



## **Report on corporate governance and ownership structure**

**Pursuant to Article 123-bis of the TUF  
(traditional governance model)**

**(Financial year 2017/2018)**

Date of approval: 13 September 2018

**Digital Bros S.p.A.**

Via Tortona, 37 – 20144 Milan, Italy VAT

Number and Tax Number 09554160151

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

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

No. 1302132

The report is available in the Investors section at

[www.digitalbros.com](http://www.digitalbros.com)

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## GLOSSARY

**Parent Company or Issuer.**

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., the Italian Banking Association, ANIA, Assogestioni, Assonime and Confindustria.

**Civil Code:** the Italian Civil Code.

**Board:** the Board of Directors of Digital Bros S.p.A..

**Financial Year/Reporting Period:** the financial year ended 30 June 2018 to which the Report relates.

**Group or Digital Bros Group:** collectively, the Issuer and its subsidiaries in terms of Article 93 of the TUF.

**Issuer's Regulations:** : the Regulations issued by Consob by means of resolution 11971 of 1999 for issuers, as subsequently amended.

**Market Regulations:** the Regulations issued by Consob by means of resolution 16191 of 2007 on the subject of markets, as subsequently amended.

**Related Party Regulations:** the Regulations issued by means of resolution no 17221 of 12 March 2010 (as subsequently amended) on related party transactions.

**TUF or the Consolidated Finance Act:** Legislative decree no 58 of 24 February 1998 (Consolidated Finance Act), as subsequently amended.

**Report/Report on Corporate Governance:** the report on corporate governance and the ownership structure prepared pursuant to Articles 123-bis and 89-bis of the TUF.

**Remuneration Report:** the Report on Remuneration required by Article 123-ter of the CFA and approved by the Board of Directors together with the Report on Corporate Governance.

**Articles of Association:** the Articles of Association of Digital Bros S.p.A.

**Director in charge of internal control:** the director in charge of the internal control and risk management system pursuant to Art. 7.P.3 of the Corporate Governance Code.

## 1. PROFILE OF THE ISSUER

The Company's objects are the development, production, marketing and wholesale and retail distribution, directly and/or indirectly, including through subsidiaries and/or investees, in Italy and worldwide, of entertainment products and services, including video games for personal computers and consoles, pertinent accessories and multimedia products in general.

Our corporate mission has been pursued via a process of internationalisation with the incorporation and acquisition of wholly-owned subsidiaries to market the Group's products on major international markets and to develop new video games.

The Company is incorporated under Italian law and is listed on the STAR segment of Borsa Italiana's MTA market. It has complied with the implementation of the Corporate Governance Code. The Company has adopted a traditional governance model.

The Company's governance bodies are:

- Shareholders' general meetings
- Board of Directors
- Board of Statutory Auditors and internal control and audit committee;
- External auditors.

Shareholders' general meetings express the wishes of the shareholders through the resolutions adopted. Resolutions passed in accordance with the law or the Articles of Association are binding on all shareholders, including absent or dissenting shareholders, without prejudice to the right of withdrawal for dissenting shareholders, where permitted. Shareholders' general meetings are convened in accordance with laws and regulations applicable to companies with securities listed on regulated markets in order to deliberate upon matters reserved for them by law.

The Board of Directors is vested with all powers of ordinary and extraordinary management and thus plays a permanent role in the governance of the Company, founded on the transparency and propriety of management decisions both within the Company and with regard to the market.

The Board of Statutory Auditors and the internal control and audit committee supervise compliance with the law and the Articles of Association and perform a management control function, especially with regard to principles of sound management and the adequacy of the Group's organisational structure. With effect from 7 April 2010, after Legislative Decree 39/2010 came into force following the adoption of Directive 200/43/EC, the Board of Statutory Auditors is responsible for certain tasks assigned by Art. 19 of the legislative decree to the internal control and audit committee. In more detail, this includes the supervision of:

- the financial reporting process;
- the effectiveness of internal control and risk management systems;
- the audit of the separate and consolidated financial statements;
- the independence of the external auditors.

In accordance with the law, the external auditors are appointed by the Shareholders' General Meeting from the audit firms enrolled in a register kept by Consob. The external auditors verify that the accounting records have been properly

maintained, that operating events have been duly recorded and that the separate and consolidated financial statements match the accounting records.

In addition, an internal control and risk management committee, a remuneration committee, a standing committee of unrelated independent directors as envisaged by the Code and a supervisory committee as envisaged by Legislative Decree 231/2001 have been set up and are operational.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE (pursuant to Art.123-bis (1) of the TUF)**

This section provides information regarding the Company's ownership structure, in accordance with Art. 123-bis of the TUF, insofar as it is applicable. The information is up to date as of 13 September 2018.

The information required by Article 123-bis (1) (l) on the appointment and replacement of directors is set forth in section 4.1, while the information required by subsection (i) is presented in the Remuneration Report.

### *a) Capital structure (pursuant to Art. 123-bis (1) (a) of the TUF)*

Subscribed and paid share capital amounts to Euro 5,704,334.80.

Subscribed share capital consists of 14,260,837 ordinary shares with a par value of Euro 0.4 each.

<b>No of shares</b>	<b>% of Share Capital</b>	<b>Listed/ Unlisted</b>	<b>Rights and Obligations</b>
Ordinary shares no 14,260,837	100%	MTA STAR Segment	The shares are nominal, freely transferable and indivisible. Each share grants the right to one vote at all of the Company's ordinary and extraordinary shareholders' meetings

No shares with limited voting rights or without voting rights have been issued.

At the reporting date, Digital Bros S.p.A. had not issued any other classes of shares or financial instruments that confer the right to subscribe for newly issued shares.

On 11 January 2017, the Shareholders' General Meeting approved the "2016-2026 Stock Option Plan" aimed at a limited number of directors and managers of the Company and of the Group who were identified by the Board of Directors. The Plan will terminate on 30 June 2026 and envisages the allocation of a maximum number of 800,000 options as follows:

- 240,000 options on 1 July 2019;
- 240,000 options on 1 July 2022;
- 320,000 options on 1 July 2025.

The exercise price of the options shall be equal to the average listed price of Digital Bros recorded on the STAR segment

of the MTA market in the six months prior to the grant date.

The options have been allocated as follows: 744,000 on 29 January 2017 at Euro 10.61 per share and 56,000 on 12 May 2017 at Euro 12.95 per share.

Further information on the “2016-2026 Stock Option Plan” and on the capital increase to service the Plan is provided in the notes to the separate financial statements of the Company for the year ended 30 June 2018 and in the information document which may be found in the Investors section of the website at [www.digitalbros.com](http://www.digitalbros.com), as well as in the Remuneration Report.

*b) Restrictions on the transfer of securities (pursuant to Art. 123-bis (1) (b) of the TUF)*

There are no restrictions of any kind on the transfer of securities.

*c) Significant equity holdings (in terms of Art. 123-bis(1)(c) of the TUF)*

The Company qualifies as a SME, as defined in Art. 1 (1) (w-iv) (1) of the TUF, as it meets the requirements laid down therein. Accordingly, the threshold for the disclosure of significant holdings pursuant to Art. 120 of the Consolidated Law is 5% of share capital with voting rights. According to the shareholder's register, and considering the notices received pursuant to Art. 120 of the TUF, as of the date of this report, the following parties held, directly or indirectly, shares in the Company with voting rights, representing more than or equal to 5% of the share capital:

<i>Declarant</i>	<i>Direct shareholder</i>	<i>Shares declared</i>	<i>% of ordinary share capital</i>	<i>% of capital with voting rights</i>
<i>Abramo Galante</i>	<b>YES</b>	<b>4,904,307</b>	<b>32.56%</b>	<b>34.39%</b>
<i>Raffaele Galante</i>	<b>YES</b>	<b>4,678,736</b>	<b>31.07%</b>	<b>32.81%</b>

*d) Securities with special rights (pursuant to Art. 123-bis (1) (d) of the TUF)*

The Company has not issued any securities that confer special rights of control.

*e) Employee share ownership: mechanism for exercise of voting rights (pursuant to Art. 123-bis (1) (e) of the TUF)*

The Company has not approved any employee share ownership schemes and employees do not directly exercise voting rights.

*f) Restrictions on voting rights (pursuant to Art. 123-bis(1)(f) of the TUF)*

There are no restrictions of any kind on voting rights.

*g) Shareholder agreements (pursuant to Art. 123-bis (1) (g) of the TUF)*

The Company is not aware of any shareholder agreements pursuant to Art. 122 of the TUF.

*h) Change of control clauses (pursuant to Art. 123-bis(1)(h) of the TUF) and provisions contained in the Articles of Association on takeover bids (pursuant to Arts. 104 paragraph 1-ter and 104-bis paragraph)*

Neither the Company nor its subsidiaries have entered into agreements that might come into force, be terminated and/or be amended as a result of a change of control of the Issuer.

The Company has not entered into any agreements with directors providing for indemnities for directors in the event of resignations, dismissal or removal without cause, or in the event of termination of employment following a public takeover bid.

The Articles of Association do not derogate from the passivity rule provided for in Art. 104 (1) and (2) of the TUF and, since there are no limitations on the transfer of shares or limitations on voting rights, the Articles of Association do not provide for the application of the neutralisation rules envisaged in Art. 104-bis (2) and (3) of the TUF.

*i) Delegated powers regarding share capital increases and powers to authorise the purchase of treasury shares (pursuant to Art. 123-bis (1) (m) of the TUF)*

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

Pursuant to Art. 6 of the Articles of Association, share capital may be increased or reduced by resolution of an extraordinary shareholders' meeting in accordance with the law. In the event of capital increases, contributions may be made in cash, in kind or via accounts receivable, in accordance with Article 2342 of the Civil Code. In the event of a share capital increase or the issuance of convertible bonds, the shareholders have the right of pre-emption in accordance with the law and the Articles of Association.

An Extraordinary Shareholders' Meeting may grant the directors the power to increase share capital, on one or more occasions, for a maximum of five years from the date of the resolution, up to the amount determined in the resolution. Such power may also extend to the adoption of the resolutions provided for in Arts. 2441 (4) and (5) of the Civil Code and in accordance with Art. 2441 (6). Without prejudice to all other provisions governing share capital increases, share capital may be increased without the right of pre-emption, in accordance with article 2441 (4) of the Civil Code, by the shareholders' meeting or the Board of Directors, provided that such power has been delegated to the latter, within the limits of 5% of pre-existing share capital, including by cash contribution, on condition that the issue price corresponds to the market value of the shares, as confirmed by a specific report by the external auditors.

Pursuant to Art. 2349 (1) of the Civil Code, an Extraordinary Shareholders' Meeting may authorise the allocation of earnings and/or earnings reserves to employees of the Company and its subsidiaries by issuing special classes of shares, of an amount corresponding to those earnings and/or earnings reserves.

On 27 October 2017, a Shareholders' General Meeting resolved to grant the Board the power to:

- purchase treasury shares for a period of 18 months;
- hold the treasury shares with no time restraints, in accordance with the terms of Article 2357 of the Civil Code and Articles.132 and 125-ter of the CFA, as well as in compliance with Article 73 of the Issuers' Regulations.



Purchase transactions must respect a minimum and maximum price compared to the Stock Market price of Digital Bros shares, as determined based on the criteria set out in detail in the General Meeting resolution. In any case, purchases shall be contained within the limits of the distributable earnings and the available reserves reported in the latest financial statements (including interim financial statements) approved at the date the transaction takes place. Upon the purchase and disposal of ordinary and/or savings treasury shares, the necessary accounting entries shall be made, in compliance with the law and applicable accounting standards.

As at 30 June 2018, the Company did not hold any treasury shares and none have been traded since that date.

*l) Management and coordination activities (in terms of Art. 2497 of the Civil Code.)*

The Company is not subject to management control and coordination by other companies.

### **3. COMPLIANCE (pursuant to Art.123-bis(2)(a) of the CFA)**

The Company has adopted the Corporate Governance Code.

The governance model adopted by the Issuer takes account of the Company's size, shareholder structure, business segment and the complexity of its operations. Any departures from the Code are described in the various sections herein which also contain an explanation as to why a different system has been adopted and by which governance body.

The Corporate Governance Code is available on the Internet site [www.borsaitaliana.it](http://www.borsaitaliana.it).

The governance structure adopted is not influenced by non-Italian provisions of law in relation to either the parent company, Digital Bros S.p.A. or its Italian and international subsidiaries.

### **4. BOARD OF DIRECTORS**

The Company amended its Articles of Association by means of a Shareholders' Meeting resolution of 28 October 2013 in order to reflect the changes required by Legislative Decree 27 of January 2010 and Law 120/2011.

#### **4.1 Appointment and replacement of Directors (pursuant to Art. 123-bis (1)(I) of the TUF)**

Pursuant to Art. 16 of the Articles of Association, the Board of Directors may be composed of a minimum of five to a maximum of eleven members, as determined by the Shareholders' Meeting, provided that a number of independent directors consistent with the law is ensured.

The Shareholders' Meeting held on 27 October 2017 set the number of the members of the Board at eleven. Unless otherwise established upon appointment, members of the Board of Directors remain in office for three financial years and their mandates shall expire on the date of the Shareholders' Meeting convened to approve the financial statements for the year ended 30 June 2020.

In order to ensure that the non-controlling shareholders are able to elect a member of the Company's Board of Directors, pursuant to Art. 16 of the Articles of Association, the Board of Directors is appointed on the basis of lists submitted by the shareholders, in which the candidates are listed with sequential numbers. Shareholders who, at the time of

submission, hold an equity interest of not less than the amount established by applicable legislation and in accordance with the Issuers' Regulation, may submit a list for the appointment of directors. Each shareholder, or shareholders who are members of a voting syndicate, may not submit more than one list or vote for more than one list, including through nominees or a fiduciary company. Each candidate may be presented on one list only, otherwise they shall be declared ineligible.

The lists submitted must be signed by the shareholders and filed with the Company's registered office by the deadlines established by applicable legislation. The following must be filed along with each list, by the deadlines indicated above:

- statements in which individual candidates accept their candidacy and certify, under their own responsibility, that there are no reasons of ineligibility or incompatibility and that they meet the requirements prescribed by the law and the Articles of Association for their respective offices;
- curricula vitae containing each candidate's personal and professional characteristics, with an indication, where appropriate, that the candidate qualifies as independent;
- certification issued by an authorised broker in accordance with the law attesting to ownership of the number of shares required to submit a list. This documentation may be submitted subsequently but prior to the deadline laid down by the TUF.

Lists for which the foregoing requirements have not been met will be disregarded. The election of the Directors takes place as follows:

- all but one of the members of the Board of Directors, in the number determined by the shareholders' meeting from time to time, shall be drawn from the list that has obtained the greatest number of votes in the shareholders' meeting, in accordance with applicable gender balance provisions, in the sequential order in which they are presented in the list;
- one member of the Board of Directors and, specifically, the first candidate who satisfies the independence requirements established by applicable legislation, in the sequential order in which the candidates are presented in the list, shall be drawn from the list that has obtained the second-greatest number of votes in the shareholders' meeting. However, for this purpose, lists that have not obtained a percentage of votes equal to at least half that required to submit a list will not be considered.

If the candidates elected per the above procedure do not lead to a composition of the Board of Directors that is compliant with applicable gender balance provisions, the candidate of the less represented gender elected as the last in sequential order in the majority list will be replaced by the first candidate of the less represented gender not elected from the majority list according to the sequential order. This procedure will be applied until the composition of the Board of Directors is compliant with applicable gender balance provisions. If the foregoing procedure does not lead to a composition of the Board of Directors that is compliant with applicable gender balance provisions, the last substitution will be made by resolution passed by the shareholders' meeting by relative majority, following the nomination of candidates of the less represented gender.

If just one list of candidates is submitted in accordance with applicable gender balance provisions, all directors will be

elected from that list. If no lists are submitted or if, for any reason, the directors are not appointed according to the procedure envisaged herein, the shareholders' meeting will appoint the directors by resolution passed with the legally-required majorities, in accordance with applicable gender balance provisions. In particular, when appointing directors in cases other than the election of the entire Board of Directors, the shareholders' meeting shall pass resolutions with the majorities required by the law and Articles of Association, without following the above procedure, but without prejudice to compliance with applicable gender balance provisions.

The lists of candidates for office are also published on the Company's website.

Pursuant to Art. 17 of the Articles of Association, if the shareholders' meeting has failed to do so, the Board of Directors shall elect a Chairman from among its members.

The Board of Directors may delegate part or all of its powers to one or more managing directors and/or to an executive committee, without affecting the limits established by law and by the Articles of Association.

Pursuant to Art. 16 of the Articles of Association, if a majority of the directors appointed by the shareholders' meeting leaves office, the entire Board of Directors is dismissed. In this case, the directors dismissed from office must promptly convene a shareholders' meeting to appoint the entire Board of Directors. The Board of Directors remains in office until the new board is elected.

There are no appropriate mechanisms for ensuring the election of the minimum number of independent directors. There are mechanisms in place to ensure that the directors to be elected are allocated according to a criterion that ensures gender balance, in accordance with Art. 147-ter (1) of the TUF.

The Articles of Association do not establish additional independence requirements on top of those imposed on members of the Board of Statutory Auditors by Art. 148 of the TUF, unless provided for by the Code.

The Company is not subject to additional legislation other than the TUF with regard to the composition of the Board of Directors.

With regard to application criterion 5.C.2 of the Corporate Governance Code, in light of the Company's particular share ownership structure, the Board of Directors of Digital Bros S.p.A. has decided not to adopt specific succession plans for executive directors.

#### **4.2 Composition of the Board of Directors (pursuant to Art. 123-bis (2) (d) of the TUF)**

Art. 16 of the Articles of Association provides that the Company shall be managed by a Board of Directors composed of a minimum of five up to a maximum of eleven members. Before appointing the members, the Shareholders General Meeting determines their number and period of office.

The Directors must satisfy the requirements of applicable legislation. A number corresponding to the minimum established by legislation must satisfy independence requirements.

Reference should be made to the attached Table 1, which presents the composition of the Board of Directors and

committees at the reporting date.

#### *Composition of the Board of Directors*

The Board of Directors as of 30 June 2018 has eleven members. It was appointed by the Shareholders' General Meeting of 27 October 2017 and will remain in office until approval of the financial statements for the year ended 30 June 2020. A single list was submitted to the Shareholders' General Meeting by Abramo Galante and Raffaele Galante. The list of candidates was as follows:

<b>Name and surname</b>	<b>Office</b>
Lidia Florean	Non-Executive Director
Abramo Galante	Chairman and Managing Director
Raffaele Galante	Managing Director
Davide Galante	Non-Executive Director
Guido Guetta	Non-Executive/Independent Director
Luciana La Maida	Non-Executive/Independent Director
Irene Longhin	Non-Executive/Independent Director
Elena Morini	Non-Executive/Independent Director
Stefano Salbe	Executive Director
Bruno Soresina	Non-Executive/Independent Director
Dario Treves	Executive Director

The candidates were elected by votes representing 100% of the voting capital.

The independent directors fulfil the independence requirements established by Art. 147-ter of the TUF and the additional requirements laid down by the Corporate Governance Code. Seniority details are provided in the Summary Tables.

Director Bruno Soresina passed away on 6 August 2018.

The personal and professional characteristics of each member of the Board of Directors are summarised in brief below:

**Lidia Florean**

Born in Portogruaro (VE) on 26 September 1951. Italian. Has served the Digital Bros Group since 1990.

**Abramo Galante**

Born in Beirut on 20 April 1963. Italian.

Together with his brother, Raffaele Galante, he founded Digital Bros S.p.A. which has become one of Italy's foremost video game distributors. He heads Digital Bros Group's Business Development Department.

He holds office in Digital Bros Group companies: Chairman and managing director of 505 Games S.p.A. and Game Network S.r.l., Director of 505 Games Ltd., Sole director of 505 Mobile S.r.l., Game Entertainment S.r.l. and Kunos Simulazioni S.r.l., Director of Digital Bros Game Academy S.r.l., 505 Games (US) Inc., 505 Games Interactive Inc.,

Pipeworks Inc., Dr Studio Ltd., 133 W. Broadway Inc., Matov LLC and Hawken Entertainment Inc.

#### Raffaele Galante

Born in Beirut on 7 May 1965. Italian.

Together with his brother, Abramo Galante, he founded Digital Bros S.p.A. which has become one of Italy's foremost video game distributors. He is in charge of the Digital Bros Group's Sales and Marketing Activities.

He holds office in Digital Bros Group companies: Director of 505 Games S.p.A. and 505 Games Ltd., Sole director of Game Service S.r.l., Director of Game Network S.r.l., 505 Games US Inc., 505 Games Interactive Inc., 505 Games Mobile Inc., Pipeworks Inc., Dr Studio Ltd., 133 W. Broadway Inc., Matov LLC and Hawken Entertainment Inc., Sole director of 505 Games Spain Slu and 505 Games France S.a.s., Chairman and managing director of Digital Bros Game Academy S.r.l.

He is a Director of associated company Ebooks&Kids S.r.l.

Also a Director of MATOV LLC..

#### Davide Galante

Born in Damascus, Syria, on 11 January 1933. Italian.

Founded Digital Bros S.p.A: with his sons, Abramo and Raffaele Galante, while continuing to carry out entrepreneurial and commercial activity in the textiles industry.

#### Guido Guetta

Born in Milan, Italy, on 18 November 1969. Italian.

Has a degree in Business Economics from Università Bocconi, Milan.

He is registered in the Roll of Italian Chartered Accountants and is a founding associate of the tax and legal consulting firm Pirola Pennuto Zei & Associati where he has worked since 1994.

Member of the Civil Law Commission of the OIC (Italian National Accounting Standard Setter) and the Scientific Committee of AIAF. He is a lecturer in the IPSOA Master's Degree Programme in Taxation.

#### Elena Morini

Born in Rome, Italy, on 9 March 1980. Italian.

Has a degree in Law from Università Cattolica del Sacro Cuore, Milan.

She began her career as a lawyer in leading law firms and after several years of experience with Piaggio & C. S.p.A., since 2013 she has acted as General Counsel to Moleskine S.p.A., a company which, until 2017, was listed on the STAR segment of Borsa Italiana.

#### Luciana La Maida

Born in Milan, Italy, on 24 April 1977. Italian. Graduated in Education Science Nata in 2001 from Università Cattolica del Sacro Cuore of Milan. She has worked in the HR Department of several multinationals including the Walt Disney Company Italia and the Hay Group.

Since 2011, has been a lecturer in Relationship Psychology in the Department of Economics of the Università Cattolica del Sacro Cuore of Milan. Since January 2005, she has worked as an HR consultant, providing business counselling services and support with the handling of Change Management issues and/or processes.

Irene Longhin

Born in Sesto San Giovanni, Milan, Italy on 12 November 1969. Italian.

Has a degree in Public Relations from the University of Modern Languages of Milan.

She began her career in 1995 with Edelman Public Relations before moving to the Communications Departments of the Zurigo Insurance and Financial Services Group, Hill&Knowlton, Burson-Marsteller and Image Building. In 2010, with two partners, she founded DDL studio, a communications firm focusing on corporate, cultural and financial communications.

Stefano Salbe

Born in Milan, Italy, on 10 March 1965. Italian.

Has a degree in Business Economics from Università Bocconi, Milan.

He began his career in 1990 as an auditor with Deloitte & Touche. In 1995, Stefano became Group Financial Analyst at Eaton Automotive. From 1996 to 2000, he served as Chief Financial Officer of Austin Italia Group. Since 2000, he has been the CFO of Digital Bros Group since 2000. Sole director of 505 Games GmbH, Director of 505 Games S.p.A., Game Network S.r.l., 505 Games Interactive Inc. and 505 Games Mobile US Inc. and General Manager of 505 Games Spain Slu.

Bruno Soresina

Born in Parma, Italy, on 1 January 1944. Italian. Graduated in Economics.

He began his career as a university researcher in 1969. Then, in 1971, he joined the GTE Group, where he occupied various senior positions. From 1986 to 1992 with Siemens he served as General Manager and Executive Member of Siemens Group Private Telecommunications. From 1992 to 1996, he served as Managing Director and General Manager of Federmeccanica. From 1997 to 2007, he was with ATM Milano, where he acted as Chairman and Managing Director. He is Chairman of SIAM 1838 (*Società d'Incoraggiamento d'Arti e Mestieri*) and acts as a consultant in strategy and organisation.

Dario Treves

Born in Milan, Italy, on 2 March 1968. Italian.

Has a degree in Law from Università degli Studi, Milan.

Has served Digital Bros Group since 1999 and holds the position of General Counsel.

Member of the Milan Bar Association and counsel to the Court of Cassation.

Owner of a law firm with specific expertise in civil, procedural and bankruptcy law.

Director of Game Network S.r.l..

Each member of the Board of Directors is required to deliberate in an informed, autonomous manner, while pursuing

the objective of creating value for the shareholders and is required to inform the Board of Directors of any positions as director or statutory auditor with companies listed on regulated markets in Italy or abroad, or with finance, banking, insurance companies or companies of significant size.

The Directors do not hold positions with other listed companies or with finance, banking or insurance companies or companies of significant size.

#### *Diversity Policy*

Since the appointment of new Digital Bros corporate governance bodies in 2015, gender balance has been achieved in the composition of the Board of Directors and the Board of Statutory Auditors, as required by Law no 120 of 12 July 2011 (“Law 120/2011”), by the TUF and by Consob Resolution no 18098/2012. In more detail, Law 120/2011 provides that, upon the first renewal of the Board of Directors and the Board of Statutory Auditors a year after the law comes into force, a share of at least one-fifth of the Directors and the Statutory Auditors elected shall be reserved for the less well represented gender with a share of at least one third reserved for that gender in the next two appointment periods. Upon the first renewal of its Board of Directors on 27 October 2017, the Digital Bros Shareholders’ General Meeting appointed four female members to the Board of Directors, in accordance with the requirements of Law 120/2011.

Moreover, the characteristics of the members of the Board of Directors are such as to guarantee an appropriate level of diversity, not only in terms of gender but also with regard to factors like age and professional and educational background.

At the reporting date, the Company fell within the scope of article 123-bis (5-bis) and, consequently, has omitted the publication of information on its diversity policy in terms of Article 123-bis (2)(d-bis) of the TUF.

#### *Maximum number of offices that may be held in other companies*

In accordance with the provisions of the Code on the role of the Board of Directors and the effective performance of its functions, the Board of Directors, via a Board resolution, has expressed its stance on the maximum number of directorships, establishing the limits that may be regarded as compatible with the effective fulfilment of the office of director. Directors may not serve as director of more than five other companies listed on regulated markets (in Italy and internationally), in finance, banking or insurance companies, or in companies of significant size, and must undertake, upon accepting the position of director, to dedicate the necessary time to the diligent performance of their duties, bearing in mind the other offices accepted. Group companies are not to be taken into account for the purposes of the maximum number of offices held in other companies.

The current composition of the Board of Directors is consistent with the above general criteria.

#### *Induction Programme*

The Chairman of the Board of Directors has ensured that, after their appointment and during their term of office, directors may take part in initiatives aimed at increasing their knowledge of the Group’s sector of operation, including through participation in company events, trade fairs, etc.

#### **4.3 Role of the Board of Directors (pursuant to Art. 123-bis (2) (d) of the TUF)**

The Board of Directors bears exclusive responsibility for managing the Company and undertakes the transactions required for the pursuit of the corporate objectives.

Pursuant to Art. 18 of the Articles of Association, meetings of the Board of Directors - without prejudice to the powers of convocation reserved for the Board of Statutory Auditors in the cases provided for by law - are convened by the Chairman of the Board of Directors, according to the conditions indicated therein, or at the written request of any member. Said Art. 18 of the Articles of Association also provides that there must be at least four days between the day on which the notice convening the meeting is sent and the scheduled date of the meeting. However, in urgent cases, this period may be shorter, but never less than one day. The calendar of meetings at which annual and interim results are to be examined was submitted to Borsa Italiana by the established deadline and has been published on the Company's website.

The Board of Directors hold all powers of ordinary and extraordinary management of the Company, with the express prerogative of undertaking all acts deemed appropriate for the achievement of the Company's objectives, as provided by Article 20 of the Articles of Association, excluding only those reserved for the shareholders' meeting by the law and the Articles of Association. The following powers are reserved solely for the Board of Directors under the Company's Articles of Association:

- a) to appoint the executive committee, where applicable, and to establish the term of office, powers and remuneration of its members;
- b) to allocate the remuneration awarded to the Board of Directors to individual directors and managing directors, in consultation with the Board of Statutory Auditors;
- c) to set up any committees and commissions with a consultative role and to determine their powers, duties and operating procedures;
- d) to report to shareholders during Shareholders' Meetings;
- e) to report to the Board of Statutory Auditors, at least quarterly, on the activities performed and the transactions considered most significant.

As established by company practice and by a Board resolution, the Board of Directors is exclusively responsible for:

- a) examining and approving the strategic, business and financial plans of the Company and the Group, the corporate structure of the Group and the Company's corporate governance;
- b) determining the nature and level of risk compatible with the issuer's strategic objectives, taking account of all the risks that may prove to be significant in terms of medium to long term sustainability of the issuer's operations;
- c) verifying the adequacy of the organisational and administrative and accounting structure of the Company and the Group, with particular regard to the internal control system and conflict of interest management;
- d) granting and revoking delegated powers to the managing directors and establishing their limits and conditions of exercise;
- e) supervising general operating performance, with a particular focus on situations of conflict of interest, taking



into account the information received from the managing directors and the internal control and risks committee and periodically comparing actual and planned results;

- f) examining and approving in advance the transactions of the Company and its subsidiaries of significant strategic and financial importance, with a particular focus on situations of potential conflict of interest and related party transactions;
- g) drafting and adopting the Group's corporate governance rules;
- h) establishing the frequency with which the managing directors report to the Board of Directors;
- i) conducting an assessment, at least once a year, of the size, composition and functioning of the Board of Directors and committees instituted. By virtue of this assessment, it expresses opinions for the shareholders of the professionals whose presence on the Board of Directors is deemed appropriate, prior to the appointment of the new Board of Directors;
- j) providing information in the corporate governance report concerning (1) its composition, with an indication for each member of his or her position, role within the Board of Directors, main characteristics and length of service; (2) the methods of application of Art. 1 of the Corporate Governance Code, the number and average duration of meetings of the Board of Directors and the attendance in percentage terms of each director; (3) the conditions of the process of evaluation of the functioning of the Board of Directors and committees instituted;
- k) adopting, on proposal by a managing director or the Chairman of the Board of Directors, a procedure for the internal management and disclosure of documents and information concerning the issuer, with particular regard to privileged information;
- l) expressing its stance on the maximum number of positions of director or statutory auditor at companies listed on regulated markets (Italian and abroad), at finance, banking or insurance companies, or companies of significant size, considering the participation of the directors in the committees instituted;
- m) approving commitments of any nature with a duration of more than five years;
- n) approving commitments that relate to leases with a term of more than two years and the purchase of real properties.

The Chairman of the Board of Directors ensures that the information and documents relevant to the decisions within the scope of responsibility of the Board of Directors are made available to the members of the Board of Directors and the Board of Statutory Auditors, in the manner and with the timing deemed appropriate. Managers of the Company and the Group participate in meetings of the Board of Directors in order to provide the necessary clarification concerning on items on the agenda.

The rules and procedures of the Board of Directors provide that the Chairman shall ensure that adequate information is provided in good time to all Directors concerning the order of business on the agenda for each meeting. If the order of business relates to initiatives of an ordinary nature, the relevant documents, where available, are normally forwarded two business days prior to the scheduled date of the meeting of the Board of Directors, unless particular confidentiality considerations urge otherwise, with especial regard to privileged data or information. The Chairman of the Board of Directors assesses initiatives of an extraordinary nature on a case-by-case basis. These time requirements were respected during the reporting period.

In the year ended 30 June 2018, the Board of Directors met 7 times, with an average duration of one hour and 50 minutes.

For the financial year ending 30 June 2019, five meetings of the Board of Directors are scheduled, one of which has already been held.

The dates of meetings of the Board of Directors for the review of financial information are published in advance. The meeting of the Board of Directors held to approve the annual financial statements is also announced in advance. The financial calendar is available from the Company's website.

Information was not withheld in advance from members of the Board of Directors for reasons of confidentiality in relation to any matters discussed at meetings of the Board of Directors during the reporting period.

The Board of Directors has evaluated and approved the organisational, administrative and accounting structure, with particular regard to the internal control system and conflict of interest management of the Issuer and Group companies. The evaluation was conducted with the aid of the internal control and risk management committee which, during its meetings, verified the effective functioning of the internal control system on an ongoing basis.

On 27 October 2017, the Board of Directors conducted its annual assessment, pursuant to application criterion 1.C.1 g) of the Code and concluded that the size, composition and functioning of the Board of Directors and its committees were suited to the Company's management and organisational requirements. The assessment took account of the professional characteristics and managerial and professional experience of its members and considered the fact that the current Board of Directors is composed of eleven directors, seven of whom are non-executive directors (with four of them independent directors), in accordance with the criteria set forth in Art. 148 (3) of the TUF and the Code. In conducting this assessment, the Board was assisted by the work done by the internal control and risk management committee and the experience of its members. This analysis was carried out taking account of the complexity and size of the Company and the Group. As part of its duties, the Board of Statutory Auditors verified the proper application of the criteria and procedures adopted by the Board of Directors in assessing the independence of its members.

On 12 September 2017, in view of the reappointment of the Board, the Board of Directors provided guidance to the shareholders on the managerial and professional experience considered appropriate for membership of the Board.

On 27 October 2017, a Shareholders' General Meeting approved the annual remuneration for the entire Board of Directors of Euro 1,150,000.00. The remuneration of each director was approved by the Board of Directors, in consultation with the Board of Statutory Auditors and the Remuneration Committee. The Company implements a remuneration policy for governance bodies that provides for incentives linked to achievement of targets.

The amount of the remuneration received by members of the Board of Directors during the year ended 30 June 2018 is detailed in the Remuneration Report.

The Board of Directors assessed the general operating performance and conducted a quarterly comparison of actual and forecast results.

On 11 November 2010, the Board of Directors approved the procedure on the realisation of significant transactions in which a director has an interest. The procedure is available in the Corporate Governance section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

The prior approval of the Company's Board of Directors is required for transactions to be carried out (including through the execution of binding preliminary agreements or master agreements) by the Company or by its subsidiaries falling into the following categories, as they are deemed to be significant transactions:

- a) mergers, demergers, disposals, and acquisitions, in any form, of equity interests in companies, businesses or business units;
- b) investments in property, plant and equipment that exceed Euro 1,000,000 per transaction;
- c) leases (or sub-leases) for property or leases (or sub-leases) of businesses or business units with a term of more than nine years or for an amount that exceeds Euro 1,000,000 per transaction;
- d) settlements of disputes, in or out of court, involving amounts that exceed Euro 1,000,000 per transaction;
- e) disposals of operating assets with a total value of more than Euro 1,000,000 per transaction;
- f) the granting of loans or guarantees that exceed Euro 3,000,000 per transaction, if in the interest and/or for the benefit of companies (or associations, foundations, consortia or entities) directly or indirectly controlled by the Company, or Euro 500,000 if for or in the interest of third parties;

In order to avoid hindering the ordinary management of the Company, the transactions indicated in points d) and g) may be carried out by the managing directors if appropriate information is submitted to the Directors and Statutory Auditors and they may be subsequently ratified by the Board of Directors.

In accordance with applicable laws, regulations and the Articles of Association, the Board of Directors is responsible for prior review and approval of Group transactions in which one or more directors have an interest, on their own account or on account of third parties.

Related party transactions entered into by Group companies are reserved for the prior review and approval of the Board of Directors when such transactions are of strategic importance from the standpoint of financial performance or financial position. On 11 November 2010, the Board of Directors approved the procedure for related party transactions to reflect the amendments introduced by Consob resolution 17221 of 12 March 2010. General criteria have been established for the identification of significant related party transactions. The procedure is available in the Corporate Governance section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

A Shareholders' General Meeting has authorised exceptions to the non-competition requirements of Art. 2390 of the Civil Code. The Board of Directors has not had to examine any cases of this nature.

#### **4.4 Governance bodies**

##### ***Managing Directors***

Abramo Galante and Raffaele Galante have been appointed as Managing Directors.

At the meeting held on 27 October 2017, still in pursuit of an efficient, flexible system for the management of the Company's operations, the Board of Directors granted the Managing Directors all powers of ordinary and extraordinary management, except for those reserved for the Board of Directors by law, by the Articles of Association or by a specific

resolution of the Board of Directors.

In any event, all decision-making powers and powers of ordinary and extraordinary administration involving amounts in excess of Euro 5,000,000.00 must be exercised with the joint signature of both Managing Directors.

The interlocking directorate situation envisaged by criterion 2.C.5 of the Code does not apply.

### ***Chairman***

The Chairman convenes the Board of Directors at the Company's registered office, or at another location outside Italy but in a member state of the European Union, and ensures that the members of the Board of Directors receive the documentation and information necessary to enable the Board to express its position, in an informed manner, on the subjects put before it for examination and approval, suitably in advance of the date of the meeting, except in cases of necessity and urgency.

Pursuant to the law and the Articles of Association, the Chairman holds the power of legal representation of the Company and the power of signature for all legal transactions. The Chairman has also received delegated management powers as Managing Director.

The Chairman is the person primarily responsible for the management of the Group and is not a controlling shareholder of the Company.

The Chairman ensures that all Directors participate in initiatives to increase their knowledge of the industry, the Company's situation and dynamics and the applicable legislative framework so that they can draw on their various professional skills and perform their roles effectively.

### ***Executive Committee***

No Executive Committee has been established.

### ***Reporting to the Board of Directors***

During the reporting period, at the earliest possible meeting and at least quarterly, the Managing Directors reported to the Board of Directors on the activities carried out in exercise of the powers delegated to them and on the most significant transactions.

## **4.5 Other executive directors**

Pursuant to application criterion 2.C.1 of the Code, the executive directors are: Stefano Salbe who serves the Issuer in an executive capacity and, in particular, holds positions as Group Chief Financial Officer, Executive Director in charge of internal control and risk management, Chairman of German subsidiary 505 Games GmbH and General Manager of 505 Games Spain Slu; and Dario Treves who acts as General Counsel to the Group.

## **4.6 Independent directors**

On 27 October 2017, on the basis of information provided by each Director, the Board of Directors checked that its members satisfied the independence requirements established by Art. 148 (3) of the TUF and Art. 3 of the Corporate Governance Code and duly established the independence of Directors Guido Guetta, Elena Morini, Bruno Soresina,

Luciana La Maida and Irene Longhin who confirmed that they met the independence requirements laid down in Art. 148 (3) and (4) of the TUF and that, pursuant to the Code, none of the circumstances envisaged in 3.C.1 and 3.C.2 of the Corporate Governance Code or any other situations undermined their qualification as independent directors. Bruno Soresina would not qualify as independent in terms of application criterion 3.C.1 (e) of the Code. On 13 September 2016, the Board of Directors deemed Bruno Soresina to be independent on the basis of the de facto situation, in departure from the application criterion of the Code (which is not binding).

The independent directors have undertaken to remain independent for the duration of their terms of office and to inform the Board of Directors in a timely manner of any situations that might jeopardise their independence.

The independence assessment was conducted in accordance with the application criteria laid down in the Code and the prudent view of the Board of Directors, with the Director involved in each case abstaining. In particular, on the basis of the information made available by the interested parties and/or otherwise available, the Board of Directors assessed the relationships that normally undermine independence and concluded that the existing relationships are not such as to compromise the autonomy of judgement of the interested parties, in consideration of their high level of professionalism.

The Board of Statutory Auditors has verified the proper application of the assessment criteria and procedures adopted by the Board of Directors in assessing the independence of its members and has not made any observations.

The non-Executive Directors and independent directors are sufficient in terms of number and authority to ensure that their judgement may have a significant bearing on the Issuer's decision-making process. Non-executive directors and independent directors bring their specific expertise to bear on discussions within the Board of Directors and thereby contribute to the decision-making process in a manner consistent with the Company's interests.

During the year ended 30 June 2018, the independent directors met once without the other directors. At that meeting, they analysed the Group's internal control structure and its internal control activities.

The contribution made by the independent directors enables the Board of Directors to check whether a duly independent approach has been followed in examining cases of potential conflict of interest involving the Company and its controlling shareholders.

#### **4.7 Lead independent director**

On 27 October 2017, given that the current Board has more members than in the past and in light of the increased number of non-executive, independent directors, the Board of Directors designated independent director Guido Guetta as Lead Independent Director, in accordance with the recommendations contained in Article 2.C.3 of the Code. He has been given the following duties as recommended by Article 2.C.4 of the Code:

- a) to act as a point of reference and coordination of the requests and contributions of the non-Executive Directors and, in particular, the Independent Directors;
- b) to cooperate with the Chairman of the Board of Directors to ensure that the Directors receive a complete flow of information in a timely manner.

The Lead Independent Director performed his duties during the reporting period, taking part in Board of Directors' meetings and Committee meetings.

## 5. PROCESSING OF CORPORATE INFORMATION

The Chairman and Managing Director, along with the Investor Relations Manager, supervise the communication to the public of events occurring within the Group's sphere of activity. The directors and managers in question are in charge of the external disclosure of documents and information, with particular regard to privileged information. Employees, directors, statutory auditors and independent contractors are required to treat as confidential documents and information obtained in the course of their duties.

The Company informs the supervisory authorities, market management company and the public, in the most appropriate forms and in accordance with regulations, of the events that occur within its sphere that are not in the public domain and which may, if rendered public, significantly influence the price of the listed financial instruments issued by the Company.

Since the coming into force in July 2016 of Regulation (EU) No. 596/2014 (MAR - Market Abuse Regulation) and despite the failure to complete / adapt the Italian legislative and regulatory framework, on 12 September 2017, noting that the procedure for the management of privileged information (adopted on 28 March 2017) and the internal dealing procedure (adopted on 13 September 2016) had been superseded, the Board of Directors approved a new privileged information and insider dealing procedure. Further measures introduced by the legislator and/or by Consob may require amendments to be made to the foregoing (even in the short term).

In more detail, the Procedure for the management of privileged information:

- (i) governs the identification of privileged information (by establishing related criteria and responsibilities/processes). In light of the new regulatory environment, the process for the ongoing detection of privileged information in advance has been abandoned, but the safeguards to protect the confidentiality of privileged information have been extended to information that does not precisely qualify as privileged but which could potentially qualify as such;
- (ii) highlights the obligations and prohibitions arising from access to privileged information or from the potential to generate it while reiterating the principle that awareness and application of legislation applicable to informed persons and/or insiders is the personal responsibility of the respective recipients thereof;
- (iii) governs the communication of privileged information to the public (as well as communication delays) and clarifies the roles and responsibilities of the various parties involved;
- (iv) describes the procedure for compliance with the obligation to draw up lists of persons who have access to privileged information and includes an appropriate supplementary section reserved for those with permanent access to all Company information that is classed as privileged.

On 13 September 2016, the Board of Directors approved the insider dealing procedure (amended on 12 September 2017) which:

- a) sets out a series of operational references, application principles and interpretative criteria concerning insider dealing and the closed period;
- b) highlights the regime of legal sanctions in the event of non-compliance with relevant regulations and also specifies the contractual liability and the possible consequences for breach thereof.

In accordance with Art. 2.2.3, paragraph 3 (P) of the Borsa Italiana Regulations, applicable to companies with shares

listed on the STAR Segment of the MTA market and in terms of the internal dealing procedure, relevant persons and persons with close ties to them may not undertake transactions until disclosure to the public and in the thirty preceding days, of the outcome of meetings of the Company's Board of Directors examining mandatory periodical statements, proposals for the distribution of advances on dividends and preliminary results and, if disclosed on such an occasion, the proposal for the annual dividend to be submitted to the shareholders' meeting. The restriction does not apply to the purchase of shares through the exercise of rights awarded in the context of stock-option and stock-grant plans, without prejudice to the obligation not to proceed with the sale thereof in the periods indicated.

The procedures may be consulted in the Investors section of the website at [www.digitalbros.com](http://www.digitalbros.com).

## **6. SUB.COMMITTEES OF THE BOARD (in terms of Art.123-bis (2)(d) of the TUF)**

In order to increase the effectiveness of the work of the Board of Directors, an internal control and risk management committee, a remuneration committee and a standing committee of unrelated independent directors have been instituted as subcommittees of the Board.

Given that the current list-based voting mechanism ensures a transparent appointment procedure and a balanced composition for the Board of Directors and has always permitted the presence of an appropriate number of independent directors, the Board of Directors concluded it was not necessary to establish an internal Appointments Committee.

No committees have been instituted other than those envisaged by the Code. It should be noted that no committees have been established with the functions of two or more of the committees as provided for by the Code and that the functions of committees envisaged by the Code have not been reserved for the Board of Directors.

## **7. APPOINTMENTS COMMITTEE**

Given that the current list-based voting mechanism ensures a transparent appointments procedure and a balanced composition of the Board of Directors and that it has always led to the presence of an appropriate number of independent directors, the Board of Directors concluded it was not necessary to establish an internal Appointments Committee.

## **8. REMUNERATION COMMITTEE**

*Composition and functioning of the remuneration committee (pursuant to Art. 123-bis (2) (d) of the TUF)*

The Board of Directors has established a remuneration committee, composed of three non-executive, independent directors for the entire duration of the financial year: Guido Guetta, Luciana La Maida and Bruno Soresina.

The Board of Directors considered Guido Guetta's knowledge and experience of accounting and financial matters to be adequate at the time of his appointment.

The membership of the Remuneration Committee did not undergo any changes during the reporting period.

No Executive Directors participated in meetings of the Remuneration Committee during which proposals on directors' remuneration were made. The Chairman of the Board of Statutory Auditors takes part in the meetings.

During the reporting period ended 30 June 2018, the committee met four times with meetings lasting an average of one hour and 35 minutes and with the participation of all members. The following were examined on these occasions:



management incentive plans, directors' remuneration and their proper application at Group level for the purposes of the Remuneration Report. Minutes of the meetings were taken.

The Committee has scheduled four meetings for the current year, one of which has been duly held.

#### *Functions of the remuneration committee*

In accordance with the Code, the Remuneration Committee is entrusted with:

- submitting proposals to the Board of Directors concerning the remuneration of managing directors and other directors who serve in particular offices, while monitoring the application of the decisions reached by the Board of Directors;
- periodically assessing the criteria adopted for the remuneration of key management personnel;
- supervising their application on the basis of the information provided by the Managing Directors;
- formulating general recommendations for the Board of Directors on remuneration, the determination of performance objectives related to the variable component of remuneration and checking that such objectives have actually been achieved;
- reviewing the Remuneration Report pursuant to Art. 147-ter of the TUF.

The establishment of this Committee guarantees the broadest, most transparent information on the remuneration due to the Managing Directors and senior executives and the methods for determining such remuneration. However, it is understood that, in accordance with Art. 2389 (3) of the Civil Code, the remuneration committee acts solely in an advisory capacity while the power to determine the remuneration of directors with particular roles remains, in any event, with the Board of Directors, having sought the opinion of the Board of Statutory Auditors.

The Company has also approved rules and procedures for the operation of the Committee. Under these rules and procedures, the committee meets at least twice a year and always prior to the Board of Directors' meeting called upon to approve the remuneration of Directors with particular roles and/or of the Company's senior management.

During the year, the Committee enjoyed access to all information and company departments necessary for the performance of its duties.

The Committee did not use the services of any external consultants.

No additional functions have been assigned to the Remuneration Committee.

The Board of Directors provides the Committee with the resources required to perform its functions periodically, also on request by the Committee.

## **9. DIRECTORS' REMUNERATION**

#### *General remuneration policy*

The Board of Directors has established a remuneration policy for executive directors, non-executive directors and key management personnel.

A significant portion of the total remuneration of executive directors and key management personnel – albeit well-balanced compared to the fixed portion - is linked to the financial results achieved by the Issuer and the achievement of predetermined objectives. The variable portion is commensurate in percentage terms to the fixed component and,



therefore, has an upper limit. When determining the variable component, the Board of Directors deemed the fixed component to be sufficient remuneration for the services of directors and key management personnel.

The short-term performance objective has been linked to the gain realised on the sale of the investment in Pipeworks Inc. and is easily measurable.

No long-term objectives have been set as the share-based remuneration plan is considered to satisfy the requirements of the Code.

Performance objectives are amended from one year to the next based on the objectives pursued by the Group and as proposed by the remuneration committee. The variable component is paid after approval of the Financial Statements.

Directors' remuneration is determined by the Board of Directors based on a proposal submitted by the Remuneration Committee. On 27 October 2017, a Shareholders' General Meeting approved gross annual remuneration of Euro 1,150,000.00 for the three-year period 2018-2020.

No indemnities are payable for early termination of office or employment.

The Directors present the Remuneration Report to the Shareholders' General Meeting.

#### *Share-based remuneration plans*

On 11 January 2017, the Shareholders' General Meeting approved the "2016-2026 Stock Option Plan" aimed at a limited number of directors and managers of the Company and of the Group who were identified by the Board of Directors.

The options assigned under the 2016-2026 Stock Option Plan have an average vesting period of at least 3 years. Director beneficiaries are required to hold continuously, until the end of their mandate with respect to each vesting period, a number of shares equal to at least 20% of the shares subscribed upon the exercise of their options.

#### *Incentive schemes for the head of the internal audit department and the financial reporting manager*

No incentives have been envisaged for the head of the internal audit department as they are not deemed necessary given the nature of his duties.

The incentive scheme for the financial reporting manager has already been described above, given that this position is held by an executive director.

#### *Remuneration of Non-Executive Directors*

The remuneration of non-executive directors is not linked to the Company's financial results. Non-executive directors are not awarded share-based incentive plans. The remuneration of non-executive directors is determined as a fixed amount at the time of the Board resolution that sets their remuneration.

*Directors' indemnities in case of resignation, dismissal or departure as a result of a takeover bid (pursuant to Art. 123-bis (1) (i) of the TUF)*

No agreements have been entered into between the Company and the Directors for indemnities payable in case of resignation, dismissal or departure without cause, or where the working relationship is severed following a public takeover bid.

## **10. INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE**

The Board of Directors has established an Internal Control and Risk Management Committee after checking that non-executive, independence requirements were met in accordance with the law and the application criteria of Art. 3 of the Code. At the reporting date, the current Committee, which was appointed by a resolution dated 27 October 2017, consisted of three non-executive, independent directors: Guido Guetta, Elena Morini and Bruno Soresina.

*Composition and functioning of the Internal Control and Risk Management Committee (pursuant to Art. 123-bis (2) (d) of the TUF)*

The membership of the Internal Control and Risk Management Committee did not change during the year and is as follows: Guido Guetta, Elena Morini and Bruno Soresina.

The Internal Control and Risk Management Committee has identified Guido Guetta as a director with sufficient experience of accounting and financial matters.

During the year ended 30 June 2018, the Committee met five times with meetings lasting an average of around 2 hours and six minutes. All members attended the meetings as did the Board of Statutory Auditors and the Director in charge of Internal Control and Risk Management. Minutes of the meetings were taken.

The committee has scheduled four meetings for the current year, one of which has already been held.

The Committee has not used the services of external consultants as no such need was identified.

*Functions assigned to the Internal Control and Risk Management Committee*

The Internal Control and Risk Management Committee performs the following functions:

- a) provision of preventive assistance to the Board of Directors in determining the guidelines for the internal control system and with the identification, monitoring and management of key risks, while checking compatibility with strategic objectives;
- b) issue binding opinions on the appointment and removal of the head of the internal audit department, as well as on the reasonableness of his/her remuneration;
- c) assess, along with the financial reporting manager and the auditors, the suitability of the accounting policies applied and their consistency for the purposes of preparing the consolidated financial statements;
- d) prepare, upon request by the Director in charge of internal control, opinions on specific issues regarding the identification of major business risks and the design, implementation and management of the internal control system;
- e) reviews the periodical reports prepared by the internal audit department;

- f) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit department;
- g) asks the internal audit department to audit specific operational areas;
- h) reports to the Board of Directors at least six-monthly, in conjunction with the approval of the annual financial statements and the six-monthly financial report, on the activities and adequacy of the internal control system;
- i) supports the Board of Directors in making assessments and decisions with regard to the management of key risks resulting from harmful events, also by means of investigations.

No additional functions have been assigned to the Committee.

During the reporting period, the Internal Control and Risk Management committee analysed the work plan drawn up by the Director in charge of Internal Control and checked progress with the plan. It assessed the work plan drawn up by internal audit, monitored its status and worked with the financial reporting manager to assess the proper application of accounting policies and the consistency of such policies for the purposes of preparing the consolidated financial statements. The Chairman of the Board of Statutory Auditors (or another member of said Board as appointed by its Chairman) took part in the Committee's work.

In the performance of its duties, the Internal Control and Risk Management Committee may access company information and departments necessary to complete its work. It did not require any financial resources to perform its duties.

The Board of Directors provides the Internal Control and Risk Management Committee with the resources required to perform its functions, also on request by the Committee.

## **11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The internal control system is the set of processes aimed at monitoring the efficiency of company operations, the reliability of financial information, compliance with laws and regulations and the protection of company assets. In accordance with the principles and criteria established by the Code, the internal control system implemented by the Group involves:

- a) the Board of Directors, which sets the guidelines for the internal control system (so that the main risks affecting the Company and its subsidiaries are properly identified and adequately measured, managed and monitored) and periodically assesses the adequacy and effective functioning of that system through the appointment of the Internal Control and Risk Management Committee and through periodical reporting;
- b) the Board of Directors determines the nature and level of risk compatible with the strategic objectives as part of the medium-long term planning process;
- c) every year, the Board of Directors approves the internal audit plan, after consulting the Board of Statutory Auditors and the Director responsible for the internal control system;
- d) the Managing Director, who is responsible for implementing the guidelines established by the Board of Directors and, in particular, for identifying the main company risks, with support from the Director in charge of the internal control and risk management system;
- e) the director responsible for internal control, who checks that the internal control system remains adequate, fully operational and functional and, where necessary, suggests that the control and risks committee and the Board of Directors adopt all measures aimed at eliminating operational and financial risks and at making company procedures more efficient and effective;

- f) the Internal Control and Risk Management Committee, which plays a consultative and advisory role, including *inter alia* assessment of the proper use of accounting policies and their suitability for preparation of the consolidated financial statements;
- g) the head of internal audit, who, in coordination with the Internal Control and Risk Management committee, plans risk-monitoring activities, prepares a work plan and reports the main internal audit findings to the Internal Control and Risk Management Committee and the Director responsible for internal control.

The internal control system is the set of rules, procedures and organisational structures designed to ensure that the business is properly and fairly managed in line with predetermined objectives, through an adequate process of identification, measurement, management and monitoring of major risks. The internal control system relating to the financial reporting process forms an integral part of the broader risk management system. The internal control system helps ensure the safeguarding of company assets, the efficiency and efficacy of company operations, the reliability, trustworthiness, accuracy and timeliness of financial reporting and compliance with laws and regulations.

In performance of its functions in relation to the internal control system, the Board of Directors takes due account of the models of reference and best practices on an Italian and international level, while adapting them to the complexity of the Group's processes and organisational structures.

In order to ensure the effective, proper application of these provisions and, more generally, all rules and procedures governing processes for the collection, processing, presentation and dissemination of company information, Digital Bros has implemented an internal control system as described in the internal control manual, which is periodically updated and submitted for the approval by the Board of Directors. The manual is then distributed after each amendment and after approval by the Group's organisational structures.

The purpose of the internal control manual is to make it easier for the Directors and/or key employees and/or employees in charge of lines of business to consult those procedures deemed essential by the Board of Directors to meet internal control requirements.

The manual contains a description of all the main tools created by the Group to meet internal control objectives:

- management planning and control: the structured system for the preparation of short and/or medium/long-term business plans and forecasts and regular monitoring thereof;
- Legislative Decree 231/2001: the organisational model prepared for the purposes of the Decree in question and analysed in a specific section of the Report;
- the risk-identification procedure: defines the roles, functions and methods whereby the Company identifies, assesses and monitors the main risks to which the Group is exposed in order to plan any corrective actions;
- procedure for the identification of corporate events: this determines the criteria used to ensure the reliability, completeness and timeliness of financial reporting, including compliance with the requirements of Legislative Decree 262/2005;
- manual of Group operating procedures, governing the main processes implemented by the Company and its subsidiaries.

### *Stages of the Internal Control and Risk Management System relating to the financial reporting process*

The process for the identification of financial reporting risks forms an integral part of the broader risk identification and management and internal control system implemented by the Group.

Risk identification is an ongoing process that involves the Board of Directors together with level-one organisational structures in coordination meetings that are held periodically throughout the year. Their work is summarised in a risk matrix that is prepared and regularly reviewed by the Director responsible for internal control who attends the coordination meetings. Records are maintained for each risk with a description of the risk in question, the gross risk assessment rating based on a probability/impact matrix and the presence of any mitigating factors and/or safeguards to reduce and monitor the risk, with the consequent allocation of a net risk rating. The director responsible for internal control is assisted in this task by the Internal Control and Risk Management Committee.

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

The completeness of the risk map and the allocation of net risk ratings are jointly assessed by the two Managing Directors and by the Director responsible for internal control. The Board of Statutory Auditors supervises the efficacy of this process. The main risks, both of an operational nature and relating to financial reporting, are reported in a specific section of the consolidated financial statements.

Any weaknesses and/or improvements to be made to the risk management system, especially with regard to financial reporting risks and, more generally, to internal control systems, as identified during the process described above, represent the starting point for the work planned by the internal control function, in terms of both the implementation of control mechanisms aimed at safeguarding risks and monitoring activities. The approach taken depends on the significance of the potential impact on the Group's operating risk.

The assessment of controls in terms of both improvement and operations is documented at least once every six months by the Director responsible for internal control who reports to the Board of Directors on the matter.

### *Roles and functions involved*

The Group markets video games around the world through commercial subsidiaries that purchase products from Group companies and resell them locally. The phases of video game production and creation and the purchase of video games from third parties are carried out by the parent company and/or Italian subsidiaries and handled directly by the two Managing Directors, within the limits of the powers delegated to them, jointly or separately, or by the Board of Directors in case of larger amounts.

The relative homogeneity of the processes employed and the creation of a single ERP platform shared by all Group companies with automatic, advance processes of control of sales and service purchase processes allows for effective controls of the processes of individual units so as to maintain a relatively modest level of delegated powers for individual entities in terms of the potential impact of fraud and/or errors and thus on financial reporting. The payment authority granted to various individuals by the two managing directors is limited to amounts deemed below the threshold for

significant misstatements in financial reporting.

The common ERP platform also permits:

1. the efficiency of the process of consolidation and standardisation of accounting policies which is carried out at parent company level and monitored by means of an appropriate procedure;
2. the extension of the scope of relevant companies and processes for the purposes of Legislative Decree 262/2005 to all companies and processes, as it is easy to implement control mechanisms for all companies and processes employed.

Even though the information is available at any time, quarterly reports are still issued by the heads of the individual entities.

The Group's short-term planning and control processes provide for a structured timetable of activities on a quarterly basis and are prepared through a structured system of coordination meetings attended not only by the Managing Directors but also by individual heads of operating segments and/or functions. Progress with plans during the quarter is monitored on an ongoing basis through business intelligence systems and at least one coordination meeting per quarter is held.

Medium/long-term planning processes involve a smaller group of individuals (executive directors and heads of operating segments) on a six-monthly basis with meetings designed to check the status of the planning process and to analyse variances.

Short-term planning and related variance analysis are submitted for the attention and approval of the Board of Directors on at least a quarterly basis. Meanwhile, this occurs six-monthly for medium/long-term planning and related variance analysis.

Most recently on 28 February 2018, the Board of Directors assessed the Internal Control and Risk Management System and concluded it was appropriate and effective with regard to the characteristics of the business and the risk profile. This assessment was performed with assistance from the Internal Control and Risk Management Committee which, during its meetings, was able to perform ongoing checks on the proper functioning and effectiveness of the internal control system.

### **11.1 Director in charge of the internal control and risk management system**

Stefano Salbe, the director in charge of the internal control and risk management system:

- (i) has direct access to all information useful for performance of the functions assigned to him;
- (ii) reports back on his work to the Internal Control and Risk Management Committee and to the Board of Statutory Auditors;
- (iii) has been provided with the resources required to perform the duties assigned to him;
- (iv) has the power to ask the internal audit department to perform audit work on specific operational areas.

The Director in charge of internal control:

- is responsible for identifying company risks, liaising with other company functions and periodically reporting to the Board of Directors;
- executes the guidelines issued by the Board of Directors, plans, implements and manages the internal control system and verifies the adequacy, effectiveness and efficiency of its processes;
- is responsible for adapting the internal control system to market dynamics, the transactions undertaken and legislative and regulatory changes;
- proposes the appointment and removal of the head of the internal audit department.

### **11.2 Head of the Internal Audit Department**

On 10 November 2016, the Board of Directors eliminated the role of internal control officer and, as proposed by the Director in charge of the internal control system, with the prior approval of the Internal Control and Risk Management Committee and having consulted the Board of Statutory Auditors, it:

- (i) appointed Pierluigi Valentini as Head of the Internal Audit Department, entrusting him with checking that the internal control and risk management system works properly and meets Group requirements
- (ii) set a level of remuneration in line with company policy and ensured there were sufficient resources to carry out related activities.
- (iii) finalised the internal audit plan.

In accordance with the Corporate Governance Code, the internal audit department:

- (i) performs ongoing checks and checks in response to specific requirements, in compliance with International standards, to ensure that the internal control system is functional and fit for purpose. This is done on the basis of an audit plan, approved by the Board of Directors, as based on a structured process involving analysis and prioritisation of the main risks;
- (ii) is not responsible for any operational areas and reports to the Board of Directors;
- (iii) has direct access to all information useful for the performance of its duties;
- (iv) prepares periodical reports containing information on the work performed, on the risk management process and on compliance with risk containment plans. These reports include an assessment of the Internal Control System's suitability for purpose;
- (v) promptly prepares reports on particularly important events;
- (vi) sends reports under points iv) and v) to the Chairman of the Internal Control and Risk Management Committee

and to the Chairman of the Board of Statutory Auditors, as well as to the Chairman of the Board of Directors;  
(vii) based on its audit plan, tests the reliability of the information systems, including the accounting systems.

The Board of Directors provides the Head of the Internal Audit Department with the financial resources needed for his organisational role, in compliance with the autonomy, adequacy, effectiveness and efficiency requirements laid down for the department Stock Exchange regulations.

During the reporting period, the Head of the Internal Audit Department:

- a) prepared the annual Audit Plan which was approved by the Board of Directors;
- b) scheduled and performed, in accordance with the Audit Plan, direct and specific control testing on the Issuer and the other Group companies in order to detect any weaknesses in the internal control and risk management system with respect to various risk areas. The testing was performed during audits planned at the Company's premises;
- c) on request, tested certain specific areas regarding the Issuer and the other Group companies i.e. an analysis of existing insurance cover and compliance with regulations on online skill games;
- d) for each control test activity, drew up a testing report outlining the activities tested, the subject of the testing, the operating methods adopted, the duration of the testing, the period to which the testing relates, the results obtained and recommendations made;
- e) created a register to record all audit work performed in the reporting with details of the audit findings, recommendations and proposals made by internal audit, any corrective measures recommended in order to address system weaknesses and final conclusions on the work done and on the feedback received;
- f) attended meetings of the Internal Control and Risk Management Committee, the Related Parties Committee and the Board of Statutory Auditors during which he described the state of progress of the audit work and gave a report on any issues or weaknesses identified and any corrective action taken by the Company.

Internal audit work has been outsourced to BDO Italia S.p.A., with the team headed up by Pierluigi Valentino, who has been deemed to fulfil the necessary requirements of professionalism, independence and organisation.

BDO Italia S.p.A. has no links with the Company or any Group companies.

### **11.3 Organisational model pursuant to Legislative Decree 231/2001**

On 30 March 2006, the Board of Directors approved the organisational model and code of ethics which were subsequently updated on 11 May 2010, 13 September 2016 and 12 September 2017. The organisational model adopted by the Company is structured as follows:

- 1) a general section which introduces the model and outlines governance rules, with particular regard to (i) the addressees/recipients; (ii) the composition, role and powers of the Supervisory Board; (iii) the role of the Board of Directors; (iv) the flow of information to the Supervisory Board; (v) applicable penalties; and (v) distribution of the organisational model to the addressees/intended recipients;
- 2) a special section which identifies and describes, for each offence theoretically relevant to the Company, the processes at risk and the rules of conduct that each addressee shall respect when carrying out his or her activities.



For the purposes of the organisational model, the following offences are theoretically relevant to the Issuer:

- offences against the Public Administration;
- corporate offences;
- financial offences and market abuse;
- offences against the person and the offences of manslaughter and severe and very severe personal injury, committed in violation of accident prevention and workplace health and safety regulations;
- cybercrimes and unlawful data processing;
- offences against industry and commerce;
- copyright infringement;
- terrorism or subversion of democracy as envisaged by the Criminal Code and by special laws, as well as offences due to breaches of Article 2 of the International Convention for the Suppression of the Financing of Terrorism (New York, 9.12.1999);
- handling of stolen property, money laundering and the use of money, goods or profit from criminal activities;
- use of irregular foreign workers.

In light of the Company's organisational characteristics and in accordance with the guidelines issued by Confindustria (the Company's trade association), the Board of Directors has set up a Supervisory Board with three members as follows: a labour consultant and two persons with law degrees, as these persons are felt to satisfy the requirements of autonomy, independence, professionalism and continuity of action to ensure the effective performance of the functions that have been entrusted to the Supervisory Board. The foregoing documents are available in the Investors section of the Company's website at [www.digitalbros.com](http://www.digitalbros.com).

During the year ended 30 June 2018, the Supervisory Board analysed sensitive activities and current management models in light of the gradual expansion of the scope of application of Legislative Decree 231/2001. The Supervisory Board was involved in updating and improving the organisational, management and control model adopted by the Company, specifically in order to reflect the amendments introduced by the MAR and by Legislative Decree 38 of 15 March 2017 which has extensively revised private sector bribery offences with the introduction of the crime of instigation to commit private sector bribery. The updated model was approved on 12 September 2017.

#### **11.4 External auditor**

Deloitte & Touche S.p.A. was appointed as external auditor by the Ordinary Shareholders' General Meeting held on 26 October 2012 for the reporting periods up until approval of the financial statements for the year ended 30 June 2021.

#### **11.5 Financial Reporting Manager**

On 7 August 2008, the Board of Directors, with the approval of the Board of Statutory Auditors, appointed Stefano Salbe as the Financial Reporting Manager and granted him appropriate powers and resources to perform the duties assigned to him under applicable laws and regulations.

The Financial Reporting Manager has the necessary expertise of administration, finance and control matters. He performs the functions required of him by Art. 154-bis of TUF.

Art. 24 of the Articles of Association states that the Board of Directors shall grant the Financial Reporting Manager appropriate powers and resources to perform the duties assigned to him under applicable laws and regulations.

The Financial Reporting Manager must have many years of experience of administration, finance and control matters and must satisfy the personal integrity requirements established by law for the office of director.

The Financial Reporting Manager is subject to regulations on the liability of directors in respect of the duties assigned to them, without prejudice to legal action that may be taken with regard to the employment relationship with the Company. In particular, the Board of Directors has granted the Financial Reporting Manager all of the necessary powers in terms of Art. 154 bis of Legislative Decree 58 of 24/2/1998, as introduced by Art. 14 (1)(262). The following, non-exhaustive list contains examples of these powers:

- a) the power to introduce appropriate administrative and accounting procedures at the parent company and all Italian and international subsidiaries;
- b) the power to hire employees to assign to specific activities and determine their remuneration in accordance with Group policy and the power to dismiss such employees;
- c) the power to hire and fire Italian and international professionals to perform specific assignments and to establish the duration and remuneration of such assignments;
- d) the power to purchase, directly or under finance leases, the assets and software required to perform financial reporting and related procedures;
- e) all necessary powers, including spending powers, for the proper execution of the duties assigned.

#### **11.6 Coordination of individuals involved in the internal control and risk management system**

In accordance with Principle 7.P.3 of the Corporate Governance Code and in compliance with best practices for listed companies, the Company has established methods of coordination between the various bodies involved in the internal control and risk management system. Regular meetings are held in joint session between the various bodies responsible for internal control and risk management (the Internal Control and Risk Management Committee, Board of Statutory Auditors, Supervisory Board and Internal Audit) with the aim of identifying areas of intervention and analysis relevant to each body. This process facilitates the identification of any overlapping of functions and/or duplications of activities and helps to implement a single compliance system within the Company and the Group. The entire Board of Statutory Auditors – or, at least, its Chairman or another statutory auditor designated by him - attends meetings of the Internal Control and Risk Management Committee. At least annually, the external auditors meet in joint session with the Internal Control and Risk Management Committee, the Board of Statutory Auditors and the Financial Reporting Manager with the aim, *inter alia*, of assessing the proper use of accounting standards and their consistency for the purposes of preparation of the consolidated financial statements.

## **12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS**

Related party transactions entered into by Group companies are reserved for review and prior approval by the Board of Directors when such transactions are important strategically, economically or financially. On 11 November 2010, the Board of Directors approved a new procedure for related party transactions to reflect the amendments introduced by Consob resolution 17221 of 12 March 2010. General criteria for the identification of significant related party transactions were established. The procedure is available in the Corporate Governance section of the Company's website

at [www.digitalbros.com](http://www.digitalbros.com).

Related party transactions comply with criteria of substantive and procedural propriety in accordance with applicable laws and regulations. The Board of Directors is responsible for identifying the criteria capable of identifying related party transactions, taking account of the definitions contained in international accounting standards and/or issued by regulatory authorities.

Related party transactions are, however, subject to review and approval by the Board of Directors. In all cases of prior approval by the Board of Directors, the Board shall be duly informed, in advance, of the nature of the relationship, the conditions (especially the economic conditions), methods and timetable for the conclusion and execution of the transaction, the valuation procedure followed, the underlying interests and reasons for the transaction (also in relation to established strategic guidelines), as well as the possible risks – present or future – for the Company and its subsidiaries and any more general implications for their activities.

In particular, for related party transactions, directors who have an interest, including a potential or indirect interest, in the transaction must inform the other directors and the Board of Statutory Auditors of all of their interests in that transaction, whether on their own account or on account of third parties; they shall also specify the nature, terms, origin and extent of such interests. Such interests may be communicated by any means, including verbally, during meetings of the Board of Directors, or in writing to the Chairman of the Board of Statutory Auditors, with an obligation to report thereon during the next meeting of the Board of Directors.

For the definition of “related parties”, express reference is made to the parties defined as such by the international accounting standard on the disclosures regarding related party transactions, as adopted according to the procedure laid down by Article 6 of Regulation (EC) No. 1606/2002 (IAS 24).

When the Board of Directors identifies a relationship with one of the directors or with a related party through a director, it quickly requests clarification of the existence of an interest, including a potential or indirect interest. When it is time for the Board to resolve on the related party transaction, the Director with the direct or indirect interest shall leave the meeting.

The Board of Directors has set up a standing committee of unrelated independent directors which assesses the nature, amount and other features of each related party transaction. This is in order to ensure that such transactions are entered into on an arm's length basis and to avoid their being subject to conditions other than those that would likely have been agreed to between unrelated parties. In this process, assistance may be provided by experts of confirmed professionalism and expertise of the subject matters of interest in order to obtain their opinions on the economic conditions, lawfulness and technical aspects of the transaction.

### **13. APPOINTMENT OF STATUTORY AUDITORS**

Art. 25 of the Articles of Association states that acting and alternate members of the Board of Statutory Auditors shall be elected by a list-based voting procedure.

The Board of Statutory Auditors is composed of three acting auditors and two alternate auditors who remain in office for three financial years and may be re-elected. Applicable regulations are followed when determining their remuneration and term of office.

Minority interests are entitled to elect one acting auditor and one alternate auditor.

The Board of Statutory Auditors is appointed in accordance with applicable gender balance provisions, on the basis of lists submitted by the shareholders in which candidates are presented with sequential numbers. The list is divided into two sections: one for candidates for the office of acting auditor and the other for candidates for the office of alternate auditor.

Candidate lists, signed by the shareholders submitting them, must be filed in accordance with the deadlines and methods laid down by applicable legislation. Only shareholders who, separately or together with other shareholders, represent a percentage of shares with voting rights at Ordinary General Meetings of not less than that required by the relevant laws or regulations in force at the time of the appointment may submit lists. This percentage interest is determined with regard to the shares registered to the shareholder on the day on which the lists are submitted to the Company.

Certification attesting to ownership of such interests may also be produced after submitting a list, provided that it is done by the deadline for publication of the lists by the Company.

Each candidate may be presented on a single list otherwise they shall be deemed ineligible.

Candidates subject to reasons for ineligibility or disqualification as set out in laws or regulations, or who do not meet the necessary requirements, including those pertaining to concurrent positions held, may not be included in lists. Statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that they are not subject to any reasons for ineligibility or incompatibility and that they meet the requirements established by law and the Articles of Association for their respective offices, in addition to a list of any positions on governance bodies filled at other companies, are filed along with each list, by the deadline indicated above. Certification must be issued by an authorised broker in accordance with the law attesting to ownership of the number of shares required to submit a list. Such certification must be submitted by the deadline and according to conditions established by law.

Lists containing a total number of three or more candidates must include candidates of both genders, so that each list includes a number (rounded up) of candidates for the office of acting auditor and a number (rounded up) of candidates for the office of alternate auditor of the less-represented gender equal to at least the percentage indicated in applicable laws and regulations.

Lists for which the foregoing requirements have not been met will be disregarded.

Without prejudice to the need to comply with applicable laws and regulations on gender balance, statutory auditors are elected as follows:

1. two acting auditors and one alternate auditor are drawn from the list that received the greatest number of votes by the shareholders in general meeting, according to the sequential order in which they are listed in

the section of the list;

2. one acting auditor and one alternate auditor are drawn from the list that received the second-greatest number of votes by the shareholders in general meeting after the first list, according to the sequential order in which they are listed in the section of the list.

The first candidate from the list that receives the greatest number of votes after the first shall become the Chairman of the Board of Statutory Auditors.

If the methods indicated above do not ensure the composition of the Board of Statutory Auditors, in terms of acting auditors, in a manner consistent with applicable gender balance provisions, the necessary substitutions will be made from amongst the candidates for the office of acting auditor included in the majority list, according to the sequential order in which the candidates are listed.

If only one list is submitted, the candidates for the offices of acting auditor and alternate auditor on that list will be elected and the first candidate on the list will become the Chairman of the Board of Statutory Auditors; this does not affect the need to comply with applicable gender balance provisions. If a statutory auditor no longer fulfils the requirements established by the law or by the Articles of Association, he or she must leave office. When a statutory auditor is replaced, the alternate auditor from the same list as the outgoing auditor takes his or her place. This does not affect the fact that the minority statutory auditor will remain Chairman of the Board of Statutory Auditors, without prejudice to applicable gender balance provisions.

The foregoing provisions on the election of statutory auditors do not apply to Shareholders' Meetings held to appoint acting auditors and/or alternate auditors and the Chairman in accordance with the law, as necessary to replenish the Board of Statutory Auditors following replacement or dismissal; this does not affect the need to comply with the principle set forth in paragraph 3 and, in any event, is without prejudice to compliance with applicable gender balance provisions.

In case of a tied number of votes for two or more lists, other than the list that received the greatest number of votes, the youngest candidates from the minority lists will be elected statutory auditors, until the positions to be assigned have been filled. This does not affect the need to comply with applicable gender balance provisions.

Pursuant to Art. 8 of the Corporate Governance Code, the statutory auditors act autonomously and independently, also in relation to the shareholders who have elected them.

The statutory auditors shall treat with the utmost confidentiality the documents and information they obtain in the course of their duties and shall observe the procedure adopted for the external communication of documents and information regarding the Company.

In performance of their duties, the statutory auditors may, individually or collectively, ask the Directors for information or clarification about the information given to them and, more generally, about the status of company operations or specific transactions. They may also perform inspections and checks at any time. The Board of Statutory Auditors and external auditors exchange data and information relevant to performance of their respective duties. The Board of Statutory Auditors must meet at least every 90 days.

The members of the Board of Statutory Auditors certified that they met the independence requirements established by the Code when the lists were submitted and when their candidacy was accepted.

When circumstances so require, the Statutory Auditors must provide timely information on transactions in which they have an interest, personally or on account of third parties.

#### **14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (pursuant to Art. 223-bis (2) (d) of the TUF)**

The Board of Statutory Auditors in office at the reporting date was appointed, on the basis of the single list submitted, by the Shareholders' Meeting held on 27 October 2017, for a term of three financial years, ending upon approval of the financial statements for the year ended 30 June 2020.

During the year ended 30 June 2018, the Board of Statutory Auditors met nine times, with meetings lasting two hours and 10 minutes on average. The meetings were attended by all members of the Board, except on two occasions when one member was absent for good reason. The Board of Statutory Auditors has scheduled eight meetings for the current year, one of which has already been held.

The members of the Board of Statutory Auditors are: Paolo Villa, chairman, Mariapia Mapses and Luca Pizio, acting statutory auditors, and Christian Sponza and Daniela Delfrate, alternate auditors.

Reference should be made to the summary tables for information about the composition of the Board of Statutory Auditors and each member's participation.

The following are brief biographical notes concerning the members of the Board of Statutory Auditors:

Paolo Villa (born in Bergamo on 29 January 1965), a chartered accountant registered in Section A of the Roll of Chartered Accountants and Accounting Experts of Bergamo, registration No. 925/A, since 21 July 1993. Registered auditor.

Key positions: Kelly Services S.p.A. (Acting auditor) - Fine Foods & Pharmaceutical Ntm S.p.A. (Chairman of the Board of Statutory Auditors) - Eisai S.r.l. (Acting auditor) - 505 Games S.p.A. (Acting auditor) - Bomi Italia S.p.A. (Chairman of the Board of Statutory Auditors) – Friends & Partners (Chairman of the Board of Statutory Auditors)

Maria Pia Mapses (born in Sondrio on 28 April 1970), a chartered accountant registered in Section A of the Roll of Chartered Accountants and Accounting Experts of Milan, registration no 4565, since 19 February 1996. Registered auditor.

Key positions: 505 Games Spa (Acting auditor) – Augusta Due Srl (Acting auditor) - Alto Partners SGR (Acting auditor) - LA7 S.p.a. (Acting auditor) – Cairo Editore Spa (Acting auditor) – Cairo Pubblicità Spa (Acting auditor) – Torino FC Spa (Acting auditor) - Spa Kelly Services S.p.A. (Acting auditor).

Luca Pizio (born in Darfo Boario Terme (BS) on 10 July 1963), a chartered accountant registered in Section A of the Roll of Chartered Accountants and Accounting Experts Brescia, registration no 959/A, since 22 February 1994. Registered auditor.

Key positions: 505 Games S.p.A. (Acting auditor), Jensen Italia S.r.l.– (Chairman of the Board of Statutory Auditors), Basix S.p.A. Tax No: 06775430967 – (Chairman of the Board of Statutory Auditors), Ashland Industries Italia S.r.l. (Sole statutory auditor), Pelikan Italia S.p.A. (Acting auditor).

On 27 October 2017, the Board of Statutory Auditors checked if its members continued to meet independence

requirements. This was performed based on the criteria established in the Code. The procedure revealed that acting auditor Paolo Villa did not meet the presumptive independence criterion as he had been an acting auditor of Digital Bros S.p.A. for more than nine of the past twelve years. However, since this requirement is not binding, the Board of Statutory Auditors unanimously concluded that all of its members were independent of the Company.

The procedure governing related party transactions also applies to members of the Board of Statutory Auditors and states that statutory auditors who have an interest, in a personal capacity or on account of third parties, in a given transaction must inform the Board of Statutory Auditors and Board of Directors in a timely manner of the nature, terms, origin and extent of that interest.

The Board of Statutory Auditors has supervised the independence of the external auditors and, in particular, the services provided by them to the Group in addition to the audit engagement.

In performance of its duties, the Board of Statutory Auditors worked together with the Internal Control and Risk Management Committee, attending all of its meetings during the year. It also worked together with the Internal Control Officer and the Director responsible for Internal Control.

## **15. SHAREHOLDER RELATIONS**

Digital Bros S.p.A. has adopted a communications policy aimed at establishing a constant dialogue with institutional investors, shareholders and the market and at ensuring the regular issue of full, accurate and timely information on its activities, with the sole limitation of the need for confidentiality in respect of certain information. Digital Bros S.p.A. proactively maintains a constant dialogue with the market in accordance with laws and regulations governing the circulation of privileged information.

Relations with investors and other shareholders are managed by the investor relations manager, Stefano Salbe, who is also entrusted with the role of designated liaison officer for requests for information pursuant to Borsa Italiana Regulations. The Board of Directors has deemed the current structure fit for purpose.

The distribution of information in investor relations is also ensured by making the most important company documentation available, on a continuous and timely basis, on the Company's website, ([www.digitalbros.com](http://www.digitalbros.com)). In particular, all press statements issued to the market and the Company's financial reports are available on the Company's website, as soon as they are approved by the competent corporate bodies, as is other company documentation including:

- separate and consolidated financial statements;
- six-monthly financial reports;
- interim reports on operations;
- timetable of corporate events;
- corporate governance report;
- Articles of Association;
- General Meeting regulations.

The documentation may be consulted in the "Investors" section, is readily identifiable and accessible and is available in



both Italian and English.

## **16. SHAREHOLDERS' GENERAL MEETINGS (pursuant to Art. 123-bis (2)(c) of the TUF)**

A duly constituted shareholders' general meeting represents the shareholders and its resolutions, passed in accordance with the law and Articles of Association, are binding on all shareholders.

Ordinary and Extraordinary General Meetings are duly constituted and pass resolutions with the majorities required by law.

As provided by Art. 10 of the Articles of Association, a General Meeting shall be convened as laid down by law and in accordance with the terms and conditions established by applicable regulations. The notice convening the meeting must indicate the date, time and place of the meeting and shall contain a list of the matters to be discussed, as well as all additional information required by applicable laws and regulations.

Pursuant to Art. 11 of the Articles of Association, holders of voting rights authorised by notice submitted to the Company by an authorised intermediary may participate in the shareholders' meeting in accordance with the law. Such notice shall be delivered to the Company in accordance with applicable legislation at least three days prior to the shareholders' meeting at first call, or by the different term established by applicable provisions of law. The right to attend and vote remains valid if the notice is delivered to the Company after the above deadline, but before the start of the shareholders' meeting.

Pursuant to Art. 12 of the Articles of Association, all shareholders entitled to take part in the shareholders' meeting may be represented by written proxy in accordance with the law. Proxies may also be submitted to the Company by e-mail in the manner indicated in the notice of meeting. The Company does not designate representatives to whom authorised persons may confer a proxy with voting instructions.

The Chairman of the shareholders' meeting is responsible for determining that proxies are valid within the limits indicated above and, generally, for establishing the right to take part in the shareholders' meeting. The duly constituted general shareholders' meeting represents all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, including absent and dissenting shareholders.

The Chairman of the shareholders' meeting determines, including through persons appointed by him or her, the right of shareholders to participate, including by proxy, and verifies the validity of representation documents.

Shareholders' Meetings are chaired by the Chairman of the Board of Directors. If he or she is absent, unable or unwilling to attend, the shareholders' meeting is chaired by the Deputy Chairman or by a managing director, or by any other director designated by the Board of Directors, where appointed; if such persons are also absent, the shareholders' meeting is chaired by a person, not required to be a shareholder, appointed by the shareholders in general meeting. Resolutions passed by Shareholders' General Meetings must be recorded in minutes signed by the Chairman and secretary.

The minutes of general meetings must be written up by a notary in cases prescribed by law and/or where deemed appropriate by the Board of Directors.

In order to ensure the orderly, effective conduct of the shareholders' meeting and the right of all shareholders to express themselves on the matters up for discussion, Shareholders' Meeting regulations were approved on 6 September 2000.



The regulations are available from the Company's website.

During the reporting period ended 30 June 2018, the only Ordinary Shareholders' General Meeting was held on 27 October 2017 and attended by eight of the nine directors.

The Board of Directors reported to the shareholders' general meeting on planned and past activity and strove to ensure that the shareholders were adequately informed of the matters necessary for them to be able to make informed decisions on the issues before the shareholders' meeting.

No members of the Remuneration Committee reported to the shareholders' general meeting on the methods employed to fulfil the functions of the Committee.

During the reporting period, there were no significant changes in the composition of share capital or in market capitalisation.

## **17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES (pursuant to Art. 123-bis (2)(a) of the TUF)**

There are no additional corporate governance practices on top of those in the organisational model pursuant to Legislative Decree 231, as described above.

## **18. CHANGES SINCE THE REPORTING DATE**

Since the end of the reporting period ended 30 June 2018, director Bruno Soresina has passed away and director Elena Morini has resigned.

The Board of Directors' meeting of 13 September 2018 resolved to reconstitute the three sub-committees and they will all comprise independent directors Guido Guetta, Luciana La Maida and Irene Longhin.

On the same date, the Board of Directors proposed to the Shareholders' General Meeting a reduction in the number of members of the Board of Directors from 11 to 9.

## **19. COMMENTS ON THE LETTER DATED 13 DECEMBER 2017 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE**

The recommendations contained in the letter dated 13 December 2017 from the Chairman of the Corporate Governance Committee were brought to the attention of the Board at the meeting held on 13 September 2018. The recommendations contained therein will be considered with a view to identifying possible governance changes, either by adapting application of the corporate governance code or in explaining the reasons for non-application.

## **20. SUMMARY TABLES**

The following tables provide a summary of the composition of the Board of Directors and the Board of Statutory Auditors and the methods of adoption of the main recommendations of the Corporate Governance Code.

Board of Directors													Internal Control and Risk Management Committee		Remuneration Committee		Related Parties Committee	
Office	Member	Year of birth	Date first appointed	In office since	In office until	List (M/m)*	Exec	Non-exec	Indep per code	Indep per CFA	% **	No of other appointments	****	**	****	**	****	**
Director	Florea Lidia	1951	2014	27/10/2017	Approval of 2020 FS	M		X			100	0						
Chairman and Managing Director	Galante Abramo	1963	1991	27/10/2017	Approval of 2020 FS	M	X				86	0						
Director	Galante Davide	1933	1991	27/10/2017	Approval of 2020 FS	M		X			86	0						
Managing Director	Galante Raffaele	1965	1991	27/10/2017	Approval of 2020 FS	M	X				100	0						
Director	Guetta Guido	1969	2009	27/10/2017	Approval of 2020 FS	M		X	X	X	71	0	X	100	X	100	X	100
Director	Morini Elena	1980	2014	27/10/2017	Approval of 2020 FS	M		X	X	X	71	0	X	100			X	100
Director	Salbe Stefano	1965	2005	27/10/2017	Approval of 2020 FS	M	X				100	0						
Director	Soresina Bruno	1944	2000	27/10/2017	Approval of 2020 FS	M		X	X	X	71	0	X	80	X	100	X	100
Director	Treves Dario	1968	2000	27/10/2017	Approval of 2020 FS	M	X				100	0						
Director	La Maida Luciana °	1977	2017	27/10/2017	Approval of 2020 FS	M		X	X	X	100	0			X	100		
Director	Longhin Irene °	1969	2017	27/10/2017	Approval of 2020 FS	M		X	X	X	60	0						
<b>DIRECTORS WHO LEFT OFFICE DURING THE REPORTING PERIOD</b>																		
Director																		
<b>Indicate quorum required for presentation of lists on occasion of last appointment: 4.5%</b>																		
<b>No of meetings held during the reporting period:</b>							BoD: 7		Internal Control and Risk Management Committee: 5			Remuneration Committee: 4			Related Parties Committee: 4			

## NOTES

\* This column contains “M” or “m” depending on whether the member was elected from the majority list (“M”) or a minority list (“m”).

\*\*This column indicates the directors’ attendance in percentage terms o at meetings of the Board of Directors and committees (No. of attendances/No. of meetings held during the period the person concerned was in office).

\*\*\* This column indicates the number of positions held as director or statutory auditor by the person concerned with other companies listed on regulated markets in Italy or abroad and with finance, banking or insurance companies, or companies of significant size. Appended to the Report is a list of such companies, with regard to each Director, with clarification as to whether the company at which the position is held belongs to the same group as the Issuer.

\*\*\*\* An “X” in this column indicates that the member of the Board of Directors is a member of the committee.

° Percentage attendance refers to meetings since appointment on 27 October 2018.

<b>Board of Statutory Auditors</b>									
Office	Member	Year of birth	Date of first appointment	In office since	In office until	List (M/m)*	Indep per Code	(%) **	No of other appointments ***
Chairman	Paolo Villa	1965	2002	27/10/2017	Approval of 2020 FS	M	YES	100	10
Acting auditor	Maria Pia Maspes °	1970	2017	27/10/2017	Approval of 2020 FS	M	YES	100	8
Acting auditor	Luca Pizio °	1963	2017	27/10/2017	Approval of 2020 FS	M	YES	100	5
<b>STATUTORY AUDITORS WHO LEFT OFFICE DURING REPORTING PERIOD</b>									
Acting auditor	Emanuela Maria Conti	1966	2014	28/10/2014	Approval of 2017 FS	M	YES	100	12
Acting auditor	Simone Luigi Dalle Donne	1978	2014	28/10/2014	Approval of 2017 FS	M	YES	100	5
<b>Indicate quorum required for presentation of lists on occasion of last appointment: 4.5%</b>									
<b>Number of meetings held during reporting period: 9</b>									

## NOTES

\* This column contains “M” or “m” depending on whether the member was elected from the majority list (“M”) or a minority list (“m”).

\*\* This column indicates the attendance in percentage terms of the statutory auditors at meetings of the Board of Statutory Auditors (No. of attendances/No. of meetings held during the period the person concerned was in office).

\*\*\* This column indicates the number of positions held as director or statutory auditor by the person concerned with other companies listed on regulated markets in Italy or abroad and with finance, banking or insurance companies, or companies of significant size. Appended to the Report is a list of such companies, with regard to each Statutory Auditor, with clarification as to whether the company at which the position is held belongs to the same group as the Issuer.

° Percentage attendance refers to meetings of the Board of Statutory Auditors since appointment on 27 October 2018.