



**Half-yearly financial report
for the six months ended 31 December 2019
(1st half of financial year 2019/2020)**

Digital Bros S.p.A.

VAT No. and Company tax code 09554160151

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

Milan Companies Register No. 290680

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 Italian version and its English translation.

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Board of Directors and Governance Bodies

Lidia Florean	Director ⁽²⁾
Abramo Galante	Chairman and Managing Director ⁽¹⁾
Davide Galante	Director ⁽²⁾
Raffaele Galante	Managing Director ⁽¹⁾
Luciana La Maida	Director ⁽³⁾
Irene Longhin	Director ⁽³⁾
Susanna Pedretti	Director ⁽³⁾
Stefano Salbe	Director ^{(1) (4)}
Dario Treves	Director ⁽¹⁾

⁽¹⁾ Executive directors

⁽²⁾ Non-executive directors

⁽³⁾ Independent directors

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

Internal Control and Risk Committee

Luciana La Maida
Susanna Pedretti

Remuneration and Appointments Committee

Luciana La Maida (Chairman)
Irene Longhin
Susanna Pedretti

Permanent Related Parties Committee

Luciana La Maida
Susanna Pedretti

Board of Statutory Auditors

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

The Shareholders' Meeting of 27 October 2017 appointed the members of the Board of Directors and Board of Statutory Auditors. The terms of office of the Directors and Statutory Auditors will end with the Shareholders' Meeting held to approve the financial statements for the year ended 30 June 2020.

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

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

Director Paola Carrara resigned on 28 February 2020. Until that date, she was an Independent Director, Chairman of the Internal Control and Risk Committee and Chairman of the Permanent Related Parties Committee.

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

External auditors

Deloitte & Touche S.p.A.

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

Other information

Publication of the Half Yearly Financial Report of Digital Bros Group for the Six Months ended 31 December 2019 was authorised by a resolution of the Board of Directors of 5 March 2020.

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

DIRECTORS' REPORT

1. GROUP STRUCTURE

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

The Group is organised into five operational business segments:

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

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

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

Italian company Kunos Simulazioni S.r.l., which developed and published the Assetto Corsa video game, is consolidated in this operating segment.

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

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

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

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

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

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

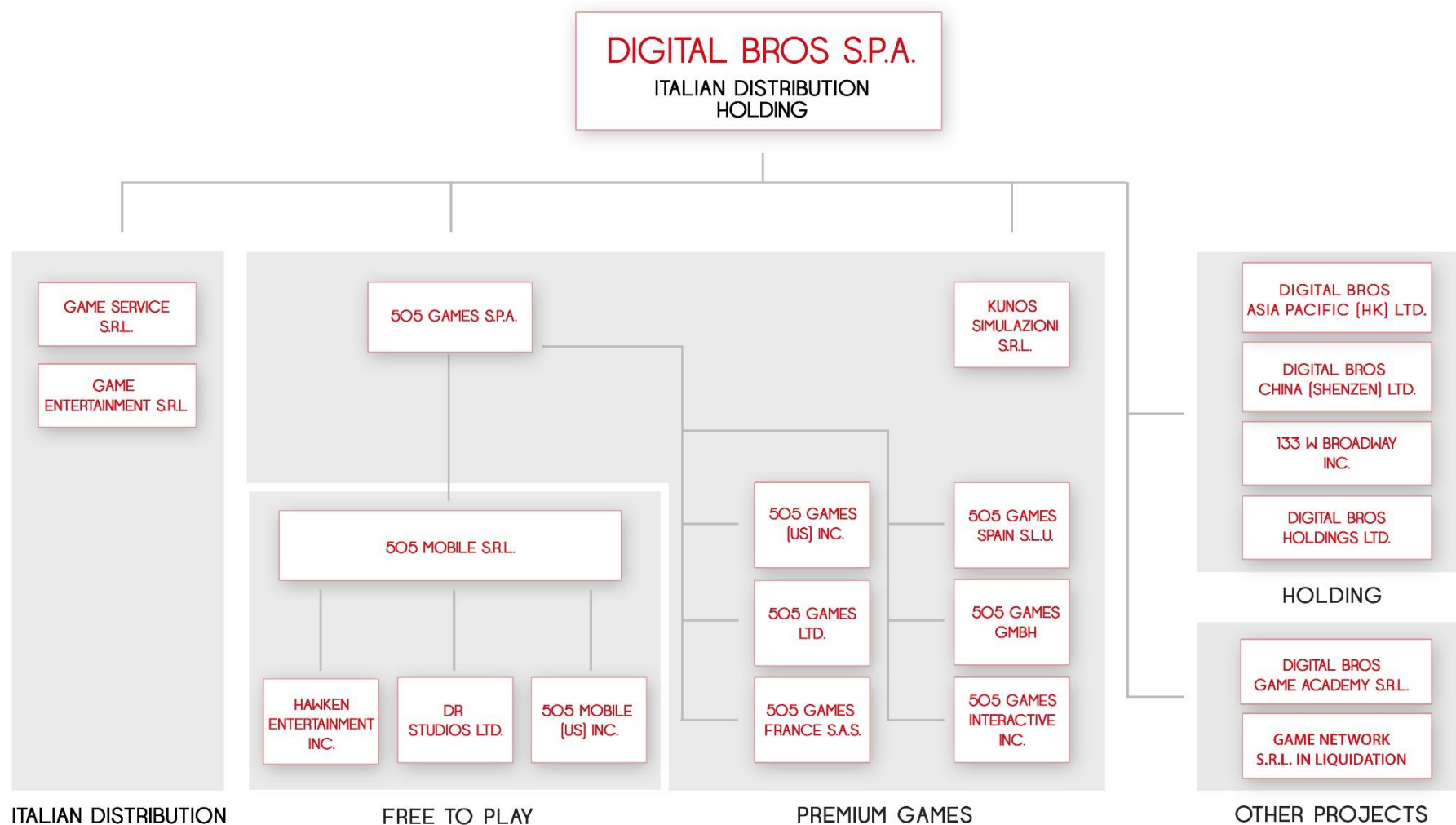
subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l. which ceased to operate in June 2018 and was put into liquidation in October 2018.

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

All of the investments reported are 100% owned.

The Group organisation chart at 31 December 2019 is shown below:

GROUP STRUCTURE AT 31 DECEMBER 2019



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

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

⁽¹⁾ Inactive in the period

At 31 December 2019, the Group held investments in the associated companies listed below. The related carrying amounts are also shown (in thousands of Euro):

Name	Location	Holding	Carrying amount
Ovosonico S.r.l.	Varese	49%	632
Seekhana Ltd.	Milton Keynes, UK	34.77%	367
Total investments in associated companies			999

The sale of the investment held in Delta DNA Ltd was completed during the period at a gain of Euro 383 thousand.

On 3 March 2020, the Group completed the acquisition of a 51% interest in Ovosonico S.r.l. It will be consolidated on a line-by-line basis from the third quarter of the annual reporting period.

2. THE VIDEO GAMES MARKET

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

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

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

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



Developers

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

Publishers

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

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

Console manufacturers

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

Distributors

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

Retailers

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

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



The main marketplaces on which console video games are sold to end consumers are: Sony's PlayStation Store, Microsoft's Xbox Live and Nintendo's eShop. Steam marketplace is the global leader in the digital distribution of games for personal computers. The launch of a new market place for PC games, Epic Games Store, managed by US company Epic, was announced during the 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 adopted the same strategy with the Stadia and Apple Arcade platforms, respectively.

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

Digital distribution has significantly extended the lifespan of individual games. In fact, the availability of a game is no longer strictly limited to the launch period as in the retail channel. Rather, the product remains available on the various marketplaces, even subsequently, thus making it possible to generate a constant flow of sales that may be influenced – sometimes significantly – by temporary communications policies and promotional pricing. The extension of product life cycle is also greatly affected by product policies adopted by publishers when, after the launch of the main game, they create additional episodes or functions available free of charge or for payment on digital marketplaces (so-called DLC, or downloadable content).

3. MARKET SEASONALITY

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

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

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

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

4. SIGNIFICANT EVENTS DURING THE PERIOD

October 2019 saw the announcement of a contract between subsidiary and 505 Games S.p.A. and Kojima Productions for global publishing rights to the personal computer version of the Death Stranding video game. The Group expects to generate lifetime revenue in excess of Euro 50 million from the videogame.

Relations with Starbreeze and Starbreeze shareholders

As reported in the financial statements at 30 June 2019, in prior years, the Digital Bros Group and the Starbreeze Group were party to numerous commercial and financial relations as summarised below:

- after many years of success, in May 2016, the Group sold its rights to PAYDAY 2 to Starbreeze in return for a payment of USD 30 million and a potential earn out of 33% of net revenues from the video game PAYDAY 3 to be published in future;
- in April 2015, the two groups signed a contract for the development and publication of the console version of a video game inspired by TV Series The Walking Dead. The contract provided for a development budget of USD 10 million to be borne by subsidiary 505 Games S.p.A. As at 31 December 2019, 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 rights to the video game OVERKILL's The Walking Dead and, consequently, on 8 April 2019, subsidiary 505 Games S.p.A. requested the termination of the contract with Starbreeze for development and publication of the console version of the video game;
- 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; at 5 March 2020, these shares represent 1.13% of stock capital and 3.61% of voting rights. 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 resigned on 3 December 2018) who, at that date, held 6.25% of the share capital and 23.72% of the voting rights of Starbreeze AB. The loan was scheduled to mature on 21 November 2020, earned interest at a rate of 5% per annum and was secured by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares.

In the context of these operations, on 3 December 2018, Starbreeze AB and five subsidiaries had 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 to the creditors a payment plan approved by the Swedish District Court.

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

- on 15 January 2020, Digital Bros S.p.A. acquired 18,969,395 Starbreeze A shares held by Swedish company Varvtr AB for a consideration of around SEK 25.8 million, at a price of SEK 1.36 per share, plus a potential earn-out in case of a gain on disposal realised in the 60 months after the acquisition. The consideration was paid, in part, by waiving the loan granted to Varvtr AB and the interest accruing thereon at 31 December 2019. At the date of purchase, the shares acquired represented 5.76% of share capital and 23.52% of voting rights.
- On 26 February 2020, Digital Bros S.p.A. completed the acquisition of all of the assets held by Smilegate Holdings in Starbreeze AB for a price of Euro 19.2 million. The assets acquired have a nominal value of Euro 36.7 million, as detailed below:
 - a) convertible bond of SEK 215 million (around Euro 20.4 million) issued by Starbreeze AB at a conversion price of SEK 2.25 per share, for a total of Euro 16.9 million. Any conversion would lead to the issue of 95,578,667 new Starbreeze AB STAR B shares, representing 20.87% of share capital and 7.77% of voting rights;
 - b) loan receivable of around USD 15.9 million (around Euro 14.7 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 after more than five years;
 - c) 3,601,083 Starbreeze STAR A shares and 6,018,948 Starbreeze STAR B shares which, at 5 March 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 of Euro 19.2 million will be paid in two instalments: Euro 9.2 million on the closing date of the transaction and Euro 10 million by 28 February 2021.

As at 31 December 2019, the Group held 1.24% of the share capital of Starbreeze AB and 5.08% of the voting rights to it was not considered an associated company. The Group will perform further assessment of the classification of the investment in Starbreeze AB over the next six months.

As a result of the operations described above, at 5 March 2020, the Group held 9.03% of the share capital of Starbreeze AB and 24.04% of the voting rights .

5. ANALYSIS OF CONSOLIDATED RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2019

	Euro Thousands	31 December 2019		31 December 2018		Change	
1	Gross revenue	67,850	108.6%	30,216	107.2%	37,634	124.5%
2	Revenue adjustments	(5,365)	-8.6%	(2,042)	-7.2%	(3,323)	n.m.
3	Net revenue	62,485	100.0%	28,174	100.0%	34,311	121.8%
4	Purchase of products for resale	(12,837)	-20.5%	(7,348)	-26.1%	(5,489)	74.7%
5	Purchase of services for resale	(4,046)	-6.5%	(3,370)	-12.0%	(676)	20.0%
6	Royalties	(18,695)	-29.9%	(5,514)	-19.6%	(13,181)	n.m.
7	Changes in inventories of finished products	1,392	2.2%	261	0.9%	1,131	n.m.
8	Total cost of sales	(34,186)	-54.7%	(15,971)	-56.7%	(18,215)	n.m.
9	Gross profit (3+8)	28,299	45.3%	12,203	43.3%	16,096	n.m.
10	Other income	1,386	2.2%	1,546	5.5%	(160)	-10.4%
11	Cost of services	(8,755)	-14.0%	(3,912)	-13.9%	(4,843)	123.8%
12	Lease and rental charges	(141)	-0.2%	(711)	-2.5%	570	-80.2%
13	Personnel costs	(10,013)	-16.0%	(8,451)	-30.0%	(1,562)	18.5%
14	Other operating costs	(623)	-1.0%	(539)	-1.9%	(84)	15.6%
15	Total operating costs	(19,532)	-31.3%	(13,613)	-48.3%	(5,919)	43.5%
16	Gross operating margin/EBITDA (9+10+15)	10,153	16.2%	136	0.5%	10,017	n.m.
17	Depreciation and amortisation	(5,139)	-8.2%	(3,593)	-12.8%	(1,546)	43.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment losses recognised on assets	(1,169)	-1.9%	(665)	-2.4%	(504)	75.8%
20	Reversal of imp. losses and non-monetary income	204	0.3%	0	0.0%	204	n.m.
21	Total non-monetary income and operating costs	(6,104)	-9.8%	(4,258)	-15.1%	(1,846)	43.3%
22	Operating margin/EBIT (16+21)	4,049	6.5%	(4,122)	-14.6%	8,171	n.m.
23	Interest and financial income	1,540	2.5%	670	2.4%	870	n.m.
24	Interest expense and financial expenses	(1,940)	-3.1%	(491)	-1.7%	(1,449)	n.m.
25	Net financial income (expenses)	(400)	-0.6%	179	0.6%	(579)	n.m.
26	Profit/(Loss) before tax (22+25)	3,649	5.8%	(3,943)	-14.0%	7,592	n.m.
27	Current tax	(1,086)	-1.7%	688	2.4%	(1,774)	n.m.
28	Deferred tax	(625)	-1.0%	95	0.3%	(720)	n.m.
29	Total income tax expense	(1,711)	-2.7%	783	2.8%	(2,494)	n.m.
30	Net profit (26+29)	1,938	3.1%	(3,160)	-11.2%	5,098	n.m.
	Earnings per share:						
33	Basic earnings per share (in Euro)	0.14		(0.22)		0.36	n.m.
34	Diluted earnings per share (in Euro)	0.14		(0.22)		0.36	n.m.

As described in Significant Events After the Reporting Period, on 5 March 2020, the Group signed a settlement agreement with the Italian Tax Authorities in relation to a tax dispute regarding the years from 2011 to 2015 inclusive. The dispute regarded certain operations of subsidiary 505 Games S.p.A. which, based on the assessments conducted by the Tax Authorities, should have been treated as royalties and, therefore, subjected to withholding taxes. Although the Group did not agree with either the merits or the legal basis for the amounts requested by the Tax Authorities – the Group believes that the transactions in question involved purchases of goods and/or services – merely in order to reach a settlement and avoid a long and expensive dispute, the Group has decided to sign the settlement agreement.

As a result of the settlement, in the period ended 31 December 2019, the Group had to record non-recurring costs of Euro 1,398 thousand. This amount represents an estimate of the bad debts the Group will suffer in respect of the withholding taxes it will be required to pay on behalf of its suppliers, interest and penalties in excess of the provision for contingent risks of Euro 856 thousand already created.

As a result of the above matter, we have prepared a Statement of Profit or Loss net of non-recurring items in order to provide a clearer picture and understanding of the operating performance.

	Euro Thousands	31 December 2019		
		Total	of which non-recurring	Total net of non-recurring items
1	Gross revenue	67,850	0	67,850
2	Revenue adjustments	(5,365)	0	(5,365)
3	Net revenue	62,485	0	62,485
4	Purchase of products for resale	(12,837)	0	(12,837)
5	Purchase of services for resale	(4,046)	0	(4,046)
6	Royalties	(18,695)	0	(18,695)
7	Changes in inventories of finished products	1,392	0	1,392
8	Total cost of sales	(34,186)	0	(34,186)
9	Gross profit (3+8)	28,299	0	28,299
10	Other income	1,386	0	1,386
11	Cost of services	(8,755)	0	(8,755)
12	Lease and rental charges	(141)	0	(141)
13	Personnel costs	(10,013)	0	(10,013)
14	Other operating costs	(623)	0	(623)
15	Total operating costs	(19,532)	0	(19,532)
16	Gross operating margin/EBITDA (9+10+15)	10,153	0	10,153
17	Depreciation and amortisation	(5,139)	0	(5,139)
18	Allocations to provisions	0	0	0
19	Impairment losses recognised on assets	(1,169)	(594)	(575)
20	Reversal of imp. losses and non-monetary income	204	0	204
21	Total non-monetary income and operating costs	(6,104)	(594)	(5,510)
22	Operating margin/EBIT (16+21)	4,049	(594)	4,643
23	Interest and financial income	1,540	0	1,540
24	Interest expense and financial expenses	(1,940)	(580)	(1,360)
25	Net financial income (expenses)	(400)	(580)	180
26	Profit/(Loss) before tax (22+25)	3,649	(1,174)	4,823
27	Current tax	(1,086)	(224)	(862)
28	Deferred tax	(625)	0	(625)
29	Total income tax expense	(1,711)	(224)	(1,487)
30	Net profit (26+29)	1,938	(1,398)	3,336

During the six-month period, video games Control and Indivisible were launched in all formats except for the Nintendo Switch version of Indivisible whose release is scheduled for the fourth quarter of the annual reporting period. The releases of Control and Indivisible form part of the video game launch plan that commenced with the Bloodstained during the final quarter of the last annual reporting period and will continue with Journey to the Savage Planet during the third quarter of the current period. The launch plan has led to strong growth in revenue and profit margins.

Gross revenue more than doubled in the six-month period from Euro 30,216 thousand to Euro 67,850 thousand. The following table contains a breakdown of revenue by operating segment for the six months ended 31 December 2019 with comparatives for the corresponding period in prior year:

Euro Thousand	Gross Revenue				Net Revenue			
	2020	2019	Change		2020	2019	Change	
Premium Games	58,043	19,787	38,256	193,3%	53,221	18,633	34,588	185.6%
Italian Distribution	6,185	7,029	(844)	-12,0%	5,642	6,141	(499)	-8.1%
Free to Play	3,338	3,169	169	5,3%	3,338	3,169	169	5.3%
Other Activities	284	231	53	22,9%	284	231	53	22.9%
Total gross revenue	67,850	30,216	37,634	124,5%	62,485	28,174	34,311	121.8%

The Premium Games operating segment generated more than 85% of consolidated revenue. It recorded a significant Euro 38,256 thousand increase in gross revenue in the period thanks to sales of the video games Control – released on 27 August 2019 – and Bloodstained – released at the end of the previous annual reporting period – which generated revenue of Euro 23,908 thousand and Euro 8,559 thousand, respectively, in the six-month period.

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

Amounts in Euro thousands	31 December 2019	31 December 2018	Change	
Control	23,908	0	23,908	n.m.
Bloodstained	8,559	0	8,559	n.m.
Terraria	7,318	2,288	5,030	n.m.
Assetto Corsa	3,516	3,554	(38)	-1.1%
Indivisible	3,129	0	3,129	n.m.
PAYDAY 2	1,968	2,391	(423)	-17.7%
Other products	4,438	4,618	(180)	-3.9%
Retail products	5,207	6,936	(1,729)	-24.9%
Premium Games total gross revenue	58,043	19,787	38,256	n.m.

The launch of Control – winner of the Game of the Year award at numerous games industry events – led to the generation of gross revenue of Euro 23,908 thousand. This product was developed together with Remedy Entertainment, a Finnish company listed on the Nordic Nasdaq. The game is available on the Epic Games Store video game marketplace for PC and on the Sony Playstation 4 and Microsoft XboX consoles. The launch of a first set of payable add on content is scheduled for the next six-month period.

Bloodstained generated revenue of Euro 13,888 thousand in the year ended 30 June 2019. In the six months ended 31 December 2019, it generated a further Euro 8,559 thousand thanks to the launch of the game on Far Eastern markets and the launch of the Nintendo Switch version.

The video game Terraria benefited from the launch of the Nintendo Switch in prior year and generated revenue of Euro 7,318 thousand in the six months ended 31 December 2019; this was also thanks to highly effective marketing campaigns.

The PC version only of Assetto Corsa Competizione, the official game of the Blancpain GT Series car racing championship, was launched in the final quarter of the last annual reporting period and this made it possible to achieve the same level of revenue as in prior year. The complexity of the video game, which is a car racing simulator, made it impossible to develop console versions at the same time and they will be launched in the fourth quarter of the current financial year. The Group has begun to develop a new Assetto Corsa video game for the mobile platforms.

Revenue from the publication of the console version of PAYDAY2 have fallen. The PC version is published by Swedish developer Starbreeze and that company's problems have made it impossible to focus on the development of console versions of the additional content made available for the PC version.

Italian Distribution revenue decreased by Euro 844 thousand (12%) compared to the first half of prior year despite a 9.5% increase in sales of retail video games. The decrease was entirely due to a significant reduction in sales of trading cards (down by Euro 1,298 thousand).

The Free to Play operating segment recorded 5.3% revenue growth thanks to the particularly strong performance of the Gems of War video game which is now in its fifth year of life.

In line with the gross revenue trend, net revenue doubled compared to the first half of prior year and increased to Euro 62,485 thousand.

In line with the revenue trend, cost of sales increased by Euro 18,215 thousand because of a Euro 13,181 thousand increase in royalties relating to new products.

Gross profit increased by Euro 16,096 thousand.

Other revenue decreased by Euro 160 thousand. In the first half of prior year, it included the gain of Euro 169 thousand on the sale of the property in Eugene while, in the six months ended 31 December 2019, it almost entirely consisted of the capitalisation of investment in intellectual property realised in-house (development of video games to be launched soon). In particular, during the reporting period, these activities included the ongoing development of the new Free to Play version of Hawken by subsidiary DR Studios Ltd..

Operating costs increased by Euro 5,919 thousand - a smaller percentage increase than that recorded by revenue – because of higher advertising expenditure following the launch of new products. The decrease in lease and rental costs is due to application of the new IFRS 16.

Gross operating margin/EBITDA has increased by Euro 10,017 thousand. It represented 16.2% of net revenue in the six months ended 31 December 2019 compared to 0.5% in prior year.

Depreciation and amortisation has increased by Euro 1,546 thousand compared to the six months ended 31 December 2018. This is due to both additional depreciation of the intellectual property owned by the Group and the application of the new IFRS 16 (Euro 599 thousand). Impairment adjustments amount to Euro 1,169 thousand compared to Euro 665 thousand at 31 December 2018. This is due to the cancellation of certain development projects (Euro 519 thousand) and to the writedown of Euro 594 thousand applied to certain amounts receivable by 505 Games S.p.A. from developers following the settlement agreement signed with the Tax Authorities, as described in the section on Events after the reporting period.

Operating margin/EBIT is positive by Euro 4,049 thousand compared to a loss of Euro 4,122 thousand for the six months ended 31 December 2018. Excluding non-recurring items, EBIT amounts to Euro 4,643 thousand i.e. 7.4% of net revenue.

Net financial expenses amounted to Euro 400 thousand against net financial income of Euro 179 thousand in the first half of prior year. This was due to a Euro 1,449 thousand increase in interest and financial expenses following the recognition of Euro 580 thousand of interest expenses under the agreement with the Tax Authorities and higher exchange losses. Excluding non-recurring items, there would have been net interest income of Euro 180 thousand.

Interest and financial income amount to Euro 870 thousand due to the effect of higher exchange gains and higher financial income as a result of the gain of Euro 383 thousand realised upon the sale of the investment in Delta Dna Ltd..

A profit before taxation of Euro 3,649 thousand is reported for the period ended 31 December 2019, an improvement of Euro 7,592 thousand compared to the loss of Euro 3,943 thousand for the period ended 31 December 2018.

The consolidated net profit amounts to Euro 1,938 thousand compared to the net loss of Euro 3,160 thousand for the period ended 31 December 2018. Meanwhile, net profit adjusted to exclude non-recurring items amounts to Euro 3,336 thousand, an improvement of Euro 6,496 thousand on prior year.

Basic earnings per share and diluted earnings per share amounts to Euro 0.14 compared to a loss for share of Euro 0.20 for the period ended 31 December 2018.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Euro Thousands	31 December 2019	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	9,451	3,584	5,867	n.m.
2	Investment property	0	0	0	0.0%
3	Intangible assets	28,399	18,341	10,058	54.8%
4	Equity investments	1,891	1,706	185	10.8%
5	Non-current receivables and other assets	9,598	9,322	276	3.0%
6	Deferred tax assets	2,145	2,745	(600)	-21.8%
	Total non-current assets	51,484	35,698	15,786	44.2%
	Non-current liabilities				
7	Employee benefits	(572)	(573)	1	-0.1%
8	Non-current provisions	(81)	(81)	0	0.0%
9	Other non-current payables and liabilities	(943)	(923)	(20)	2.2%
	Total non-current liabilities	(1,596)	(1,577)	(19)	1.2%
	Net working capital				
10	Inventories	15,301	13,909	1,392	10.0%
11	Trade receivables	43,386	55,070	(11,684)	-21.2%
12	Current tax assets	6,352	6,076	276	4.5%
13	Other current assets	4,316	1,668	2,648	n.m.
14	Trade payables	(35,098)	(24,631)	(10,467)	42.5%
15	Current tax liabilities	(5,759)	(1,138)	(4,621)	n.m.
16	Current provisions	(0)	(856)	856	n.m.
17	Other current liabilities	(5,691)	(3,761)	(1,930)	51.3%
	Total net working capital	22,807	46,337	(23,530)	-50.8%
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,891)	(21,223)	(668)	3.1%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(39,256)	(37,298)	(1,958)	5.2%
	Total equity	(66,851)	(64,225)	(2,626)	4.1%
	Total net assets	5,844	16,233	(10,389)	-64.0%
22	Cash and cash equivalents	10,847	4,767	6,080	n.m.
23	Current bank borrowing	(11,147)	(20,795)	9,648	-46.4%
24	Other current financial assets and liabilities	920	2,155	(1,235)	-57.3%
	Current net financial position	620	(13,873)	14,493	n.m.
25	Non-current financial assets	0	1,942	(1,942)	n.m.
26	Non-current bank borrowing	(1,795)	(4,293)	2,498	-58.2%
27	Other non-current financial liabilities	(4,669)	(9)	(4,660)	n.m.
	Non-current net cash/debt	(6,464)	(2,360)	(4,104)	n.m.
	Total net financial position	(5,844)	(16,233)	10,389	-64.0%

Property, plant and equipment have increased by Euro 5,867 thousand, mainly as a result of application of the new IFRS 16 which led to the recognition of buildings of Euro 5,774 thousand, net of depreciation for the six-month reporting period. Intangible assets have increased by Euro 10,058 thousand due to investment in new video games minus amortisation and impairment adjustments for the period.

Net working capital has decreased by Euro 23,530 thousand compared to 30 June 2019 mainly because of a Euro 11,684 thousand decrease in trade receivables and a Euro 10,467 thousand increase in trade payables. The following table contains a breakdown of net working capital with comparative figures at 30 June 2019:

Euro Thousands	31 December 2019	30 June 2019	Change	
Inventories	15,301	13,909	1,392	10.0%
Trade receivables	43,386	55,070	(11,684)	-21.2%
Tax receivables	6,352	6,076	276	4.5%
Other current assets	4,316	1,668	2,648	n.m.
Trade payables	(35,098)	(24,631)	(10,467)	42.5%
Tax payables	(5,759)	(1,138)	(4,621)	n.m.
Current provisions	(0)	(856)	856	n.m.
Other current liabilities	(5,691)	(3,761)	(1,930)	51.3%
Total net working capital	22,807	46,337	(23,530)	-50.8%

As expected, the net financial position has improved. Net debt has been reduced by Euro 10,389 thousand compared to 30 June 2019 and stands at Euro 5,844 thousand, taking account of the fact that application of the new IFRS 16 involved recognition of financial liabilities of Euro 5,772 thousand. Excluding the effect of applying the new IFRS 16, net debt decreased by Euro 16,161 thousand over the six-month period.

The following table contains a breakdown of the net financial position with comparative figures at 31 December 2019:

Euro Thousands	31 December 2019	30 June 2019	Change	
Cash and cash equivalents	10,847	4,767	6,080	n.m.
Current bank borrowing	(11,147)	(20,795)	9,648	-46.4%
Other current financial assets and liabilities	920	2,155	(1,235)	-57.3%
Current net financial position - cash	620	(13,873)	14,493	n.m.
Non-current financial assets	0	1,942	(1,942)	n.m.
Non-current bank borrowing	(1,795)	(4,293)	2,498	-58.2%
Other non-current financial liabilities	(4,669)	(9)	(4,660)	n.m.
Non-current net financial position – (debt)/cash	(6,464)	(2,360)	(4,104)	n.m.
Total net financial position	(5,844)	(16,233)	10,389	-64.0%

7. PERFORMANCE BY OPERATING SEGMENT

Premium Games

Financial highlights (reclassified)

	Consolidated amounts in Euro thousands	Premium Games					
		31 December 2019		31 December 2018		Change	
1	Gross revenue	58,043	109.1%	19,787	106.2%	38,256	193.3%
2	Revenue adjustments	(4,822)	-9.1%	(1,154)	-6.2%	(3,668)	n.m.
3	Net revenue	53,221	100.0%	18,633	100.0%	34,588	185.6%
4	Purchase of products for resale	(8,824)	-16.6%	(2,509)	-13.5%	(6,315)	n.m.
5	Purchase of services for resale	(2,824)	-5.3%	(1,950)	-10.5%	(874)	44.8%
6	Royalties	(18,492)	-34.7%	(5,238)	-28.1%	(13,254)	n.m.
7	Changes in inventories of finished products	1,843	3.5%	(266)	-1.4%	2,109	n.m.
8	Total cost of sales	(28,297)	-53.2%	(9,963)	-53.5%	(18,334)	n.m.
9	Gross profit (3+8)	24,924	46.8%	8,670	46.5%	16,254	n.m.
10	Other income	302	0.6%	571	3.1%	(269)	-47.0%
11	Cost of services	(6,816)	-12.8%	(2,150)	-11.5%	(4,666)	n.m.
12	Lease and rental charges	(28)	-0.1%	(307)	-1.6%	279	-90.9%
13	Labour costs	(5,237)	-9.8%	(4,067)	-21.8%	(1,170)	28.8%
14	Other operating costs	(227)	-0.4%	(190)	-1.0%	(37)	19.3%
15	Total operating costs	(12,308)	-23.1%	(6,714)	-36.0%	(5,594)	83.3%
16	Gross operating margin (EBITDA) (9+10+15)	12,918	24.3%	2,527	13.6%	10,391	n.m.
17	Depreciation and amortisation	(3,997)	-7.5%	(2,367)	-12.7%	(1,630)	68.9%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(767)	-1.4%	(181)	-1.0%	(586)	n.m.
20	Reversal of impairment adjustments and non-monetary income	187	0.4%	0	0.0%	187	0.0%
21	Total non-monetary income and operating costs	(4,577)	-8.6%	(2,548)	-13.7%	(2,029)	79.7%
22	Operating margin (EBIT) (16+21)	8,341	15.7%	(21)	-0.1%	8,362	n.m.

During the period, video games Control and Indivisible were launched in all formats except for the Nintendo Switch version of Indivisible whose release is scheduled for the final quarter of the annual reporting period. The release of Control and Indivisible form part of the video game release plan which began with Bloodstained in the final quarter of prior year and will continue with Journey to the Savage Planet in the third quarter of the current year. The release plan has led to a sharp increase in revenue and profitability.

The Premium Games operating segment generated more than 85% of consolidated revenue. It recorded a significant, Euro 38,256 thousand increase in gross revenue in the period thanks to sales of the video games Control – released on 27 August 2019 – and Bloodstained – released at the end of the previous annual

reporting period – which generated revenue of Euro 23,908 thousand and Euro 8,559 thousand, respectively, in the six-month period.

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

Amounts in Euro Thousands	31 December 2019	31 December 2018	Change	
Control	23,908	0	23,908	n.m.
Bloodstained	8,559	0	8,559	n.m.
Terraria	7,318	2,288	5,030	n.m.
Assetto Corsa	3,516	3,554	(38)	-1.1%
Indivisible	3,129	0	3,129	n.m.
PAYDAY 2	1,968	2,391	(423)	-17.7%
Other products	4,438	4,618	(180)	-3.9%
Retail products	5,207	6,936	(1,729)	-24.9%
Premium Games total gross revenue	58,043	19,787	38,256	193.3%

The launch of Control – winner of the Game of the Year award at numerous games industry events – led to the generation of gross revenue of Euro 23,908 thousand. This product was developed together with Remedy Entertainment, a Finnish company listed on the Nordic Nasdaq. The game is available on the Epic Games Store video game marketplace for PC and on the Sony Playstation 4 and Microsoft XboX consoles. The launch of a first set of payable add on content is scheduled for the next six-month period.

Bloodstained generated revenue of Euro 13,888 thousand in the year ended 30 June 2019. In the six months ended 31 December 2019, it generated a further Euro 8,559 thousand thanks to the launch of the game on Far Eastern markets and the launch of the Nintendo Switch version.

The video game Terraria benefited from the launch of the Nintendo Switch in prior year and generated revenue of Euro 7,318 thousand in the six months ended 31 December 2019; this was also thanks to highly effective marketing campaigns.

The PC version only of Assetto Corsa Competizione, the official game of the Blancpain GT Series car racing championship, was launched in the final quarter of the last annual reporting period and this made it possible to achieve the same level of revenue as in prior year. The complexity of the video game, which is a car racing simulator, made it impossible to develop console versions at the same time and they will be launched in the fourth quarter of the current financial year. The Group has begun to develop a new Assetto Corsa video game for the mobile platforms.

Revenue from the publication of the console version of PAYDAY2 have fallen. The PC version is published by Swedish developer Starbreeze and that company's problems have made it impossible to focus on the development of console versions of the additional content made available for the PC version.

A breakdown of revenue by distribution channel is provided below:

Euro thousands	31 December 2019	31 December 2018	Change	
Retail distribution revenue	24,646	8,661	15,985	184.6%
Digital distribution revenue	29,274	10,585	18,689	176.6%
Sub-licensing revenue	3,896	541	3,355	n.m.
Revenue from services	227	0	227	n.m.
Total Premium Games revenue	58,043	19,787	38,256	193.3%

Sub-licensing revenue has been boosted by the success of the video game Control in Japan.

Digital distribution revenue for the period ended 31 December 2019 may be broken down by console type as follows:

Euro thousands	31 December 2019	31 December 2018	Change	
Sony Playstation	9,702	3,985	5,717	143.5%
Microsoft XboX	5,473	2,000	3,473	173.7%
Nintendo Switch	3,239	369	2,870	n.m.
Total consoles	18,415	6,354	12,061	189.8%
PC	9,029	3,436	5,593	162.8%
Mobile	1,830	795	1,035	130.2%
Total digital distribution revenue	29,274	10,585	18,689	176.6%

Revenue from sales of video games for the Sony Playstation – thanks to the success of Control and Bloodstained – and the Nintendo Switch – boosted by the launch of the Switch versions of both Bloodstained and Terraria in the last week of the last financial year – has increased considerably.

In line with the gross revenue trend, net revenue has almost trebled compared to the first half of prior year to stand at Euro 53,221 thousand.

In line with the revenue trend, total cost of sales has increased by Euro 18,215 thousand due to a Euro 13,334 increase in royalties regarding new products.

Gross profit has increased by Euro 16,254 thousand.

Other revenue has decreased by Euro 269 thousand. In the first half of prior year, it consisted almost entirely of the capitalisation of work on in-house development of video games, specifically the development of Assetto Corsa Competizione by subsidiary Kunos Simulazioni S.r.l..

Operating costs increased by Euro 5,594 thousand - a smaller percentage increase than that recorded by revenue – because of higher advertising expenditure following the launch of new products. The decrease in lease and rental costs is due to application of the new IFRS 16.

Gross operating margin/EBITDA has increased by Euro 10,391 thousand. It represented 24.3% of net revenue for the six months ended 31 December 2019 against 13.6% for the first half of prior year.

EBIT amounted to Euro 8,341 thousand and increased by Euro 8,362 thousand compared to the negative figure of Euro 21 thousand recorded at 31 December 2018; it represented 15.7% of net revenue.

Free to Play

Reclassified P&L highlights

	Consolidated amounts in Euro thousands	Free to Play					
		31 December 2019		31 December 2018		Change	
1	Gross revenue	3,338	100.0%	3,169	100.0%	169	5.3%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	3,338	100.0%	3,169	100.0%	169	5.3%
4	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	(1,100)	-32.9%	(1,035)	-32.7%	(65)	6.2%
6	Royalties	(189)	-5.7%	(265)	-8.4%	76	-28.7%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	(1,289)	-38.6%	(1,300)	-41.0%	11	-0.8%
9	Gross profit (3+8)	2,049	61.4%	1,869	59.0%	180	9.6%
10	Other income	1,035	31.0%	792	25.0%	243	30.7%
11	Costs for services	(137)	-4.1%	(113)	-3.6%	(24)	20.5%
12	Lease and rental costs	(10)	-0.3%	(29)	-0.9%	19	-65.1%
13	Labour costs	(2,166)	-64.9%	(1,589)	-50.1%	(577)	36.4%
14	Other operating costs	(42)	-1.3%	(40)	-1.3%	(2)	4.3%
15	Total operating costs	(2,355)	-70.6%	(1,771)	-55.9%	(584)	33.0%
16	Gross operating margin (EBITDA) (9+10+15)	729	21.8%	890	28.1%	(161)	-18.1%
17	Depreciation and amortisation	(624)	-18.7%	(948)	-29.9%	324	-34.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(346)	-10.4%	(286)	-9.0%	(60)	21.3%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary operating income and costs	(970)	-29.1%	(1,234)	-38.9%	264	-21.4%
22	Operating margin (EBIT) (16+21)	(241)	-7.2%	(344)	-10.9%	103	-30.1%

The Free to Play operating segment recorded 5.3% revenue growth thanks to the particularly strong performance of the Gems of War video game which is now in its fifth year of life. As in the first half of prior year, there were no new product launches during the six months ended 31 December 2019. Revenue is broken down by video game as follows:

Euro Thousands	31 December 2019	31 December 2018	Change
Gems of War	2,595	2,212	383
Battle Islands	423	614	(191)
Prominence Poker	290	305	(15)
Other products	30	38	(8)
Total Free to Play revenue	3,338	3,169	169

Purchases of services for resale have increased by Euro 65 thousand because of increased expenditure on live support activities. Details are as follows:

Euro Thousand	31 December 2019	31 December 2018	Change
Live support	682	594	88
Quality assurance	76	123	(47)
Hosting	252	240	12
Other	90	78	12
Total purchases of services	1,100	1,035	65

Other revenue has increased by Euro 243 thousand compared to the period ended 31 December 2018. It mainly comprises the internal development costs incurred by the Group for the development of the future version of the Hawken series video game whose launch is scheduled for next year.

Operating costs increased by Euro 584 thousand because of a Euro 577 thousand increase in personnel costs.

Gross operating margin/EBITDA amounted to Euro 729 thousand, a Euro 161 thousand decrease compared to the six months ended 31 December 2018.

Depreciation and amortisation has decreased by Euro 324 thousand due to completion of the amortisation period of several products. Impairment adjustments of Euro 346 thousand are the result of the decision to abandon development of the video game Chef Emma.

The operating segment reports an operating loss/negative EBIT of Euro 241 thousand, an improvement of Euro 103 thousand compared to the negative EBIT of Euro 344 thousand in the period ended 31 December 2018.

Italian Distribution

Reclassified P&L highlights

	Consolidated amounts in Euro thousand	Italian Distribution					
		31 December 2019		31 December 2018		Change	
1	Gross revenue	6,185	109.6%	7,029	114.4%	(844)	-12.0%
2	Revenue adjustments	(543)	-9.6%	(888)	-14.5%	345	-38.8%
3	Net revenue	5,642	100.0%	6,141	100.0%	(499)	-8.1%
4	Purchases of products for resale	(4,013)	-71.1%	(4,839)	-78.8%	826	-17.1%
5	Purchases of services for resale	(116)	-2.1%	(368)	-6.0%	252	-68.6%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	(451)	-8.0%	527	8.6%	(978)	n.m.
8	Total cost of sales	(4,580)	-81.2%	(4,680)	-76.2%	100	-2.1%
9	Gross profit (3+8)	1,062	18.8%	1,461	23.8%	(399)	-27.3%
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Costs for services	(859)	-15.2%	(734)	-12.0%	(125)	17.0%
12	Lease and rental costs	(14)	-0.3%	(17)	-0.3%	3	-17.2%
13	Labour costs	(691)	-12.2%	(673)	-11.0%	(18)	2.7%
14	Other operating costs	(102)	-1.8%	(98)	-1.6%	(4)	3.8%
15	Total operating costs	(1,666)	-29.5%	(1,522)	-24.8%	(144)	9.4%
16	Gross operating margin (EBITDA) (9+10+15)	(604)	-10.7%	(61)	-1.0%	(543)	n.m.
17	Depreciation and amortisation	(85)	-1.5%	(153)	-2.5%	68	-44.6%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(32)	-0.6%	(92)	-1.5%	60	0.0%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	Total non-monetary operating income and costs	(117)	-2.1%	(245)	-4.0%	128	-52.2%
22	Operating margin (EBIT) (16+21)	(721)	-12.8%	(306)	-5.0%	(415)	n.m.

Italian Distribution revenue decreased by Euro 844 thousand (12%) compared to the first half of prior year despite a 9.5% increase in sales of retail video games. The decrease was entirely due to a significant reduction in sales of trading cards (down by Euro 1,298 thousand).

Gross revenue is analysed by type as follows:

Euro Thousands	31 December 2019	31 December 2018	Change	
Distribution of video games for consoles	4,855	4,434	421	9.5%
Distribution of trading cards	931	2,229	(1,298)	-58.3%
Distribution of other products and services	399	366	33	9.0%
Total gross revenue – Italian Distribution	6,185	7,029	(844)	-12.0%

Gross revenue by console type is analysed as follows:

Euro Thousands	31 December 2019		31 December 2018		Change	
	Units	Revenue	Units	Revenue	Units	Revenue
Sony Playstation 4	114,724	4,029	104,939	3,234	9.3%	24.5%
Microsoft Xbox One	15,751	541	16,805	539	-6.3%	0.5%
Nintendo Switch	11,152	274	17,400	603	-35.9%	-54.5%
Other consoles	7,069	11	11,385	58	-37.9%	-81.7%
Total console revenue	148,696	4,855	150,529	4,434	-1.2%	9.5%

In line with the life cycle of consoles, revenue from the distribution of video games for the Sony Playstation 3 and Microsoft Xbox 360 has almost dried up and is now classified under other consoles. Revenue from the more recent console the Sony PlayStation 4 has increased by 24.5%. This growth is due to higher than expected sales of the E Football PES 2020 video game, published by Konami of Japan.

Sales of trading cards have decreased by 58.3%, also as a result of the commercial decision not to use newsstands distribution channel from August 2019 onwards; activities will recommence next April.

Cost of sales amounts to Euro 4,580 thousand and has decreased by Euro 100 thousand compared to 31 December 2018.

Operating costs has increased by Euro 144 thousand because of higher advertising expenditure. As a result of the above, gross operating margin/EBITDA is negative by Euro 604 thousand (a deterioration of Euro 543 thousand compared to the first half of prior year) while net operating margin/EBIT has deteriorated by Euro 415 thousand compared to the first half of prior year to stand at a negative figure of Euro 721 thousand.

Other Activities

Reclassified P&L highlights

Consolidated amounts in Euro Thousands		Other Activities					
		31 December 2019		31 December 2018		Change	
1	Gross revenue	284	100,0%	231	100,0%	53	23.1%
2	Revenue adjustments	0	0,0%	0	0,0%	0	0.0%
3	Net revenue	284	100,0%	231	100,0%	53	23.2%
4	Purchases of products for resale	0	0,1%	0	0,2%	0	0.0%
5	Purchases of services for resale	(6)	-2,1%	(17)	-7,5%	11	-66.2%
6	Royalties	(14)	-4,8%	(11)	-4,7%	(3)	66.6%
7	Changes in inventories of finished products	0	0,0%	0	0,0%	0	0.0%
8	Total cost of sales	(20)	-7,1%	(28)	-12,1%	8	-27.8%
9	Gross profit (3+8)	264	92,9%	203	87,9%	61	n.s.
10	Other income	0	0,0%	0	0,0%	0	0.0%
11	Costs for services	(89)	-31,2%	(84)	-36,2%	(5)	6.2%
12	Lease and rental costs	(1)	-0,2%	(5)	-2,0%	4	-66.6%
13	Labour costs	(153)	-53,7%	(335)	-145,2%	182	-54.5%
14	Other operating costs	(20)	-6,9%	(23)	-9,8%	3	-13.4%
15	Total operating costs	(263)	-92,4%	(447)	193,7%	184	-41.2%
16	Gross operating margin (EBITDA) (9+10+15)	1	0,2%	(244)	105,7%	245	n.s.
17	Depreciation and amortisation	(52)	-18,4%	(40)	-17,2%	(12)	31.6%
18	Allocations to provisions	0	0,0%	0	0,0%	0	0.0%
19	Impairment adjustments to assets	0	0,0%	0	0,0%	0	0.0%
20	Reversal of impairment adj. and non-monetary income	0	0,0%	0	0,0%	0	0.0%
21	Total non-monetary operating income and costs	(52)	-18,4%	(40)	-17,2%	(12)	31.6%
22	Operating margin/EBIT (16+21)	(51)	-17,9%	(284)	122,9%	233	-82.1%

The revenue of the Other Activities operating segment has increased by Euro 53 thousand from Euro 231 thousand to Euro 284 thousand in the period ended 31 December 2019. The increase is due to the fact that, in the first period of prior year, there was a period of interruption between one school year and the next one which only began in September; this year, the interruption only affected the month of August.

Operating costs have decreased by Euro 184 thousand mainly because of lower personnel costs which, in the first half of prior year, included one-off costs for the liquidation of Game Network S.r.l..

There is an operating loss/negative EBIT of Euro 51 thousand, much smaller than the operating loss of Euro 284 thousand for the period ended 31 December 2018.

Holding

Reclassified P&L Highlights

Consolidated amounts in Euro Thousands		Holding					
		31 December 2019		31 December 2018		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	Net revenue	0	0.0%	0	0.0%	0	0.0%
4	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	Total cost of sales	0	0.0%	0	0.0%	0	0.0%
9	Gross profit (3+8)	0	0.0%	0	0.0%	0	0.0%
10	Other income	49	0.0%	183	0.0%	(134)	-73.3%
11	Costs for services	(854)	0.0%	(831)	0.0%	(23)	2.8%
12	Lease and rental costs	(88)	0.0%	(353)	0.0%	265	-75.1%
13	Labour costs	(1,766)	0.0%	(1,787)	0.0%	21	-1.2%
14	Other operating costs	(232)	0.0%	(188)	0.0%	(44)	23.4%
15	Total operating costs	(2,940)	0.0%	(3,159)	0.0%	219	-6.9%
16	Gross operating margin (EBITDA) (9+10+15)	(2,891)	0.0%	(2,976)	0.0%	85	-2.9%
17	Depreciation and amortisation	(381)	0.0%	(85)	0.0%	(296)	n.m.
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(24)	0.0%	(106)	0.0%	82	-77.3%
20	Reversal of impairment adj. and non-monetary income	17	0.0%	0	0.0%	17	0.0%
21	Total non-monetary operating income and costs	(388)	0.0%	(191)	0.0%	(197)	n.m.
22	Operating margin/EBIT (16+21)	(3,279)	0.0%	(3,167)	0.0%	(112)	3.5%

Other income has decreased by Euro 134 thousand. In the first half of prior year, it included the gain of Euro 169 thousand realised on the sale of the property owned by 133 W Broadway.

Operating costs amounted to Euro 2,940 thousand, a Euro 219 thousand decrease compared to the period ended 31 December 2018. The decrease in lease and rental costs – countered by the increase in depreciation and amortisation – is due to application of the new IFRS 16.

Operating margin/EBIT was negative by Euro 3,279 thousand compared to a negative figure of Euro 3,167 thousand at 31 December 2018.

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

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

Intercompany transactions

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

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

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

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

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

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

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

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

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

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

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

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

Other minor transactions regarding administrative, financial, legal and general services are usually carried out by Digital Bros S.p.A. on behalf of other Group companies. The parent company also operates a cash pooling service, using intercompany current accounts to which positive and negative balances between Group companies are transferred, including through the transfer of receivables. These accounts do not bear interest.

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

When preparing the condensed consolidated financial statements for the six months ended 31 December 2019, the impact of intercompany transactions on the results and financial position was eliminated in full.

Transactions with other related parties

Related party transactions regard:

- legal advisory services provided by director Dario Treves;
- property leases by Matov Imm. S.r.l. to the parent company and to subsidiary 505 Games France S.a.s.;
- property leases by Matov LLC to subsidiary 505 Games (US) Inc.;
- property leases by the parent company to Ovosonico S.r.l.;
- video game development work by Ovosonico S.r.l. on behalf of 505 Games S.p.A.

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

The effects of related party transactions on profit or loss and on the financial position are disclosed in paragraph 8 of the Notes.

Atypical transactions

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

9. TREASURY SHARES

Pursuant to Art. 2428(2)(3) of the Italian Civil Code, it is hereby disclosed that, at 31 December 2019, Digital Bros S.p.A. did not hold any treasury shares and did not carry out any transactions in treasury shares during the reporting period.

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

Reference should be made to the Directors' Report accompanying the Consolidated Financial Statements for the year ended 30 June 2019 for details of the management of operational risks, financial risks and financial instruments as there were no significant changes during the period ended 31 December 2019.

11. CONTINGENT ASSETS AND LIABILITIES

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

12. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period regarding relations with Starbreeze and the Starbreeze shareholders are described in the paragraph 4. Significant events during the period.

Other events after the reporting period include:

- on 28 February 2020, Independent Director Paola Carrara resigned for personal reasons;
- on 2 March 2020, subsidiary 505 Games S.p.A. announced that the PC version of the video game Death Stranding would be launched, earlier than expected, on 2 June 2020. The Group expects sales of the video game to generate at least Euro 50 million of revenue;
- on 3 March 2020, Digital Bros S.p.A. acquired 51% of the quota capital of Ovosonico S.r.l. (in which it already held a 49% interest) for Euro 210 thousand. The company in question is developing a video game on behalf of the Group. It has changed its name to AvantGarden S.r.l. and Abramo Galante has become its Sole Director;
- on 5 March 2020, the Group signed a settlement agreement with the Italian Tax Authorities in relation to a tax dispute regarding the years from 2011 to 2015 inclusive. The dispute regarded certain operations of subsidiary 505 Games S.p.A. which, based on the assessments conducted by the Tax Authorities, should have been treated as royalties and, therefore, subjected to withholding taxes. Although the Group did not agree with either the merits or the legal basis for the amounts requested by the Tax Authorities – the Group believes that the transactions in question involved purchases of goods and/or services – merely in order to reach a settlement and avoid a long and expensive dispute, the Group has decided to sign the settlement agreement.

The settlement led to the updating of the estimated contingent tax liability at 31 December 2019 by recognising non-recurring expenses of Euro 1,398 thousand. This amount includes interest of Euro 580 thousand and penalties of Euro 224 thousand in excess of the provision for risks of Euro 856 thousand recorded in prior years plus Euro 594 thousand representing an estimate of the bad debts that the Group has decided to recognise, on the advice of its tax and legal advisors, in relation to advances to suppliers for withholding taxes paid to the Tax Authorities on behalf of suppliers that are not expected to be recovered.

13. BUSINESS OUTLOOK

As forecast, strong growth was recorded in the six months ended 31 December 2019 thanks to the launch of new products on the market: this commenced with Bloodstained in June 2019 and continued with the release of Control in August and Indivisible in October. The second half of the financial year will see the launch of Journey to the Savage Planet – in January 2020 – before continuing with the release of console versions of Assetto Corsa Competizione in the fourth quarter and concluding on 2 June 2020 with the release of the PC version of the video game Death Stranding by Hideo Kojima.

The Group expects Death Stranding to generate revenue of at least Euro 50 million over its product life cycle. Therefore, its release on 2 June 2020 will greatly influence revenue for the fourth quarter of the financial year but the revenue impact will also be significant in the coming years. It is expected that video game Control will continue to generate revenue in the quarters ahead, also because of the launch of additional episodes and the release of a version on the Steam market place in August 2020.

Therefore, the Group forecasts strong revenue growth in the second half of the financial year resulting in a significant improvement in all profit indicators, especially in the fourth quarter. In particular, the rising percentage contribution of digital distribution revenue in place of retail distribution revenue will considerably increase operating margin/EBIT. As well as generating higher margins, digital revenue absorbs much less working capital than retail revenue.

Net financial debts was almost cleared during the six months ended 31 December 2019 – excluding debt resulting from the application of IFRS 16 – but it is expected to increase in the third quarter of the financial year before recommencing the downward trend seen in recent years in the final quarter. The increased debt forecast for the third quarter is clearly influenced by the large financial investment – with total cash outflows of Euro 11.7 million – made by the Group in January and February in relation to Starbreeze assets.

14. OTHER INFORMATION

EMPLOYEES

The following table contains analysis of the number of employees at 31 December 2019 with comparative figures at 31 December 2018:

Category	31 December 2019	31 December 2018	Change
Managers	7	8	(1)
Office workers	185	175	10
Blue-collar workers and apprentices	5	5	0
Total employees	197	188	9

The following table contains details of the number of employees of non-Italian companies at 31 December 2019 with comparative figures at 31 December 2018:

Category	31 December 2019	31 December 2018	Change
Managers	2	3	(1)
Office workers	126	112	14
Total employees outside Italy	128	115	13

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

Category	Average no in 2020	Average no in 2019	Change
Managers	7	8	(1)
Office workers	185	171	14
Blue-collar workers and apprentices	5	4	1
Total employees	197	183	14

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

Category	Average no in 2020	Average no in 2019	Change
Managers	2	3	(1)
Office workers	123	109	14
Total employees outside Italy	125	112	13

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

ENVIRONMENT

At 31 December 2019, there were no environmental issues and as the Group's activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason any such problems should arise in the future.

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Condensed consolidated financial statements for the six months ended 31 December 2019

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position as at 31 December 2019

	Euro Thousands	31 December 2019	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	9,451	3,584	5,867	n.m.
2	Investment property	0	0	0	0.0%
3	Intangible assets	28,399	18,341	10,058	54.8%
4	Equity investments	1,891	1,706	185	10.8%
5	Non-current receivables and other assets	9,598	9,322	276	3.0%
6	Deferred tax assets	2,145	2,745	(600)	-21.8%
	Total non-current assets	51,484	35,698	15,786	44.2%
	Non-current liabilities				
7	Employee benefits	(572)	(573)	1	-0.1%
8	Non-current provisions	(81)	(81)	0	0.0%
9	Other non-current payables and liabilities	(943)	(923)	(20)	2.2%
	Total non-current liabilities	(1,596)	(1,577)	(19)	1.2%
	Net working capital				
10	Inventories	15,301	13,909	1,392	10.0%
11	Trade receivables	43,386	55,070	(11,684)	-21.2%
12	Current tax assets	6,352	6,076	276	4.5%
13	Other current assets	4,316	1,668	2,648	n.m.
14	Trade payables	(35,098)	(24,631)	(10,467)	42.5%
15	Current tax liabilities	(5,759)	(1,138)	(4,621)	n.m.
16	Current provisions	0	(856)	856	n.m.
17	Other current liabilities	(5,691)	(3,761)	(1,930)	51.3%
	Total net working capital	22,807	46,337	(23,530)	-50.8%
	Equity				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,891)	(21,223)	(668)	3.1%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(39,256)	(37,298)	(1,958)	5.2%
	Total equity	(66,851)	(64,225)	(2,626)	4.1%
	Total net assets	5,844	16,233	(10,389)	-64.0%
22	Cash and cash equivalents	10,847	4,767	6,080	n.m.
23	Current bank debt	(11,147)	(20,795)	9,648	-46.4%
24	Other current financial assets and liabilities	920	2,155	(1,235)	-57.3%
	Current net cash/debt	620	(13,873)	14,493	n.m.
25	Non-current financial assets	0	1,942	(1,942)	n.m.
26	Non-current bank debt	(1,795)	(4,293)	2,498	-58.2%
27	Other non-current financial liabilities	(4,669)	(9)	(4,660)	n.m.
	Non-current net cash/debt	(6,464)	(2,360)	(4,104)	n.m.
	Total net financial position	(5,844)	(16,233)	10,389	-64.0%

Digital Bros Group
Consolidated statement of profit or loss for the year ended 31 December 2019

	Euro Thousands	31 December 2019		31 December 2018		Change	
1	Gross revenue	67,850	108.6%	30,216	107.2%	37,634	124.5%
2	Revenue adjustments	(5,365)	-8.6%	(2,042)	-7.2%	(3,323)	n.m.
3	Net revenue	62,485	100.0%	28,174	100.0%	34,311	121.8%
4	Purchase of products for resale	(12,837)	-20.5%	(7,348)	-26.1%	(5,489)	74.7%
5	Purchase of services for resale	(4,046)	-6.5%	(3,370)	-12.0%	(676)	20.0%
6	Royalties	(18,695)	-29.9%	(5,514)	-19.6%	(13,181)	n.m.
7	Changes in inventories of finished products	1,392	2.2%	261	0.9%	1,131	n.m.
8	Total cost of sales	(34,186)	-54.7%	(15,971)	-56.7%	(18,215)	n.m.
9	Gross profit (3+8)	28,299	45.3%	12,203	43.3%	16,096	n.m.
10	Other income	1,386	2.2%	1,546	5.5%	(160)	-10.4%
11	Costs for services	(8,755)	-14.0%	(3,912)	-13.9%	(4,843)	123.8%
12	Lease and rental charges	(141)	-0.2%	(711)	-2.5%	570	-80.2%
13	Labour costs	(10,013)	-16.0%	(8,451)	-30.0%	(1,562)	18.5%
14	Other operating costs	(623)	-1.0%	(539)	-1.9%	(84)	15.6%
15	Total operating costs	(19,532)	-31.3%	(13,613)	-48.3%	(5,919)	43.5%
16	Gross operating margin (EBITDA) (9+10+15)	10,153	16.2%	136	0.5%	10,017	n.m.
17	Depreciation and amortisation	(5,139)	-8.2%	(3,593)	-12.8%	(1,546)	43.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(1,169)	-1.9%	(665)	-2.4%	(504)	75.8%
20	Reversal of impairment adjustments and non-monetary income	204	0.3%	0	0.0%	204	n.m.
21	Total non-monetary income and operating costs	(6,104)	-9.8%	(4,258)	-15.1%	(1,846)	43.3%
22	Operating margin (EBIT) (16+21)	4,049	6.5%	(4,122)	-14.6%	8,171	n.m.
23	Interest and financial income	1,540	2.5%	670	2.4%	870	n.m.
24	Interest and financial expenses	(1,940)	-3.1%	(491)	-1.7%	(1,449)	n.m.
25	Net financial income (costs)	(400)	-0.6%	179	0.6%	(579)	n.m.
26	Profit before taxation (22+25)	3,649	5.8%	(3,943)	-14.0%	7,592	n.m.
27	Current tax	(1,086)	-1.7%	688	2.4%	(1,774)	n.m.
28	Deferred tax	(625)	-1.0%	95	0.3%	(720)	n.m.
29	Total income tax expense	(1,711)	-2.7%	783	2.8%	(2,494)	n.m.
30	Net profit (26+29)	1,938	3.1%	(3,160)	-11.2%	5,098	n.m.
	Earnings (net profit) per share:						
33	Basic earnings per share (in Euro)	0.14		(0.22)		0.36	n.m.
34	Diluted earnings per share (in Euro)	0.14		(0.22)		0.36	n.m.

Digital Bros Group

Consolidated statement of comprehensive income as at 31 December 2019

Euro Thousands	31 December 2019	31 December 2018	Change
Profit (Loss) for the period (A)	1,938	(3,160)	5,098
Items that will not be subsequently recycled through profit or loss (B)			
Actuarial gain (loss)	9	5	4
Income tax relating to the actuarial gain (loss)	(2)	(1)	(1)
Exchange differences on translation of foreign operations	345	79	266
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as “held to collect and sell”	225	(369)	594
Tax effect regarding fair value measurement of shares designated as “held to collect and sell”	(54)	89	(143)
Items that will subsequently be recycled through profit or loss (C)	523	(197)	720
Total other comprehensive income D= (B)+(C)	523	(197)	720
Total comprehensive income (loss) (A)+(D)	2,461	(3,357)	5,818
Attributable to:			
Parent Company Shareholders	2,461	(3,357)	5,818

Digital Bros Group

Consolidated statement of cash flows for the period ended 31 December 2019

	Euro Thousands	31 December 2019	31 December 2018
A. Opening net financial position		(16,233)	(1,083)
B. Cash flows from operating activities			
Profit (loss) for the year attributable to the Group		1,938	(3,160)
<i>Depreciation, amortisation and non-monetary costs:</i>			
Provisions and impairment adjustments		1,169	601
Amortisation of intangible assets		4,242	3,621
Depreciation of property, plant and equipment		897	350
Net change in other provisions		0	0
Net change in employee benefit provisions		(1)	3
Net change in other non-current liabilities		20	16
SUB TOTAL B.		8,265	1,431
C. Change in net working capital			
Inventories		(1,392)	(261)
Trade receivables		11,628	(7,400)
Current tax assets		(276)	(1,885)
Other current assets		(3,242)	1,647
Trade payables		10,467	(2,691)
Current tax liabilities		4,621	408
Current provisions		(856)	2
Other current liabilities		1,930	1,458
SUB TOTAL C.		22,880	(8,721)
D. Cash flows from investing activities			
Net investment in intangible assets		(14,819)	(1,739)
Net investment in property, plant and equipment		(6,764)	1,865
Net investment in non-current financial assets		139	(617)
SUB TOTAL D.		(21,444)	(492)
E. Cash flows from financing activities			
Capital increases		0	0
Increase in share premium reserve		0	0
SUB TOTAL E.		0	0
F. Movements on consolidated shareholders' equity			
Dividends paid		0	0
Change in treasury shares held		0	0
Increases (decreases) in other equity items		688	(1,271)
SUB TOTAL F.		688	(1,271)
G. Cash flows for the period (B+C+D+E+F)		10,389	(9,053)
H. Closing net financial position (A+G)		(5,844)	(10,136)

Notes to the statement of cash flows

Details of cash flows by maturity:

Euro Thousands	31 December 2019	31 December 2018
Increase (decrease) in securities and cash and cash equivalents	6,080	(589)
Decrease (increase) in current bank borrowing	9,648	(12,258)
Decrease (increase) in other current financial assets and liabilities	(1,235)	334
Cash flows for the period pertaining to current net financial position	14,493	(12,513)
Cash flows for the period pertaining to non-current net financial position	(4,104)	3,460
Cash flows for the period	10,389	(9,053)

Digital Bros Group

Consolidated statement of changes in equity

Euro Thousands	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (Accumulated losses)	Profit (Loss) for the year	Total retained earnings (D)	Consolidated equity attributable to Group (A+B+C+D)
Total at 1 July 2018	5,704	18,486	1,141	1,367	(1,441)	1,071	20,624	0	31,110	9,174	40,284	66,612
Application of IFRS 9							0		(1,473)		(1,473)	(1,473)
Allocation of profit for year							0		9,174	(9,174)	0	0
Other changes						399	399				0	399
Comprehensive income (loss)					79	(276)	(197)			(3,160)	(3,160)	(3,357)
Total at 31 December 2018	5,704	18,486	1,141	1,367	(1,362)	1,194	20,826	0	38,811	(3,160)	35,651	62,181
Total at 1 July 2019	5,704	18,486	1,141	1,367	(1,350)	1,579	21,223	0	38,811	(1,513)	37,298	64,225
Allocation of loss for year							0		(1,513)	1,513	0	0
Other changes					(20)	165	145			20	20	165
Comprehensive income (loss)					345	178	523			1,938	1,938	2,461
Total at 31 December 2019	5,704	18,486	1,141	1,367	(1,025)	1,922	21,891	0	37,298	1,958	39,256	66,851

Digital Bros Group

Consolidated statement of financial position prepared in accordance with CONSOB Resolution no. 15519 of 27 July 2006

	Euro Thousands	31 December 2019		30 June 2019	
		Total	Of which with related parties	Total	Of which with related parties
	Non-current assets				
1	Property, plant and equipment	9,451	0	3,584	0
2	Investment property	0	0	0	0
3	Intangible assets	28,399	0	18,341	0
4	Equity investments	1,891	0	1,706	0
5	Non-current receivables and other assets	9,598	767	9,322	765
6	Deferred tax assets	2,145	0	2,745	0
	Total non-current assets	51,484	767	35,698	765
	Non-current liabilities				
7	Employee benefits	(572)	0	(573)	0
8	Non-current provisions	(81)	0	(81)	0
9	Other non-current payables and liabilities	(943)	0	(923)	0
	Total non-current liabilities	(1,596)	0	(1,577)	0
	Net working capital				
10	Inventories	15,301	0	13,909	0
11	Trade receivables	43,386	0	55,070	21
12	Current tax assets	6,352	0	6,076	0
13	Other current assets	4,316	210	1,668	210
14	Trade payables	(35,098)	(17)	(24,631)	(127)
15	Current tax liabilities	(5,759)	0	(1,138)	0
16	Current provisions	(0)	0	(856)	0
17	Other current liabilities	(5,691)	0	(3,761)	0
	Total net working capital	22,807	193	46,337	104
	Equity				
18	Share capital	(5,704)	0	(5,704)	0
19	Reserves	(21,891)	0	(21,223)	0
20	Treasury shares	0	0	0	0
21	(Retained earnings) accumulated losses	(39,256)	0	(37,298)	0
	Total equity	(66,851)	0	(64,225)	0
	Total net assets	5,844	960	16,233	869
22	Cash and cash equivalents	10,847	0	4,767	0
23	Current bank debt	(11,147)	0	(20,795)	0
24	Other current financial assets and liabilities	920	(1,082)	2,155	0
	Current net cash/debt	620	(1,082)	(13,873)	0
25	Non-current financial assets	0	(4,111)	1,942	0
26	Non-current bank debt	(1,795)	0	(4,293)	0
27	Other non-current financial liabilities	(4,669)	0	(9)	0
	Non-current net cash/debt	(6,464)	(4,111)	(2,360)	0
	Total net financial position	(5,844)	(5,193)	(16,233)	0

Digital Bros Group

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

	Euro Thousands	31 December 2019		31 December 2018	
		Total	Of which with related parties	Total	Of which with related parties
1	Gross revenue	67,850	0	30,216	0
2	Revenue adjustments	(5,365)	0	(2,042)	0
3	Net revenue	62,485	0	28,174	0
4	Purchase of products for resale	(12,837)	0	(7,348)	0
5	Purchase of services for resale	(4,046)	0	(3,370)	0
6	Royalties	(18,695)	0	(5,514)	0
7	Changes in inventories of finished products	1,392	0	261	0
8	Total cost of sales	(34,186)	0	(15,971)	0
9	Gross profit (3+8)	28,299	0	12,203	0
10	Other income	1,386	27	1,546	4
11	Costs for services	(8,755)	(144)	(3,912)	(131)
12	Lease and rental charges	(141)	(40)	(711)	(570)
13	Labour costs	(10,013)	0	(8,451)	0
14	Other operating costs	(623)	0	(539)	0
15	Total operating costs	(19,532)	(184)	(13,613)	(701)
16	Gross operating margin (EBITDA) (9+10+15)	10,153	(157)	136	(697)
17	Depreciation and amortisation	(5,139)	(521)	(3,593)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(1,169)	0	(665)	0
20	Reversal of impairment adjustments and non-monetary income	204	0	0	0
21	Total non-monetary income and operating costs	(6,104)	(521)	(4,258)	0
22	Operating margin (EBIT) (16+21)	4,049	(678)	(4,122)	(697)
23	Interest and financial income	1,540	0	670	0
24	Interest and financial expenses	(1,940)	(24)	(491)	0
25	Net financial income (expense)	(400)	(24)	179	0
26	Profit before taxation (22+25)	3,649	(702)	(3,943)	(697)
27	Current tax	(1,086)	0	688	0
28	Deferred tax	(625)	0	95	0
29	Total income tax expense	(1,711)	0	783	0
30	Net profit (loss) (26+29)	1,938	(702)	(3,160)	(697)

Digital Bros Group

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

	Euro Thousands	31 December 2019		31 December 2018	
		Total	Of which non-recurring	Total	Of which non-recurring
1	Gross revenue	67,850	0	30,216	0
2	Revenue adjustments	(5,365)	0	(2,042)	0
3	Net revenue	62,485	0	28,174	0
4	Purchase of products for resale	(12,837)	0	(7,348)	0
5	Purchase of services for resale	(4,046)	0	(3,370)	0
6	Royalties	(18,695)	0	(5,514)	0
7	Changes in inventories of finished products	1,392	0	261	0
8	Total cost of sales	(34,186)	0	(15,971)	0
9	Gross profit (3+8)	28,299	0	12,203	0
10	Other income	1,386	0	1,546	0
11	Costs for services	(8,755)	0	(3,912)	0
12	Lease and rental charges	(141)	0	(711)	0
13	Labour costs	(10,013)	0	(8,451)	0
14	Other operating costs	(623)	0	(539)	0
15	Total operating costs	(19,532)	0	(13,613)	0
16	Gross operating margin (EBITDA) (9+10+15)	10,153	0	136	0
17	Depreciation and amortisation	(5,139)	0	(3,593)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(1,169)	(594)	(665)	0
20	Reversal of impairment adjustments and non-monetary income	204	0	0	0
21	Total non-monetary income and operating costs	(6,104)	(594)	(4,258)	0
22	Operating margin (EBIT) (16+21)	4,049	(594)	(4,122)	0
23	Interest and financial income	1,540	0	670	0
24	Interest and financial expenses	(1,940)	(580)	(491)	0
25	Net financial income (expense)	(400)	(580)	179	0
26	Profit before taxation (22+25)	3,649	(1,174)	(3,943)	0
27	Current tax	(1,086)	(224)	688	0
28	Deferred tax	(625)	0	95	0
29	Total income tax expense	(1,711)	(224)	783	0
30	Net profit (loss) (26+29)	1,938	(1,398)	(3,160)	0

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**Notes to the condensed consolidated financial
statements for the period ended
31 December 2019**

1. INTRODUCTIORY NOTE

The half-yearly consolidated financial report includes the condensed half-yearly consolidated financial statements prepared in accordance with IAS 34 and Art. 154 ter of the Consolidated Finance Act. Therefore, it does not include all the disclosures required for annual financial statements and should thus be read together with the Group's consolidated financial statements for the year ended 30 June 2019.

The condensed half-yearly consolidated financial statements of the Digital Bros Group have been prepared on a going concern basis, applying the same accounting policies used to prepare the annual financial statements for the year ended 30 June 2018, except in relation to the introduction of IFRS 16 Leases from 1 July 2019, the effect of which is described below.

For details of form and content and other general information, as well as the use of estimates, reference should be made to the notes to the consolidated financial statements for the year ended 30 June 2019.

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;
- Annual improvements to IFRS 2015-2017 cycle (includes amendments to IFRS 3 Business Combination, IFRS 16 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs);
- Plan amendment, Curtailment or Settlement (Amendments to IAS 19);
- Long-term interests in Associates and Joint Ventures (Amendments to IAS 19);
- Uncertainty over Income tax Treatments (IFRIC interpretation 23);
- IFRS 9 “Prepayment features with negative compensation”.

Application of the interpretations and new standards listed above has not had any significant effect on the Group's consolidated financial statements at 31 December 2019 (whether in terms of classification or determination of amounts) except as indicated below in relation to IFRS 16.

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 16 at the transition date:

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

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

- computers, telephones and tablet devices;
- printers.

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

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Group at 1 July 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 2020 but which the Group opted not to adopt early from 1 July 2019 are as follows:

- definition of Material (Amendments to IAS 1 and IAS 8);
- references to the Conceptual Framework in IFRS Standards;
- amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.

The Directors do not expect the adoption of these accounting standards, amendments and interpretations to have a significant effect on the Group's financial reports.

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 listed below:

- definition of a Business (Amendments to IFRS 3);
- IFRS 17 – Insurance Contracts;
- IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 14 – Regulatory Deferral Accounts.

The Directors do not expect the adoption of these accounting standards, amendments and interpretations to have a significant effect on the Group's financial reports.

2. CONSOLIDATION METHODS

Subsidiaries

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

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

Investments in associated companies are initially recognised at acquisition cost and subsequently measured using the equity method .

Translation of foreign currency financial statements

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

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

- equity items are translated at historical exchange rates.

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

Transactions eliminated during the consolidation process

When preparing the condensed consolidated financial statements for the period ended 31 December 2019, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies were eliminated, as were unrealised profits and losses on intragroup transactions.

Scope of consolidation

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

Line-by-line consolidation method:

Name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W Broadway	Eugene	USA	\$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,704,334.80	Parent company
Digital Bros Asia Pacific (HK) Ltd.	Hong Kong	Hong Kong	€ 100,000	100%
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 300,000	100%
Digital Bros Holdings Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
505 Games S.p.A.	Milan	Italy	€ 10,000,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	\$ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 10,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc.	Calabasas (CA)	USA	\$ 100,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	\$ 100,000	100%

Equity consolidation method

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

3. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER ENTITIES

At 31 December 2019, the Group companies held the following investments:

- A 49% investment in Ovosonico S.r.l., as carried at Euro 632 thousand. The acquisition cost originally recognised was Euro 720 thousand including Euro 49 thousand of capital and a quota premium of Euro 671 thousand. At 31 December 2019, in accordance with the equity method of consolidation, the carrying amount was adjusted to reflect the Group share of the results of the associated company since the date of acquisition of the quotas held by the Group;
- a 34.77% investment in Seekhana Ltd., as carried at Euro 367 thousand. The acquisition cost originally recognised was Euro 562 thousand including Euro 5 thousand of capital and a share premium of Euro 557 thousand. At 31 December 2019, the carrying amount was adjusted to reflect the Group share of the results achieved by the associated company.

During the period ended 31 December 2019, the Group completed the sale of the investment in Delta DNA Ltd. at a gain of Euro 383 thousand.

The acquisition of 51% of the quota capital of Ovosonico S.r.l. was completed on 3 March 2020.

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

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

	Profit (Loss) for the period		Equity	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit for the period and equity of Digital Bros S.p.A.	2,675	2,784	50,557	49,097
Profit for the period and equity of the subsidiaries	2,120	(1,859)	44,182	40,801
Carrying amount of equity investments	0	0	(27,281)	(27,281)
Consolidation adjustments:				
Impairment of investments in subsidiaries	0	274	256	0
Elimination of intercompany profits	(135)	52	(1,746)	(1,443)
Dividends	(2,500)	(4,000)	0	0
Other adjustments	(222)	(411)	883	1,007
Total consolidation adjustments	(2,857)	(4,085)	(607)	(436)
Profit for the period and equity of the Group	1,938	(3,160)	66,851	62,181

Details are provided below of consolidation adjustments at 31 December 2019 and 2018 and for the periods then ended:

	Profit (Loss) for the period		Equity	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	0	274	0	0
Impairment of Digital Bros S.p.A.'s investment in 133 W Broadway Inc.	0	0	256	0
Total impairment of investments in subsidiaries	0	274	256	0
Elimination of unrealised profit in inventory	(63)	16	(508)	(488)
Elimination of margin on internal processing contracts	(72)	36	(1,238)	(955)
Total elimination of intercompany profits	(135)	52	(1,746)	(1,443)
Dividends from Kunos Simulazioni S.r.l.	(2,500)	(4,000)	0	0
Total dividends	(2,500)	(4,000)	0	0
Amortisation/Allocation of acquisition price of Kunos S.r.l. net of tax effect	(249)	(249)	987	1,487
Application of IFRS 9	142	(142)	(378)	(920)
Other	(115)	(20)	274	440
Total other adjustments	(222)	(411)	883	1,007
Total consolidation adjustments	(2,857)	(4,085)	(607)	(436)

5. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 31 December 2019 is set out below together with comparative figures at 30 June 2019:

	Euro Thousands	31 December 2019	30 June 2019	Change	
	Non-current assets				
1	Property, plant and equipment	9,451	3,584	5,867	n.m.
2	Investment property	0	0	0	0.0%
3	Intangible assets	28,399	18,341	10,058	54.8%
4	Equity investments	1,891	1,706	185	10.8%
5	Non-current receivables and other assets	9,598	9,322	276	3.0%
6	Deferred tax assets	2,145	2,745	(600)	-21.8%
	Total non-current assets	51,484	35,698	15,786	44.2%
	Non-current liabilities				
7	Employee benefits	(572)	(573)	1	-0.1%
8	Non-current provisions	(81)	(81)	0	0.0%
9	Other non-current payables and liabilities	(943)	(923)	(20)	2.2%
	Total non-current liabilities	(1,596)	(1,577)	(19)	1.2%
	Net working capital				
10	Inventories	15,301	13,909	1,392	10.0%
11	Trade receivables	43,386	55,070	(11,684)	-21.2%
12	Current tax assets	6,352	6,076	276	4.5%
13	Other current assets	4,316	1,668	2,648	n.m.
14	Trade payables	(35,098)	(24,631)	(10,467)	42.5%
15	Current tax liabilities	(5,759)	(1,138)	(4,621)	n.m.
16	Current provisions	0	(856)	856	n.m.
17	Other current liabilities	(5,691)	(3,761)	(1,930)	51.3%
	Total net working capital	22,807	46,337	(23,530)	-50.8%
	Equity				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,891)	(21,223)	(668)	3.1%
20	Treasury shares	0	0	0	0.0%
21	Retained earnings (accumulated losses)	(39,256)	(37,298)	(1,958)	5.2%
	Total equity	(66,851)	(64,225)	(2,627)	4.1%
	Total net assets	5,844	16,233	(10,389)	-64.0%
	Current net financial position				
22	Cash and cash equivalents	10,847	4,767	6,080	n.m.
23	Current bank borrowing	(11,147)	(20,795)	9,648	-46.4%
24	Other current financial assets and liabilities	920	2,155	(1,235)	-57.3%
	Current net financial position	620	(13,873)	14,493	n.m.
	Non-current net financial position				
25	Non-current financial assets	0	1,942	(1,942)	n.m.
26	Non-current bank debt	(1,795)	(4,293)	2,498	-58.2%
27	Other non-current financial liabilities	(4,669)	(9)	(4,660)	n.m.
	Non-current net financial position	(6,464)	(2,360)	(4,104)	n.m.
	Total net financial position	(5,844)	(16,233)	10,389	-64.0%

NON-CURRENT ASSETS

1. Property, plant and equipment

Property, plant and equipment have increased from Euro 3,584 thousand to Euro 9,451 thousand.

The following tables show movements in the first half of the current reporting period and the previous reporting period:

Euro Thousands	1 July 2019	Additions	Disposals	Translation differences	Deprec'n	Use of accum. dep'n	31 December 2019
Industrial buildings	2,033	6,381	0	0	(650)	0	7,764
Land	635	0	0	0	0	0	635
Indust. and comm. equipment	543	139	0	0	(129)	0	553
Other assets	373	229	(102)	15	(118)	102	499
Total	3,584	6,749	(102)	15	(897)	102	9,451

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

As at 1 July 2019, industrial buildings consisted solely of the warehouse in Trezzano sul Naviglio Industrial 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 31 December 2018, there were additions of Euro 6,381 thousand including Euro 6,374 thousand as a result of application of the new IFRS 16. This also led to additional depreciation of Euro 599 thousand.

The increase relates to lease payments for the properties in Milan, Calabasas (USA) and Milton Keynes (United Kingdom).

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

Additions for the period to industrial and commercial equipment amounted to Euro 139 thousand and mainly related to office automation equipment. Meanwhile, additions of Euro 229 thousand to other assets regard the purchase of four cars under finance leases.

3. Intangible assets

Intangible assets have increased from Euro 18,341 thousand to Euro 28,399 thousand. All of the intangible assets recognised by the Group have finite useful lives.

The following tables show movements in the first half of the current reporting period and the previous reporting period:

Euro Thousands	1 July 2019	Additions	Disposals	Impairment adj.	Translation differences	Amort'n	31 December 2019
Concessions and licences	8,369	6,486	0	(93)	12	(3,893)	10,881
Trademarks and sim. rights	1,736	0	0	0	0	(346)	1,390
Other assets	25	0	0	0	0	(3)	22
Assets in progress	8,211	9,127	(806)	(426)	0	0	16,106
Total	18,341	15,613	(806)	(519)	12	(4,242)	28,399

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

Impairment adjustments amount to Euro 519 thousand. They regard development projects abandoned by the Group during the reporting period and other projects that had to be adjusted after they achieved poorer than expected results.

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

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

Euro Thousands	31 December 2019	31 December 2018
Premium Games user rights	6,350	1,210
Investment on development of management systems	136	63
Total concessions and licences	6,486	1,273
Total other intangible assets	0	6
Internal development projects in progress	3,774	1,530
Assets in progress Premium Games	5,308	0
Assets in progress Free to Play	45	0
Total capex on intangible assets in progress	9,127	1,530
Total capex on intangible assets	15,613	2,809

4. Investments

The investments in associated companies held by the Group at 31 December 2019 and 30 June 2019 are as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Delta Dna Ltd.	0	60	(60)
Ovosonico S.r.l.	632	768	(136)
Seekhana Ltd.	367	378	(11)
Total investments in associated companies	999	1,206	(207)
Starbreeze AB	726	500	226
Unity Software Inc.	166	0	166
Total other investments	892	500	392
Total investments	1,891	1,706	185

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

The increase in Other investments is due to:

- fair value measurement of the 4,096,809 Starbreeze AB A shares (listed on Nasdaq Stockholm), with allocation to an equity reserve of the difference between the carrying amount and the fair value at 31 December 2019 as they are financial instruments classified as held to collect and sell;
- acquisition of shares in Unity Software Inc. which constitutes part of payment of the selling price of the investment in Delta DNA Ltd..

5. Non-current receivables and other assets

Non-current receivables and other assets amount to Euro 9,598 thousand and have increased by Euro 276 thousand compared to 30 June 2019.

This caption mainly consists of the medium-long term portion of the receivable of USD 10 million arising from the sale of Pipeworks Inc with USD 5 million due by 31 March 2021 and Euro 5 million due by 31 March 2022. This amount is net of the provision for bad debts created in accordance with IFRS 9 and has been increased by interest income accruing up to 31 December 2019. The increase relates to restatement of the receivable at the reporting date exchange rate and to recognition of interest for the six-month period.

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

Euro Thousand	31 December 2019	30 June 2019	Change
Receivable for sale of Pipeworks Inc.	8,754	8,485	269
Guarantee deposits – office rental for Italian companies	635	635	0
Guarantee deposits – office rental for non-Italian companies	204	197	7
Guarantee deposits – utilities	5	5	0
Total non-current receivables and other assets	9,598	9,322	276

6. Deferred tax assets

Deferred tax assets are calculated on tax loss carryforwards and temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis. They have been measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. At 31 December 2019, the balance stood at Euro 2,145 thousand and had decreased by Euro 600 thousand compared to 30 June 2019, mainly because of utilisation of the tax losses of 505 Games (US) Inc..

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

Euro Thousands	31 December 2019	30 June 2019	Change
Italian companies	705	763	(58)
Non-Italian companies	1,103	1,600	(497)
Consolidation adjustments	337	382	(45)
Total deferred tax assets	2,145	2,745	(600)

NON-CURRENT LIABILITIES

7. Employee benefits

“Employee benefits” reflects the actuarial value of the Group's effective liability towards employees, as calculated by an independent actuary in accordance with IAS 19. It has decreased by Euro 1 thousand compared to 30 June 2019.

The IAS 19 actuarial valuation at 31 December 2019 was performed using a discount rate based on the Iboxx Corporate A 10y+ index, consistent with the rate used at 30 June 2019. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on the Italian companies' reporting date headcount of 69 employees.

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

- annual rate of interest of 1.04%;
- 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 six months ended 31 December 2019 and in the corresponding prior year period:

Euro Thousands	31 December 2019	31 December 2018
Provision for employee termination indemnities at 1 July 2019	573	516
Utilisation of provision for leavers	(8)	(18)
Allocated during period	111	116
Restatement for supplementary pension schemes	(94)	(90)
Restatement for actuarial measurement	(10)	(5)
Provision for employee termination indemnities at 31 December 2019	572	519

The Group is not party to any supplementary pension plans.

8. Non-current provisions

This caption consists entirely of the agents' leaving indemnity provision. The balance of Euro 81 thousand at 31 December 2019 is unchanged compared to 30 June 2019.

9. Other non-current payables and liabilities

At 31 December 2019, this caption amounted to Euro 943 thousand and entirely consisted of the amount payable for advisory services received by the Parent Company in relation to the disposal of Pipeworks Inc. which will be settled upon collection of the amount of USD 10 million reported under non-current receivables and other assets. The increase of Euro 20 thousand compared to 30 June 2019 is due to the restatement of the liability at the reporting date exchange rate.

NET WORKING CAPITAL

10. Inventories

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

Euro Thousands	31 December 2019	30 June 2019	Change
Italian Distribution inventories	6,221	6,672	(451)
Premium Games inventories	9,080	7,237	1,843
Total Inventories	15,301	13,909	1,392

Inventories have increased by Euro 1,392 thousand from Euro 13,909 thousand at 30 June 2019 to Euro 15,301 thousand at 31 December 2019.

11. Trade receivables

Changes during the period in receivables from customers and receivables for videogame user licences were as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Receivables from customers - Italy	2,244	2,508	(264)
Receivables from customers – Other EU	2,001	2,736	(735)
Receivables from customers - Rest of the world	13,262	23,412	(10,150)
Total receivables from customers	17,507	28,656	(11,149)
Receivables for video game user licences	12,901	15,769	(2,868)
Receivables for video game development operating costs	14,277	12,005	2,272
Total receivables for video game development	27,178	27,774	(596)
Provision for doubtful debts	(1,299)	(1,360)	61
Total trade receivables	43,386	55,070	(11,684)

Receivables from customers totalled Euro 17,507 thousand at 31 December 2019. This represented a decrease of Euro 11,149 thousand compared to the 30 June 2019 balance of Euro 28,656 thousand which reflected the high level of revenue recorded in the last month of the financial year ended 30 June 2019.

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

Receivables for video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They decreased by Euro 2,868 thousand over the period to stand at Euro 12,901 thousand. Details are provided below:

Euro Thousands	31 December 2019	30 June 2019	Change
Advances to developers for licences not yet used	1,158	4,886	(3,728)
Advances to developers for licences partially used	11,743	10,883	860
Total receivables for video game user licenses	12,901	15,769	(2,868)

Receivables for video game development operating costs, amounting to Euro 14,277 thousand, include expenses incurred in advance, specifically in relation to video game programming services, quality assurance and other operating costs. This caption mainly consists of the amount of USD 4.8 million paid to Starbreeze for programming costs relating to the video game OVERKILL's The Walking Dead in respect of which the Group has asked for a refund.

The amount in question is analysed as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Programming	10,242	8,568	1,674
Quality assurance	2,430	2,298	132
Other operating costs	1,605	1,139	466
Total receivables for video game development operating costs	14,277	12,005	2,272

The provision for doubtful debts has decreased by Euro 61 thousand from Euro 1,360 thousand at 30 June 2019 to Euro 1,299 thousand at 31 December 2019. The bad debt provision is estimated based on both a detailed analysis of each balance in order to assess customers' ability to pay and application of IFRS 9.

12. Tax receivables

Tax receivables are analysed as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Receivables under domestic tax group arrangement	3,421	3,914	(493)
VAT receivable	562	815	(253)
Tax credit for foreign tax withholdings	1,891	851	1,040
IRES refund for IRAP deductibility	119	119	0
Other tax receivables	359	377	(18)
Total tax receivables	6,352	6,076	276

Tax receivables have increased by Euro 276 thousand from Euro 6,076 thousand at 30 June 2019 to Euro 6,352 thousand at 31 December 2019. The decrease in Receivables under the domestic tax group arrangement is due to the higher taxable income of the Italian companies while the increase in the tax credit for foreign tax withholdings regards the withholding taxes suffered by subsidiary 505 Games S.p.A. on royalties income collected.

13. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They increased from Euro 1,668 thousand at 30 June 2019 to Euro 4,316 thousand at 31 December 2019. They are analysed as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Advances to suppliers	3,418	799	2,619
Advances to employees	199	187	12
Advances to agents	9	15	(6)
Other receivables	690	667	23
Total other current assets	4,316	1,668	2,648

Advances to suppliers has increased by Euro 2,648 thousand due to the recognition of Euro 2,223 thousand relating to withholding taxes subject to the agreement with the Italian Tax Authorities which suppliers will be asked to reimburse.

14. Trade payables

Trade payables amounted to Euro 35,098 thousand at 31 December 2019 and increased by Euro 10,467 thousand compared to 30 June 2019. They were mostly payable to publishers for purchases of finished products and to developers. Details are provided below:

Euro Thousands	31 December 2019	30 June 2019	Change
Trade payables - Italy	(2,457)	(2,713)	256
Trade payables - EU	(20,418)	(11,181)	(9,237)
Trade payables - rest of the world	(12,223)	(10,737)	(1,486)
Total trade payables	(35,098)	(24,631)	(10,467)

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

15. Tax payables

Tax payables have increased by Euro 4,621 thousand from Euro 1,138 thousand at 30 June 2019 to Euro 5,759 thousand at 31 December 2019. The balance is detailed as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Taxes on income	(269)	(220)	(49)
VAT payable	(189)	(268)	79
Other tax payables	(5,301)	(650)	(4,651)
Total tax payables	(5,759)	(1,138)	(4,621)

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

16. Current provisions

At 31 December 2019, there were no current provisions. The amount of Euro 856 thousand reported at 30 June 2019 represented an estimate of the risk emerging from the tax inspection report issued to subsidiary 505 Games S.p.A. in July 2017 and, then, incorporated in the tax demand issued in December 2017. It has now been reclassified to Tax payables following the settlement agreement reached with the Tax Authorities.

17. Other current liabilities

Other current liabilities amount to Euro 5,691 thousand and have increased by Euro 1,930 thousand compared to 30 June 2019. Details are provided below:

Euro Thousands	31 December 2019	30 June 2019	Change
Amounts due to social security institutions	(398)	(341)	(57)
Amounts due to employees	(646)	(573)	(73)
Amounts due to contract staff	(46)	(47)	1
Other payables	(4,601)	(2,800)	(1,801)
Total other current liabilities	(5,691)	(3,761)	(1,930)

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the reporting period, amounts accrued for future payment of the 14th month's salary and the accrual for variable remuneration for the six-month period.

Other payables mainly include advance payments received by 505 Games S.p.A. from several customers (Euro 4,158 thousand), especially in relation to sub-licensing contracts for certain countries where the Group does not have a direct presence and/or in relation to the development of new games, where revenue recognition is deferred until the time of market launch.

SHAREHOLDERS' EQUITY

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

Euro Thousands	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (Accumulated losses)	Profit (Loss) for the period	Total retained earnings (D)	Consolidated equity attributable to Group (A+B+C+D)
Total at 1 July 2019	5,704	18,486	1,141	1,367	(1,350)	1,579	21,223	0	38,811	(1,513)	37,298	64,225
Allocation of profit							0		(1,513)	1,513	0	0
Other changes					(20)	165	145			20	20	165
Comprehensive income (loss)					345	178	523			1,938	1,938	2,461
Total at 31 December 2019	5,704	18,486	1,141	1,367	(1,025)	1,922	21,891	0	37,298	1,958	39,256	66,851

18. Share capital

Share capital at 31 December 2019 is unchanged compared to 30 June 2019 and is divided into 14,260,837 ordinary shares with a par value of Euro 0.4 each, for a total of Euro 5,704,334.80. No other shares of any nature are in issue. There are no rights, liens or restrictions associated with the ordinary shares.

19. Reserves

The change in Other reserves includes Euro 165 thousand to restate the stock option reserve, Euro 171 thousand to restate the reserve for securities measurement and Euro 7 thousand to restate the actuarial reserve.

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

NET FINANCIAL POSITION

The following table contains details of the Group's Net Financial Position at 31 December 2019 together with comparative figures at 30 June 2019:

	Euro Thousands	31 December 2019	30 June 2019	Change
22	Cash and cash equivalents	10,847	4,767	6,080
23	Current bank borrowing	(11,147)	(20,795)	9,648
24	Other current financial assets and liabilities	920	2,155	(1,235)
	Current net financial position	620	(13,873)	14,493
25	Non-current financial assets	0	1,942	(1,942)
26	Non-current bank borrowing	(1,795)	(4,293)	2,498
27	Other non-current financial liabilities	(4,669)	(9)	(4,660)
	Non-current net financial position	(6,464)	(2,360)	(4,104)
	Total net financial position	(5,844)	(16,233)	10,389

The net financial position shows net debt of Euro 5,844 thousand, an increase of Euro 10,389 thousand compared to 30 June 2019 when it showed net debt of Euro 16,233 thousand. Excluding the effect of application of the new IFRS 16, which led to recognition of a financial liability of Euro 5,772 thousand, the reduction in net debt would have amounted to Euro 16,161 thousand.

The decrease in net debt is mainly due to a Euro 6,080 thousand increase in cash and cash equivalents and to a Euro 9,648 thousand decrease in current bank borrowing that was only partially offset by the Euro 4,660 thousand increase in other non-current financial liabilities due to application of the new IFRS 16.

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousands	31 December 2019	30 June 2019	Change
22	Cash and cash equivalents	10,847	4,767	6,080
23	Current bank borrowing	(11,147)	(20,795)	9,648
24	Other current financial assets and liabilities	920	2,155	(1,235)
	Net financial position, current	620	(13,873)	14,493

22. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 10,847 thousand at 31 December 2019, an increase of Euro 6,080 thousand compared to 30 June 2019. They consist entirely of current account deposits accessible on demand.

23. Current bank borrowing

Current bank borrowing consists of advances on invoices and notes receivable, import loans and other short-term loans for a total of Euro 9,814 thousand, plus the current portion of Euro 1,333 thousand of the unsecured loan granted to 133 W Broadway, Inc. by Intesa San Paolo S.p.A. New York Branch.

Details are as follows:

Euro Thousands	31 December 2019	30 June 2019	Change
Bank borrowing – current account overdrafts	(106)	(1,588)	1,482
Bank borrowing – import and export finance	0	(8,938)	8,938
Bank borrowing – advances on invoices and notes	(3,186)	(2,055)	(1,131)
Instalment loans due within a year	(6,522)	(7,924)	1,402
Bank borrowing – unsecured loans	(1,333)	(290)	(1,043)
Total bank borrowing - current	(11,147)	(20,795)	9,648

Instalment loans due within a year includes two separate loans granted to 505 Games S.p.A. The first loan consists of the current portion – Euro 4,755 thousand – of a loan granted by Unicredit S.p.A. to 505 Games S.p.A. in partial funding of the investment plan for the development cost of the video games Bloodstained and Control. The loan agreement provides for one or more partial disbursements up to a maximum amount of Euro 5,000 thousand with repayment in two six-monthly instalments due on 31 March 2020 and 30 September 2020; 505 Games S.p.A. will make quarterly interest payments on each loan disbursement based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 3 percentage points. The second loan consists of the short-term portion amounting to Euro 1,767 thousand of a loan totalling Euro 4,000 thousand granted by Mediocredito Italiano S.p.A. to 505 Games S.p.A. This loan is subject to increasing quarterly, principal repayments between 31 December 2019 and 31 December 2021; 505 Games S.p.A. will make quarterly interest payments based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 1.85 percentage points.

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

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

Both covenants were respected at 31 December 2019.

The unsecured loan from Intesa Sanpaolo S.p.A. New York Branch to 133 W. Broadway Inc. was disbursed on 30 October 2017 in the amount of USD 2,050 thousand. The loan is repayable in 28 quarterly instalments between 31 January 2018 and 31 October 2024. The interest rate is variable and is determined based on the LIBOR USD 12 month rate plus a spread of 2 percentage points. Although the loan is long-term, the property for which the loan was arranged has now been sold and it is in the Group's interest to request its unwinding in the current annual reporting period.

24. Other current financial assets and liabilities

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

Euro Thousands	31 December 2019	30 June 2019	Change
Advances on trade receivables factored without recourse	(88)	(106)	18
Lease instalments due within a year	(62)	(16)	(46)
Loans to developers	0	2,277	(2,277)
Application of IFRS 16	(1,241)	0	(1,241)
Loan to Varvte AB	2,311	0	2,311
Total other current financial assets and liabilities	920	2,155	(1,235)

Advances on trade receivables factored without recourse totalled Euro 88 thousand and decreased by Euro 18 thousand compared to 30 June 2019.

The increase in lease instalments due within a year is due to the purchase of four new cars. The current liability at 31 December 2019 includes Euro 10 thousand representing the entire lease liability for a server and Euro 52 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.

There are no longer any loans to developers as the loan of Euro 873 thousand receivable from US company Lab Zero Inc. and the loan of Euro 1,404 thousand due from Japanese company Shinshuppatsu Junbi Co. Ltd. have been reclassified, respectively, under concessions and licences and under assets in progress following the launch of the video game Indivisible and the announcement of the launch of Death Stranding.

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

Other non-current financial assets consist entirely of a loan of Euro 2,000 thousand – plus interest accruing up to 31 December 2019 – granted by Digital Bros S.p.A. to Vartvre AB which was the main shareholder of Starbreeze AB. This loan – original amount of Euro 2 million – generates interest at a rate of 5% per annum and is guaranteed by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares. At 30 June 2019, the loan amounted to Euro 1,942 thousand as its nominal amount had been restated in accordance with IFRS 9 and it was classified under non-current financial assets. As Digital Bros S.p.A. acquired, in January 2020, the shares held by Varvte AB in Starbreeze AB, using the loan outstanding at 31 December 2019 in partial settlement of the purchase price, the amount has been reclassified to current financial assets and it was deemed no longer necessary to maintain the adjustment made at 30 June 2019 in application of IFRS 9.

Non-current net financial position

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

	Euro Thousand	31 December 2019	30 June 2019	Change
25	Non-current financial assets	0	1,942	(1,942)
26	Non-current bank borrowing	(1,795)	(4,293)	2,498
27	Other non-current financial liabilities	(4,669)	(9)	(4,660)
	Non-current net financial position	(6,464)	(2,360)	(4,104)

25. Non-current financial assets

The increase in non-current financial assets regarding the loan to Vartvre AB has already been described in Note 24 Other current financial assets and liabilities.

26. Non-current bank borrowing

At 31 December 2019, non-current bank borrowing includes Euro 1,795 thousand representing the non-current portion of the loan granted by Mediocredito S.p.A. to 505 Games S.p.A., as described above.

27. Other non-current financial liabilities

Other non-current financial liabilities amount to Euro 4,669 thousand. They include Euro 138 thousand of lease repayments due after more than a year and Euro 4,531 thousand due to application of the new IFRS 16.

Lease liabilities regard:

- a finance lease agreement entered into with Unicredit Leasing for the purchase of a motor vehicle. The lease provides for a financed amount of Euro 31 thousand and the payment of fifty-nine monthly instalments plus an advance payment of Euro 1 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 28 April 2021. Lease instalments due within a year amount to Euro 5 thousand while those due after more than a year total Euro 2 thousand. There is a variable rate of interest of 1.41%;
- 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 51 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 54 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 15 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 16 thousand. There is a variable rate of interest of 5.85%.

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

Euro Thousands	31 December 2019	30 June 2019	Change
Within 1 year	1,303	16	1,287
1-5 years	2,814	9	2,805
More than 5 years	1,855	0	1,855
Total	5,972	25	5,947

COMMITMENTS AND RISKS

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

Euro Thousands	31 December 2019	30 June 2019	Change
Commitments under signed contracts	37,252	31,165	6,087
Commitments for subscription of capital of Seekhana Ltd.	1,193	1,177	16

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

Commitments to subscribe Seekhana Ltd.'s capital relate to an agreement signed on 18 January 2016 for the subscription of an amount of USD 2 million, of which USD 660 thousand had already been paid as at 31 December 2019.

6. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

The following table contains a breakdown of revenue by operating segment for the six months ended 31 December 2019. It does not include the Holding operating segment as it does not generate revenue:

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Total
1	Gross revenue	3,338	58,043	6,185	284	67,850
2	Revenue adjustments	0	(4,822)	(543)	0	(5,365)
3	Total net revenue	3,338	53,221	5,642	284	62,485

Details for the six months ended 31 December 2018 are as follows:

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

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

25. Net financial income/(expenses)

This caption includes:

	Euro Thousands	31 December 2019	31 December 2018	Change	%
23	Interest and financial income	1,540	670	870	n.m.
24	Interest and financial expenses	(1,940)	(491)	(1,449)	n.m.
25	Net financial income / (expense)	(400)	179	(579)	n.m.

There were net financial expenses of Euro 400 thousand compared to net financial income of Euro 179 thousand in the first half of prior year. The change was due to a Euro 1,449 thousand increase in interest and financial expenses which was only partially countered by a Euro 870 thousand increase in interest and financial income.

Interest and financial income is detailed as follows:

Euro Thousands	31 December 2019	31 December 2018	Change	%
Exchange gains	876	399	477	n.m.
Financial income	661	242	419	n.m.
Other	3	29	(26)	-89.1%
Total interest and financial income	1,540	670	870	n.m.

Interest and financial income has increased by Euro 870 thousand because of higher exchange gains and higher financial income as a result of the gain of Euro 383 thousand realised on the sale of the investment in Delta Dna Ltd..

Interest and financial expenses amount to Euro 1,940 thousand, an increase of Euro 1,449 thousand compared to the six months ended 31 December 2018. The increase is due to expenses of Euro 580 thousand booked in relation to the settlement agreement with the Italian Tax Authorities and to higher exchange losses.

Interest and financial expenses is detailed as follows:

Euro Thousands	31 December 2019	31 December 2018	Change	%
Interest expense on current accounts and trading activities	(170)	(88)	(82)	n.m.
Interest to the tax authorities	(587)	0	(587)	n.m.
Interest expense on loans and leases	(229)	(99)	(129)	n.m.
Interest on factoring	(5)	(4)	(1)	20,0%
Total interest expenses on sources of finance	(991)	(191)	(799)	n.m.
Exchange losses	(802)	(276)	(527)	n.m.
Equity valuation of investments	(147)	(24)	(123)	n.m.
Total interest and financial expenses	(1,940)	(491)	(1,449)	n.m.

29. Taxation

Current and deferred taxes for the period ended 31 December 2019 are detailed below:

Euro Thousands	31 December 2019	31 December 2018	Change	%
Current taxes	(1,086)	688	(1,774)	n.m.
Deferred taxes	(625)	95	(720)	n.m.
Total taxes	(1,711)	783	(2,494)	n.m.

The higher level of current and deferred taxes is in line with Group profitability for the first six months of the year.

7. NON-RECURRING INCOME AND EXPENSES

As required by Consob Resolution 15519 of 27 July 2006, non-recurring income and expenses have been shown separately in the statement of profit or loss. Non-recurring transactions or events are those that, by nature, do not occur on a regular basis in the ordinary course of business. During the period, the Group accounted for non-recurring expenses of Euro 1,398 thousand in relation to the settlement agreement described in Events after the reporting period.

8. INFORMATION BY OPERATING SEGMENT

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

The Group is organised into five operating segments:

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

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

The results by operating segment for the periods ended 31 December 2019 and 31 December 2018 are set out below.

Consolidated statement of profit or loss by operating segment for the period ended 31 December 2019

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	3,338	58,043	6,185	284	0	67,850
2	Revenue adjustments	0	(4,822)	(543)	0	0	(5,365)
3	Total revenue	3,338	53,221	5,642	284	0	62,485
4	Purchase of products for resale	0	(8,824)	(4,013)	0	0	(12,837)
5	Purchase of services for resale	(1,100)	(2,824)	(116)	(6)	0	(4,046)
6	Royalties	(189)	(18,492)	0	(14)	0	(18,695)
7	Changes in inventories of finished products	0	1,843	(451)	0	0	1,392
8	Total cost of sales	(1,289)	(28,297)	(4,580)	(20)	0	(34,186)
9	Gross profit (3+8)	2,049	24,924	1,062	264	0	28,299
10	Other income	1,035	302	(0)	0	49	1,386
11	Costs for services	(137)	(6,816)	(859)	(89)	(854)	(8,755)
12	Lease and rental costs	(10)	(28)	(14)	(1)	(88)	(141)
13	Labour costs	(2,166)	(5,237)	(691)	(153)	(1,766)	(10,013)
14	Other operating costs	(42)	(227)	(102)	(20)	(232)	(623)
15	Total operating costs	(2,355)	(12,308)	(1,666)	(263)	(2,940)	(19,532)
16	Gross operating margin (EBITDA) (9+10+15)	729	12,918	(604)	1	(2,891)	10,153
17	Depreciation and amortisation	(624)	(3,997)	(85)	(52)	(381)	(5,139)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	(346)	(767)	(32)	0	(24)	(1,169)
20	Reversal of impairment adjustments and non-monetary income	0	187	0	0	17	204
21	Total non-monetary operating income and expenses	(970)	(4,577)	(117)	(52)	(388)	(6,104)
22	Operating margin (EBIT) (16+21)	(241)	8,341	(721)	(51)	(3,279)	4,049

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

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	3,169	19,787	7,029	231	0	30,216
2	Revenue adjustments	0	(1,154)	(888)	0	0	(2,042)
3	Total revenue	3,169	18,633	6,141	231	0	28,174
4	Purchase of products for resale	0	(2,509)	(4,839)	0	0	(7,348)
5	Purchase of services for resale	(1,035)	(1,950)	(368)	(17)	0	(3,370)
6	Royalties	(265)	(5,238)	0	(11)	0	(5,514)
7	Changes in inventories of finished products	0	(266)	527	0	0	261
8	Total cost of sales	(1,300)	(9,963)	(4,680)	(28)	0	(15,971)
9	Gross profit (3+8)	1,869	8,670	1,461	203	0	12,203
10	Other income	792	571	0	0	183	1,546
11	Costs for services	(113)	(2,150)	(734)	(84)	(831)	(3,912)
12	Lease and rental costs	(29)	(307)	(17)	(5)	(353)	(711)
13	Labour costs	(1,589)	(4,067)	(673)	(335)	(1,787)	(8,451)
14	Other operating costs	(40)	(190)	(98)	(23)	(188)	(539)
15	Total operating costs	(1,771)	(6,714)	(1,522)	(447)	(3,159)	(13,613)
16	Gross operating margin (EBITDA) (9+10+15)	890	2,527	(61)	(244)	(2,976)	136
17	Depreciation and amortisation	(948)	(2,367)	(153)	(40)	(85)	(3,593)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	(286)	(181)	(92)	0	(106)	(665)
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0	0	0
21	Total non-monetary operating income and expenses	(1,234)	(2,548)	(245)	(40)	(191)	(4,258)
22	Operating margin (EBIT) (16+21)	(344)	(21)	(306)	(284)	(3,167)	(4,122)

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

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

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

Italian company Kunos Simulazioni S.r.l., which developed and published the Assetto Corsa video game, is consolidated in this operating segment.

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

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

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

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

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

Other Activities: this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for presentation of the results. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l. which ceased to operate in June 2018 and was put into liquidation in October 2018.

Holding: this includes all the coordinating functions carried out directly by Digital Bros S.p.A.. The Holding operating segment also handles administration, management control and business development activities. The holding company has also been supported by Digital Bros China Ltd. and by Digital Bros

Asia Pacific (HK) Ltd which have operated as business developers for Asian markets. 133 W Broadway Inc. which, until October 2018, owned the property in Eugene, Oregon, USA, forms part of this operating segment. Digital Bros Holdings Ltd was inactive during the period.

Information by geographical area

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

Euro Thousands	31 December 2019		31 December 2018		Change	
Europe	13,955	21%	6,138	20%	7,817	127.4%
Americas	37,690	56%	15,419	51%	22,271	144.4%
Rest of the world	9,736	14%	1,399	5%	8,337	n.m.
Total foreign revenue	61,381	90%	22,956	76%	38,425	167.4%
Italy	6,469	10%	7,260	24%	(791)	-10.9%
Total consolidated gross revenue	67,850	100%	30,216	100%	37,634	124.5%

Foreign revenue represented 90% of consolidated gross revenue compared to 76% in prior year and increased by Euro 38,425 thousand compared to the period ended 31 December 2018.

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

The bulk of foreign revenue is generated by the Premium Games operating segment which generated foreign revenue of Euro 58,043 thousand i.e. 95% of total foreign revenue.

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

Euro Thousands	31 December 2019		31 December 2018		Change	
Free to Play	3,338	5%	3,169	14%	169	5.3%
Premium Games	58,043	95%	19,787	86%	38,256	193.3%
Total gross foreign revenue	61,381	100%	22,956	100%	38,425	167.4%

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 Group companies and between those companies and other non-subsidiary related parties have been conducted at arm's length and cannot be classed as atypical or unusual transactions.

Intercompany transactions

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

Other related parties

Other related party transactions regard:

- legal advisory services provided by director Dario Treves;
- property leases by Matov Imm. S.r.l. to the parent company and to subsidiary 505 Games France S.a.s.;
- property leases by Matov LLC to subsidiary 505 Games (US) Inc.;
- property leases by the parent company to Ovosonico S.r.l.;
- video game development work by Ovosonico S.r.l. on behalf of 505 Games S.p.A.

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

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

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	0	210	0	0	27	0
Dario Treves	0	0	(14)	0	0	(144)
Matov Imm. S.r.l.	0	635	(3)	(4,770)	0	(368)
Matov LLC	0	132	0	(423)	0	(217)
Total	0	977	(17)	(5,193)	27	(729)

Euro Thousands	Receivables		Payables		Revenue	Costs
	Trade	Financial	Trade	Financial		
Ovosonico S.r.l.	0	210	0	0	4	0
Dario Treves	0	0	0	0	0	(131)
Matov Imm. S.r.l.	0	635	0	0	0	(364)
Matov LLC	0	130	0	0	0	(206)
Total	0	1,104	0	0	4	(701)

Digital Bros S.p.A.'s financial receivable from Matov Imm. S.r.l. refers to the guarantee deposit paid in relation to lease instalments due for the premises at Via Tortona 37, Milan.

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

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

During the period, Digital Bros S.p.A. paid Matov Imm S.r.l. rent totalling Euro 345 thousand for its Milan office premises.

The rent paid by 505 Games France S.as. to Matov Imm S.r.l. for the offices in Francheville amounted to Euro 23 thousand for the six-month period.

In November 2013, a lease agreement was entered into between the subsidiary 505 Games (US) Inc. and Matov LLC, a related party owned by the Galante family; the lease was renewed in November 2018. The transaction was governed by the "Procedure for related party transactions" adopted by Digital Bros S.p.A. pursuant to Consob Regulation 17221 of 12 March 2010 and provides for an annual lease charge of USD 488 thousand.

The receivable of Euro 210 thousand due from associated company Ovostonico S.r.l. relates to a loan made to that company while the revenue of Euro 27 thousand regards a property let to the same company.

Tax consolidation

Following the introduction of the consolidated taxation regime into the Italian tax system, parent company Digital Bros S.p.A. has elected for consolidated taxation in a tax group with 505 Mobile S.r.l., Game Entertainment S.r.l., Game Service S.r.l., 505 Games S.p.A., Digital Bros Game Academy S.r.l., Game Network S.r.l. and Kunos Simulazioni S.r.l.. Membership of a domestic tax group has made it necessary to prepare an implementing regulation to govern intercompany transactions to ensure there are arrangements prejudicial to any of the participating companies.

10. ATYPICAL OR UNUSUAL TRANSACTIONS

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

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

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

- appropriateness in relation to the characteristics of the business and
- the effective application of the administrative and accounting procedures for the preparation of the half-yearly financial report for the six months ended 31 December 2019. No issues have been identified.

We also confirm that:

1. Digital Bros Group's half-yearly financial report for the six months ended 31 December 2019:
 - a) has been prepared in accordance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
 - b) reflects the contents of the accounting books and records;
 - c) gives a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation.
2. the Directors' Report contains a reliable analysis of the operating performance and results, as well as of Digital Bros S.p.A. and the other consolidated entities, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 5 March 2020

Signed

Chairman of the Board of Directors

Abramo Galante

Financial Reporting Manager

Stefano Salbe