

PRESS RELEASE

The Board of Directors of Digital Bros Group approves the Half Year Financial Report for the six months ended 31 December 2018 (first half of financial year 2018 – 2019)

DIGITAL BROS GROUP:

HALF YEAR REVENUES OF EURO 30.2 MILLION

EBITDA AT EURO 136 THOUSAND

NET LOSS OF EURO 3.2 MILLION

NET FINANCIAL DEBT AT EURO 10.1 MILLION

FULL YEAR REVENUES EXPECTED IN LINE WITH LAST YEAR

NET PROFIT EXPECTED IN THE SECOND HALF

- ✓ *Consolidated Gross Revenues of €30.2 million, decreasing by 31.4% compared to December 31st, 2017*
- ✓ *EBITDA at €136 thousand, compared to €3.7 million on December 31st, 2017*
- ✓ *Negative EBIT of €4.1 million compared to negative €141 thousand on December 31st, 2017*
- ✓ *Pre-tax loss at €3.9 million, compared to pre-tax profit of €87 thousand on December 31st 2017*
- ✓ *Net loss at €3.2 million, compared to net profit of €18 thousand on December 31st 2017*
- ✓ *Net debt position stood at €10.1 million on 31st December 2018*
- ✓ *Expected Gross Revenues for the fiscal year on 30 June, 2019 in line with previous fiscal year*
- ✓ *Expected profit in the second half, due to the launch of Bloodstained and Indivisible in the last quarter of the financial year*

RESULTS FOR FIRST HALF OF FINANCIAL YEAR 2018–2019 (PERIOD ENDED 31.12.18)				
<i>Euro thousand</i>	31.12.18	31.12.17	Change	Change %
Revenue	30,216	44,062	(13,846)	-31.4%
Gross operating margin (EBITDA)	136	3,660	(3,524)	n.m.
Operating margin (EBIT)	(4,122)	(141)	(3,981)	n.m.
Pre-tax result	(3,943)	87	(4,029)	n.m.
Profit for the period	(3,160)	18	(3,178)	n.m.

Milan, February 28th, 2019 - The **Board of Directors of Digital Bros Group**, which is listed on the Star segment of Borsa Italiana and which operates in the digital entertainment sector, **today approved the half-year financial report for the period ended 31 December 2018** (first half of the financial year which runs from 1st July 2018 to 30th June 2019).

Digital Bros Group's key consolidated results for the first half of financial year 2018-2019, compared to the prior financial year period, are as follows:

- **Gross Consolidated Revenue** of €30.2 million, decreasing by 31.4% compared to €44.1 million on December 31st, 2017.
- **EBITDA** at €136 thousand, compared to €3.7 million on December 31st, 2017.
- **EBIT** at negative €4.1 million versus negative EBIT of €141 thousand for the period ended December 31st, 2017.
- **Pre-tax loss** at €3.9 million compared to pre-tax profit of €87 thousand on December 31st, 2017.
- **Net Loss** for the period of €3.2 million compared to net profit of €18 thousand on December 31st, 2017.

RESULTS OF OPERATING SEGMENTS

The Group did not launch any significant new videogame on the international markets in the first half of the current fiscal year. Following this, the consolidated gross revenues were €30,216 thousand, -31.4% compared to €44.062 thousand of the same period of the last fiscal year.

A breakdown of revenue by operating segment is provided below for the periods ended 31 December 2018 and 2017:

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

The **Premium Games** operating segment had the most significant decrease. Gross revenues amounted to €19,787 thousand, down by 35.3%, compared to €30,584 thousand in the same period of the previous fiscal year.

The **Italian Distribution** operating segment revenues decreased by 32.3% compared to previous year due to a drop in retail videogames sales and collectible cards distribution.

By contrast, **Free to Play** operating segment revenues showed a €470 thousand increase, up by 17%, due to a positive performance of Gems of War. The videogame, now in its fourth year, generated more than two third of the total operating segment sales.

The profit margins by operating segments in the first half of the financial year 2018-2019 are as follows:

<i>Euro thousand</i>	Premium Games	Free to Play	Italian Distribution	Other Activities	Holding	Total
Gross revenue	19,787	3,169	7,029	231	0	30,216
Gross operating margin (EBITDA)	2,527	890	(47)	(244)	(2,990)	136
Operating margin (EBIT)	(21)	(344)	(292)	(284)	(3,181)	(4,122)

The reduction of revenues was reflected in the gross profit which declined by €5,276 thousand (-30.2%).

The 8.7% decrease in the operating costs was lower than the decrease in revenues. Payroll costs declined by just 6%, reflecting an organizational structure already sized for next product launches expected in the last quarter of the current financial year.

Non-monetary costs increased due to higher bad debt provisions of €273 thousand and development contract write-offs of €379 thousand.

Net interest income was €179 thousand compared to €228 thousand in the same period of the previous fiscal year.

The **Loss before taxes** for the period ended 31 December 2018 amounted to negative €3,943 thousand, €4,029 thousand lower compared to the profit before taxes of €87 thousand at 31st December, 2017.

The **Net loss** for the period amounted to €3,160 compared to a net loss of €148 thousand for the period ended 31 December 2017.

Basic loss per share and **diluted loss per share** for the period were €0.22 compared to a net loss per share of €0.01 in the first half of the last fiscal year.

NET CASH/DEBT

As expected, the Group showed a **financial net debt** of €10,136 thousand, increasing by €9,053 thousand compared to 30 June 2018 due to significant investments in new products expected to be launched.

TREASURY SHARES

Pursuant to Art. 2428 paragraph 2.3 of the Italian Civil Code, it is hereby disclosed that at 31st December 2018 Digital Bros S.p.A. did not hold any treasury shares, as no transactions have been performed in the period.

SIGNIFICANT EVENTS FOR THE PERIOD

The most significant events during the period were as follows:

- On August 6th, 2018 the non-executive director Bruno Soresina sadly passed away;
- On September 13th, 2018 the non-executive director Elena Morini resigned from the Board for personal reasons;
- As a result of the above, on 13 September 2018, the Board of Directors resolved to establish three Board committees comprising non-executive directors Guido Guetta, Luciana La Maida and Irene Longhin.
- On September 19th, 2018 Digital Bros Asia Pacific (HK) was incorporated with the aim of focusing the business development activities on Asian territories beyond China.
- On October 26th, 2018, the Shareholders' General Meeting approved the Consolidated Financial Statements of the Group at 30 June 2018 and the Separate Financial Statements of Digital Bros S.p.a. at 30 June 2018. The Shareholders' Meeting also approved the Remuneration Report in accordance with articles 123-ter of Legislative Decree 58/1998. As a result of the passing of the director Bruno Soresina and the resignation of the director Elena Morini, the Shareholders' Meeting changed the number of the Board members - agreed to be eleven by the Shareholders' Meeting held on 27th October 2017 – to ten Directors. The Board shall remain in office until approval of the Financial Statement ending June 30th, 2020. The General Meeting also appointed Paola Mignani as new member of the Board; she will remain in office through the end of the term of the current Board.
- On November 8th, 2018 the independent director Guido Guetta resigned from the Board for personal reasons;
- As a result of the above, on November 8th, 2018 the Board of Directors resolved to establish three Board committees comprising independent directors Luciana La Maida, Irene Longhin and Paola Mignani.

RELATIONS WITH STARBREEZE E STARBREEZE SHAREHOLDERS

The groups Digital Bros and Starbreeze AB entered into various agreements since the contract for PAYDAY2. In May 2016, Digital Bros sold back the publishing rights of PAYDAY2 to Starbreeze for US \$30 Million and a potential earn out of 33% on the future net revenue of PAYDAY3 up to US \$40 Million.

In April 2015, the two groups entered into an agreement for the development and publishing of the console version of a videogame based on the TV series The Walking Dead. The contracted 505 Games total investment was US \$10 Million and at the moment, 505 Games S.p.A. paid US \$4.8 Million. During the month of November 2018, the PC version of the videogame, published directly by Starbreeze, was released and achieved lower than forecasted results. On December 3rd, 2018 Starbreeze AB and five subsidiaries filed for reconstruction with the Stockholm District Court.

In the months of November and December, in order to protect either the investment made in OVERKILL's The Walking Dead and the US \$40 Million potential earn out on PAYDAY3, the Group took some actions:

- the parent company provided a loan of Euro 2 Million to Varvtre AB on November 21st, 2018. Varvtre AB is related to the former Starbreeze AB Chief Executive Officer, Bo Andersson Klimt, who holds 6.25% of the share capital and 23.77% of the voting rights of Starbreeze AB. He resigned from the Board on December 3rd, 2018 after the events mentioned above. The loan will expire on November 21st, 2020 it has a 5% interest rate and is guaranteed by the pledge of 6,713,564 Starbreeze shares A and 1,305,142 Starbreeze shares B;
- during the months of November and December 2018, the company bought 3.8 Million Starbreeze shares A, listed on the Nasdaq Stockholm, at an average price of 2.23 SEK per share, corresponding to 1.17% of the share capital and 4.72% of the voting rights.

SUBSEQUENT EVENTS

On February 27th, 2019 Skybound announced the termination of its contract with Starbreeze for OVERKILL's The Walking Dead videogame rights. If the contract between the subsidiary 505 Games S.p.A. and Starbreeze will terminate because of the above, no additional payments on the total investment of US \$10 Million will be due. The Group will demand the refund of the advanced payments made for US \$4.8 Million.

BUSINESS OUTLOOK

The Group had decided to postpone the console version of OVERKILL's The Walking Dead without giving any scheduled release date after results of the PC version of the videogame, published by Starbreeze, were lower than forecasted. Consequently, the Group communicated the review of its revenue guidance for the fiscal year ending June 30th, 2019 which was expected to be between Euro 145 million and 190 million. The former revenue guidance for the fiscal year 2018/2019, originally announced in February 2018 and later confirmed, was based on OVERKILL's The Walking Dead, Control and Bloodstained launches in the fiscal year.

Considering the changes in the release schedule and the possible cancelation of the console version of OVERKILL's The Walking Dead after the contract termination between Skybound and Starbreeze, **the Group expects revenues for the fiscal year ending on 30 June, 2019 in line with the previous fiscal year** taking into consideration the launches of Bloodstained and the PC version of Indivisible in the last quarter.

Thanks to the releases of new videogames in the last quarter, the Group expects to generate enough profit in the second half to achieve a better pre-tax results compared to the last fiscal year.

Net financial debt will grow in the second half of the financial year due to the investment in new products followed by a marked improvement starting from the first quarter of the next financial year.

ART. 154-BIS OF THE CONSOLIDATED FINANCE ACT

As required by paragraph 2, Art. 154-bis of the Consolidated Finance Act, Digital Bros Group's financial reporting manager, Stefano Salbe, declares that the information contained in this press release corresponds to the Group's underlying documents, books and accounting records.

This press release is available on the websites www.digitalbros.com and www.1info.it

DIGITAL BROS GROUP

Listed on the Star segment of Borsa Italiana, Digital Bros Group is a global company that has been operating since 1989 as a developer, publisher and distributor of game entertainment content – video games - in a global market through various channels: retail and digital – web, social, mobile. Digital Bros Group is active around the world through its own direct operations in Italy, the United States, the UK, France, Spain, Germany and China, with approximately 180 employees. The Group's head office is located in Milan, from where all activities are coordinated. Digital Bros operates in three markets, namely, development, publishing and distribution, under its own brands 505 Games and Halifax.

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FINANCIAL STATEMENTS

DIGITAL BROS GROUP

Consolidated Balance Sheet at December 31st, 2018

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

DIGITAL BROS GROUP

Consolidated Income Statement at December 31st, 2018 – First six months of 2018-2019

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

DIGITAL BROS GROUP

Consolidated Cash Flow Statement at 31 December 2018 – First six months of 2018 – 2019

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

SEGMENT REPORTING

Consolidated Income Statement at December 31st, 2018 - First six months of 2018 - 2019

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