
25	Net financial income / (expenses)	4,078	0	4,395	0
26	Profit before taxation (22+25)	(851)	0	264	0
27	Current tax	712	0	638	0
28	Deferred tax	(134)	0	(62)	0
29	Total income tax	578	0	576	0
30	Net profit (26+29)	(273)	0	840	0



**Notes to the separate financial statements
for the year ended 30 June 2020**

1. FORM, CONTENT AND OTHER GENERAL INFORMATION

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

The separate financial statements for the year ended 30 June 2020 have been prepared on a going concern basis. The Company 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 Company 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 separate financial statements of Digital Bros S.p.A. 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 separate financial statements for the year ended 30 June 2020 are stated in Euro thousands, unless otherwise specified.

Reporting format

The separate 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 contain 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 other Group companies, the Company 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 equity investments and have come to represent the most significant portion of the Company'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:

- statement of financial position at 30 June 2020 with comparative figures at 30 June 2019 (the annual reporting date for the previous separate financial statements);
- 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;

- 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;
- 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;
- 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 subsidiaries and 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).

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, especially the provision for employee termination indemnities, and, in general, payables that fall due after 30 June 2021.

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

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

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

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

- gross profit, the difference between net revenue and total cost of sales;
- gross operating margin (EBITDA), the difference between gross profit and total operating costs, 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).

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

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2018 and 30 June 2020.

2. ACCOUNTING POLICIES

The separate 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 financial statements have been prepared on the basis of the Company's accounting records as at 30 June 2020.

The measurement criteria used to prepare the separate financial statements for the year ended 30 June 2020 are consistent with those used to prepare the separate 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	3%
Plant and machinery	12%-25%
Industrial and commercial equipment	20%
Other assets	20%-25%

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

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

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

Intangible assets

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

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

The amortisation rates applied are as follows:

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

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

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

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

Equity investments

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

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

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

The profits and losses and assets and liabilities of associated companies are recorded in the 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 financial statements include the Company share of the profits or losses of the associated companies as recognised using the equity method until the date on which significant influence ends.

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

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

Impairment of assets

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

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

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

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

Inventories

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

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

Receivables and payables

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

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

Payables are stated at nominal amount.

Factoring of trade receivables

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

Employee benefits

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

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

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

Current and non-current provisions

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

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

Financial assets and liabilities

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

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

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

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

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

Financial assets measured at fair value through profit or loss

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

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

applied retrospectively. This applies solely to hedging relationships that existed as at 1 July 2018.

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

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

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

Treasury shares

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

Revenue

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

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

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

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

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

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

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

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

Costs

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

Advertising costs are recognised upon receipt of the service.

Cost of sales

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

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

Dividends received

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

Interest income and expenses

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

Current tax

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

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

Deferred tax

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

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

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

Earnings per share

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

Foreign currency transactions

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

New accounting standards

Accounting standards, amendments and IFRS interpretations applied from 1 July 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	4.895
Total non-current assets	4.895
22) Non-current financial liabilities	(4.335)
28) Current financial liabilities	(560)
Total financial liabilities	(4.895)

The Company 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, when new, does not exceed Euro 5 thousand). 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 Company’s separate 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 Company’s separate 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 Company’s separate 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 Company's separate 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 Company's separate financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Company at 30 June 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 Company's separate 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 Company’s separate financial statements.

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

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

- On 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 Company’s separate 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 Company’s separate 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 Company's separate 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 Company is not a first-time adopter, this standard is not applicable.

3. DISCRETIONARY JUDGMENT AND SIGNIFICANT ESTIMATES

Discretionary judgment

Preparation of the separate 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.

Credit risk

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

Recoverable amount of equity investments

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

Measurement of inventories

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

or loss in the period they come to light.

Employee benefits

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

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

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

Deferred tax

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

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

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

4. ANALYSIS OF THE FINANCIAL POSITION STATEMENT

The 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	7,273	2,817	4,456	n.s.
2	Investment property	0	0	0	0.0%
3	Intangible assets	196	256	(60)	-23.6%
4	Equity investments	24,081	16,968	7,113	41.9%
5	Non-current receivables and other assets	6,542	9,126	(2,584)	-28.3%
6	Deferred tax assets	613	582	31	5.3%
7	Non-current financial assets	17,251	1,942	15,309	n.s.
	Total non-current assets	55,956	31,691	24,265	76.6%
	Current assets				
8	Inventories	1,987	3,747	(1,760)	-47.0%
9	Trade receivables	1,866	1,260	606	48.1%
10	Receivables from subsidiaries	14,455	28,136	(13,681)	-48.6%
11	Current tax assets	2,221	4,492	(2,271)	-50.5%
12	Other current assets	5,301	1,003	4,298	n.s.
13	Cash and cash equivalents	858	83	775	n.s.
14	Other financial assets	0	0	0	n.s.
	Total current assets	26,688	38,721	(12,033)	-31.1%
	TOTAL ASSETS	82,644	70,412	12,232	17.4%
	Equity				
15	Share capital	(5,704)	(5,704)	0	0.0%
16	Reserves	(20,886)	(21,084)	198	-0.9%
17	Treasury shares	0	0	0	0.0%
18	(Retained earnings) accumulated losses	(20,478)	(20,751)	273	-1.3%
	Total equity	(47,068)	(47,539)	471	-1.0%
	Non-current liabilities				
19	Employee benefits	(429)	(436)	7	-1.6%
20	Non-current provisions	(81)	(81)	0	0.2%
21	Other non-current payables and liabilities	(469)	(923)	454	-49.2%
22	Financial liabilities	(4,941)	(9)	(4,932)	n.s.
	Total non-current liabilities	(5,920)	(1,449)	(4,471)	n.s.
	Current liabilities				
23	Trade payables	(2,026)	(916)	(1,110)	n.s.
24	Payables to subsidiaries	(13,646)	(9,088)	(4,558)	50.2%
25	Current tax liabilities	(159)	(145)	(14)	n.s.
26	Current provisions	(446)	(256)	(190)	n.s.
27	Other current liabilities	(1,205)	(621)	(584)	n.s.
28	Current financial liabilities	(12,174)	(10,398)	(1,776)	17.1%
	Total current liabilities	(29,656)	(21,424)	(8,232)	38.4%
	TOTAL LIABILITIES	(35,576)	(22,873)	(12,703)	55.5%
	TOTAL LIABILITIES AND EQUITY	(82,644)	(70,412)	(12,232)	17.4%

NON-CURRENT ASSETS

1. Property, plant and equipment

Property, plant and equipment have increased from Euro 2,817 thousand to Euro 7,273 thousand, mainly because of application of the new IFRS 16 which led to the recognition of buildings of Euro 4,319 thousand, after depreciation for the reporting period:

Euro Thousands	1 July 2019	Additions	Disposals	Depreciation	Use of accum. deprec'n	30 June 2020
Industrial buildings	2,031	4,902	0	(679)	0	6,254
Land	635	0	0	0	0	635
Plant and machinery	136	62	0	(61)	0	137
Other assets	14	276	(102)	(43)	102	247
Leasehold improvements	1	0	0	(1)	0	0
Total	2,817	5,240	(102)	(784)	102	7,273

Euro Thousands	1 July 2018	Additions	Disposals	Depreciation	Use of accum. deprec'n	30 June 2019
Industrial buildings	2.134	0	0	(103)	0	2.031
Land	600	35	0	0	0	635
Plant and machinery	183	16	0	(63)	0	136
Other assets	63	6	0	(55)	0	14
Leasehold improvements	2	0	0	(1)	0	1
Total	2.982	57	0	(222)	0	2.817

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

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 4,902 thousand, including Euro 4,895 thousand as a result of application of the new IFRS 16. This also led to additional depreciation of Euro 576 thousand.

Additions for the period to industrial and commercial equipment amounted to Euro 62 thousand and mainly related to office furniture and office automation equipment. Meanwhile, additions of Euro 276 thousand to other assets regard the purchase of five cars under finance leases.

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

Current reporting period*Gross amount of property, plant and equipment*

Euro Thousands	1 July 2019	Additions	Disposals	30 June 2020
Industrial buildings	3,258	4,902	0	8,160
Land	635	0	0	635
Plant and machinery	2,243	62	0	2,305
Other assets	1,339	276	(102)	1,513
Leasehold improvements	317	0	0	317
Total	7,792	5,240	(102)	12,930

Accumulated depreciation

Euro Thousands	1 July 2019	Additions	Disposals	30 June 2020
Industrial buildings	(1,227)	(679)	0	(1,906)
Land	0	0	0	0
Plant and machinery	(2,107)	(61)	0	(2,168)
Other assets	(1,325)	(43)	102	(1,266)
Leasehold improvements	(316)	(1)	0	(317)
Total	(4,975)	(784)	102	(5,657)

Previous reporting period*Gross amount of property, plant and equipment*

Euro Thousands	1 July 2018	Additions	Disposals	30 June 2019
Industrial buildings	3,258	0	0	3,258
Land	600	35	0	635
Plant and machinery	2,227	16	0	2,232
Other assets	1,333	6	0	1,339
Leasehold improvements	317	0	0	317
Total	7,735	57	0	7,792

Accumulated depreciation

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

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

3. Intangible assets

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

Intangible assets have recorded a net decrease of Euro 60 thousand after the amortisation charge for the year of Euro 151 thousand. The following table shows movements for the current reporting period and the previous reporting period by asset category:

Euro Thousands	1 July 2019	Additions	Disposals	Amort'n	30 June 2020
Concessions and licences	233	80	0	(145)	168
Trademarks and similar rights	3	4	0	(1)	6
Other intangible assets	20	7	0	(5)	22
Total	256	91	0	(151)	196

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

Concessions and licences increased by Euro 80 thousand over the reporting period mainly because of expenditure on ERP systems.

Movements on intangible assets and accumulated amortisation in the current and previous reporting periods were as follows:

Current reporting period

Gross amount of intangible assets

Euro Thousands	1 July 2019	Additions	Disposals	30 June 2020
Concessions and licences	2,957	80	0	3,037
Trademarks and similar rights	1,514	4	0	1,518
Other intangible assets	94	7	0	101
Total	4,565	91	0	4,656

Accumulated amortisation

Euro Thousands	1 July 2019	Additions	Disposals	30 June 2020
Concessions and licences	(2,724)	(145)	0	(2,869)
Trademarks and similar rights	(1,511)	(1)	0	(1,512)
Other intangible assets	(74)	(5)	0	(79)
Total	(4,309)	(151)	0	(4,460)

Previous reporting period

Gross amount of intangible assets

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

Accumulated amortisation

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

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

4. Equity investments

Equity investments amount to Euro 24,081 thousand and have increased by Euro 7,113 thousand compared to prior year.

The following table contains details of equity investments at 30 June 2020, together with comparatives at 30 June 2019:

Euro Thousands	30 June 2020	30 June 2019	Change
505 Games S.p.A.	10,100	10,100	0
Game Service S.r.l.	85	85	0
Digital Bros Game Academy S.r.l.	300	300	0
Game Network S.r.l.	10	10	0
Digital Bros Game China	100	100	0
Digital Bros Holdings Ltd.	125	125	0
133 W Broadway Inc.	91	91	0
Kunos S.r.l.	4,676	4,351	325
Digital Bros Asia Pacific Ltd.	100	100	0
Rasplata BV	2,008	0	2,008
Avantgaden S.r.l.	495	0	495
Seekhana Ltd.	503	0	503
Total subsidiaries	18,593	15,262	3,331
Ovosonico S.r.l.	0	768	(768)
Seekhana Ltd.	0	378	(378)
Total associated companies	0	1,146	(1,146)
Games Analytics Ltd.	0	60	(60)
Starbreeze AB – A Shares	3,676	500	3,176
Starbreeze AB – B Shares	1,363	0	1,363
Investment in Unity Software Inc.	167	0	167
Investment in Noobz PL Sp.	282	0	282
Total other equity investments	5,488	560	4,928
Total equity investments	24,081	16,968	7,113

The change in subsidiaries over the reporting period regards:

- an increase in the value of the investment in Kunos Simulazioni due to an adjustment to the original purchase price of the investment;
- acquisition of 60% of the shares of Dutch company Rasplata B.V.;
- acquisition of the remaining quotas of Ovosonico S.r.l. and its reclassification to investments in subsidiaries under the new name of AvantGarden S.r.l.;

- acquisition of 25.23% of the equity of UK company Seekhana Ltd; added to the existing interest of 34.77%, this took the Company's total investment to 60% and it has been reclassified to investments in subsidiaries.

With regard to associated companies, during the reporting period, the Company completed the sale of its investment in Delta DNA Ltd at a gain of Euro 378 thousand.

Changes in other investments during the period regard:

- 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.

At the reporting date, the carrying amount of equity investments compared with the Group's share of the equity was as follows. The carrying amounts of the investments in Digital Bros Game Academy, Game Network S.r.l. and 133 W Broadway Inc. are stated net of the provisions for impairment of investments of Euro 93 thousand, Euro 34 thousand and Euro 319 thousand, respectively:

Name	Location	Carrying amount a	Capital b	Pro-rata share of equity c	Result for the year	Change d=c-a
505 Games S.p.A.	Milan	10,100	10,000	35,943	11,123	25,843
Game Service S.r.l.	Milan	85	50	183	(16)	98
Digital Bros Game Academy S.r.l.	Milan	207	300	207	(54)	0
Game Network S.r.l.	Milan	(24)	10	(24)	(27)	0
Digital Bros China (Shenzhen) Ltd.	Shenzhen	100	100	103	6	3
Digital Bros Holdings Ltd.	Milton Keynes	125	125	102	(2)	(23)
133 W Broadway Inc.	Eugene	(228)	90	(228)	(61)	0
Kunos Simulazioni S.r.l.	Rome	4,676	10	5,823	3,853	1,147
Digital Bros Asia Pacific (HK) Ltd.	Hong Kong	100	100	115	11	15
Rasplata BV	Amsterdam	2,008	2	965	(53)	(1,043)
AvantGarden S.r.l.	Milan	495	100	506	10	11
Seekhana Ltd.	Milton Keynes	503	840	494	0	(9)

All of the subsidiaries are 100% owned except for Rasplata BV and Seekhana Ltd which are 60% owned.

No impairment adjustment has been made to the investment in Rasplata BV. as its medium/long-term business plan suggests that there is no permanent impairment.

5. Non-current receivables and other assets

Non-current receivables and other assets amount to Euro 6,542 thousand and have decreased by Euro 2,584 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 deposit – rental of offices in Via Tortona, Milan	635	635	0
Other guarantee deposits	5	6	(1)
Total non-current receivables and other assets	6,542	9,126	(2,584)

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.

The remaining balance of Euro 640 thousand consists entirely of guarantee deposits paid in respect of contractual obligations. The largest deposit is the amount of Euro 635 thousand paid to Matov Imm. S.r.l. as a deposit for the rental of premises in Via Tortona 37, Milan, the Company's headquarters.

6. Deferred tax assets

At 30 June 2020, deferred tax assets amount to Euro 613 thousand and have increased by Euro 31 thousand compared to 30 June 2019. The balance includes IRES deferred tax assets of Euro 605 thousand and IRAP deferred tax assets of Euro 8 thousand.

Deferred tax assets are calculated on temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. The rate applied for IRES purposes was 24%. The following table provides details of temporary differences at 30 June 2020 and 30 June 2019:

Description	Temporary differences at 30 June 2019	Changes in temporary differences in the year	Temporary differences at 30 June 2020
Taxed provision for bad debts	654	(6)	648
Directors' emoluments not relating to period	77	180	257
TFR/Employee termination indemnity	75	25	100
Inventory obsolescence provision	197	0	197
Reserve for writedown of securities	350	708	1,058
Reserve for application of IFRS 9	1,000	(758)	242
Other	41	(20)	21
Total	2,394	129	2,523

The following table shows the calculation of deferred tax assets for IRES purposes at 30 June 2020:

Description	Temporary differences at 30 June 2020	Deferred tax assets for IRES purposes at 30 June 2020 ^(a)
Taxed provision for bad debts	648	156
Directors' emoluments not relating to period	257	62
TFR/Employee termination indemnity	100	24
Inventory obsolescence provision	197	47
Reserve for writedown of securities	1,058	254
Reserve for application of IFRS 9	242	58
Other	21	5
Total	2,523	605

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

CURRENT ASSETS

At 30 June 2020, the Company had no receivables or payables with a residual duration of more than five years and no payables were secured on the Company's assets. Exchange rate fluctuation since the reporting date has not had any significant effect. Moreover, there were no receivables or payables linked to repurchase agreements.

The following table contains a geographical breakdown of the items included in Total current assets at 30 June 2020:

	Euro Thousands	Italy	EU	Non-EU	Total
8	Inventories	1,987	0	0	1,987
9	Trade receivables	1,644	222	0	1,866
10	Receivables from subsidiaries	12,022	1,598	835	14,455
11	Tax receivables	2,221	0	0	2,221
12	Other current assets	531	0	4,770	5,301
13	Cash and cash equivalents	858	0	0	858
	Total current assets	19,263	1,820	5,605	26,688

8. Inventories

Inventories entirely consist of finished products for resale. They have decreased by Euro 1,760 thousand from Euro 3,747 thousand at 30 June 2019 to Euro 1,987 thousand at 30 June 2020. The decrease is mainly due to the need to adjust reporting date inventories for impairment of Euro 1,386 thousand – around 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 in trade receivables compared to prior year are as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Trade receivables - Italy	2,400	1,988	412
Trade receivables - Other EU	222	64	158
Trade receivables - Rest of the world	0	1	(1)
Provision for doubtful debts	(756)	(793)	37
Total trade receivables	1,866	1,260	606

At 30 June 2020, trade receivables amounted to Euro 1,866 thousand, an increase of Euro 606 thousand compared to Euro 1,260 thousand at 30 June 2019. The Company's trade receivables are primarily due from Italian customers. The balance is stated net of the provision for doubtful debts.

Trade receivables are stated net of an estimate of credit notes that the Company expects to have to issue for price repositioning or returns.

The provision for doubtful debts has decreased by Euro 37 thousand from Euro 793 thousand at 30 June 2019 to Euro 756 thousand at 30 June 2020. The provision is estimated based on a detailed analysis of each trade receivable balance in order to assess its recoverability. It also takes account of application of the new IFRS 9.

The following table contains a breakdown of trade receivables 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	1,797	96%	743	59%
0 - 30 days overdue	0	0%	328	26%
30 - 60 days overdue	6	0%	36	3%
60 - 90 days overdue	7	1%	4	0
> 90 days overdue	56	3%	149	12%
Total trade receivables	1,866	100%	1,260	100%

10. Receivables from subsidiaries

Receivables from subsidiaries amount to Euro 14,455 thousand and have decreased by Euro 13,681 thousand.

Receivables from subsidiaries at 30 June 2020 and at 30 June 2019 are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
505 Mobile S.r.l.	4,426	4,961	(535)
Game Entertainment S.r.l.	5,024	8,235	(3,211)
Game Network S.r.l.	446	386	60
505 Games S.p.A.	0	9,293	(9,293)
133 W Broadway Inc.	259	0	259
Hawkwen Entertainment Inc.	576	571	5
Kunos Simulazioni S.r.l.	1,544	3,662	(2,118)
Game Service S.r.l.	340	414	(74)
505 Games France S.a.s.	593	605	(12)
Digital Bros Asia Pacific (HK) Ltd.	0	9	(9)
AvantGarden S.r.l.	242	0	242
Rasplata B.V.	1,005	0	1,005
Total receivables from subsidiaries	14,455	28,136	(13,681)

The most significant decreases relate to Game Entertainment S.r.l. and 505 Games S.p.A..

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

11. Tax receivables

At 30 June 2020, tax receivables amounted to Euro 2,221 thousand and decreased by Euro 2,271 thousand compared to a balance of Euro 4,492 thousand at 30 June 2019.

Tax receivables at 30 June 2020 and at 30 June 2019 are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Receivable under domestic tax group arrangement	1,767	3,914	(2,147)
IRES rebate receivable	120	120	0
VAT receivable	132	271	(139)
Other receivables	203	187	16
Total tax receivables	2,221	4,492	(2,271)

The decrease in the Receivable under the domestic tax group arrangement is due to the higher taxable income of the Italian companies which made it possible to offset tax credits.

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

12. Other current assets

Other current assets have increased from Euro 1,003 thousand at 30 June 2019 to Euro 5,301 thousand at 30 June 2020. The balance may be analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Insurance refunds receivable	1	1	0
Receivables from suppliers	349	342	7
Advances to employees	111	185	(74)
Other receivables	70	475	(405)
Receivable for sale of Pipeworks Inc.	4,770	0	4,770
Total other current assets	5,301	1,003	4,298

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; the balance has been adjusted in application of IFRS 9.

SHAREHOLDERS' EQUITY

Shareholders' equity at 30 June 2020 was analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Share capital	5,704	5,704	0
Legal reserve	1,141	1,141	0
Share premium reserve	18,486	18,486	0
IFRS adoption reserve	(142)	(142)	0
Reserve for actuarial gains and losses	(91)	(100)	9
Reserve for measurement of securities	(804)	(266)	(538)
Stock option reserve	2,296	1,965	331
Retained earnings	21,446	20,606	840
Application of IFRS 9	(695)	(695)	0
Profit/(Loss) for the year	(273)	840	(1,113)
Total shareholders' equity	47,068	47,539	(471)

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

Euro Thousands	30 June 2020	30 June 2019	Change
Opening equity	47,539	46,887	652
Application of IFRS 9	0	(695)	695
Distribution of dividends	0	0	0
Change in treasury shares	0	0	0
Actuarial gains (losses)	9	(25)	34
Change in reserve for measurement of securities	(538)	(266)	(272)
Stock option reserve	331	798	(467)
Other changes	0	0	0
Profit/(Loss) for the year	(273)	840	(1,113)
Closing equity	47,068	47,539	(471)

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 thousand.

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

The Euro 331 thousand increase in the Stock option plan reserve regards the amount relating to the period for the “Stock option plan 2016-2026”. The plan rules are available on the Company website.

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

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

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

NON-CURRENT LIABILITIES

19. Employee benefits

“Employee benefits” reflects the actuarial value of the Company’s liability towards employees, as calculated by an independent actuary. It has increased by Euro 7 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 Company’s reporting date headcount of 47 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	436	419
Employees transferred to 505 Games S.p.A.	0	(12)
Utilisation of provision for payments to leavers	0	(10)
Allocations to provision in the year	149	151
Measurement of supplementary pension schemes	(145)	(145)
Actuarial measurement	(11)	32
Provisions for employee termination indemnities at 30 June 2020	429	436

The Company is not party to any supplementary pension funds.

20. Non-current provisions

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

21. 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 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

The following table contains a geographical breakdown of the items included in Total current liabilities at 30 June 2020:

	Euro Thousands	Italy	Other EU	NON-EU	Total
23	Trade payables	(995)	(517)	(514)	(2,026)
24	Payables to subsidiaries	(969)	(7,930)	(4,747)	(13,646)
25	Tax payables	(159)	0	0	(159)
26	Current provisions	(127)	0	(319)	(446)
27	Other current liabilities	(1,205)	0	0	(1,205)
28	Current financial liabilities	(12,174)	0	0	(12,174)
	Total current liabilities	(15,629)	(8,447)	(5,580)	(29,656)

23. Trade payables

Trade payables due within a year have increased by Euro 1,110 thousand and mainly consist of payables for received services. The balance is analysed below:

Euro Thousands	30 June 2020	30 June 2019	Change
Trade payables – Italy	(995)	(808)	(187)
Trade payables – Other EU	(517)	(56)	(461)
Trade payables – Rest of World	(514)	(52)	(462)
Total trade payables	(2,026)	(916)	(1,110)

Trade payables to EU suppliers regard purchases of video games while Trade payables to suppliers in the rest of the world mainly include payables for consulting services used in relation to the sale of Pipeworks Inc. that will be settled upon collection of the portion of the total receivable of USD 10 million that falls due within a year.

24. Payables to subsidiaries

Payables to subsidiaries amount to Euro 13,646 thousand and have increased by Euro 3,804 thousand compared to prior year. They are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
505 Games S.p.A.	(754)	0	(754)
505 Games (US) Inc.	(3,741)	(1,594)	(2,147)
505 Games Ltd.	(3,079)	(2,030)	(1,049)
505 Games GmbH	(1,790)	(1,018)	(772)
DR Studios Ltd.	(1,695)	(1,287)	(408)
505 Games Iberia Slu	(1,265)	(1,163)	(102)
505 Games Mobile (US)	(529)	(157)	(372)
505 Games Interactive	(329)	(122)	(207)
Digital Bros Holdings Ltd.	(101)	(106)	5
Digital Bros China (Shenzen Ltd.)	(68)	(75)	7
Digital Bros Asia Pacific (HK) Ltd.	(79)	0	(79)
133 W Broadway Inc.	0	(1,268)	1,268
Digital Bros Game Academy S.r.l.	(215)	(268)	53
Total	(13,646)	(9,088)	(4,558)

The most significant increases regard the payables to 505 Games (US) Inc. and 505 Games Ltd..

25. Tax payables

Tax payables have increased by Euro 14 thousand from Euro 145 thousand at 30 June 2019 to Euro 159 thousand at 30 June 2020. They mainly include payables for taxes deducted at source from employees and contract personnel.

26. Current provisions

This caption consists of provisions for impairment of equity investments. It has increased by Euro 190 thousand compared to the 30 June 2019 balance of Euro 256 thousand.

Movements during the period were as follows:

Euro Thousands	30 June 2019	Allocated	30 June 2020
Digital Bros Game Academy S.r.l.	0	93	93
Game Network S.r.l.	0	34	34
133 W Broadway Inc.	256	63	319
Total current provisions	256	190	446

27. Other current liabilities

Other current liabilities have increased by Euro 584 thousand from Euro 621 thousand at 30 June 2019 to Euro 1,205 thousand at 30 June 2020. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Amounts due to social security institutions	(251)	(179)	(72)
Amounts due to employees	(576)	(385)	(191)
Amounts due to contract staff	(36)	(40)	4
Other payables	(342)	(17)	(325)
Total other current liabilities	(1,205)	(621)	(584)

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 13th monthly salaries and amounts accrued for the portion of prior period variable remuneration not recognised that relates to the reporting period.

NET FINANCIAL POSITION

The Company's net financial position at 30 June 2020 is analysed in detail below. Comparative figures at 30 June 2019 are also provided:

	Euro Thousands	30 June 2020	30 June 2019	Change
13	Cash and cash equivalents	858	83	775
28	Current financial liabilities	(12,174)	(10,398)	(1,776)
	Current net financial position	(11,316)	(10,315)	(1,001)
7	Non-current financial assets	17,251	1,942	15,309
22	Non-current financial liabilities	(4,941)	(9)	(4,932)
	Non-current net financial position	12,310	1,933	10,377
	Total net financial position	994	(8,382)	9,376

The net financial position shows net cash of Euro 994 thousand with an improvement of Euro 9,376 thousand compared to the net debt reported at 30 June 2019. Excluding the effect of application of the new IFRS 16, which led to recognition of a financial liability of Euro 4,335 thousand, the reduction in net debt would have amounted to Euro 13,711 thousand.

The decrease in net debt is mainly due to a Euro 15,309 thousand increase in non-current financial assets and to a Euro 775 thousand increase in cash and cash equivalents that were only partially offset by a Euro 1,776 thousand increase in current financial liabilities and by a Euro 4,932 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
13	Cash and cash equivalents	858	83	775
28	Current financial liabilities	(12,174)	(10,398)	(1,776)
	Current net financial position	(11,316)	(10,315)	(1,001)

13. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 858 thousand at 30 June 2020, an increase of Euro 775 thousand compared to 30 June 2019. They are unrestricted and consist entirely of current account deposits accessible on demand.

28. 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 12,174 thousand. Details are as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Bank borrowing – current account overdrafts	0	(721)	721
Bank borrowing – import and export finance	0	(8,938)	8,938
Bank borrowing – advances on invoices and notes	(547)	(625)	78
Instalment loans due within a year	(994)	0	(994)
Other current financial liabilities	(10,633)	(114)	(10,519)
Total current financial liabilities	(12,174)	(10,398)	(1,776)

Instalment loans, amounting to Euro 994 thousand, include the current portion of a loan totalling Euro 2 million granted by Intesa SanPaolo S.p.A. to Digital Bros S.p.A.; 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 1.4 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)	(98)	77
Lease instalments due within a year	(63)	(16)	(47)
Application of IFRS 16	(549)	0	(549)
Liability to Smilegate Holdings	(10,000)	0	(10,000)
Total current financial liabilities	(10,633)	(114)	(10,519)

Advances on trade receivables factored without recourse totalled Euro 21 thousand and decreased by Euro 77 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.

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 2024, as described in the Significant Events during the Period section of the Directors' Report.

22. 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 4,941 thousand. Details are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change
Instalment loans due after more than a year	(1,006)	0	(1,006)
Other non-current financial liabilities	(3,935)	(9)	(3,926)
Total non-current financial liabilities / bank borrowing	(4,941)	(9)	(4,932)

Instalment loans due after more than a year include Euro 1,006 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.

Other non-current financial liabilities amount to Euro 3,935 thousand. They include Euro 149 thousand of lease repayments due after more than a year and Euro 3,786 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	612	16	596
1-5 years	3,935	9	3,926
More than 5 years	0	0	0
Total	4,547	25	4,522

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	1	1	0	n.s.
B.	Cash equivalents (details)	857	82	775	n.s.
C.	Liquidity (A) + (B)	858	83	775	n.s.
D.	Current and non-current financial receivables	17,251	1,942	15,309	n.s.
E.	Current bank borrowing	547	10,284	(9,737)	-94,7%
F.	Current portion of non-current debt	994	0	994	n.s.
G.	Other current financial liabilities	10,633	114	10,519	n.s.
H.	Current financial indebtedness (E)+(F)+(G)	12,174	10,398	1,776	17,1%
I.	Net current financial indebtedness (H) – (D) – (C)	(5,935)	8,373	(14,308)	n.s.
J.	Non-current bank borrowing	1,006	0	1,006	n.s.
K.	Other non-current financial liabilities	3,935	9	3,926	n.s.
L.	Non-current financial indebtedness (J) + (K)	4,941	9	4,932	n.s.
M.	Net financial indebtedness (I) + (L)	(994)	8,382	(9,376)	n.s.

COMMITMENTS AND RISKS

The following table reports the commitments of Digital Bros Sp.A.:

Euro Thousands	30 June 2020	30 June 2019	Change
Commitments for credit mandates in favour of subsidiaries	28,513	24,785	3,728
Commitments for subscription of capital of Starbreeze	2,395	0	2,395

The increase in commitments for credit mandates in favour of subsidiaries relates to increased guarantees in favour of 505 Games S.p.A..

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.

5. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

Total net revenue has decreased by 20% from Euro 13,819 thousand in prior year to Euro 11,060 thousand in the year ended 30 June 2020:

Euro Thousands	30 June 2020	30 June 2019	Change	
Gross sales – Italy	13,425	14,626	(1,201)	-8.2%
Gross sales – Other countries	456	279	177	63.4%
Total gross revenue	13,881	14,905	(1,024)	-6.9%
Total revenue adjustments	(2,821)	(1,086)	(1,735)	n.s.
Total net revenue	11,060	13,819	(2,759)	-20.0%

Gross revenue may be analysed by geographical area as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	
Gross revenue – Italy	13,425	14,626	(1,201)	-8.2%
Gross revenue – Other EU	456	279	177	63.4%
Total gross revenue	13,881	14,905	(1,024)	-6.9%

8. Cost of sales

Cost of sales is analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Purchases of products for resale	(5,515)	(8,534)	3,019	-35.4%
Change in inventories of finished products	(1,760)	59	(1,819)	n.s.
Total cost of sales	(7,275)	(8,475)	1,200	-14.2%

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

10. Other income

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

11. Costs for services

Costs for services are detailed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Advertising, marketing, trade fairs and exhibitions	(605)	(471)	(134)	28.4%
Transport and freight	(110)	(154)	44	-28.3%
Sub-total: sales related services	(715)	(625)	(90)	14.4%
Sundry insurance	(80)	(93)	13	-14.2%
Legal and notary fees	(1,252)	(1,028)	(224)	21.8%
Postage and telegraph	(68)	(88)	20	-22.4%
Travel and subsistence costs	(209)	(282)	73	-25.8%
Utilities	(115)	(116)	1	-1.2%
Maintenance	(77)	(70)	(7)	10.6%
Statutory auditors' fees	(74)	(74)	0	0.0%
Sub-total: general services	(1,875)	(1,751)	(124)	7.1%
Intercompany services	(259)	(64)	(195)	n.s.
Sub-total	(2,134)	(1,815)	(319)	17.6%
Total costs for services	(2,849)	(2,440)	(409)	16.7%

Costs for services amount to Euro 2,849 thousand, an increase of Euro 409 thousand compared to the year ended 30 June 2019 mainly because of higher advertising expenditure and higher consultancy fees, as a result of greater use of external professional advisors.

12. Lease and rental costs

Lease and rental costs amount to Euro 125 thousand compared to Euro 727 thousand in the year ended 30 June 2020. The decrease is due to application of the new IFRS 16 and the amount for the year ended 30 June 2020 includes Euro 76 thousand of expenses relating to the rental of the Company's offices and Euro 49 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 include agents' commission, directors' fees approved by the shareholders, costs for temporary workers and contract personnel and costs for company cars assigned to employees. They totalled Euro 4,890 thousand which was Euro 44 thousand less than in prior year:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Wages and salaries	(2,341)	(2,162)	(179)	8.3%
Social contributions	(871)	(802)	(69)	8.6%
Employee termination indemnity	(156)	(153)	(3)	1.7%
Stock option plan	(330)	(798)	468	-58.6%
Directors' fees	(1,121)	(956)	(165)	17.3%
Agents' commission	(18)	(18)	0	0%
Other labour costs	(53)	(45)	(8)	18.2%
Total labour costs	(4,890)	(4,934)	44	-0.9%

Labour costs, in the narrow sense, include wages and salaries, social contributions and the cost of employee termination indemnities. They have increased by Euro 250 thousand compared to prior year:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Wages and salaries	(2,341)	(2,162)	(179)	8.3%
Social contributions	(871)	(802)	(69)	8.6%
Employee termination indemnity	(156)	(153)	(3)	1.7%
Total labour costs	(3,367)	(3,117)	(250)	8.0%
Average number of employees	48	50	(2)	-4.0%
Average cost per employee	(70)	(62)	(8)	12.5%

The average cost per employee has increased by 12.5% as the variable component of remuneration (i.e. employee bonuses) was paid unlike in prior year.

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

14. Other operating costs

Other operating costs amount to Euro 538 thousand and are in line with the prior year total.

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

Euro Thousands	30 June 2020	30 June 2019	Change	%
Purchase of sundry materials	(52)	(63)	11	-16.9%
General and administrative costs	(418)	(399)	(19)	4.9%
Entertainment costs	(11)	(15)	4	0.0%
Sundry bank charges	(57)	(55)	(2)	3.8%
Total other operating costs	(538)	(532)	(6)	1.2%

21. Non-monetary operating income and expenses

Euro Thousands	30 June 2020	30 June 2019	Change	%
Depreciation and amortisation	(935)	(369)	(566)	n.s.
Impairment adjustments to assets	(190)	(623)	433	-69.4%
Reversal of previous adjustments	591	0	591	n.s.
Total non-monetary operating income expenses	(534)	(992)	458	-46.2%

Net non-operating expenses, amounting to Euro 534 thousand, have decreased by Euro 458 thousand compared to the year ended 30 June 2019. Depreciation and amortisation have increased by Euro 566 thousand as a result of application of the new IFRS 16.

Impairment adjustments to assets in the years ended 30 June 2020 and 30 June 2019 are analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change
Impairment adjustment to investment in Game Networks S.r.l.	(34)	(274)	240
Impairment adjustment to investment in 133 W Broadway Inc.	(63)	(255)	192
Impairment adjustment to investment in Digital Bros Game Academy S.r.l.	(93)	0	(93)
Impairment adjustment to investment in Ebooks&Kids S.r.l.	0	(14)	14
Allocation to provision for doubtful debts	0	(19)	19
IFRS 9 provision	0	(61)	61
Total impairment adjustments to assets	(190)	(623)	433

The reversal of previous adjustments is due to updating of the percentages applied as a result of IFRS 9.

25. Net financial income (expenses)

Net financial income totalled Euro 4,078 thousand compared to Euro 4,395 thousand in prior year. The caption may be analysed as follows:

	Euro Thousands	30 June 2020	30 June 2019	Change	%
23	Interest and financial income	5,466	5,047	419	8.3%
24	Interest and financial expenses	(1,388)	(652)	(736)	n.s.
25	Net interest and financial income	4,078	4,395	(317)	-7.2%

Interest and financial income may be analysed as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Dividends from subsidiaries	2,500	4,000	(1,500)	-37.5%
Other interest and financial income	2,198	434	1,764	n.s.
Exchange gains	768	613	155	25.4%
Total interest and financial income	5,466	5,047	419	8.3%

As in prior year, dividends were received from Kunos Simulazioni S.r.l..

Other interest and financial income for the year ended 30 June 2020 mainly 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 are analysed in detail as follows:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Bank interest on overdrafts and trade finance	(173)	(117)	(56)	48.0%
Other interest expenses	0	(3)	3	n.s.
Interest expenses on loans and leases	(60)	(1)	(59)	n.s.
Factoring interest	(3)	(4)	1	1.1%
Total interest expenses on sources of financing	(236)	(125)	(111)	n.s.
Exchange losses	(496)	(484)	(12)	2.5%
Equity measurement of investments	(656)	(43)	(613)	n.s.
Total interest expenses	(1,388)	(652)	(736)	n.s.

Interest and financial expenses have increased by Euro 736 thousand to stand at Euro 1,388 thousand. The increase is mainly due to the equity valuation of investments in associated companies Avantgarden S.r.l. and Seekhana Ltd. (Euro 656 thousand).

29. Taxation

Details of current and deferred taxes for the year ended 30 June 2020 are provided below:

Euro Thousands	30 June 2020	30 June 2019	Change	%
Current taxes	712	638	74	11.6%
Deferred taxes	(134)	(62)	(72)	n.s.
Total taxation	578	576	2	0.3%

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

Euro Thousands	30 June 2020	30 June 2019	Change
Taxable income for IRES	(2,954)	(2,938)	(16)
IRES rate	24.0%	24.0%	
IRES for the period	709	705	4
Prior year taxes	3	(67)	70
IRES for the period	712	638	74

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

Euro Thousands	30 June 2020		30 June 2019	
Company profit before taxation	(851)		264	
IRES rate	24.0%		24.0%	
Theoretical taxation	204	-24.0%	(63)	-24.0%
Tax effect of non-deductible costs	562	-66%	709	268%
Tax effect of utilisation of tax loss carryforwards	0	0%	0	0%
Net tax effect of reversal of deferred tax assets not included in above captions	(58)		59	
IRES on gain classified under financial income	0		0	
Prior year taxation	3		(67)	
Taxes on income for the year and effective tax rate	712	-83.7%	638	241.5%

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

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

The main financial instruments used by the Company are:

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

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

The credit facilities available to the Company, together with utilisation at 30 June 2020, are detailed below:

Euro Thousands	Facility	Utilised	Headroom
Bank current account overdrafts	1,200	0	1,200
Import finance	11,750	0	11,750
Advances on invoices and notes	7,500	547	6,953
Factoring	1,000	21	979
Medium-term financing	2,000	2,000	0
Total	23,450	2,568	20,882

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

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

Financial Instruments: Statement of Financial Position at 30 June 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	-	6,542	-	6,542	5
Non-current financial assets	17,251	-	-	17,251	7
Trade receivables	-	1,866	-	1,866	9
Receivables from subsidiaries	-	14,455	-	14,455	10
Other current assets	-	5,301	-	5,301	12
Cash and cash equivalents	-	858	-	858	13
Other current financial assets	-	-	-	-	26
Total	17,251	29,022	-	46,273	

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
Other non-current liabilities	-	469	-	469	21
Non-current financial liabilities	-	4,941	-	4,941	22
Trade payables	-	2,026	-	2,026	23
Payables to subsidiaries	-	13,646	-	13,646	24
Other current liabilities	-	1,205	-	1,205	27
Current financial liabilities	-	12,174	-	12,174	28
Total	-	34,461	-	34,461	

Financial Instruments: Statement of Financial Position at 30 June 2019

Category of financial assets in terms of IFRS 9

Financial Instruments - Assets at 30 June 2019 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying Amount at 30 June 2019	Note
Non-current receivables and other assets		9,126	-	9,126	5
Non-current financial assets		1,942	-	1,942	7
Trade receivables	-	1,260	-	1,260	9
Receivables from subsidiaries	-	28,136	-	28,136	10
Other current assets	-	1,003	-	1,003	12
Cash and cash equivalents	-	83	-	83	13
Other current financial assets	-	-	-	-	26
Total	-	41,550	-	41,550	

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
Other non-current liabilities	-	923	-	923	21
Non-current financial liabilities	-	9	-	9	22
Trade payables	-	916	-	916	23
Payables to subsidiaries	-	9,088	-	9,088	24
Other current liabilities	-	621	-	621	27
Current financial liabilities	-	10,398	-	114	28
Total	-	21,965	-	21,965	

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

- interest rate risk
- liquidity risk
- credit risk.

Interest rate risk

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

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

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

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

Liquidity risk

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

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

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

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

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

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

Financial liabilities at 30 June 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	4,941		1,618	622	613	585	1,503	4,941	22
Current financial liabilities	12,174	12,174						12,174	28
Total	17,115	12,174	1,618	622	613	585	1,503	17,115	

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	9		9					9	22
Current financial liabilities	10,398	10,398						10,284	28
Total	10,407	10,398	9	-	-	-	-	10,407	

The Company has sufficient financial resources to satisfy its debt maturing within one year. These financial resources include cash and cash equivalents, unutilised credit facilities totalling around Euro 21 million at the reporting date and cash flows from operating activities.

Credit risk

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

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

The following table contains a breakdown of trade receivables by due date at 30 June 2020 and at 30 June 2019:

Euro Thousands	30 June 2020	% of total	30 June 2019	% of total
Not overdue	1,797	96%	743	59%
0 - 30 days overdue	0	0%	328	26%
30 - 60 days overdue	6	0%	36	3%
60 - 90 days overdue	7	1%	4	0
> 90 days overdue	56	3%	149	12%
Total trade receivables	1,866	100%	1,260	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 <i>Fair Value</i>	Note
Non-current financial assets	17,251		17,251	17,251	7
Cash and cash equivalents	858	858		858	13
Non-current financial liabilities	4,941	4,941		4,941	22
Current financial liabilities	12,174	12,174		12,174	28

Euro Thousands	Carrying amount at 30 June 2019	Mark to Market Fair Value	Mark to Model Fair Value	Total <i>Fair Value</i>	Note
Non-current financial assets	1.942	1.942		1.942	7
Cash and cash equivalents	83	83		83	13
Non-current financial liabilities	9	9		9	22
Current financial liabilities	10.398	10.398		10.398	28

Fair value hierarchy

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

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

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

7. NON-RECURRING INCOME AND EXPENSES

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

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

8. CONTINGENT ASSETS AND LIABILITIES

At 30 June 2020 – as at 30 June 2019 – there were no contingent assets and liabilities.

9. RELATED PARTY TRANSACTIONS

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

Transactions between Digital Bros and subsidiaries

Commercial and financial transactions between Digital Bros S.p.A. and other Group companies in the year ended 30 June 2020 took place on an arm's length basis. The following table provides a summary of year end balances and transactions in the year, together with prior year comparatives:

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	Financial		
505 Games S.p.A.	0	0	0	(754)	5,311	(731)
505 Mobile S.r.l.	0	4,426	0	0	0	0
Digital Bros Game Academy S.r.l.	0	0	0	(215)	70	(8)
Game Entertainment S.r.l.	0	5,024	0	0	(2,658)	0
Game Network S.r.l.	0	446	0	0	0	0
Game Service S.r.l.	0	340	0	0	0	(83)
Kunos Simulazioni S.r.l.	0	1,544	0	0	0	0
505 Games France S.a.s.	0	593	0	0	0	0
505 Games Ltd.	0	0	0	(3,079)	5	0
505 Games Iberia Slu	0	0	0	(1,265)	0	0
505 Games (US) Inc.	0	0	0	(3,741)	45	0
505 Games GmbH	0	0	0	(1,790)	0	0
505 Games Interactive	0	0	0	(329)	0	0
505 Games Mobile (US)	0	0	0	(529)	0	0
DR Studios Ltd.	0	0	0	(1,696)	0	0
Digital Bros Asia Pacific (Hong Kong) Ltd.	0	0	0	(79)	0	0
Digital Bros China (Shenzen) Ltd.	0	0	0	(68)	0	0
Digital Bros Holdings Ltd.	0	0	0	(101)	0	0
133 W Broadway Inc.	0	259	0	0	0	0
Hawkwen Entertainment Inc.	0	576	0	0	0	0
AvantGarden S.r.l.	0	242	0	0	17	0
Rasplata B.V.	0	1,005	0	0	24	0
Total	0	14,455	0	(13,646)	2,814	(822)

On 3 March 2020, the Company acquired 100% of Ovasonico 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.

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

Other related parties

Other related party transactions regard:

- legal advisory services provided by director Dario Treves;
- property leases by Matov Imm. S.r.l.;
- property leases by the Company to Ovosonico S.r.l. until 3 March 2020.

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		
Dario Treves	0	0	(88)	0	0	(348)
Matov Imm. S.r.l.	0	635	0	(4,336)	0	(691)
Ovosonico S.r.l.	0	0	0	0	36	0
Total 30 June 2020	0	635	(88)	(4,336)	36	(1,039)

Other related party transactions at 30 June 2019 were as follows:

Euro Thousands	Receivables		Payables		Revenues	Costs
	Trade	Financial	Trade	Financial		
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(682)
Ovosonico S.r.l.	21	210	0	0	29	0
Total 30 June 2019	21	845	(22)	0	29	(944)

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.

Tax consolidation

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

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

10. ATYPICAL OR UNUSUAL TRANSACTIONS

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

11. OTHER INFORMATION

INCOME FROM EQUITY INVESTMENTS OTHER THAN DIVIDENDS

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

DIRECTORS' FEES

The fees paid to members of the Board of Directors amounted to Euro 1,121 thousand.

STATUTORY AUDITORS' FEES

During the year ended 30 June 2020, fees totalling Euro 74 thousand were paid to the members of the Board of Statutory Auditors.

FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

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

SHAREHOLDER LOANS WITH SUBORDINATION CLAUSES

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

CAPITAL EARMARKED FOR A SPECIFIC USE

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

LOANS EARMARKED FOR A SPECIFIC USE

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

OFF-BALANCE SHEET AGREEMENTS

There are no off balance sheet agreements.

12. INFORMATION ON SHARE OWNERSHIP STRUCTURE (pursuant to Article 123 bis of the Consolidated Finance Act)

SHARE CAPITAL STRUCTURE

At 30 June 2020, share capital consisted of 14,260,837 issued and wholly paid ordinary shares with a par value of Euro 0.4 each. The Company has not issued different classes of shares or other financial instruments entitling the holder to subscribe to newly issued shares. On 11 January 2017, a General Meeting of the Digital Bros Group shareholders approved the 2016-2026 Stock Option Plan and 218,000 options had already vested at 30 June 2020.

RESTRICTIONS ON THE TRANSFER OF SECURITIES

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

SECURITIES CARRYING SPECIAL RIGHTS

No securities granting special rights of control have been issued.

EMPLOYEE SHARE OWNERSHIP: EXERCISE OF VOTING RIGHTS

There are no employee share ownership schemes.

RESTRICTIONS ON VOTING RIGHTS

There are no restrictions on voting rights.

SHAREHOLDER AGREEMENTS

There are no shareholder agreements in place.

APPOINTMENT AND REPLACEMENT OF DIRECTORS AND BY-LAW AMENDMENTS

Please see the Corporate Governance Report included in the consolidated annual report and available in the investors section at www.digitalbros.com.

AUTHORISATION TO INCREASE SHARE CAPITAL AND/OR PURCHASE TREASURY SHARES

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

CHANGE OF CONTROL CLAUSES

There are no change of control clauses.

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

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

13. INFORMATION ON ASSETS REVALUED UNDER SPECIFIC LAWS

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

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

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

15. EXTERNAL AUDIT FEES

Pursuant to Art. 149- duodecies of the Listing Rules, it is hereby disclosed that external auditors, Deloitte & Touche, received fees of Euro 182 for the year ended 30 June 2020. See the attachment in the Notes to the Consolidated Financial Statements for further information.

16. ALLOCATION OF NET PROFIT FOR THE YEAR

A loss of Euro 273 thousand is reported for the year ended 30 June 2020 and it is proposed that it should be covered using retained earnings. In light of the excellent results achieved by the Group companies which will lead to increased dividend income for the year, the Board of Directors recommends that the Shareholders' General Meeting approve distribution of a dividend of Euro 0.15 per share, for a total of around Euro 2,139 thousand, using retained earnings.

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 financial statements of Digital Bros S.p.A. 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 issuer's results and financial position;
2. the Directors' Report includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which the Company is exposed.

Milan, 22 September 2020

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe