Consolidated and separate financial statements for the year ended 30 June 2019

Digital Bros S.p.A.
Via Tortona, 37 – 20144 Milan, Italy
VAT Number and Tax Number 09554160151
Share capital: Euro 6,024,334.80 of which Euro 5,704,334.80 subscribed
Milan Register of Companies 290680-Vol. 7394 Chamber of Commerce 1302132

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

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Contents

Board of Directors and Supervisory Bodies

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

(1) Executive director

(2) Non-executive director

(3) Independent director

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

Internal control and risk committee
Paola Carrara (Chairman)
Luciana La Maida
Susanna Pedretti

Remuneration and appointments committee
Luciana La Maida (Chairman)
Irene Longhin
Susanna Pedretti

Permanent related parties committee
Paola Carrara (Chairman)
Luciana La Maida
Susanna Pedretti

Board of statutory auditors

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

The shareholders’ meeting of 27 October 2017 appointed the members of the Board of Directors and Board of Statutory Auditors. The terms of office of the directors and statutory auditors will end with the shareholders’ meeting held to approve the financial statements for the year ended 30 June 2020.

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

Non-Executive Director Bruno Soresina sadly passed away on 6 August 2018 while independent Directors Elena Morini and Guido Guetta resigned from the Board of Directors for personal reasons on 13 September 2018 and 8 November 2018, respectively.

The shareholders' meeting of 26 October 2018 appointed Paola Mignani as a Director. The Board of Directors' Meeting of 8 November 2018 concluded that she was independent and appointed her as Chair of the Internal Control and Risk Committee, as a member of the Remuneration Committee and as Chair of the Permanent Related Parties Committee. The Board of Directors of 8 November 2018 appointed independent Directors Luciana La Maida and Irene Longhin as members of the Internal Control and Risk Committee and of the Permanent Related Parties Committee. It also appointed Irene Longhin as a member of the Remuneration Committee. These appointments were made to replace the former members who had either resigned or died.

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

External auditors

Deloitte & Touche S.p.A.

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

Other information

Publication of the consolidated and separate financial statements of Digital Bros S.p.A. for the year ended 30 June 2019 was authorised by a resolution of the Board of Directors of 12 September 2019.

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

DIRECTORS' REPORT

1. GROUP STRUCTURE

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

The Group is organised into five operational business segments:

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

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

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

Italian company Kunos Simulazioni S.r.l., developer and publisher of the Assetto Corsa video game, is consolidated in this operating segment.

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

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

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

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

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

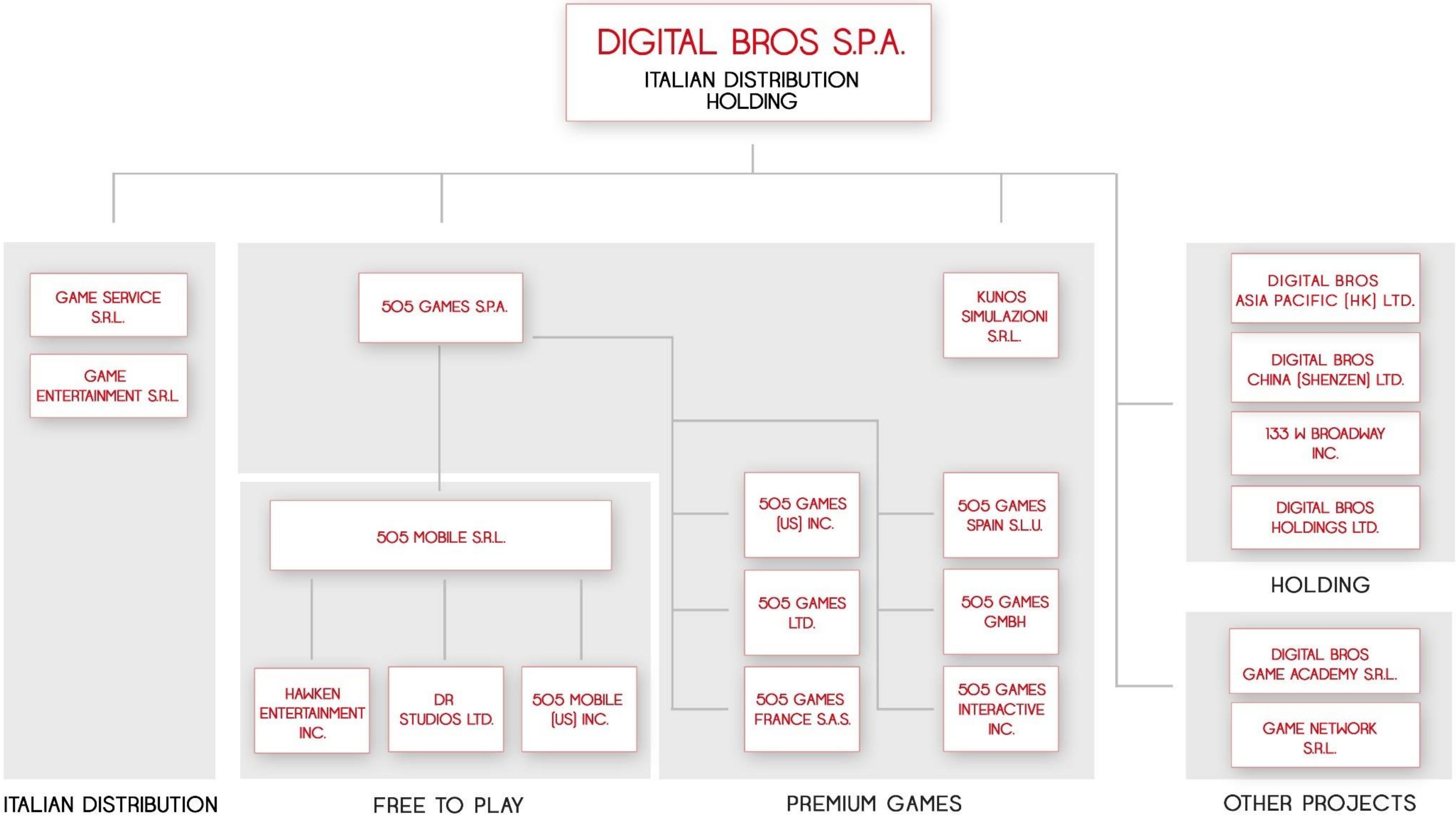
***Other Activities*:** this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for presentation of the results. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l.. Until last year, Game Network S.r.l. managed paid games under concession from AAMS (Italian State Monopoly Administration), However, given the limited profitability of the paid games under concession, the Group decided not to take part in the new competitive tendering process for future concessions and, consequently, it ended its activities under the AAMS concession in June 2018.

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

All of the investments reported are 100% owned.

The Group organisation chart at 30 June 2019 is shown below:

GROUP STRUCTURE AT 30 JUNE 2019



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

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

(1) Inactive during the period

Digital Bros Asia Pacific (HK) Ltd. was incorporated on 19 September 2018 with a view to developing the Group's activities in Asian countries other than China which is handled by Digital Bros China (Shenzhen) Ltd.

At 30 June 2019, the Group held investments in the associated companies listed below. The related carrying amounts are also shown (in Euro Thousands):

Name	Location	Holding	Carrying amount
Delta DNA Ltd.	Edinburgh, UK	1.04%	60
Ovosonico S.r.l.	Varese	49%	768
Seekhana Ltd.	Milton Keynes, UK	34.77%	378
Total investments in associated companies			**1,206**

The disposal of the investment held in Ebooks&Kids S.r.l. was completed on 24 October 2018, generating a loss on disposal of Euro 14 thousand.

2. THE VIDEO GAMES MARKET

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

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

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

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

Developers

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

Publishers

The video game publisher decides when the game is released onto the market, determines global pricing and commercial policy, studies product positioning, packaging design and takes on all of the risks. Together with the developer, it benefits from all the opportunities that the video game may produce if it is a success. Publishers usually finance the game development stage.

Console manufacturers

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

Distributors

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

Retailers

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

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

The main marketplaces on which console video games are sold to end consumers are: Sony's PlayStation Store, Microsoft's Xbox Live and Nintendo's eShop. Steam marketplace is the global leader in the digital distribution of games for personal computers. The launch of a new marketplace for PC games was announced during the year ended 30 June 2019 – it is managed by Epic - in the wake of the success enjoyed by the Fortnite video game.

Gradual digitalisation of the market has led both Microsoft (with Microsoft Xbox Game Pass and Microsoft Xbox Games with Gold) and Sony (with Sony PlayStation Now) to create digital platforms where, rather than making single purchases, gamers access all of the games available on the marketplace by paying a subscription fee valid for a given period of time. Revenues to publishers are recognised directly or indirectly based on end consumers' usage of their video games. Google and Apple have adopted the same strategy with the Stadia and Apple Arcade platforms, respectively.

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

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

3. MARKET SEASONALITY

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

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

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

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

4. SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The most significant events during the period were as follows:

- Sadly, Non-Executive Director Bruno Soresina passed away on 6 August 2018;

- On 13 September 2018, Non-Executive Director Elena Morini resigned from the Board of Directors for personal reasons;

- On 26 October 2018, the Shareholders' General Meeting of Digital Bros S.p.A. approved the Group's consolidated financial statements for the year ended 30 June 2018, the separate financial statements of Digital Bros S.p.A. for the same period and the Remuneration Report in terms of Article 123-ter of Legislative Decree no 58 of 24 February 1998. Moreover, following the death of Director Bruno Soresina and the resignation of Director Elena Morini, the Board reduced the number of members of the Company Board of Directors – previously approved at eleven by the Shareholders' General Meeting of 27 October 2017 – to ten members, who will remain in office until approval of the financial statements for the period ending 30 June 2020. The Board also appointed Paola Mignani as a Director and she will remain in office for the rest of the mandate of the current Board of Directors;

- The liquidation of subsidiary Game Network S.r.l. was approved on 26 October 2018 following the discontinuation of the in prize games under concession from the AAMS (Italian State Monopoly Association;

- On 8 November 2018, independent Director Guido Guetta resigned as a member of the Board of Directors for personal reasons. As a result, the Board of Directors appointed new members to the three sub-committees of the Board. All three now have the following independent Directors as members: Luciana La Maida, Irene Longhin and Paola Mignani;

- On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the video game OVERKILL's The Walking Dead. On 8 April 2019, subsidiary 505 Games S.p.A. asked to terminate its contract with Starbreeze for the development and publication of the console version of the video game OVERKILL's The Walking Dead. Consequently, the Digital Bros Group has asked Starbreeze to refund the USD 4.8 million paid on account and all of the expenses incurred for the project;

- On 6 June 2019, following the resignation of independent Director Paola Mignani, the Board of Directors co-opted Paola Carrara and Susanna Pedretti as new independent directors, restoring the number of Board members to ten, as approved by the Shareholders' General Meeting of 26 October 2018. At the same, the Board of Directors appointed new members to the three sub-committees of the Board. The two new directors will remain in office until the next Shareholders' General Meeting.

Relations with Starbreeze and Starbreeze shareholders

In recent years, the Digital Bros Group and the Starbreeze Group have had numerous commercial relations, commencing with PAYDAY 2. In May 2016, after many years of success, the Group sold its rights to PAYDAY 2 to Starbreeze in return for a payment of USD 30 million and a potential earn out of 33% of net revenues from the video game PAYDAY 3 to be published in future.

In April 2015, the two groups signed a contract for the development and publication of the console version of a video game inspired by TV Series The Walking Dead. The contract provided for a development budget of USD 10 million to be borne by subsidiary 505 Games S.p.A. To date, 505 Games S.p.A. has paid USD 4.8 million. In November 2018, Starbreeze launched the PC version of the video game and sales were lower than expected. On 3 December 2018, Starbreeze AB and five subsidiaries petitioned the Swedish District Court for admission to a corporate restructuring plan. The Swedish Court approved the restructuring request and it has since been extended several times until 3 December 2019. On 27 February 2019, Skybound informed Starbreeze that it was terminating the contract for rights to the video game OVERKILL's The Walking Dead and, on 8 April 2019, 505 Games S.p.A. requested the termination of the contract with Starbreeze for development and publication of the console version of the video game OVERKILL's The Walking Dead.

In recent months, in order to safeguard both its investment in OVERKILL's The Walking Dead and the earn out of USD 40 million envisaged in relation to rights to PAYDAY 3, holding company Digital Bros S.p.A. has taken the following action:

- On 21 November 2018, it granted a loan of Euro 2 million to Varvtre AB. Varvtre AB is controlled by Bo Andersson Klimt, former Managing Director of Starbreeze, who holds 6.17% of the stock capital and 23.65% of the voting rights of Starbreeze AB. Following the matters described above, Bo Andersson Klint resigned as Chief Executive Officer on 3 December 2018. The loan matures on 21 November 2020, earns interest at a rate of 5% per annum and is secured by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeze B shares;

- Since November 2018, it has acquired 4,096,809 Starbreeze A shares, as traded on Nasdaq Stockholm, for an average price of SEK 2.14 per share; the shares purchased represent 1.24% of stock capital and 5.06% of voting rights. Consequently, on 4 June 2019, Stefano Salbe, an Executive Director of the Group, joined the Board of Directors of the Swedish company as a non-Executive Director. The company has been deemed not to be an associated company.

5. ANALYSIS OF CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2019

	Euro Thousands	30 June 2019		30 June 2018		Change	
1	Gross revenue	81,317	105.6%	76,038	108.0%	5,279	6.9%
2	Revenue adjustments	(4,309)	-5.6%	(5,633)	-8.0%	1,324	-23.5%
3	**Net revenue**	**77,008**	**100.0%**	**70,405**	**100.0%**	**6,603**	**9.4%**
4	Purchase of products for resale	(14,675)	-19.1%	(19,377)	-27.5%	4,702	-24.3%
5	Purchase of services for resale	(6,586)	-8.6%	(6,488)	-9.2%	(98)	1.5%
6	Royalties	(20,671)	-26.8%	(15,016)	-21.3%	(5,655)	37.7%
7	Changes in inventories of finished products	(1,150)	-1.5%	2,244	3.2%	(3,394)	n.m.
8	**Total cost of sales**	**(43,082)**	**-55.9%**	**(38,637)**	**-54.9%**	**(4,445)**	**11.5%**
9	**Gross profit (3+8)**	**33,926**	**44.1%**	**31,768**	**45.1%**	**2,158**	**6.8%**
10	Other income	3,406	4.4%	2,796	4.0%	610	21.8%
11	Costs for services	(9,070)	-11.8%	(9,376)	-13.3%	306	-3.3%
12	Lease and rental expenses	(1,460)	-1.9%	(1,458)	-2.1%	(2)	0.1%
13	Labour costs	(17,903)	-23.2%	(18,366)	-26.1%	463	-2.5%
14	Other operating costs	(1,223)	-1.6%	(1,077)	-1.5%	(146)	13.5%
15	**Total operating costs**	**(29,656)**	**-38.5%**	**(30,277)**	**-43.0%**	**621**	**-2.1%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**7,676**	**10.0%**	**4,287**	**6.1%**	**3,389**	**79.1%**
17	Depreciation and amortisation	(6,970)	-9.1%	(7,728)	-11.0%	758	-9.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment losses recognised on assets	(2,051)	-2.7%	(122)	-0.2%	(1,929)	n.m.
20	Reversal of impairment losses and non-monetary income	0	0.0%	0	0.0%	(0)	0.0%
21	**Total non-monetary operating income and costs**	**(9,021)**	**-11.7%**	**(7,850)**	**-11.2%**	**(1,171)**	**14.9%**
22	**Operating margin (EBIT) (16+21)**	**(1,345)**	**-1.7%**	**(3,563)**	**-5.1%**	**2,218**	**-62.3%**
23	Interest and financial income	1,438	1.9%	1,998	2.8%	(560)	-28.0%
24	Interest expense and financial expenses	(1,406)	-1.8%	(1,347)	-1.9%	(59)	4.4%
25	**Net financial income (expenses)**	**32**	**0.0%**	**651**	**0.9%**	**(619)**	**-95.0%**
26	**Profit before tax (22+25)**	**(1,313)**	**-1.7%**	**(2,912)**	**-4.1%**	**1,600**	**-54.9%**
27	Current tax	28	0.0%	293	0.4%	(265)	n.m.
28	Deferred tax	(228)	-0.3%	(263)	-0.4%	35	-13.3%
29	**Total income tax expense**	**(200)**	**-0.3%**	**30**	**0.0%**	**(230)**	**n.m.**
30	**Net profit/(loss) from continuing operations (26+29)**	**(1,513)**	**-2.0%**	**(2,882)**	**-4.1%**	**1,369**	**-47.5%**
	Net profit/(loss) from discontinued operations	**0**	**0.0%**	**12,056**	**17.1%**	**(12,056)**	**n.m.**
	Net profit/(loss)	**(1,513)**	**-2.0%**	**9,174**	**13.0%**	**(10,687)**	**n.m.**

Earnings per share

	Earnings per share (in Euro):	30 June 2019	30 June 2018	Change	
33	Basic earnings per share from continuing operations	(0.11)	(0.20)	0.09	-45.0%.
33	Basic earnings per share from discontinued operations	0	0.85	(0.85)	n.m.
33	**Total basic earnings per share**	**(0.11)**	**0.65**	**(0.76)**	**n.m.**
34	Diluted earnings per share from continuing operations	(0.11)	(0.20)	0.09	-45.0%.
34	Diluted earnings per share from discontinued operations	0	0.85	(0.85)	n.m.
34	**Diluted earnings per share**	**(0.11)**	**0.65**	**(0.76)**	**n.m.**

Recent years have been characterised by the new video game development processes. The launch of Bloodstained in the last week of the reporting period, with better than expected results, marked the start of a new phase of the cycle. Indeed, the Group has already launched the Control video game on the market on 27 August 2019 and will continue with the launches of Indivisible and Journey to the Savage Planet in October 2019 and January 2020, respectively.

The better than expected sales performance achieved by the Bloodstained video game in the month of June and the effective completion of the development process of the Control video game have enabled to Group to achieve 6.9% growth in consolidated gross revenue in the reporting period with an increase from Euro 76,038 thousand to Euro 81,317 thousand.

The strong increase in revenue – even greater than had been expected - thanks to the impact of new video game launches in the final quarter of the period has led to an improvement in all profit indicators compared to prior year although a net loss from continuing operations was again reported. EBITDA improved by 79.1% from Euro 4,287 thousand in the year ended 30 June 2018 to Euro 7,676 thousand in the year ended 30 June 2019. EBIT improved by Euro 2,218 thousand but was still negative by Euro 1,345 thousand while the net loss from continuing operations was reduced to Euro 1,513 thousand from Euro 2,882 thousand in prior year.

The following table contains a breakdown of revenue by operating segment for the year ended 30 June 2019 with prior year comparatives:

Euro Thousands	**Gross revenue**				**Net revenue**			
	2019	**2018**	**Change**		**2019**	**2018**	**Change**	
Premium Games	60,432	54,138	6,294	11.6%	57,883	50,736	7,147	14.1%
Italian Distribution	13,741	15,443	(1,702)	-11.0%	11,981	13,534	(1,553)	-11.5%
Free to Play	6,573	5,813	760	13.1%	6,573	5,813	760	13.1%
Other Activities	571	644	(73)	-11.3%	571	322	249	77.3%
Total gross revenue	**81,317**	**76,038**	**5,279**	**6.9%**	**77,008**	**70,405**	**6,603**	**9.4%**

The largest increase in gross revenue in absolute terms was recorded by the Premium Games operating segment – its gross revenue increased by Euro 6,294 thousand to stand at Euro 60,432 thousand for the year ended 30 June 2019, an 11.6% increase compared to prior year. The gross revenue of the Free to Play operating segment grew by 13.1% but the segment remains fairly small and its revenue for the reporting period totalled Euro 6,573 thousand. In line with gradual market digitalisation and the trend seen in recent years, the gross revenue of the Italian Distribution operating segment fell by Euro 1,720 thousand (or 11%) compared to prior year.

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

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**	
Bloodstained	13,888	0	13,888	n.m.
Control	9,490	0	9,490	n.m.
Assetto Corsa	7,020	7,005	15	0.2%
Terraria	5,379	7,134	(1,755)	-24.6%
PAYDAY 2	4,477	9,233	(4,756)	-51.5%
Other products	9,806	14,823	(5,017)	-33.8%
Retail products	10,372	15,943	(5,571)	-34.9%
Total gross revenue Premium Games	**60,432**	**54,138**	**6,294**	**11.6%**

The final quarter of the reporting period saw the launch of the Bloodstained video game on western markets with PC and console versions. The launch of the Asian version is scheduled for the next reporting period. In just seven days since its official launch on 23 June 2019, Bloodstained generated gross revenue – on both digital marketplaces and in the traditional distribution channel – of Euro 13,888 thousand and became the Group's best-selling title in the reporting period.

The PC version of the Control video game also generated a significant volume of revenue. This product was developed together with Remedy Entertainment, a Finnish company listed on the Nasdaq First North. The game – with various versions for PC and console – was launched on 27 August 2019 but the contractual structure with the digital marketplace which required exclusive rights to the PC version of the game made it possible to recognise revenue with effect from this reporting period.

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

Sales of products that have accounted for a large portion of revenue in the last five years - Terraria and PAYDAY2 – have fallen. Sales of Terraria decreased by Euro 1,755 thousand during the reporting period but are expected to remain at their current level in the coming period also thanks to the launch of a new version for the Nintendo Switch console. However, the revenue trend for PAYDAY2 going forward depends on the product policy regarding the PC version of the game which is in the possession of Swedish developer Starbreeze. As a result of agreements reached with Starbreeze, the Group now only holds rights to console versions of the game.

Revenue in the Free to Play operating segment grew by Euro 760 thousand thanks to the particularly positive performance of the Gems of War video game which is now in its fourth year of life but generated more than two-thirds of the sales of this operating segment.

Net revenue has increased by Euro 6,603 thousand (or +9.4%) compared to prior year, a larger increase than that recorded at Gross revenue level. The significant reduction in sales through the retail distribution channel together with the particular success enjoyed by Bloodstained has led to a large reduction in revenue adjustments – they were down by Euro 1,324 thousand compared to prior year.

Cost of sales increased by 11.5%. In the final quarter of the reporting period, the positive performance of Bloodstained was only partially offset by the less successful than expected launch of the Underworld Ascendant video game which resulted in additional royalties of Euro 1,902 thousand in the final quarter.

Gross profit increased by Euro 979 thousand.

Other revenue, which almost entirely consists of the capitalisation of investment in intellectual property realised in-house (development of video games to be launched soon), increased by Euro 610 thousand. In particular, during the reporting period, these activities included the development of Assetto Corsa Competizione by subsidiary Kunos Simulazioni and the development of the new Free to Play version of Hawken by subsidiary DR Studios.

Operating costs decreased by 2.1% in contrast with the revenue increase. Labour costs represent a significant portion of operating costs but decreased by 2.5% to total Euro 17,903 thousand.

Gross operating margin/EBITDA increased by 79.1% (or by Euro 3,389 thousand). It represented 10% of net revenue compared to 6.1% in prior period.

Depreciation and amortisation have decreased by Euro 758 thousand due to completion of the amortisation period of several items of intellectual property owned by the Group. Impairment adjustments amount to Euro 2,051 thousand and mainly refer to the decision to abandon certain projects under development and the performance of impairment tests on video games whose results were poorer than expected (Euro 2,225 thousand), net of a Euro 277 thousand reduction in the provision for doubtful debts following application of the new IFRS 9. Despite these impairment adjustments, operating margin/EBIT improved by Euro 2,218 thousand compared to prior year although it remained negative by Euro 1,345 thousand.

There was net financial income of Euro 32 thousand against Euro 651 thousand in prior year.

The loss before taxation for the year ended 30 June 2019 amounted to Euro 1,313 thousand, an improvement of Euro 1,599 thousand compared to the loss before taxation of Euro 2,912 thousand reported for the year ended 30 June 2018.

The consolidated net loss amounts to Euro 1,513 thousand compared to a net loss from continuing operations of Euro 2,882 thousand for the year ended 30 June 2018.

Basic earnings per share and diluted earnings per share from continuing operations stand at Euro 0.11 compared to a net loss per share of Euro 0.20 in prior year.

The basic loss per share and the diluted loss for share stand at Euro 0.11 compared to the earnings per share of Euro 0.65 in prior year which were boosted by the gain of Euro 12,056 thousand on the sale of the non-strategic investment in Pipeworks Inc.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,584	6,000	(2,416)	-40.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,341	15,131	3,210	21.2%
4	Equity investments	1,706	1,270	436	34.3%
5	Non-current receivables and other assets	9,322	9,524	(202)	-2.1%
6	Deferred tax assets	2,745	2,365	380	16.1%
	Total non-current assets	**35,698**	**34,290**	**1,408**	**4.1%**
	Non-current liabilities				
7	Employee benefits	(573)	(516)	(57)	11.1%
8	Non-current provisions	(81)	(80)	(1)	1.0%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	**(1,577)**	**(1,497)**	**(80)**	**5.3%**
	Net working capital				
10	Inventories	13,909	15,059	(1,150)	-7.6%
11	Trade receivables	55,070	35,854	19,216	53.6%
12	Current tax assets	6,076	4,316	1,760	40.8%
13	Other current assets	1,668	3,600	(1,932)	-53.7%
14	Trade payables	(24,631)	(20,811)	(3,820)	18.4%
15	Current tax liabilities	(1,138)	(1,021)	(117)	11.5%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(3,761)	(1,241)	(2,520)	n.m.
	Total net working capital	**46,337**	**34,902**	**11,435**	**32.8%**
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,223)	(20,624)	(599)	2.9%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(37,298)	(40,284)	2,986	-7.4%
	Total equity	**(64,225)**	**(66,612)**	**2,387**	**-3.6%**
	Total net assets	***16,233***	***1,083***	***15,150***	**n.m.**
22	Cash and cash equivalents	4,767	4,282	485	11.3%
23	Current bank borrowing	(20,795)	(1,975)	(18,820)	n.m.
24	Other current financial assets and liabilities	2,155	(206)	2,361	n.m.
	Current net financial position	**(13,873)**	**2,101**	**(15,974)**	**n.m.**
25	Non-current financial assets	1,942	1,374	568	41.3%
26	Non-current bank borrowing	(4,293)	(4,533)	240	-5.3%
27	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net cash/debt	**(2,360)**	**(3,184)**	**824**	**-25.9%**
	Total net financial position	***(16,233)***	***(1,083)***	***(15,150)***	**n.m.**

Property, plant and equipment have decreased by Euro 2,416 thousand mainly because of the sale of the property owned by US subsidiary 133 W Broadway Inc. Meanwhile, intangible assets have increased by Euro 3,210 thousand due to investment in new video games minus amortisation and impairment adjustments for the period.

Net working capital has increased by Euro 11,435 thousand compared to 30 June 2018 mainly because of a Euro 19,216 thousand increase in trade receivables. The following table contains a breakdown of net working capital with comparative figures at 30 June 2018:

Euro Thousand	**30 June 2019**	**30 June 2018**	**Change**	
Inventories	13,909	15,059	(1,150)	-7.6%
Trade receivables	55,070	35,854	19,216	53.6%
Tax receivables	6,076	4,316	1,760	40.8%
Other current assets	1,668	3,600	(1,932)	-53.7%
Trade payables	(24,631)	(20,811)	(3,820)	18.4%
Tax payables	(1,138)	(1,021)	(117)	11.5%
Current provisions	(856)	(854)	(2)	0.2%
Other current liabilities	(3,761)	(1,241)	(2,520)	n.m.
Total net working capital	**46,337**	**34,902**	**11,435**	**32.8%**

The increase in trade receivables is due to sales made in the fourth quarter of the year.

As expected, the net financial position shows net debt of Euro 16,233 thousand, a Euro 15,150 thousand increase in net debt compared to 30 June 2018. This is due to significant investment on new productions on release from the final quarter of the reporting period.

The following table shows the net financial position with comparative figures as at 30 June 2018:

Euro Thousand	**30 June 2019**	**30 June 2018**	**Change**	
Cash and cash equivalents	4,767	4,282	485	11.3%
Current bank borrowing	(20,795)	(1,975)	(18,820)	n.m.
Other current financial assets and liabilities	2,155	(206)	2,361	n.m.
Current net financial position - cash	**(13,873)**	**2,101**	**(15,974)**	**n.m.**
Non-current financial assets	1,942	1,374	568	41.3%
Non-current bank borrowing	(4,293)	(4,533)	240	-5.3%
Other non-current financial liabilities	(9)	(25)	16	-64.0%
Non-current net financial position – (debt)/cash	**(2,360)**	**(3,184)**	**824**	**-25.9%**
Total net financial position	***(16,233)***	***(1,083)***	***(15,150)***	**n.m.**

7. PERFORMANCE BY OPERATING SEGMENT

Premium Games

Financial highlights (reclassified)

	Consolidated amounts in Euro Thousands	Premium Games					
		30 June 2019		30 June 2018		Change	
1	Gross revenue	60,432	104.4%	54,138	106.7%	6,294	11.6%
2	Revenue adjustments	(2,549)	-4.4%	(3,402)	-6.7%	853	-25.1%
3	**Net revenue**	**57,883**	**100.0%**	**50,736**	**100.0%**	**7,147**	**14.1%**
4	Purchase of products for resale	(6,141)	-10.6%	(8,129)	-16.0%	1,988	-24.5%
5	Purchase of services for resale	(3,812)	-6.6%	(3,043)	-6.0%	(769)	25.3%
6	Royalties	(20,180)	-34.9%	(14,848)	-29.3%	(5,332)	35.9%
7	Changes in inventories of finished products	(435)	-0.8%	176	0.3%	(611)	n.m.
8	**Total cost of sales**	**(30,568)**	**-52.8%**	**(25,844)**	**-50.9%**	**(4,724)**	**18.3%**
9	**Gross profit (3+8)**	**27,315**	**47.2%**	**24,892**	**49.1%**	**2,423**	**9.7%**
10	Other income	1,344	2.3%	1,146	2.3%	198	**17.2%**
11	Cost of services	(5,875)	-10.1%	(5,393)	-10.6%	(482)	8.9%
12	Lease and rental charges	(623)	-1.1%	(586)	-1.2%	(37)	6.2%
13	Labour costs	(8,760)	-15.1%	(9,253)	-18.2%	493	-5.3%
14	Other operating costs	(394)	-0.7%	(352)	-0.7%	(42)	11.8%
15	**Total operating costs**	**(15,652)**	**-27.0%**	**(15,584)**	**-30.7%**	**(68)**	**0.4%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**13,007**	**22.5%**	**10,454**	**20.6%**	**2,553**	**24.4%**
17	Depreciation and amortisation	(4,693)	-8.1%	(4,512)	-8.9%	(181)	4.0%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment adjustments to assets	(1,565)	-2.7%	(8)	0.0%	(1,557)	n.m.
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	(0)	0.0%
21	**Total non-monetary income and operating costs**	**(6,258)**	**-10.8%**	**(4,520)**	**-8.9%**	**(1,738)**	**38.5%**
22	**Operating margin (EBIT) (16+21)**	**6,749**	**11.7%**	**5,934**	**11.7%**	**815**	**13.7%**

Higher than expected sales of the video game Bloodstained in June and the effective completion of the development process of the video game Control enabled this operating segment to achieve an 11.6% increase in gross revenue which rose from Euro 54,138 thousand to Euro 60,432 thousand.

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

Euro Thousands	30 June 2019	30 June 2018	Change	
Bloodstained	13,888	0	13,888	n.m.
Control	9,490	0	9,490	n.m.
Assetto Corsa	7,020	7,005	15	0.2%
Terraria	5,379	7,134	(1,755)	-24.6%
PAYDAY 2	4,477	9,233	(4,756)	-51.5%
Retail products	9,806	14,823	(5,017)	-33.8%
Other products	10,372	15,943	(5,571)	-34.9%
Total Premium Games gross revenue	**60,432**	**54,138**	**6,294**	**11.6%**

The final quarter of the reporting period saw the launch of the Bloodstained video game on western markets with PC and console versions. The launch of the Asian version is scheduled for the next reporting period. In just seven days since its official launch on 23 June 2019, Bloodstained generated gross revenue – on both digital marketplaces and in the traditional distribution channel – of Euro 13,888 thousand and became the Group's best-selling title in the reporting period.

The PC version of the Control video game also generated a significant volume of revenue. This product was developed together with Remedy Entertainment, a Finnish company listed on the Nasdaq First North. The game – with various versions for PC and console – was launched on 27 August 2019 but the contractual structure with the digital marketplace which required exclusive rights to the PC version of the game made it possible to recognise revenue with effect from this reporting period.

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

Sales of products that have accounted for a large portion of revenue in the last five years - Terraria and PAYDAY2 – have fallen. Sales of Terraria decreased by Euro 1,755 thousand during the reporting period but are expected to remain at their current level in the coming period also thanks to the launch of a new version for the Nintendo Switch console. However, the revenue trend for PAYDAY2 going forward depends on the product policy regarding the PC version of the game which is in the possession of Swedish developer Starbreeze. As a result of agreements reached with Starbreeze, the Group now only holds rights to console versions of the game.

A breakdown of revenue by distribution channel is provided below:

Euro Thousands	30 June 2019	30 June 2018	Change	
Retail distribution revenue	19,080	24,826	(5,746)	-23.1%
Digital distribution revenue	35,766	25,340	10,426	41.1%
Sub-licensing revenue	5,586	3,972	1,614	40.6%
Total Premium Games revenue	**60,432**	**54,138**	**6,294**	**11.6%**

Digital distribution revenue for the period ended 30 June 2019 may be broken down by digital marketplace as follows:

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**	
Epic Games	9,490	0	9,490	n.m.
Steam	9,349	5,955	3,394	57.0%
Sony Playstation Network	7,118	8,234	(1,116)	-13.6%
Microsoft Xbox Live	4,502	7,083	(2,581)	-36.4%
Nintendo	2,391	1,205	1,186	98.4%
iTunes	902	1,298	(396)	-30.5%
Other market places	2,014	1,565	449	28.7%
Total digital distribution revenue	**35,766**	**25,340**	**10,426**	**41.1%**

The revenue generated on the Epic Games marketplace regard the recognition of revenue from the PC version of the Control video game. There has been a significant increase in sales on the Steam marketplace, world leader in the digital distribution of video games for personal computers. Sales have also increased considerably on the Nintendo digital marketplace which benefited from the launch of the Nintendo Switch version of the Bloodstained and Terraria video games, both of which came out in the last week of the reporting period.

The net revenue of the operating segment has increased by 14.1%.

The total cost of sales of the Premium Games operating segment has increased by 18.3% compared to prior year. In the final quarter of the period, the positive performance of Bloodstained was only partially offset by the less successful than expected launch of the console version of the Underworld Ascendant video game and this led to Euro 1,902 thousand of additional royalties in the final quarter. Despite the impairment adjustments made, gross profit amounted to Euro 27,315 thousand with an increase of Euro 2,423 thousand compared to the year ended 30 June 2018.

Other revenue has increased by Euro 198 thousand and consists almost entirely of capitalised costs for in-house development of video games. During the period, we highlight the development of the Assetto Corsa Competizione video game by subsidiary Kunos Simulazioni.

Operating costs are in line with prior year. Labour costs have decreased by 5.3% compared to prior year as variable remuneration (or bonuses) was not paid as objectives set at the start of the period and regarding the launch of OVERKILL’s The Walking Dead were not achieved.

The gross operating margin/EBITDA of this segment has increased by 24.4% compared to prior year to reach Euro 13,007 thousand, or 22.5% of net revenue.

Impairment adjustments to assets relates to both game development projects abandoned by the Group during the period and to the results of impairment tests performed on video games that achieved poorer results than expected. Such adjustments total Euro 1,847 thousand minus a Euro 282 thousand reduction in the provision for doubtful debts due to application of the new IFRS 9.

Operating margin/EBIT totalled Euro 6,749 with an increase of Euro 815 thousand compared to Euro 5,934 thousand for the year ended 30 June 2018.

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

	Euro Thousands	30 June 2019	%	30 June 2018	%	Change	
	Total non-current assets	**15,637**	**25.9%**	**11,890**	**22.0%**	**3,747**	**31.5%**
	Total non-current liabilities	**(123)**	**0.2%**	**(86)**	**0.2%**	**(37)**	**0.0%**
	Net working capital						
10	Inventories	7,237		7,672		(435)	-5.7%
11	Trade receivables	51,829		31,579		20,250	64.1%
12	Tax receivables	971		1,731		(760)	-43.9%
13	Other current assets	206		287		(81)	-28.3%
14	Trade payables	(22,645)		(17,338)		(5,307)	30.6%
15	Current tax liabilities	(824)		(758)		(66)	8.7%
16	Current provisions	(856)		(854)		(2)	0.2%
17	Other current liabilities	(2,952)		(272)		(2,681)	n.m.
	Total net working capital	**32,967**	**54.6%**	**22,046**	**40.7%**	**10,921**	**49.5%**
	Premium Games gross revenue	**60,432**		**54,138**		**6,294**	**11.6%**

The high level of revenue in the last month of the reporting period with the launch of Bloodstained and the Nintendo Switch version of Terraria led to large increases in both trade receivables and trade payables. Therefore, the increase in net working capital as a percentage of gross revenues must be viewed bearing in mind this significant seasonality.

Non-current assets are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Property, plant and equipment	569	744	(175)
Concessions and licences	6,357	5,919	438
Assets in progress	5,093	1,236	3,857
Assetto Corsa Trademark	1,722	2,411	(689)
Non-current receivables and other assets	186	182	4
Deferred tax assets	1,710	1,397	313
Total non-current assets	**15,637**	**11,890**	**3,747**

The carrying amount of the Assetto Corsa trademark derives from the difference between the purchase price paid by Digital Bros S.p.A. and the equity of the company Kunos Simulazioni S.r.l. at 15 March 2017, the acquisition date of the investment. It is stated after accumulated amortisation.

Trade receivables consist of receivables from sales to customers, receivables for video game user licenses and advances paid to suppliers who provide localisation, development, rating and quality assurance services which are reflected in the Statement of Profit or Loss when the video game comes out on the market. Receivables for video game user licences represent advance payments to video game developers for licences not yet exploited in full or in part but which are expected to be used as from the coming year.

Trade receivables are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Receivables from customers	25,040	2,723	22,317
Receivables for video game user licences	15,446	23,112	(7,666)
Receivables for other video game operating costs	11,900	5,744	6,156
Provision for doubtful debts	(557)	0	(557)
Total trade receivables	**51,829**	**31,579**	**20,250**

The increase in trade receivables is due to sales made in the final month of the reporting period.

The provision for doubtful debts stood at Euro 557 thousand at 30 June 2019. It was calculated using the new IFRS 9. Upon first-time application, this standard led to recognition of a provision for doubtful debts of Euro 839 thousand which was accounted for by creating a specific equity reserve. Application of the new standard at 30 June 2019 led to a reduction of Euro 282 thousand, taking the provision to its current level at the reporting date.

The increase in trade payables is due to the higher level of royalties due to video game developers as a result of the increase in sales volumes in the final quarter.

Current provisions entirely consist of the provision for risks in relation to the tax inspection of 505 Games S.p.A. described in the Notes to the Consolidated Financial Statements.

Free to Play

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Free to Play					
		30 June 2019		**30 June 2018**		**Change**	
1	Gross revenue	6,573	100.0%	5,813	100.0%	760	13.1%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**6,573**	**100.0%**	**5,813**	**100.0%**	**760**	**13.1%**
4	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	(2,088)	-31.8%	(2,197)	-37.8%	109	-4.9%
6	Royalties	(464)	-7.1%	(140)	-2.4%	(324)	n.m.
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**(2,552)**	**-38.8%**	**(2,337)**	**-40.2%**	**(215)**	**9.2%**
9	**Gross profit (3+8)**	**4,021**	**61.2%**	**3,476**	**59.8%**	**545**	**15.7%**
10	Other income	1,829	27.8%	1,293	22.3%	536	41.4%
11	Costs for services	(240)	-3.7%	(498)	-8.6%	258	-51.8%
12	Lease and rental costs	(49)	-0.7%	(85)	-1.5%	36	-43.2%
13	Labour costs	(3,609)	-54.9%	(3,048)	-52.4%	(561)	18.4%
14	Other operating costs	(190)	-2.9%	(71)	-1.2%	(119)	n.m.
15	**Total operating costs**	**(4,088)**	**-62.2%**	**(3,702)**	**-63.7%**	**(386)**	**10.4%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**1,762**	**26.8%**	**1,067**	**18.4%**	**695**	**65.1%**
17	Depreciation and amortisation	(1,759)	-26.8%	(2,126)	-36.6%	367	-17.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(286)	-4.4%	0	0.0%	(286)	n.m.
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary operating income and costs**	**(2,046)**	**-31.1%**	**(2,126)**	**-36.6%**	**80**	**-3.8%**
22	**Operating margin (EBIT) (16+21)**	**(284)**	**-4.3%**	**(1,059)**	**-18.2%**	**775**	**-73.2%**

Free to Play operating segment revenue increased by 13.1% compared to the year ended 30 June 2018 thanks to the particularly strong performance of the Gems of War video game which is now in its fourth year of life. As in prior year, there were no new product launches during the year ended 30 June 2019. Revenue by video game is detailed as follows:

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
Gems of War	4,674	3,451	1,223
Battle Islands	1,162	1,533	(371)
Prominence Poker	666	667	(1)
Other products	71	162	(91)
Total Free to Play revenue	**6,573**	**5,813**	**760**

The significant reduction in purchases of services for resale is due to lower expenditure on live support services. Details are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change
Live support	1,262	1,406	(144)
Quality assurance	188	235	(47)
Hosting	491	380	111
Other	147	176	(29)
Total purchases of services	**2,088**	**2,197**	**(109)**

Other revenue has increased by Euro 536 thousand compared to prior year. It consists mainly of the capitalisation of internal development costs incurred by the Group to develop the future version of the Hawken series video game whose launch is scheduled for the third quarter of the new reporting period.

Operating costs have increased by Euro 386 thousand compared to prior year. This is due to the net effect of a Euro 561 thousand increase in labour costs, as partially countered by a Euro 258 thousand reduction in marketing and advertising costs.

Gross operating margin / EBITDA amounts to Euro 1,762 thousand and has increased by Euro 695 thousand compared to the year ended 30 June 2018.

Depreciation and amortisation have decreased by Euro 367 thousand due to completion of the amortisation period of the Battle Islands trademark which was originally recognised after the acquisition of DR Studios Ltd in September 2014. Impairment adjustments of Euro 287 thousand refer to the decision not to proceed with a number of ongoing development projects as expected revenue was lower than originally envisaged.

The operating loss of the operating segment amounts to Euro 284 thousand compared to a loss of Euro 1,059 thousand in the year ended 30 June 2018.

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

	Euro Thousands	30 June 2019	%	30 June 2018	%	Change	
	Total non-current assets	**5,060**	**77.0%**	**5,338**	**91.8%**	**(278)**	**-5.2%**
	Total non-current liabilities	**0**	**0.0%**	**0**	**0.0%**	**0**	**n.m.**
	Net working capital						
11	Trade receivables	1,449		2,009		(560)	-27.9%
12	Tax receivables	142		42		100	n.m.
13	Other current assets	58		42		16	38.6%
14	Trade payables	(447)		(591)		144	-24.4%
15	Current tax liabilities	(147)		(30)		(117)	n.m.
17	Other current liabilities	(40)		(44)		4	-10.0%
	Total net working capital	**1,015**	**15.4%**	**1,428**	**24.6%**	**(413)**	**-28.9%**
	Gross Free to Play revenue	**6,573**		**5,813**		**760**	**13.1%**

Non-current assets are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Property, plant and equipment	74	93	(19)
Concessions and licences	1,747	3,634	(1,887)
Assets in progress	2,910	1,258	1,652
Deferred tax assets	329	353	(24)
Total non-current assets	**5,060**	**5,338**	**(278)**

Non-current assets mainly consist of concessions and licences for games purchased by subsidiary 505 Mobile S.r.l. and internal projects developed by DR Studios Ltd.

Trade receivables mainly include receivables for video game user licences and receivables due from the main marketplaces. Trade payables mainly consist of payables due to video game developers.

Trade receivables are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Receivables from customers	1,021	1,023	(2)
Receivables for video game user licences	324	564	(240)
Receivables for other video game operating costs	104	422	(318)
Total trade receivables	**1,449**	**2,009**	**(560)**

Italian Distribution

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Italian Distribution					
		30 June 2019		30 June 2018		Change	
1	Gross revenue	13,741	114.7%	15,443	114.1%	(1,702)	-11.0%
2	Revenue adjustments	(1,760)	-14.7%	(1,909)	-14.1%	149	-7.8%
3	**Net revenue**	**11,981**	**100.0%**	**13,534**	**100.0%**	**(1,553)**	**-11.5%**
4	Purchases of products for resale	(8,534)	-71.2%	(11,248)	-83.1%	2,714	-24.1%
5	Purchases of services for resale	(657)	-5.5%	(1,192)	-8.8%	535	-44.9%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	(715)	-6.0%	2,068	15.3%	(2,783)	n.m.
8	**Total cost of sales**	**(9,906)**	**-82.7%**	**(10,372)**	**-76.6%**	**466**	**-4.5%**
9	**Gross profit (3+8)**	**2,075**	**17.3%**	**3,162**	**23.4%**	**(1,087)**	**-34.4%**
10	Other income	0	0.0%	0	0.0%	0	0.0%
11	Costs for services	(1,252)	-10.4%	(1,568)	-11.6%	316	-20.2%
12	Lease and rental costs	(34)	-0.3%	(36)	-0.3%	2	-6.1%
13	Labour costs	(1,370)	-11.4%	(1,466)	-10.8%	96	-6.6%
14	Other operating costs	(218)	-1.8%	(182)	-1.3%	(36)	19.7%
15	**Total operating costs**	**(2,874)**	**-24.0%**	**(3,252)**	**-24.0%**	**378**	**-11.6%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(799)**	**-6.7%**	**(90)**	**-0.7%**	**(709)**	**n.m.**
17	Depreciation and amortisation	(262)	-2.2%	(320)	-2.4%	58	-18.2%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(67)	-0.6%	(54)	-0.4%	(13)	23.4%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary operating income and costs**	**(329)**	**-2.7%**	**(374)**	**-2.8%**	**45**	**-12.1%**
22	**Operating margin (EBIT) (16+21)**	**(1,128)**	**-9.4%**	**(464)**	**-3.4%**	**(664)**	**n.m.**

In line with gradual market digitalisation and the trend seen in recent years, the gross revenue of the Italian Distribution operating segment has decreased by Euro 1,720 thousand (11%) compared to prior year.

However, sales of trading cards have bucked this trend to record an increase of Euro 805 thousand (21.1%). Gross revenue is analysed by type as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	
Distribution of video games for consoles	8,440	10,836	(2,396)	-22.1%
Distribution of trading cards	4,624	3,819	805	21.1%
Distribution of other products and services	677	788	(111)	-14.1%
Total gross revenue – Italian Distribution	**13,741**	**15,443**	**(1,702)**	**-11.0%**

Gross revenue by console type is analysed as follows:

Euro Thousands	30 June 2019		30 June 2018		% Change	
	Units	Revenue	Units	Revenue	Units	Revenue
Sony Playstation 4	196,348	6,637	238,583	8,057	-17.7%	-17.6%
Microsoft Xbox One	29,758	1,032	43,726	1,345	-31.9%	-23.3%
Nintendo Switch	21,705	709	13,303	403	63.2%	75.9%
Other consoles	20,109	62	92,667	1,032	n.m.	n.m.
Total console revenues	**267,920**	**8,440**	**388,279**	**10,836**	**-31.0%**	**-22.1%**

In line with the life cycle of the consoles, revenue from the distribution of video games for the Sony Playstation 3 and Microsoft Xbox 360 has almost dried up and is now classified under other consoles (down by Euro 970 thousand). Revenue from more recent consoles the Sony PlayStation 4 and the Microsoft Xbox One has also decreased by 17.6% and by 23.3%, respectively.

Sales of trading cards have increased by 21.1%.

Cost of sales has decreased by 4.5% while operating costs have fallen by Euro 378 thousand. As a result, EBITDA is negative by Euro 799 thousand – a deterioration of Euro 709 thousand compared to prior year – while EBIT has deteriorated by Euro 664 thousand compared to prior year.

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

	Euro Thousands	30 June 2019	%	30 June 2018	%	Change	
	Total non-current assets	**3,081**	**22.4%**	**3,130**	**20.3%**	**(49)**	**-1.6%**
	Total non-current liabilities	**(517)**	**3.8%**	**(498)**	**3.2%**	**(19)**	**3.7%**
	Net working capital						
10	Inventories	6,672		7,387		(715)	-9.7%
11	Trade receivables	1,782		2,256		(474)	-21.0%
12	Tax receivables	1,041		1,041		0	n.m.
13	Other current assets	330		399		(69)	-17.3%
14	Trade payables	(918)		(1,999)		1,081	-54.1%
15	Current tax liabilities	(145)		(216)		71	-32.9%
17	Other current liabilities	(609)		(741)		132	-17.8%
	Total net working capital	**8,153**	**59.3%**	**8,127**	**52.6%**	**26**	**0.3%**
	Gross revenue - Italian Distribution	**13,741**		**15,443**		**(1,702)**	**-11.0%**

Net working capital, amounting to Euro 8,153 thousand, is substantially unchanged on 30 June 2018.

Inventories, trade receivables and trade payables have decreased by Euro 715 thousand, Euro 474 thousand and Euro 1,081 thousand, respectively.

Non-current assets consist of the historical cost of the Trezzano sul Naviglio warehouse minus accumulated depreciation, deferred tax assets attributable directly to the operating segment and other minor amounts of property, plant and equipment and intangible assets.

Other Activities

Reclassified P&L Highlights

	Consolidated amounts in Euro Thousands	Other Assets					
		30 June 2019		30 June 2018		Change	
1	Gross revenue	571	100.0%	644	200.2%	(73)	-11.5%
2	Revenue adjustments	0	0.0%	(322)	-99.9%	322	n.m.
3	**Net revenue**	**571**	**100.0%**	**322**	**100.0%**	**249**	**77.3%**
4	Purchases of products for resale	0	0.1%	0	0.1%	0	0.0%
5	Purchases of services for resale	(29)	-5.1%	(56)	-17.5%	27	-48.2%
6	Royalties	(27)	-4.8%	(28)	-8.7%	1	-2.3%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**(56)**	**-9.8%**	**(84)**	**-26.1%**	**28**	**-33.1%**
9	**Gross profit (3+8)**	**515**	**90.3%**	**238**	**73.9%**	**277**	**n.m.**
10	Other income	0	0.0%	62	19.3%	(62)	n.m.
11	Costs for services	(154)	-27.0%	(459)	-142.7%	305	-66.5%
12	Lease and rental costs	(5)	-0.8%	(18)	-5.7%	13	-73.9%
13	Labour costs	(543)	-95.2%	(740)	-229.8%	197	-26.6%
14	Other operating costs	(38)	-6.7%	(47)	-14.7%	9	-19.1%
15	**Total operating costs**	**(740)**	**-129.7%**	**(1,264)**	**-392.6%**	**524**	**-41.4%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(225)**	**-39.5%**	**(964)**	**-299.7%**	**739**	**-76.6%**
17	Depreciation and amortisation	(85)	-14.9%	(553)	-171.8%	468	-84.7%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	0	0.0%	0	0.0%	0	0.0%
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary operating income and costs**	**(85)**	**-14.9%**	**(553)**	**-171.8%**	**468**	**-84.7%**
22	**Operating margin (EBIT) (16+21)**	**(310)**	**-54.4%**	**(1,517)**	**-471.5%**	**1,208**	**-79.6%**

The revenue of the Other Activities operating segment has decreased by Euro 73 thousand from Euro 644 thousand to Euro 571 thousand in the year ended 30 June 2019. The decrease is due to the absence of revenue from the Daily Fantasy Sport Fantasfida (Euro 226 thousand) following the decision to discontinue that activity with effect from June 2018; this effect was partially countered by a Euro 153 thousand increase in revenue for Digital Bros Game Academy S.r.l..

Operating costs have decreased by Euro 524 thousand and include certain one-off costs incurred following the decision to put Game Network S.r.l. into liquidation in October 2018.

The statement of financial position structure is as follows:

	Euro Thousands	30 June 2019	%	30 June 2018	%	Change	
	Total non-current assets	**388**	**68.0%**	**469**	**72.8%**	**(81)**	**-17.3%**
	Total non-current liabilities	**(14)**	**2.4%**	**(68)**	**10.5%**	**54**	**-79.8%**
	Net working capital						
11	Inventories	10		10		(0)	0.0%
12	Trade receivables	9		16		(7)	-43.7%
13	Tax receivables	262		236		26	10.9%
14	Other current assets	(136)		(166)		30	-18.2%
15	Trade payables	(23)		(14)		(9)	60.8%
17	Current tax liabilities	(138)		(167)		29	n.m.
	Other current liabilities	**(16)**	**-2.7%**	**(85)**	**-13.2%**	**69**	**-81.7%**
	Total net working capital	**571**		**644**		**(73)**	**-11.4%**

Non-current assets include Euro 234 thousand of assets in progress relating to the launch of a new application while the rest of the balance consists of deferred tax assets and plant and machinery.

Other current assets mainly includes the guarantee deposit of Euro 220 thousand paid to AAMS that will be refunded in the next few months.

Other current liabilities includes enrolment fees paid in advance by Digital Bros Game Academy S.r.l. students and payables to Game Network S.r.l. players.

Holding

Reclassified P&L highlights

	Consolidated amounts in Euro Thousands	Holding					
		30 June 2019		30 June 2018		Change	
1	Gross revenue	0	0.0%	0	0.0%	0	0.0%
2	Revenue adjustments	0	0.0%	0	0.0%	0	0.0%
3	**Net revenue**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
4	Purchases of products for resale	0	0.0%	0	0.0%	0	0.0%
5	Purchases of services for resale	0	0.0%	0	0.0%	0	0.0%
6	Royalties	0	0.0%	0	0.0%	0	0.0%
7	Changes in inventories of finished products	0	0.0%	0	0.0%	0	0.0%
8	**Total cost of sales**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
9	**Gross profit (3+8)**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**
10	Other income	233	0.0%	295	0.0%	(62)	0.0%
11	Costs for services	(1,549)	0.0%	(1,458)	0.0%	(91)	6.2%
12	Lease and rental costs	(749)	0.0%	(733)	0.0%	(16)	2.1%
13	Labour costs	(3,621)	0.0%	(3,859)	0.0%	238	-6.2%
14	Other operating costs	(383)	0.0%	(425)	0.0%	42	-9.9%
15	**Total operating costs**	**(6,302)**	**0.0%**	**(6,475)**	**0.0%**	**173**	**-2.7%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**(6,069)**	**0.0%**	**(6,180)**	**0.0%**	**111**	**-1.8%**
17	Depreciation and amortisation	(171)	0.0%	(217)	0.0%	46	-20.9%
18	Allocations to provisions	0	0.0%	0	0.0%	0	0.0%
19	Impairment adjustments to assets	(132)	0.0%	(60)	0.0%	(72)	n.m.
20	Reversal of impairment adj. and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary operating income and costs**	**(303)**	**0.0%**	**(277)**	**0.0%**	**(26)**	**9.4%**
22	**Operating margin/EBIT (16+21)**	**(6,372)**	**0.0%**	**(6,457)**	**0.0%**	**85**	**-1.3%**

Operating costs amount to Euro 6,302 thousand and have decreased slightly compared to the year ended 30 June 2018. In particular, labour costs have decreased by 6.2% compared to prior year because variable remuneration was not paid due to failure to achieve targets set at the start of the year and involving the launch of OVERKILL's The Walking Dead.

Operating margin/EBIT was negative by Euro 6,372 thousand compared to Euro 6,457 thousand negative at 30 June 2018.

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

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	437	2,482	(2,045)	-82.4%
3	Intangible assets	258	303	(45)	-14.7%
4	Equity investments	1,706	1,270	435	34.3%
5	Non-current receivables and other assets	9,131	9,338	(207)	n.m.
6	Deferred tax assets	0	70	(70)	n.m.
	Total non-current assets	**11,532**	**13,463**	**(1,930)**	**-14.3%**
	Non-current liabilities	**(923)**	**(901)**	**(22)**	**n.m.**
	Net working capital	**4,218**	**3,387**	**831**	**24.5%**

The decrease in property, plant and equipment is due to the sale of the property owned by 133 W Broadway.

The increase in equity investments is due to the acquisition of 4,096,809 Starbreeze A shares during the period.

Non-current receivables and other assets entirely refers to the receivable of USD 10 million plus interest accruing during the period minus the related provision for doubtful debts of Euro 773 thousand.

Non-current liabilities consist entirely of the non-current payable for consulting services received by the Parent Company in relation to the sale of the investment in Pipeworks Inc. These amounts will be paid upon collection of the related non-current receivables.

Net working capital is analysed as follows:

	Euro Thousands	30 June 2019	30 June 2018	Change	
12	Tax receivables	3,913	1,486	2,427	n.m.
13	Other current assets	812	2,636	(1,824)	n.m.
14	Trade payables	(485)	(717)	232	-32.3%
15	Tax payables	0	(2)	2	n.m.
17	Other current liabilities	(22)	(16)	(6)	37.5%
	Total net working capital	**4,218**	**3,387**	**831**	**24.5%**

The recognition of tax receivables for the losses reported by Italian companies taking part in the tax consolidation led to an increase of Euro 2,427 thousand in that caption. The significant decrease in other current assets is due to collection of the current portion of the receivable for the sale of Pipeworks Inc.

8. FOCUS ON RESULTS IN THE FOURTH QUARTER OF THE 2018/2019 REPORTING PERIOD

The results recorded by the Group in the fourth quarter of the reporting period, together with results for the fourth quarter of prior year, are as follows:

	Euro Thousands	4th quarter 2018/2019		4th quarter 2017/2018		Change	
1	Gross revenue	38,716	103.9%	14,070	108.0%	24,647	n.m.
2	Revenue adjustments	(1,451)	-3.9%	(1,263)	-8.0%	(188)	14.9%
3	**Net revenue**	**37,265**	**100.0%**	**12,807**	**100.0%**	**24,458**	**n.m.**
4	Purchases of products for resale	(3,898)	-10.5%	(2,913)	-27.5%	(985)	33.8%
5	Purchases of services for resale	(2,249)	-6.0%	(1,472)	-9.2%	(777)	52.8%
6	Royalties	(12,773)	-34.3%	(2,616)	-21.3%	(10,156)	n.m.
7	Changes in inventories of finished products	(978)	-2.6%	143	3.2%	(1,122)	n.m.
8	**Total cost of sales**	**(19,898)**	**-53.4%**	**(6,858)**	**-54.9%**	**(13,040)**	**n.m.**
9	**Gross profit (3+8)**	**17,366**	**46.6%**	**5,948**	**45.1%**	**11,419**	**n.m.**
10	Other income	980	2.6%	712	4.0%	269	37.7%
11	Costs for services	(3,457)	-9.3%	(2,629)	-13.3%	(830)	31.5%
12	Lease and rental costs	(391)	-1.0%	(380)	-2.1%	(10)	2.7%
13	Labour costs	(4,785)	-12.8%	(4,607)	-26.1%	(178)	3.9%
14	Other operating costs	(398)	-1.1%	(230)	-1.5%	(168)	73.0%
15	**Total operating costs**	**(9,031)**	**-24.2%**	**(7,845)**	**-43.0%**	**(1,186)**	**15.1%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**9,316**	**25.0%**	**(1,185)**	**6.1%**	**10,501**	**n.m.**
17	Depreciation and amortisation	(1,663)	-4.5%	(2,091)	-11.0%	428	-20.5%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment adjustments to assets	(1,386)	-3.7%	(40)	-0.2%	(1,345)	n.m.
20	Reversal of impairment adj. and non-monetary income	0	0.0%	0	0.0%	0	0.0%
21	**Total non-monetary operating income and costs**	**(3,049)**	**-8.2%**	**(2,132)**	**-11.2%**	**(917)**	**43.0%**
22	**Operating margin / EBIT (16+21)**	**6,267**	**16.8%**	**(3,316)**	**-5.1%**	**9,584**	**n.m.**
23	Interest and financial income	372	1.0%	939	2.8%	(567)	-60.4%
24	Interest expense and financial expenses	(450)	-1.2%	(380)	-1.9%	(70)	18.5%
25	**Net financial income (expenses)**	**(77)**	**-0.2%**	**559**	**0.9%**	**(636)**	**n.m.**
26	**Profit before tax (22+25)**	**6,190**	**16.6%**	**(2,757)**	**-4.1%**	**8,948**	**n.m.**
27	Current tax	(1,405)	-3.8%	889	0.4%	(2,294)	n.m.
28	Deferred tax	(415)	-1.1%	(600)	-0.4%	185	-30.8%
29	**Total income tax expense**	**(1,820)**	**-4.9%**	**289**	**0.0%**	**(2,110)**	**n.m.**
30	**Net profit (loss) from continuing operations (26+29)**	**4,370**	**11.7%**	**(2,469)**	**-4.1%**	**6,839**	**n.m.**
	Net profit/(loss) from discontinued operations	**0**	**0.0%**	**(372)**	**17.1%**	**372**	**n.m.**
	Net profit/(loss)	**4,370**	**11.7%**	**(2,840)**	**13.0%**	**7,210**	**n.m.**

Revenue for the fourth quarter of the reporting period amounted to Euro 38,716 thousand, an increase of Euro 24,467 thousand compared to Euro 14,070 thousand in the fourth quarter of prior year.

EBIT for the same quarter totalled Euro 6,267 thousand thanks to the better than expected performance of the Bloodstained video game in the last week of the reporting period, as well as to recognition of revenue for the PC version of the Control video game due to the exclusive contractual arrangement. The result was negatively affected by the less successful than expected launch of the console version of the Underworld Ascendant video game which led to Euro 1,902 thousand of additional royalties.

Net profit from continuing operations in the quarter totalled Euro 4,370 thousand against a net loss of euro 2,469 thousand in the fourth quarter of prior year.

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

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

Intercompany transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When preparing the consolidated financial statements for the year ended 30 June 2019, the impact of intercompany transactions on the results and financial position was eliminated in full.

Transactions with other related parties

Related party transactions regard:

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

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

The effects of related party transactions are disclosed in paragraph 11 of the Notes.

Atypical transactions

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

10. TREASURY SHARES

Pursuant to Art. 2428(2)(3) of the Italian Civil Code, it is hereby disclosed that, at 30 June 2019, Digital Bros S.p.A. did not hold any treasury shares and did not carry out any transactions in treasury shares during the reporting period.

11. RESEARCH AND DEVELOPMENT

During the reporting period, the Group incurred development costs of Euro 2,982 thousand compared to Euro 1,863 thousand in the year ended 30 June 2018. These development activities were carried out by subsidiaries DR Studios Ltd., 505 Mobile (US) Inc. and Kunos Simulazioni S.r.l. and regarded the development of the Assetto Corsa video games and the new version of the Hawken series of video games.

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

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

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

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

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

Operational risks

The most significant operational risks are:

- risk regarding ability to publish products that satisfy consumer tastes;
- exclusion of the publisher and failure to control intellectual property;
- product obsolescence risk;
- risk of dependence on key personnel;
- risk regarding management of development projects.

Risk regarding ability to publish products that satisfy consumer tastes

Like the entertainment industry as a whole, the video games market is exposed to a range of risks that the Group cannot control but which are connected to the public appeal of the products published. If the Group were unable to satisfy consumers expectations and keep up with the speed of change, its revenues and margins could be seriously affected and its business plan targets could be prove hard to achieve. This risk is mitigated by experienced management and by the procedure implemented by the Group for the acquisition of licensing and development contracts; this involves close examination of a product's economic potential through ongoing market analysis throughout the development stage of the video game. For larger investments, the Group also uses market research and/or specific studies conducted by independent experts into the product's potential. Forecasts are reviewed quarterly so that any corrective action can be taken.

Exclusion of the publisher and failure to control intellectual property

The constant process of digitalisation of video game distribution has led to the shortening of the value chain. The possibility of a further shortening in the near future could cast doubts on the role of the publisher, should the latter no longer own intellectual property and/or control it contractually. In order to mitigate this risk, the Group has pursued a strategy of acquiring controlling interests (DR Studios and Kunos Simulazioni) and/or non-controlling interests (Ovosonico) in order to increase its level of control over intellectual property. Moreover, the Group has set up organisational units designed to identify new intellectual property e.g. the Portal Knights video game. The risk still considered high and, accordingly, the Group has implemented all of the measures necessary to ensure it is mitigated by contractual arrangements whereby it acquires the rights to new games.

Product obsolescence risk

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

The decision to invest in a given product is often made years before its actual release. Therefore, management must estimate the price a game will sell for in subsequent periods. A sudden acceleration in the obsolescence of a game or its supporting hardware could result in lower retail prices than those originally foreseen. This will mean that actual revenues and margins are lower than forecast.

Obsolescence risks are mitigated by the fact that it is possible to reduce production, marketing and royalty costs payable to developers, thus reducing the impact on profit margins, as well as by knowledge gained of the life cycles of earlier consoles and advance information procured on new gaming platforms.

This risk is mitigated by a sign-off procedure for marketing expenditure and operating expenditure that focuses the most significant commitments. The risk is also reduced by a procedure for the purchase of licence and development contracts that selects products after careful analysis of prospective P&L figures throughout all phases of the video game development process.

Risk of dependence on key personnel

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

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

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

Management of development projects

The Group manages the game development process through external developers who contractually guarantee game release dates. Any failure by the Group to manage game development process timings could cause their market launch to be delayed. In the case of products tied into specific events and/or in case of contractual restrictions with any licensors, this would have a significant impact on the sales potential of the game and on the development costs. Any delay in the launch of products could lead to actual results different than those budgeted or forecast, especially if the launch is delayed to a later reporting period.

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

Management of financial risks

The main financial instruments used by the Group are:

- Bank overdrafts
- Sight and short-term bank deposits
- Import financing
- Export financing
- Commercial credit lines (factoring)
- Finance leases
- Derivative contracts
- Financial instruments held for trading.

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

Credit facilities granted to the Group and utilised at 30 June 2019 are as follows:

Euro Thousands	**Facility**	**Utilised**	**Available**
Bank overdrafts	2,650	1,588	1,062
Import financing	11,750	8,938	2,812
Advances on invoices and cash orders subject to collection	20,567	2,055	18,512
Factoring	15,280	107	15,173
Medium-term product development financing	12,900	11,059	1,841
Total	**63,147**	**23,747**	**39,400**

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

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

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

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

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

Exchange rate risk

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

In order to monitor the EUR/USD exchange rate risk, the Group closely monitors forecast exchange rate trends – also based on reports by independent analysts - and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

When preparing forecasts, the Group uses models that take account of the various currencies in which Group companies operate and uses forward exchange rates based on reports issued by independent analysts.

The risk is mitigated by the fact that foreign currency payments are often made in advance. The Group books actual royalty costs in advance and manages to reflect any additional expenses due to exchange rate fluctuation in its selling prices.

Interest rate risk

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

These risks are mitigated by:

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

Liquidity risk

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

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

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

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

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

Risk of dependence on key customers and credit risk

During the reporting period, the top ten global customers accounted for around 75% of trade receivables while the top 50 customers accounted for 98%. Gradual market digitalisation will necessarily lead to a further increase in the level of receivables concentration as sales will be made on marketplaces operating on a global scale. The concentration of revenues on a small number of key customers makes the Group reliant on the decisions made by a handful of companies. Indeed, there is a risk that if a specific product is not selected for purchase, it might not have the necessary visibility on store shelves, in case of physical distribution, but also on digital platforms, thus leading to the loss of expected sales potential. In contrast, a product may acquire additional sales potential if it gains particularly favourable positioning, especially on digital marketplaces.

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

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

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

	Profit (loss) for the year ended		Equity	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Profit (loss) for the year and equity of Digital Bros S.p.A.	**840**	**15,520**	**47,539**	**46,887**
Profit for the year and equity of subsidiaries	973	3,787	43,645	42,438
Carrying amount of equity investments	0	0	(27,281)	(27,181)
Consolidation adjustments:				
Impairment of investments in subsidiaries	1,101	1,380	828	3,768
Elimination of intercompany profits	(113)	(30)	(1,611)	(1,495)
Dividends	(4,000)	(11,094)	0	0
Other adjustments	(314)	(389)	1,105	2,196
Total consolidation adjustments	**(3,326)**	**(10,133)**	**322**	**4,469**
Profit for the year and equity of the Group	**(1,513)**	**9,174**	**64,225**	**66,612**

Details are provided below of consolidation adjustments at 30 June 2019 and 2018 and for the years then ended:

	Profit (loss) for the year ended		Equity	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
Impairment of Digital Bros S.p.A.'s investment in Game Network S.r.l.	274	1,019	1	2,175
Impairment of Digital Bros S.p.A.'s investment in Digital Bros Game Academy S.r.l.	0	128	0	218
Impairment of 505 Games S.p.A.'s investment in 505 Mobile S.r.l.	0	233	0	1,375
Impairment of Digital Bros S.p.A.'s investment in 133 W Broadway	255	0	255	0
Impairment of 505 Mobile S.r.l.'s investment in Game Entertainment S.r.l.	572	233	572	1,375
Total impairment of investments in subsidiaries	**1,101**	**1,380**	**828**	**3,768**
Elimination of unrealised profit in inventory	43	(144)	(465)	(508)
Elimination of margin on internal processing contracts	(156)	114	(1,146)	(987)
Total elimination of intercompany profits	**(113)**	**(30)**	**(1,611)**	**(1,495)**
Dividends from 505 Games Ltd.	0	(3,402)	0	0
Dividends from 505 Games S.p.A.	0	(6,000)	0	0
Dividends from Pipeworks Inc.	0	(1,292)	**0**	**0**
Dividends from 505 Game Entertainment S.r.l.	0	(400)	**0**	**0**
Dividends from Kunos Simulazioni S.r.l.	(4,000)	0	0	
Total dividends	**(4,000)**	**(11,094)**	**0**	**0**
Amortisation/Allocation of acquisition price of DR Studios Ltd., net of tax effect	0	(86)	0	0
Amortisation/Allocation of acquisition price of Pipeworks Inc. net of tax effect	0	(50)	0	0
Amortisation/Allocation of acquisition price of Kunos S.r.l. net of tax effect	(500)	(470)	1,265	1,765
Application of IFRS 9	257	0	(520)	0
Other	(71)	217	360	431
Total other adjustments	**(314)**	**(389)**	**1,105**	**2,196**
Total consolidation adjustments	**(3,326)**	**(10,133)**	**322**	**4,469**

14. CONTINGENT ASSETS AND LIABILITIES

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

15. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 30 June 2019.

16. BUSINESS OUTLOOK

The launch of Bloodstained on western markets and the launch of the Nintendo Switch version of Terraria in the last week of the reporting period heralded a new phase of development that the Group has been preparing for in recent years. This process has just begun and, on 27 August 2019, the Control video game was launched on the market with console and PC versions available. It will continue with the 8 October 2019 launch of console and PC versions of the Indivisible video game and the launch of Bloodstained on Far Eastern markets. Journey to the Savage Plant will come out in January 2020 with PC and console versions available and, in the last quarter of the 2019/20 reporting period, it will be followed by the new version of Free to Play video game Hawken, together with a version of Assetto Corsa for mobile devices.

Following the launch of a new video game and depending on its success, a strategy for the launch of DLC, or additional content, is finalised. Such content is distributed on digital marketplaces both free of charge and in return for payment and this revenue source will surely be significant in the coming reporting period.

Given the above, the Group forecasts strong revenue growth in the next reporting period. The growth should be visible from the first quarter of the year and there will be a significant improvement in all profit indicators. This forecast should be viewed bearing in mind the fact that revenue will be more predictable because: some components of revenue e.g. the PC version of Journey to the Savage Planet, the mobile version of Assetto Corsa and sub-licensing agreements for the Far East are already contractually determined; others, like DLC, can be estimated based on the number of copies of the main game that have been sold.

Net financial debt is expected to improve throughout the new reporting period.

17. OTHER INFORMATION

EMPLOYEES

The following table contains analysis of the number of employees at 30 June 2019 with comparative figures at 30 June 2018:

Category	30 June 2019	30 June 2018	Change
Managers	7	8	(1)
Office workers	184	165	19
Blue-collar workers and apprentices	4	4	0
Total employees	**195**	**177**	**18**

The following table contains details of the number of employees of non-Italian companies at 30 June 2019 with comparative figures at 30 June 2018:

Category	30 June 2019	30 June 2018	Change
Managers	2	3	(1)
Office workers	119	105	14
Total employees outside Italy	**121**	**108**	**13**

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

Category	Average no in 2019	Average no in 2018	Change
Managers	8	9	(1)
Office workers	174	215	(41)
Blue-collar workers and apprentices	4	4	0
Total employees	**186**	**228**	**(42)**

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

Category	Average no in 2019	Average no in 2018	Change
Managers	3	4	(1)
Office workers	112	149	(37)
Total employees outside Italy	**115**	**153**	**(38)**

The decrease in the average number of employees compared to prior year is due to the disposal of US subsidiary Pipeworks Inc. in February 2018.

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

ENVIRONMENT

At 30 June 2019, there were no environmental issues and, as the Group's activities consist chiefly of packing and shipping video games and affixing labels to packaging, there is no reason why any environmental issues should emerge in the future.

18. EXEMPTION FROM PRESENTATION OF NON-FINANCIAL REPORT

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

19. REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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

20. REMUNERATION REPORT

The remuneration report, containing the information required by Art. 123-ter of the Consolidated Finance Act, is published in Italian and English in the investors section of the website at www.digitalbros.com.

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Consolidated financial statements for the year ended 30 June 2019

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FINANCIAL STATEMENTS

Digital Bros Group

Consolidated statement of financial position at 30 June 2019

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,584	6,000	(2,416)	-40.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,341	15,131	3,210	21.2%
4	Equity investments	1,706	1,270	436	34.3%
5	Non-current receivables and other assets	9,322	9,524	(202)	-2.1%
6	Deferred tax assets	2,745	2,365	380	16.1%
	Total non-current assets	**35,698**	**34,290**	**1,408**	**4.1%**
	Non-current liabilities				
7	Employee benefits	(573)	(516)	(57)	11.1%
8	Non-current provisions	(81)	(80)	(1)	1.0%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	**(1,577)**	**(1,497)**	**(80)**	**5.3%**
	Net working capital				
10	Inventories	13,909	15,059	(1,150)	-7.6%
11	Trade receivables	55,070	35,854	19,216	53.6%
12	Current tax assets	6,076	4,316	1,760	40.8%
13	Other current assets	1,668	3,600	(1,932)	-53.7%
14	Trade payables	(24,631)	(20,811)	(3,820)	18.4%
15	Current tax liabilities	(1,138)	(1,021)	(117)	11.5%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(3,761)	(1,241)	(2,520)	n.m.
	Total net working capital	**46,337**	**34,902**	**11,435**	**32.8%**
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,223)	(20,624)	(599)	2.9%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(37,298)	(40,284)	2,986	-7.4%
	Total equity	**(64,225)**	**(66,612)**	**2,387**	**-3.6%**
	Total net assets	***16,233***	***1,083***	***15,150***	**n.m.**
22	Cash and cash equivalents	4,767	4,282	485	11.3%
23	Current bank debt	(20,795)	(1,975)	(18,820)	n.m.
24	Other current financial assets and liabilities	2,155	(206)	2,361	n.m.
	Current net cash/debt	**(13,873)**	**2,101**	**(15,974)**	**n.m.**
25	Non-current financial assets	1,942	1,374	568	41.3%
26	Non-current bank debt	(4,293)	(4,533)	240	-5.3%
27	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net cash/debt	**(2,360)**	**(3,184)**	**824**	**-25.9%**
	Total net financial position	***(16,233)***	***(1,083)***	***(15,150)***	**n.m.**

Digital Bros Group

Consolidated statement of profit or loss for the year ended 30 June 2019

	Euro Thousands	30 June 2019		30 June 2018		Change	
1	Gross revenue	81,317	105.6%	76,038	108.0%	5,279	6.9%
2	Revenue adjustments	(4,309)	-5.6%	(5,633)	-8.0%	1,324	-23.5%
3	**Net revenue**	**77,008**	**100.0%**	**70,405**	**100.0%**	**6,603**	**9.4%**
4	Purchase of products for resale	(14,675)	-19.1%	(19,377)	-27.5%	4,702	-24.3%
5	Purchase of services for resale	(6,586)	-8.6%	(6,488)	-9.2%	(98)	1.5%
6	Royalties	(20,671)	-26.8%	(15,016)	-21.3%	(5,655)	37.7%
7	Changes in inventories of finished products	(1,150)	-1.5%	2,244	3.2%	(3,394)	n.m.
8	**Total cost of sales**	**(43,082)**	**-55.9%**	**(38,637)**	**-54.9%**	**(4,445)**	**11.5%**
9	**Gross profit (3+8)**	**33,926**	**44.1%**	**31,768**	**45.1%**	**2,158**	**6.8%**
10	Other income	3,406	4.4%	2,796	4.0%	610	21.8%
11	Costs for services	(9,070)	-11.8%	(9,376)	-13.3%	306	-3.3%
12	Lease and rental charges	(1,460)	-1.9%	(1,458)	-2.1%	(2)	0.1%
13	Labour costs	(17,903)	-23.2%	(18,366)	-26.1%	463	-2.5%
14	Other operating costs	(1,223)	-1.6%	(1,077)	-1.5%	(146)	13.5%
15	**Total operating costs**	**(29,656)**	**-38.5%**	**(30,277)**	**-43.0%**	**621**	**-2.1%**
16	**Gross operating margin (EBITDA) (9+10+15)**	**7,676**	**10.0%**	**4,287**	**6.1%**	**3,389**	**79.1%**
17	Depreciation and amortisation	(6,970)	-9.1%	(7,728)	-11.0%	758	-9.8%
18	Allocations to provisions	0	0.0%	0	0.0%	0	n.m.
19	Impairment adjustments to assets	(2,051)	-2.7%	(122)	-0.2%	(1,929)	n.m.
20	Reversal of impairment adjustments and non-monetary income	0	0.0%	0	0.0%	(0)	0.0%
21	**Total non-monetary income and operating costs**	**(9,021)**	**-11.7%**	**(7,850)**	**-11.2%**	**(1,171)**	**14.9%**
22	**Operating margin (EBIT) (16+21)**	**(1,345)**	**-1.7%**	**(3,563)**	**-5.1%**	**2,218**	**-62.3%**
23	Interest and financial income	1,438	1.9%	1,998	2.8%	(560)	-28.0%
24	Interest and financial expenses	(1,406)	-1.8%	(1,347)	-1.9%	(59)	4.4%
25	**Net financial income (costs)**	**32**	**0.0%**	**651**	**0.9%**	**(619)**	**-95.0%**
26	**Profit before taxation (22+25)**	**(1,313)**	**-1.7%**	**(2,912)**	**-4.1%**	**1,600**	**-54.9%**
27	Current tax	28	0.0%	293	0.4%	(265)	n.m.
28	Deferred tax	(228)	-0.3%	(263)	-0.4%	35	-13.3%
29	**Total income tax expense**	**(200)**	**-0.3%**	**30**	**0.0%**	**(230)**	**n.m.**
30	**Profit /(Loss) from continuing operations (26+29)**	**(1,513)**	**-2.0%**	**(2,882)**	**-4.1%**	**1,369**	**-47.5%**
	Profit from discontinued operations	**0**	**0.0%**	**12,056**	**17.1%**	**(12,056)**	**n.m.**
	Net profit	**(1,513)**	**-2.0%**	**9,174**	**13.0%**	**(10,687)**	**n.m.**

Digital Bros Group

Consolidated statement of comprehensive income for the year ended 30 June 2019

Euro Thousands	30 June 2019	30 June 2018	Change
Profit (Loss) for the period (A)	**(1,513)**	**9,174**	**(10,687)**
Items that will not be subsequently recycled through profit or loss (B)	**0**	**0**	**0**
Actuarial gain (loss)	(32)	7	(39)
Income tax relating to the actuarial gain (loss)	8	(2)	10
Exchange differences on translation of foreign operations	91	6	85
Income tax relating to exchange differences on translation of foreign operations	0	0	0
Fair value measurement of shares designated as “available for sale”	(350)	0	(350)
Tax effect regarding fair value measurement of shares designated as “available for sale”	84	0	84
Items that will subsequently be recycled through profit or loss (C)	**(199)**	**11**	**(210)**
Total other comprehensive income D=(B)+(C)	**(199)**	**11**	**(210)**
Total comprehensive income (loss) (A)+(D)	**(1,712)**	**9,185**	**(10,897)**
Attributable to:			
Owners of the Company	**(1,712)**	**9,185**	**(10,897)**
Non-controlling interests	**0**	**0**	**0**

Digital Bros Group

Consolidated statement of cash flows for the year ended 30 June 2019

	Euro Thousands	30 June 2019	30 June 2018
A.	**Opening net financial position**	**(1,083)**	**12,027**
B.	**Cash flows from operating activities**		
	Profit (loss) for the year attributable to the Group	(1,513)	9,174
	Depreciation, amortisation and non-monetary costs:		
	Provisions and impairment adjustments	2,051	122
	Amortisation of intangible assets	4,778	7,076
	Depreciation of property, plant and equipment	528	652
	Net change in other provisions	1	1
	Net change in employee benefit provisions	57	(29)
	Net change in other non-current liabilities	22	901
	SUB TOTAL B.	**5,924**	**17,897**
C.	**Change in net working capital**		
	Inventories	1,150	(2,244)
	Trade receivables	(20,089)	7,154
	Current tax assets	(1,760)	(2,252)
	Other current assets	1,932	(6,789)
	Trade payables	3,820	(6,869)
	Current tax liabilities	117	(4,715)
	Current provisions	2	0
	Other current liabilities	2,520	(2,713)
	SUB TOTAL C.	**(12,308)**	**(18,428)**
D.	**Cash flows from investing activities**		
	Net investment in intangible assets	(9,035)	(3,340)
	Net investment in property, plant and equipment	1,888	(33)
	Net investment in non-current financial assets	(744)	(7,869)
	SUB TOTAL D.	**(7,891)**	**(11,242)**
E.	**Cash flows from financing activities**		
	Proceeds from capital increases	0	0
	Increase in share premium reserve	0	0
	SUB TOTAL E.	**0**	**0**
F.	**Changes in consolidated equity**		
	Dividends distributed	0	(2,139)
	Changes in treasury shares held	0	0
	Increases (decreases) in other equity components	(875)	803
	SUB TOTAL F.	**(875)**	**(1,336)**
G.	**Cash flows for the period (B+C+D+E+F)**	**(15,150)**	**(13,110)**
H.	**Closing net financial position (A+G)**	**(16,233)**	**(1,083)**

Notes to the statement of cash flows

Details of cash flows by maturity:

Euro Thousands	**30 June 2019**	**30 June 2018**
Increase (decrease) in securities and cash and cash equivalents	485	(7,854)
Decrease (increase) in current bank borrowing	(18,820)	(33)
Decrease (increase) in other current financial assets and liabilities	2,361	(1,156)
Cash flows for the period pertaining to current net financial position	(15,974)	(9,043)
Cash flows for the period pertaining to non-current net financial position	824	(4,097)
Cash flows for the period	**(15,150)**	**(13,110)**

Digital Bros Group

Consolidated statement of changes in equity

Euro Thousands	Share capital (A)	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Other reserves	Total reserves (B)	Treasury shares (C)	Retained earnings (Accumulated losses)	Profit (Loss) for the year	Total retained earnings (D)	Consolidated equity attributable to Group (A+B+C+D)
Total at 1 July 2017	**5,704**	18,486	1,129	1,367	(1,447)	270	**19,805**	**0**	21,968	11,297	**33,265**	**58,774**
Allocation of profit for the year			12				**12**		11,285	(11,297)	**(12)**	**0**
Payment of dividends							**0**		(2,139)		**(2,139)**	**(2,139)**
Other changes						796	**796**		(4)		**(4)**	**792**
Comprehensive income (loss)					6	5	**11**			9,174	**9,174**	**9,185**
Total at 30 June 2018	**5,704**	18,486	1,141	1,367	(1,441)	1,071	**20,624**	**0**	31,110	9,174	**40,284**	**66,612**
Total at 1 July 2018	**5,704**	18,486	1,141	1,367	(1,441)	1,071	**20,624**	**0**	31,110	9,174	**40,284**	**66,612**
Application of IFRS 9							**0**		(1,473)		**(1,473)**	**(1,473)**
Allocation of profit for the year							**0**		9,174	(9,174)	**0**	**0**
Other changes						798	**798**				**0**	**798**
Comprehensive income (loss)					91	(290)	**(199)**			(1,513)	**(1,513)**	**(1,712)**
Total at 30 June 2019	**5,704**	18,486	1,141	1,367	(1,350)	1,579	**21,223**	**0**	38,811	(1,513)	**37,298**	**64,225**

Digital Bros Group

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

	Euro Thousands	**30 June 2019**		**30 June 2018**	
		Total	**Of which with related parties**	**Total**	**Of which with related parties**
1	Gross revenue	81,317	0	76,038	0
2	Revenue adjustments	(4,309)	0	(5,633)	0
3	**Net revenue**	**77,008**	**0**	**70,405**	**0**
4	Purchase of products for resale	(14,675)	0	(19,377)	0
5	Purchase of services for resale	(6,586)	0	(6,488)	0
6	Royalties	(20,671)	0	(15,016)	0
7	Changes in inventories of finished products	(1,150)	0	2,244	0
8	**Total cost of sales**	**(43,082)**	**0**	**(38,637)**	**0**
9	**Gross profit (3+8)**	**33,926**	**0**	**31,768**	**0**
10	Other income	3,406	29	2,796	0
11	Costs for services	(9,070)	(262)	(9,376)	(315)
12	Lease and rental charges	(1,460)	(1,148)	(1,458)	(1,126)
13	Labour costs	(17,903)	0	(18,366)	0
14	Other operating costs	(1,223)	0	(1,077)	0
15	**Total operating costs**	**(29,656)**	**(1,410)**	**(30,277)**	**(1,441)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**7,676**	**(1,381)**	**4,287**	**(1,441)**
17	Depreciation and amortisation	(6,970)	0	(7,728)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(2,051)	0	(122)	0
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0
21	**Total non-monetary income and operating costs**	**(9,021)**	**0**	**(7,850)**	**0**
22	**Operating margin (EBIT) (16+21)**	**(1,345)**	**(1,381)**	**(3,563)**	**(1,441)**
23	Interest and financial income	1,438	0	1,998	0
24	Interest and financial expenses	(1,406)	0	(1,347)	0
25	**Net financial income (expenses)**	**32**	**0**	**651**	**0**
26	**Profit before tax (22+25)**	**(1,313)**	**(1,381)**	**(2,912)**	**(1,441)**
27	Current tax	28	0	293	0
28	Deferred tax	(228)	0	(263)	0
29	**Total income tax expense**	**(200)**	**0**	**30**	**0**
30	**Net profit/(loss) from continuing operations (26+29)**	**(1,513)**	**(1,381)**	**(2,882)**	**(1,441)**
	Net profit/(loss) from discontinued operations	**0**	**(1,381)**	**12,056**	**(1,441)**
	Net profit/(loss)	**(1,513)**	**(1,381)**	**9,174**	**(1,441)**

Digital Bros Group

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

	Euro Thousands	**30 June 2019**		**30 June 2018**	
	Non-current assets	**Total**	**Of which with related parties**	**Total**	**Of which with related parties**
1	Property, plant and equipment	3,584	0	6,000	0
2	Investment property	0	0	0	0
3	Intangible assets	18,341	0	15,131	**0**
4	Equity investments	1,706	0	1,270	0
5	Non-current receivables and other assets	9,322	765	9,524	762
6	Deferred tax assets	2,745	0	2,365	0
	Total non-current assets	**35,698**	**765**	**34,290**	**762**
	Non-current liabilities				
7	Employee benefits	(573)	0	(516)	0
8	Non-current provisions	(81)	0	(80)	0
9	Other non-current payables and liabilities	(923)	0	(901)	0
	Total non-current liabilities	**(1,577)**	**0**	**(1,497)**	**0**
	Net working capital				
10	Inventories	13,909	0	15,059	0
11	Trade receivables	55,070	21	35,854	0
12	Current tax assets	6,076	0	4,316	0
13	Other current assets	1,668	210	3,600	210
14	Trade payables	(24,631)	(127)	(20,811)	(48)
15	Current tax liabilities	(1,138)	0	(1,021)	0
16	Current provisions	(856)	0	(854)	0
17	Other current liabilities	(3,761)	0	(1,241)	0
	Total net working capital	**46,337**	**104**	**34,902**	**162**
	Capital and reserves				
18	Share capital	(5,704)	0	(5,704)	0
19	Reserves	(21,223)	0	(20,624)	0
20	Treasury shares	0	0	0	0
21	(Retained earnings) accumulated losses	(37,298)	0	(40,284)	0
	Total equity	**(64,225)**	**0**	**(66,612)**	**0**
	Total net assets	***16,233***	***869***	***1,083***	***924***
22	Cash and cash equivalents	4,767	0	4,282	0
23	Current bank borrowing	(20,795)	0	(1,975)	0
24	Other current financial assets and liabilities	2,155	0	(206)	0
	Current net financial position	**(13,873)**	**0**	**2,101**	**0**
25	Non-current financial assets	1,942	0	1,374	0
26	Non-current bank borrowing	(4,293)	0	(4,533)	0
27	Other non-current financial liabilities	(9)	**0**	(25)	0
	Non-current net financial position	**(2,360)**	**0**	**(3,184)**	**0**
	Total net financial position	***(16,233)***	***0***	***(1,083)***	***0***

Digital Bros Group

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

	Euro Thousands	30 June 2019		30 June 2018	
		Total	Of which non-recurring	Total	Of which non-recurring
1	Gross revenue	81,317	0	76,038	0
2	Revenue adjustments	(4,309)	0	(5,633)	0
3	**Net revenue**	**77,008**	**0**	**70,405**	**0**
4	Purchase of products for resale	(14,675)	0	(19,377)	0
5	Purchase of services for resale	(6,586)	0	(6,488)	0
6	Royalties	(20,671)	0	(15,016)	0
7	Changes in inventories of finished products	(1,150)	0	2,244	0
8	**Total cost of sales**	**(43,082)**	**0**	**(38,637)**	**0**
9	**Gross profit (3+8)**	**33,926**	**0**	**31,768**	**0**
10	Other income	3,406	0	2,796	0
11	Costs for services	(9,070)	0	(9,376)	0
12	Lease and rental charges	(1,460)	0	(1,458)	0
13	Labour costs	(17,903)	0	(18,366)	0
14	Other operating costs	(1,223)	0	(1,077)	0
15	**Total operating costs**	**(29,656)**	**0**	**(30,277)**	**0**
16	**Gross operating margin (EBITDA) (9+10+15)**	**7,676**	**0**	**4,287**	**0**
17	Depreciation and amortisation	(6,970)	0	(7,728)	0
18	Allocations to provisions	0	0	0	0
19	Impairment adjustments to assets	(2,051)	0	(122)	0
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0
21	**Total non-monetary income and operating costs**	**(9,021)**	**0**	**(7,850)**	**0**
22	**Operating margin (EBIT) (16+21)**	**(1,345)**	**0**	**(3,563)**	**0**
23	Interest and financial income	1,438	0	1,998	0
24	Interest and financial expenses	(1,406)	0	(1,347)	0
25	**Net financial income (expense)**	**32**	**0**	**651**	**0**
26	**Profit before taxation (22+25)**	**(1,313)**	**0**	**(2,912)**	**0**
27	Current tax	28	0	293	0
28	Deferred tax	(228)	0	(263)	0
29	**Total income tax expense**	**(200)**	**0**	**30**	**0**
30	**Net profit/(loss) from continuing operations (26+29)**	**(1,513)**	**0**	**(2,882)**	**0**
	Net profit/(loss) from discontinued operations	**0**	**0**	**12,056**	**0**
	Net profit /(loss)	**(1,513)**	**0**	**9,174**	**0**

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Notes to the consolidated financial statements at 30 June 2019

1. FORM, CONTENT AND OTHER GENERAL INFORMATION

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

The consolidated financial statements for the year ended 30 June 2019 have been prepared on a going concern basis. The Group has concluded that the uncertainties and risks to which it is exposed, as described in the Directors' Report, do not cast doubt on its ability to operate as a going concern.

Accounting standards adopted and declaration of compliance with IAS/IFRS

The consolidated financial statements of Digital Bros Group for the year ended 30 June 2019 have been prepared in accordance with Art. 154-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments thereto. They have been prepared in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as based on the text published in the Official Journal of the European Union. The term "IFRS" encompasses International Accounting Standards (IAS) still in effect, as well as all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). All amounts included in the consolidated financial statements for the year ended 30 June 2019 are stated in Euro thousands, unless otherwise specified.

Reporting formats

The consolidated financial statements for the year ended 30 June 2019 have been prepared in accordance with IAS/IFRS and with the related interpretations (SIC/IFRIC) endorsed by the European Commission as of the reporting date.

The financial statements and the notes thereto also include the disclosures required by Consob Resolution 15519 of 27 July 2006 and Consob Communication 6064293 of 28 July 2006.
No changes have been made to the reporting format compared to previous years and all schedules are consistent with those used when preparing the consolidated financial statements for the year ended 30 June 2018.

The financial statements comprise:

- consolidated statement of financial position at 30 June 2019 with comparative figures at 30 June 2018 (the annual reporting date for the previous consolidated financial statements);
- consolidated statement of profit or loss for the period from 1 July 2018 to 30 June 2019 together with comparative figures for the period from 1 July 2017 to 30 June 2018;
- consolidated statement of comprehensive income for the period from 1 July 2018 to 30 June 2019 together with comparative figures for the period from 1 July 2017 to 30 June 2018;
- consolidated statement of cash flows from 1 July 2018 to 30 June 2019 with comparative figures for the period from 1 July 2017 to 30 June 2018;
- consolidated statement of changes in equity from 1 July 2018 to 30 June 2019 and from 1 July 2017 to 30 June 2018.

The following have been provided to supplement the information presented in the financial statements:

- details of cash flows for the year by maturity together with comparative figures for the previous year;
- additional information on the consolidated statement of cash flows together with comparative figures for the previous year.

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

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

- non-current assets;
- non-current liabilities;
- net working capital;
- equity;
- net financial position.

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

Non-current liabilities comprise provisions not expected to be used within 12 months as well as post-employment benefits, particularly the provision for employee termination indemnities pertaining to the parent company and its Italian subsidiaries, and, in general, payables that fall due beyond 30 June 2020.

Net working capital comprises current assets and liabilities. Due to the commercial nature of the Group's operations, net working capital is particularly significant, as it represents the amount the Group invests in operating activities to boost its turnover. Net working capital is significantly influenced by the trend in turnover and seasonality that is a feature of the market.

Equity consists of share capital, reserves, retained earnings (profit for the year plus prior year profits not allocated to specific reserves by the shareholders in general meeting) as adjusted for treasury shares.

Total net assets are the sum of non-current assets plus net working capital, less non-current liabilities and equity.

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

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

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

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

- operating margin (EBIT), the difference between gross operating margin and non-monetary operating costs;
- profit before tax, the difference between the operating margin and net financial income (expenses).

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

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

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

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

The statement of changes in equity has been prepared in accordance with International Financial Reporting Standards and shows changes between 1 July 2017 and 30 June 2019.

There are no non-controlling interests so none are reported.

2. ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards and their interpretations in force at that date.

The consolidated financial statements have been prepared on the basis of financial statements prepared by the Group companies included in the scope of consolidation for the year ended 30 June 2019, adjusted, as necessary, to bring them into line with Group accounting policies and IAS/IFRS. All prior period comparative figures have been adjusted, as necessary, in order to render them compliant with IAS/IFRS.

The measurement criteria used to prepare the consolidated financial statements for the year ended 30 June 2019 are consistent with those used to prepare the consolidated financial statements for the year ended 30 June 2018, except as described below for the new standards applied from 1 July 2018.

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

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

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

The amortisation rates applied are as follows:

- Brands and similar rights: 33.3% (including intellectual property, user rights and long-term licences);
- Microsoft Dynamics Navision licences 20%;
- Long-term licences / user rights 20%.

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

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

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

Business combinations

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

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

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

Any contingent consideration is recognised at its acquisition-date fair value. In accordance with IAS 39, a change in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it need not be remeasured until settlement of the contingency is reflected in equity. The subsequent transaction will be accounted for in equity.

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

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

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

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

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

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

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

Investments in associated companies and other entities

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

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

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

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

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

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

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

Impairment of assets

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

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

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

An impairment loss is recognised if recoverable amount is less than carrying amount. If impairment is subsequently reduced or reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment adjustment been recognised. This is except for goodwill in relation to which impairment adjustments cannot be reversed. A reversal of an impairment adjustment is recognised immediately in profit or loss.

Inventories

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

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

Receivables and payables

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

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

Payables are stated at nominal amount.

Factoring of trade receivables

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

Employee benefits

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

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

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

Current and non-current provisions

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

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

Financial assets and liabilities

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

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

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

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

Financial assets measured at fair value through profit or loss

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

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

- *Fair value hedge* – If a derivative financial instrument is designated as a hedge against changes in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss arising from subsequent fair value measurement of the hedge is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of that item and is recognised in profit or loss.

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

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

Treasury shares

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

Revenue

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

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

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

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

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

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

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

Costs

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

Advertising costs are upon receipt of the service.

Cost of sales

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

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

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

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

Dividends received

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

Interest income/expenses and financial income/expenses

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

Current tax

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

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

Deferred tax

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

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

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

Earnings per share

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

Foreign currency transactions

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

Discontinued operations

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

- represents an important autonomous business segment or geographical area of activity;
- forms part of a single, coordinated plan to dispose of an important business segment or geographical area of activity;

- is a subsidiary purchased solely with the intention of reselling it.

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

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

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

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

New accounting standards

Accounting standards, amendments and IFRS interpretations applied from 1 July 2018

The Group has applied the following accounting standards, amendments and IFRS interpretations for the first time from 1 July 2018:

- On 28 May 2014, the IASB issued **IFRS 15 – Revenue from Contracts with Customers**, which, in conjunction with additional clarifications issued on 12 April 2016, is set to replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as interpretations IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. The standard establishes a new revenue recognition model to be applied to all contracts with customers except for those that fall within the scope of application of other IAS/IFRS, such as leasing, insurance contracts and financial instruments. The fundamental steps for revenue recognition under the new model are as follows:
    - identification of the contract with the customer;
    - identification of the performance obligations in the contract;
    - determination of the transaction price;
    - allocation of the transaction price to the performance obligations in the contract;
    - revenue recognition criteria when the entity satisfies a performance obligation.

  The standard has been applied with effect from 1 July 2018 and has not had any significant effects on the Group financial statements;

- On 24 July 2014, the IASB published the final version of **IFRS 9 – Financial instruments: recognition and measurement**. The document contains the results of the IAS 39 replacement project. The new standard must be applied for annual reporting periods commencing on or after 1 January 2018.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. For financial assets, IFRS 9 uses a single approach based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets themselves to determine how those assets are measured, replacing the many different rules in IAS 39. For financial liabilities, the main amendments relate to the accounting treatment of changes in fair value of a financial liability designated at fair value through profit or loss, in the event that these changes are due to a change in the credit risk of the issuer of the liability in question. Under the new standard, these changes shall be presented in other comprehensive income and shall no longer be presented in the statement of profit or loss. Moreover, in case of non-substantial changes in liabilities, the profit or loss effects of renegotiation can no longer be spread over the residual duration of the liability by amending the effective interest rate at that date; rather, the related effect must be recorded in profit or loss.

With regard to impairment, the new standard requires credit losses to be estimated based on an expected loss model (and not on an incurred loss model used by IAS 39) using supportable information, which is available without undue cost or effort and includes historical, current and prospective figures. The standard provides that this impairment model shall be applied to all financial instruments i.e. to financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39 that were sometimes considered too stringent and unsuitable to reflect companies' risk management policies. The main changes introduced by the document regard:

- an increase in the types of transactions eligible for hedge accounting, including the risk components of non-financial assets and liabilities that are eligible for hedge accounting;
- changes in the accounting treatment of forward contracts and options when they are included in a hedge accounting relationship, in order to reduce profit or loss volatility;
- replacement of an effectiveness test based on a level of offset of between 80% and 125% with the principle of an economic relationship between the hedged item and the hedging instrument; furthermore, there will no longer be a requirement for retrospective assessment of the effectiveness of the hedging relationship.

The greater flexibility of the new accounting rules is offset by additional disclosure requirements concerning a company's risk management activities.

The following table summarises the effects of application of the new accounting standard on balances at 30 June 2019:

	Euro Thousands	Effect on opening equity	Effect on profit or loss at 30/06/19	Total
	Non-current assets			
5	Non-current receivables and other assets	(726)	(47)	(773)
6	Deferred tax assets	465	(66)	399
	Total non-current assets	**(261)**	**(113)**	**(374)**
	Net working capital			
11	Trade receivables	(1,097)	395	(702)
	Total net working capital	**(1,097)**	**395**	**(702)**
	Equity			
19	Reserves	1,473	0	1,473
21	(Retained earnings) accumulated losses	0	(211)	(211)
	Total equity	**1,473**	**(211)**	**1,262**
24	Other current financial assets and liabilities	(115)	(13)	(128)
	Current net financial position	**(115)**	**(13)**	**(128)**
25	Non-current financial assets	0	(58)	(58)
	Non-current net financial position	**0**	**(58)**	**(58)**

- On 20 June 2016, the IASB published an amendment to **IFRS 2 "Classification and measurement of share-based payment transactions"** which contains several clarifications on the accounting treatment of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with net settlement characteristics and on the accounting treatment of changes to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled. The amendments have been applied from 1 July 2018. Adoption of these amendments has not had a significant effect on the Group's consolidated financial statements;
- on 8 December 2016, the IASB issued "***Annual Improvements to IFRSs: 2014-2016 Cycle***", a collection of amendments to standards as part of the annual process of improvements thereto. The main amendments relate to:
  - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment has been applied from 1 July 2018 and regards the deletion of several short-term exemptions under paragraphs E3–E7 of Appendix E to IFRS 1 as they are deemed to have served their intended purpose.
  - IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*. The amendment clarifies that the option for a venture capital organisation or another qualifying entity (e.g. a mutual investment fund or similar entity) to measure investments in associated companies or joint ventures at fair value through profit or loss (rather than using the equity method) is available upon initial recognition of each investment. The amendment has been applied from 1 July 2018.

- IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of IFRS 12 by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to all investments that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5. The amendment has been applied from 1 July 2018.

Adoption of these amendments has not had any effect on the Group's consolidated financial statements;

- On 8 December 2016, the IASB published an amendment to **IAS 40 "*Transfers of Investment Property*"**. These amendments provide clarification on transfers of property to or from investment property. More specifically, an entity should transfer a property to, or from, investment property only when there has been a change of use of the property. The change must be attributable to a specific event that has occurred and not merely to a change in management's intentions. The amendments have been applied from 1 July 2018. Adoption of the amendments has not had a significant effect on the Group's consolidated financial statements;
- On 8 December 2016, the IASB published interpretation **"*Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)*"**. The interpretation aims to provide guidance for foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation provides guidelines on how entities should determine the date of a transaction, and, consequently, the spot exchange rate to be used in case of foreign currency transactions where payment is made or received in advance.
The interpretation clarifies that the transaction date is the earlier of:

a) the date on which the advance payment made or received is recorded by the entity; and
b) the date on which the asset, the cost or the revenue (or part thereof) is booked (thus resulting in reversal of the advance payment made or received).

If there are numerous payments or receipts of advance consideration, a specific transaction date must be established for each of them. IFRIC 22 has been applied from 1 July 2018. Adoption of the interpretation has not had any effect on the Group's consolidated financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet mandatorily applicable and not adopted early by the Group at 30 June 2019:

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

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

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

  The standard is applicable as from 1 July 2019 but early application is permitted.

  The Group has completed its preliminary assessment of the potential effects of applying the new standard at the transition date (1 July 2019). This process involved several phases, including the complete mapping of contracts potentially capable of containing a lease and analysis thereof in order to ascertain the main clauses relevant for IFRS 16 purposes.

  The Group has chosen to apply the standard retrospectively. However, it has recorded the cumulative effect of applying the standard in equity at 1 July 2019, as provided by IFRS 16 paragraphs C7-C13. In particular, for leases previously classified as operating leases, the Group will account for:

  a) A financial liability estimated at around Euro 6 million, equal to the present value of remaining future payments at the transition date, as discounted using, for each contract, the incremental borrowing rate applicable at the transition date;
  b) A right of use of the assets equal to the financial liability at the transition date, net of any prepaid expenses and accrued income / accrued expenses and deferred income relating to the lease and recorded in the statement of financial position at the reporting date for these financial statements .

  When adopting IFRS 16, the Group intends to use the exemption granted by IFRS 16 paragraph 5(a) in relation to short-term leases.

  Likewise, the Group intends to use the exemption granted by IFRS 16 paragraph 5(b) with regard to lease contracts where the underlying asset is a low-value asset (i.e. where the value of the assets under the lease does not exceed Euro 5,000 when new). The leases for which the exemption has been applied fall mainly into the following categories:

- computers, telephones and tablet devices;
- printers;
- other electronic devices;
- furniture and fittings.

For these contracts, the introduction of IFRS 16 will not involve recognition of the financial liability under the lease and the related right of use. Rather, the lease payments will be recorded in profit or loss on a straight-line basis over the period of the respective contracts.

The Group intends to make use of the following practical options under IFRS 16:

- *Separation of non-lease components:* the Company intends to make use of the exemption granted by IFRS 16 paragraph 15 for the following asset categories:
  - property;
  - motor vehicles.

  The *non-lease components* of such assets will not be split and recorded separately from the lease components but will be considered together with the lease components when determining the financial liability under the lease and the related right of use.

Moreover, with regard to the transition rules, the Company intends to make use of the following practical options which are available if the amended retrospective transition method is chosen:

- Classification of contracts expiring within twelve months of the transition date as short term leases. For these contracts, lease payments will be recorded in profit or loss on a straight-line basis;
- Use of information available at the transition date to determine the lease term, with particular reference to the exercise of options to extend and/or unwind the lease.

- On 12 October 2017, the IASB published an amendment to **IFRS 9 "*Prepayment Features with Negative Compensation*"**. This document specifies that instruments with prepayment features could pass the Solely Payments of Principal and Interest ("SPPI") test even if the *reasonable additional compensation* payable in case of prepayment is a *negative compensation* for the financing entity. The amendment is applicable from 1 July 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the Group's consolidated financial statements;

- On 7 June 2017, the IASB issued **IFRIC Interpretation 23 – "Uncertainty over Income Tax Treatments"**. The interpretation addresses the issue of uncertainty over income tax treatments. The document requires entities to analyse uncertain tax treatments (individually or as a whole, depending on their characteristics), always assuming that the tax authorities will examine the tax position in question, with full knowledge of all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty when measuring its current and deferred income taxes. Moreover, the interpretation does not contain any new disclosure requirements but highlights that an entity should establish whether there will be a need to provide any disclosures based on management considerations relating to any uncertainty over the accounting treatment of taxation, in accordance with IAS 1.

The new interpretation is applicable for the Group from 1 July 2019 but early application is permitted. The Directors do not expect adoption of this interpretation to have a significant effect on the Group's consolidated financial statements.

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

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

- On 18 May 2017, the IASB published ***IFRS 17 – Insurance Contracts*** which is destined to replace *IFRS 4 – Insurance Contracts*.
  The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations resulting from the insurance contracts issued. The IASB has developed the standard in order to eliminate inconsistencies and weaknesses in existing accounting standards while providing a single principle-based approach to take account of all of the types of insurance contracts held by an insurer, including reinsurance contracts.

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

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

  The main characteristics of the *General Model* are:

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

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

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

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

- On 12 October 2017, the IASB published the document "***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***". The document provides clarification on the need to apply IFRS 9, including requirements regarding impairment, to long-term interests in associates and joint ventures to which the equity method is not applied. The amendment is applicable from 1 January 2009 but early application is permitted.
  The Directors do not expect adoption of these amendments to have a significant effect on the Group's consolidated financial statements;

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

  The amendments are applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the Group's consolidated financial statements;

- On 7 February 2018, the IASB published the document "***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)***". The document clarifies how an entity should record an amendment (i.e. a curtailment or a settlement) to a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendment clarifies that, after such an event, an entity shall use the updated assumptions to measure the current service cost and interest for the rest of the period after the event. The Directors do not expect adoption of the amendment to have a significant effect on the Group's consolidated financial statements;

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

  The amendment also introduced a concentration test, which is optional for the entity, for use in determining if a set of activities/processes and assets acquired is not a business. If the test produces a positive result, the set of activities/processes and tests acquired is not a business and the standard does not require any further tests. If the test produces a negative result, the entity shall perform further analysis of the activities/processes and assets acquired in order to identify the presence of a business. For this purpose, the amendment has added numerous illustrative examples to IFRS 3 in order to provide an understanding of the practice application of the new definition of business in specific circumstances. The amendments apply to all business combinations and asset acquisitions after 1 July 2020 but early application is permitted.
  As the amendment will be applied to new acquisitions completed on or after 1 July 2020, any effects will be reported in the consolidated financial statements for periods ending on or after that date;

- On 31 October 2018, the IASB published the document "***Definition of Material (Amendments to IAS 1 and IAS 8)***". The document introduced a change to the definition of "material" contained in *IAS 1 – Presentation of Financial Statements* and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*. The objective of the amendment is to render the definition of "material" more specific and it introduced the concept of "obscured information" alongside the concepts of omitted or misstated information already present in the two standards amended. The amendment clarifies that information is "obscured" when it us described in such a way as to produce for the primary users of financial statements an effect similar to that which would have been produced had the information been omitted or misstated.
  The Directors do not expect any significant effect on the Group's consolidated financial statements;

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

  IAS 28 requires that the gain or losses resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in the latter is limited to the extent of the interest held in the joint venture or associate by other investors not involved in the transaction. Meanwhile, IFRS 10 requires full profit or loss recognition when a parent loses control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, inclusive of in the case of a sale or contribution of a subsidiary to a joint venture or associate. The amendments require that, in the case of a sale or contribution of an asset or a subsidiary to a joint venture or associate, the extent of the gain or loss to be recognised in the financial statements of the seller or contributor depends on whether the assets or the subsidiary sold or contributed consist of a business, as defined by IFRS 3. If the assets or the subsidiary sold or contributed constitute a business, then the entity should recognise the full profit or loss in line with the previously held equity interest; otherwise, the portion of the gain or loss relating to the equity interest that is still held should be eliminated. For the time being, the IASB has postponed the application of these amendments. The Directors do not expect adoption of these amendments to a significant impact on the Group’s consolidated financial statements.

3. DISCRETIONARY JUDGMENT AND SIGNIFICANT ESTIMATES

Discretionary judgment

Preparation of the consolidated financial statements for the year ended 30 June 2019 and the notes thereto required the use of discretionary judgment in order to make estimates and assumptions with an effect on the carrying amount of assets and liabilities recognised in the consolidated financial statements and on disclosures relating to contingent assets and liabilities as at the reporting date. These judgements are made on the basis of short- and medium/long-term forecasts that are constantly updated and approved by the Board of Directors prior to the approval of all financial reports.

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

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

Recoverable amount of intangible assets

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

Credit risk

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

For the Group’s Italian companies, the credit risk is periodically assessed periodically based on opinions provided by the external legal advisor that handles customer disputes. Under the credit recovery procedure adopted by the Group, receivables not paid within 45 days of their due date are passed on to the legal advisor for collection. Frequent updates from the lawyer on the likelihood of collection ensure that the credit risk estimate remains reliable over time.

Measurement of inventories

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

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

Employee benefits

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

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

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

Provisions for risks

Provision is made to cover potential negative outcomes with regard to tax risks. The amount of any provision recognised in the financial statements for such risks represents the directors' best estimate at the reporting date, after having sought the opinion of the Group's tax advisors. This estimate is based on assumptions that depend on factors that may change over time and that could, accordingly, impact the estimates made by the directors when preparing the consolidated financial statements.

Revenue adjustments

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

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

Royalties and advances to developers for licences

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

Deferred tax assets and liabilities

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

4. CONSOLIDATION METHODS

Subsidiaries

Subsidiaries are companies in relation to which the Group simultaneously holds the following three elements:

- power over the business;
- exposure, or rights, to variable returns from its involvement with the company;
- ability to use the power to influence the amount of the variable returns.

Control exists when the Group has the power, directly or indirectly, to influence the financial and operating policies of a subsidiary in such a way as to obtain benefits from its operations. The financial statements of subsidiaries are included in the consolidated financial statements for the year ended 30 June 2019 from the date control is obtained until the date control ceases to exist.

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

Investments in associated companies are accounted for at cost, as adjusted for impairment.

Translation of financial statements prepared in foreign currency

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

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

Exchange differences arising from this process are recognised directly in other comprehensive income and are accumulated in the equity reserve, foreign currency translation reserve.

Transactions eliminated in the consolidation process

When preparing the consolidated financial statements for the year ended 30 June 2019, all intragroup assets, liabilities, income and expenses relating to transactions between Group companies were eliminated, as were unrealised profits and losses on intragroup transactions.

Scope of consolidation

The tables below provide details of companies consolidated on a line-by-line basis and using the equity method.

Line-by-line consolidation method:

Company name	Operational headquarters	Country	Capital	% held directly or indirectly
133 W Broadway	Eugene	USA	$ 100,000	100%
Digital Bros S.p.A.	Milan	Italy	€ 5,644,334.80	Parent company
Digital Bros Asia Pacific (Hong Kong) Ltd.	Hong Kong	Hong Kong	€ 100,000	100%
Digital Bros China (Shenzhen) Ltd.	Shenzhen	China	€ 100,000	100%
Digital Bros Game Academy S.r.l.	Milan	Italy	€ 50,000	100%
Digital Bros Holdings Ltd. (1)	Milton Keynes	United Kingdom	£ 100,000	100%
DR Studios Ltd.	Milton Keynes	United Kingdom	£ 60,826	100%
Game Entertainment S.r.l.	Milan	Italy	€ 100,000	100%
Game Network S.r.l.	Milan	Italy	€ 100,000	100%
Game Service S.r.l.	Milan	Italy	€ 50,000	100%
Hawken Entertainment Inc.	Calabasas (CA)	USA	$ 100,000	100%
Kunos Simulazioni S.r.l.	Rome	Italy	€ 10,000	100%
505 Games S.p.A.	Milan	Italy	€ 100,000	100%
505 Games France S.a.s.	Francheville	France	€ 100,000	100%
505 Games Spain Slu	Las Rozas de Madrid	Spain	€ 100,000	100%
505 Games Ltd.	Milton Keynes	United Kingdom	£ 100,000	100%
505 Games (US) Inc.	Calabasas (CA)	USA	$ 100,000	100%
505 Games GmbH	Burglengenfeld	Germany	€ 50,000	100%
505 Games Interactive Inc.	Calabasas (CA)	USA	$ 100,000	100%
505 Mobile S.r.l.	Milan	Italy	€ 100,000	100%
505 Mobile (US) Inc.	Calabasas (CA)	USA	$ 100,000	100%

(1) Digital Bros Holdings Ltd was dormant during the reporting period.

Equity consolidation method

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

Investments in other entities:

Company name	Operational headquarters	Capital	% directly held	% indirectly held
Delta DNA Ltd. (1)	Edinburgh, UK	£3,005	1.04%	0%

(1) formerly Games Analytics Ltd.

5. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER ENTITIES

At 30 June 2019, the Group companies held the following investments:

- A 49% investment in Ovosonico S.r.l., as carried at Euro 751 thousand. The acquisition cost originally recognised was Euro 720 thousand including Euro 49 thousand of capital and a quota premium of Euro 671 thousand. At 30 June 2019, the carrying amount was adjusted to reflect the Group share of the results of the associated company since the date of acquisition of the quotas held by the Group;

- a 34.77% investment in Seekhana Ltd., as carried at Euro 421 thousand. The acquisition cost originally recognised was Euro 562 thousand including Euro 5 thousand of capital and a share premium of Euro 557 thousand. At 30 June 2019, the carrying amount was adjusted to reflect the Group share of the results achieved by the associated company;

- a 1.04% investment in Delta DNA Ltd., acquired on 3 July 2013 and recorded at acquisition cost of Euro 60 thousand (GBP 50 thousand).

Investments in other entities regards 4,096,809 Starbreeze A shares held by the Parent Company at 30 June 2019 and representing 1.24% of the capital of the Swedish company which is listed on the Nasdaq First North Premier stock market.

6. ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position at 30 June 2019 is set out below together with comparative figures at 30 June 2018:

	Euro Thousands	30 June 2019	30 June 2018	Change	
	Non-current assets				
1	Property, plant and equipment	3,584	6,000	(2,416)	-40.3%
2	Investment property	0	0	0	0.0%
3	Intangible assets	18,341	15,131	3,210	21.2%
4	Equity investments	1,706	1,270	436	34.3%
5	Non-current receivables and other assets	9,322	9,524	(202)	-2.1%
6	Deferred tax assets	2,745	2,365	380	16.1%
	Total non-current assets	**35,698**	**34,290**	**1,408**	**4.1%**
	Non-current liabilities				
7	Employee benefits	(573)	(516)	(57)	11.1%
8	Non-current provisions	(81)	(80)	(1)	1.0%
9	Other non-current payables and liabilities	(923)	(901)	(22)	2.4%
	Total non-current liabilities	**(1,577)**	**(1,497)**	**(80)**	**5.3%**
	Net working capital				
10	Inventories	13,909	15,059	(1,150)	-7.6%
11	Trade receivables	55,070	35,854	19,216	53.6%
12	Current tax assets	6,076	4,316	1,760	40.8%
13	Other current assets	1,668	3,600	(1,932)	-53.7%
14	Trade payables	(24,631)	(20,811)	(3,820)	18.4%
15	Current tax liabilities	(1,138)	(1,021)	(117)	11.5%
16	Current provisions	(856)	(854)	(2)	0.2%
17	Other current liabilities	(3,761)	(1,241)	(2,520)	n.m.
	Total net working capital	**46,337**	**34,902**	**11,435**	**32.8%**
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,223)	(20,624)	(599)	2.9%
20	Treasury shares	0	0	0	0.0%
21	(Retained earnings) accumulated losses	(37,298)	(40,284)	2,986	-7.4%
	Total equity	**(64,225)**	**(66,612)**	**2,387**	**-3.6%**
	Total net assets	***16,233***	***1,083***	***15,150***	**n.m.**
22	Cash and cash equivalents	4,767	4,282	485	11.3%
23	Current bank debt	(20,795)	(1,975)	(18,820)	n.m.
24	Other current financial assets and liabilities	2,155	(206)	2,361	n.m.
	Current net financial position	**(13,873)**	**2,101**	**(15,974)**	**n.m.**
25	Non-current financial assets	1,942	1,374	568	41.3%
26	Non-current bank debt	(4,293)	(4,533)	240	-5.3%
27	Other non-current financial liabilities	(9)	(25)	16	-64.0%
	Non-current net financial position	**(2,360)**	**(3,184)**	**824**	**-25.9%**
	Total net financial position	***(16,233)***	***(1,083)***	***(15,150)***	**n.m.**

1. Property, plant and equipment

Property, plant and equipment has decreased from Euro 6,000 thousand to Euro 3,584 thousand. Movements during the reporting period were as follows:

Euro Thousands	1 July 2018	Additions	Disposals	Forex translation differences	Deprec'n	Use of accum. deprec'n	Discont. Operations	30 June 2019
Industrial buildings	4,140	0	(2,087)	(55)	(119)	154	0	**2,033**
Land	600	35	0	0	0	0	0	**635**
Industrial & commercial equip.	688	173	(102)	0	(311)	95	0	**543**
Other assets	572	75	0	(17)	(257)	0	0	**373**
Total	**6,000**	**283**	**(2,189)**	**(72)**	**(687)**	**249**	**0**	**3,584**

Movements during the previous reporting period were as follows:

Euro Thousands	1 July 2017	Additions	Disposals	Forex translation differences	Deprec'n	Use of accum. deprec'n	Discont. Operations	30 June 2018
Industrial buildings	4,358	0	0	(61)	(157)	0	0	**4,140**
Land	600	0	0	0	0	0	0	**600**
Industrial & commercial equip.	927	192	(48)	0	(265)	47	(165)	**688**
Other assets	734	109	0	0	(230)	0	(41)	**572**
Total	**6,619**	**301**	**(48)**	**(61)**	**(652)**	**47**	**(206)**	**6,000**

The sale of the property owned by 133 W. Broadway was completed during the period. The selling price was not significantly different to the carrying amount of the asset.

Industrial buildings include the Trezzano sul Naviglio warehouse and the owned property used as office and laboratory premises in Via Labus, Milan (the operational headquarters of Digital Bros Game Academy S.r.l.).

Land includes land relating to the warehouse in Trezzano sul Naviglio which is valued at Euro 635 thousand.

Additions for the period total Euro 283 thousand and mainly consist of office automation equipment.

Movements on property, plant and equipment and on related accumulated depreciation during the period and in the prior period were as follows:

Reporting period ended 30 June 2019

Gross amount of property, plant and equipment

Euro Thousands	1 July 2018	Additions	Disposals	Forex translation differences	30 June 2019
Industrial buildings	5,400	0	(2,087)	(55)	3,258
Land	600	35	0	0	635
Plant and machinery	24	0	0	0	24
Industrial & commercial equipment	4,466	173	(102)	0	4,537
Other assets	2,497	75	0	(17)	2,555
Total	**12,987**	**283**	**(2,189)**	**(72)**	**11,009**

Accumulated depreciation

Euro Thousands	1 July 2018	Depreciation	Utilised	30 June 2019
Industrial buildings	(1,260)	(119)	154	(1,225)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial & commercial equipment	(3,778)	(311)	95	(3,994)
Other assets	(1,925)	(257)	0	(2,182)
Total	**(6,987)**	**(687)**	**249**	**(7,425)**

Reporting period ended 30 June 2018

Gross amount of property, plant and equipment

Euro Thousands	1 July 2017	Additions	Disposals	Forex translation differences	Discont. operati ons	30 June 2018
Industrial buildings	5,461	0	0	(61)	0	5,400
Land	600	0	0	0	0	600
Plant and machinery	24	0	0	0	0	24
Industrial & commercial equipment	4,487	192	(48)	0	(165)	4,466
Other assets	2,429	109	0	0	(41)	2,497
Total	**13,001**	**301**	**(48)**	**(61)**	**(206)**	**12,987**

Accumulated depreciation

Euro Thousands	1 July 2017	Depreciation	Utilised	30 June 2018
Industrial buildings	(1,103)	(157)	0	(1,260)
Land	0	0	0	0
Plant and machinery	(24)	0	0	(24)
Industrial & commercial equipment	(3,560)	(265)	47	(3,778)
Other assets	(1,695)	(230)	0	(1,925)
Total	**(6,382)**	**(652)**	**47**	**(6,987)**

3. Intangible assets

Intangible assets have increased from Euro 15,131 thousand to Euro 18,341 thousand. All of the intangible assets recorded by the Group have a finite useful life.

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

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

Euro Thousands	1 July 2017	Additions	Disposals	Forex translation difference	Amort'n	Discont. Operations	30 June 2018
Concessions & licences	12,600	4,080	(4)	(28)	(6,234)	(436)	9,978
Trademarks and similar rights	3,264	0	0	0	(839)	0	2,425
Other	84	0	0	0	(3)	(73)	8
Assets in progress	2,919	2,951	(3,150)	0	0	0	2,720
Total	**18,867**	**7,031**	**(3,154)**	**(28)**	**(7,076)**	**(509)**	**15,131**

Impairment adjustments amount to Euro 2,225 thousand and include both development projects abandoned by the Group during the reporting period and adjustments made after impairment testing of video games that achieved poorer than expected results.

Capex on intangible assets was as follows:

Euro Thousands	30 June 2019	30 June 2018
Premium Games user rights	4,709	3,622
Expenditure on development of ERP systems	133	141
Free to Play user rights	0	299
Other user rights	0	18
Total capex on concessions and licences	**4,842**	**4,080**
Total capex on trademarks	**3**	**0**
Total capex on other intangible assets	**21**	**0**
Internal development contracts in progress	1,709	2,296
Assets in progress - Premium Games	5,308	450
Assets in progress - Free to Play	326	205
Total additions to assets in progress	**7,343**	**2,951**
Total capex on intangible assets	**12,209**	**7,031**

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

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

Reporting period ended 30 June 2019

Gross amount of intangible assets

Euro Thousands	1 July 2018	Additions	Disposals	Impairment adjustments	Forex translation differences	30 June 2019
Concessions & licences	27,320	6,021	(6)	(2,053)	16	31,298
Trademarks & similar rights	7,945	3	0	0	0	7,948
Other	1,605	21	0	0	0	1,626
Assets in progress	2,720	7,343	(1,680)	(172)	0	8,211
Total	**39,590**	**13,388**	**(1,686)**	**(2,225)**	**16**	**49,083**

Accumulated amortisation

Euro Thousands	1 July 2018	Increases	Decreases	30 June 2019
Concessions & licences	(17,342)	(5,587)	0	(22,929)
Trademarks & similar rights	(5,520)	(692)	0	(6,212)
Other	(1,597)	(4)	0	(1,601)
Total	**(24,459)**	**(6,283)**	**0**	**(30,742)**

Reporting period ended 30 June 2018

Gross amount of intangible assets

Euro Thousands	1 July 2017	Additions	Disposals	Forex translation differences	Discont. Operations	30 June 2018
Concessions & licences	23,708	4,080	(4)	(28)	(436)	27,320
Trademarks & similar rights	7,945	0	0	0	0	7,940
Other	1,678	0	0	0	(73)	1,610
Assets in progress	2,919	2,951	(3,150)	0	0	2,720
Total	**36,250**	**7,031**	**(3,154)**	**(28)**	**(509)**	**39,590**

Accumulated amortisation

Euro Thousands	1 July 2017	Increases	Decreases	30 June 2018
Concessions & licences	(11,108)	(6,234)	0	(17,342)
Trademarks & similar rights	(4,681)	(839)	0	(5,520)
Other	(1,594)	(3)	0	(1,597)
Total	**(17,383)**	**(7,076)**	**0**	**(24,459)**

4. Investments

The Group's investments in associated companies at 30 June 2019 and at 30 June 2018 are shown below:

Euro Thousands	30 June 2019	30 June 2018	Change
Delta Dna Ltd.	60	60	0
Ebooks&Kids S.r.l.	0	38	(38)
Ovosonico S.r.l.	768	751	17
Seekhana Ltd.	378	421	(43)
Total associated companies	**1,206**	**1,270**	**(64)**
Starbreeze AB	500	0	500
Total other investments	**500**	**0**	**500**
Total investments	**1,706**	**1,270**	**436**

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

The increase in Other investments is due to the acquisition of 4,096,809 Starbreeze AB A shares (listed on Nasdaq Stockholm First North Premier), as already described under Significant Events. These shares have been measured at fair value while recognising in an equity reserve the difference between carrying amount and fair value at 30 June 2019 as these financial instruments are classified as held to collect and sell.

The sale of the investment held in Ebooks&Kids S.r.l. was completed on 24 October 2018 at a loss on disposal of Euro 14 thousand.

The investments held in Ovosonico S.r.l. and Seekhana Ltd. are measured using the equity method. Their amount includes the Group's share of net profit/loss for the period and the amortisation of the difference between the price paid and the relevant share of equity at the acquisition date of each investment.

At the reporting date, the carrying amount of investments in other entities compared with the relevant portion of equity was as follows:

Company name	Operational headquarters	Financial statements / Interim accounts used	Carrying amount (a)	Capital (b)	Relevant portion of equity (c)	Profit for period	Difference d=c-a
Delta Dna Ltd.	Edinburgh	31 December 2018 (1)	60	3	11	412	(49)
Total			**1,270**				

(1) Statutory financial statements

No impairment adjustments have been made to the investment in Delta Dna Ltd. because the losses have not been deemed to be indicative of impairment, also as a result of the profit reported by the associated company for the period ended 31 December 2018.

5. Non-current receivables and other assets

This caption amounts to Euro 9,322 thousand and has decreased by Euro 202 thousand compared to 30 June 2018. The balance mainly consists of the medium-long term portion of the receivable of USD 10 million arising from the sale of Pipeworks Inc in prior year. The decrease compared to prior year is due to the creation of a provision for bad debts in accordance with IFRS 9 as increased by interest income accruing for the period.

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

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
Receivable for sale of Pipeworks Inc.	8,485	8,699	(214)
Guarantee deposits – office rental for Italian companies	635	635	0
Guarantee deposits – office rental for non-Italian companies	197	187	10
Guarantee deposits – utilities	5	3	2
Total non-current receivables and other assets	**9,322**	**9,524**	**(202)**

6. Deferred tax assets

Deferred tax assets are calculated on tax loss carryforwards and temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax basis. They are measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. At 30 June 2019, the balance stood at Euro 2,745 thousand, an increase of Euro 380 thousand compared to 30 June 2018.

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

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
Italian companies	763	527	236
Non-Italian companies	1,600	1,750	(150)
Consolidation adjustments	382	88	294
Total deferred tax assets	**2,745**	**2,365**	**380**

The following table provides details of temporary differences pertaining to the Italian companies at 30 June 2019 and 30 June 2018:

Euro Thousands	30 June 2019	30 June 2018	Change
Taxed provision for doubtful debts	654	654	0
Tax loss carryforwards	0	367	(367)
Other liabilities	197	250	(53)
Actuarial differences	75	78	(3)
Costs not deducted in prior years	118	317	(199)
Deduction for “Economic Growth Assistance " (ACE)	754	487	267
Reserve for writedown of securities	350	0	350
Reserve for application of IFRS 9	1,000	0	1,000
Total differences (A)	**3,148**	**2,153**	**995**
Tax rate (B)	24.0%	24.0%	
Deferred tax assets for IRES (A)*(B)	**756**	**517**	**239**
Deferred tax assets for IRAP	**7**	**10**	**(3)**
Total deferred tax assets	**763**	**527**	**236**

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

Euro Thousands	30 June 2019	30 June 2018
Deferred tax assets for losses of 505 Games Spain Sl	0	17
Deferred tax assets for temporary differences 505 Games (US) Inc.	1,534	1,595
Deferred tax assets for temporary differences 505 Games Interactive	14	17
Deferred tax assets for temporary differences 505 Games Mobile US	52	51
Deferred tax assets for losses of 133 W Broadway	0	70
Total deferred tax assets of non-Italian subsidiaries	**1,600**	**1,750**

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

NON-CURRENT LIABILITIES

7. Employee benefits

“Employee benefits” reflects the actuarial value of the Group’s liability towards employees, as calculated by an independent actuary. It has increased by Euro 57 thousand compared to prior year.

The IAS 19 actuarial measurement at 30 June 2019 was performed using a discount rate based on the Iboxx Corporate A 10y+ index, in line with the rate used at the previous reporting date. Use of a discount rate based on the Iboxx Corporate AA index would not have made a significant difference.

The calculation method can be summarised as follows:

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

The estimate is based on the Italian companies' reporting date headcount of 74 employees.

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

- annual rate of interest of 1%;
- annual rate of real increase in remuneration of 1%;
- annual rate of inflation of 1.50%.

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

Euro Thousands	**30 June 2019**	**30 June 2018**
Provision for employee termination indemnities at 1 July 2018	**516**	**545**
Utilisation of provision for leavers	(18)	(72)
Allocated during period	226	207
Restatement for supplementary pension schemes	(183)	(157)
Restatement for actuarial measurement	32	(7)
Provision for employee termination indemnities at 30 June 2019	**573**	**516**

The Group is not party to any supplementary pension plans.

8. Non-current provisions

These consist entirely of the agents' termination indemnity provision. The balance of Euro 81 thousand at 30 June 2019 was Euro 1 thousand higher than the 30 June 2018 balance of Euro 80 thousand. The increase is entirely due to allocations for the period.

9. Other non-current payables and liabilities

At 30 June 2019, this caption amounted to Euro 923 thousand and entirely consisted of the amount payable for advisory services received by the Parent Company in relation to the disposal of Pipeworks Inc. which will be settled upon collection of the amount of USD 10 million reported under non-current receivables and other assets.

NET WORKING CAPITAL

10. Inventories

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

Euro Thousands	30 June 2019	30 June 2018	Change
Italian Distribution inventories	6,672	7,387	(715)
Premium Games inventories	7,237	7,672	(435)
Total Inventories (A+B)	**13,909**	**15,059**	**(1,150)**

Inventories have decreased by Euro 1,150 thousand from Euro 15,059 thousand at 30 June 2018 to Euro 13,909 thousand at 30 June 2019.

11. Trade receivables

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

Euro Thousands	30 June 2019	30 June 2018	Change
Receivables from customers - Italy	2,508	2,741	(233)
Receivables from customers – Other EU	2,736	851	1,885
Receivables from customers - Rest of the world	23,412	2,982	20,430
Total receivables from customers	**28,656**	**6,574**	**22,082**
Receivables for video game user licences	15,769	23,676	(7,907)
Receivables for video game development operating costs	12,005	6,292	5,713
Total receivables for video game development	**27,774**	**29,968**	**(2,194)**
Provision for doubtful debts	(1,360)	(688)	(672)
Total trade receivables	**55,070**	**35,854**	**19,216**

Receivables from customers totalled Euro 28,656 thousand at 30 June 2019. This represented an increase of Euro 22,082 thousand – in line with the revenue recorded in the last month of the reporting period – compared to the 30 June 2018 figure of Euro 6,574 thousand.

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

The following table contains an analysis of receivables from customers at 30 June 2019 by due date, together with comparative figures at 30 June 2018:

Euro Thousands	30 June 2019	% of total	30 June 2018	% of total
Current	27,016	94%	4,962	76%
0 -30 days overdue	495	2%	487	7%
30 - 60 days overdue	70	0%	28	0%
60 - 90 days overdue	5	0%	2	0%
> 90 days overdue	1,070	4%	1,095	17%
Total receivables from	**28,656**	**100%**	**6,574**	**100%**

Receivables for video game user licenses consist of advances paid for licenses not yet exploited or completely exploited as at the reporting date. They decreased by Euro 7,907 thousand over the period to stand at Euro 15,769 thousand. Details are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change
Advances to developers for licences not yet used	4,886	17,190	(12,304)
Advances to developers for licences partially used	10,883	6,486	4,397
Total receivables for video game user licenses	**15,769**	**23,676**	**(7,907)**

Receivables for video game development operating costs include expenses incurred in advance, specifically in relation to video game programming services, quality assurance and other operating costs. This caption mainly consists of the amount of USD 4.8 million paid to Starbreeze for programming costs relating to the video game OVERKILL's The Walking Dead in respect of which the Group has asked for a refund. The amount in question is considered recoverable notwithstanding the uncertainty over the success of the Starbreeze restructuring procedure.

The amount in question is analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Programming	8,568	4,623	3,945
Quality assurance	2,298	1,088	1,210
Other operating costs	1,139	581	558
Total receivables for video game development operating costs	**12,005**	**6,292**	**5,713**

The provision for doubtful debts has increased by Euro 672 thousand from Euro 688 thousand at 30 June 2018 to Euro 1,360 thousand at 30 June 2019. The bad debt provision is estimated based on both a detailed analysis of each balance in order to assess customers' ability to pay and application of the new IFRS 9. The increase at 30 June 2019 is entirely due to application of the new accounting standard.

12. Tax receivables

Tax receivables are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Receivables under domestic tax group arrangement	3,914	1,458	2,456
VAT receivable	815	868	(53)
Tax credit for foreign tax withholdings	851	1,435	(584)
IRES refund for IRAP deductibility	119	119	0
Other tax receivables	377	436	(59)
Total tax receivables	**6,076**	**4,316**	**1,760**

Tax receivables have increased by Euro 1,760 thousand from Euro 4,316 thousand at 30 June 2018 to Euro 6,076 thousand at 30 June 2019. The increase in Receivables under the domestic tax group arrangement is due to the losses made by Italian companies taking part in said arrangement which are expected to be recovered in the next reporting period based on the Business Plan.

13. Other current assets

Other current assets consist of advances paid to suppliers, employees and agents. They decreased from Euro 3,600 thousand at 30 June 2018 to Euro 1,668 thousand at 30 June 2019. They are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Advances to suppliers	799	774	25
Advances to employees	187	194	(7)
Advances to agents	15	12	3
Other receivables	667	2,620	(1,953)
Total other current assets	**1,668**	**3,600**	**(1,932)**

Other receivables amount to Euro 667 thousand and have decreased by Euro 1,953 thousand, mainly because of collection of the current portion of the receivable resulting from the sale of the investment in Pipeworks Inc.

14. Trade payables

Trade payables amounted to Euro 24,631 thousand at 30 June 2019 and increased by Euro 3,820 thousand compared to 30 June 2018. They were mostly payable to publishers for purchases of finished products and to developers. Details are provided below:

Euro Thousands	30 June 2019	30 June 2018	Change
Trade payables – Italy	(2,713)	(2,978)	265
Trade payables – Other EU	(11,181)	(10,044)	(1,137)
Trade payables – Rest of World	(10,737)	(7,789)	(2,948)
Total trade payables	**(24,631)**	**(20,811)**	**(3,820)**

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

15. Tax payables

Tax payables have increased by Euro 117 thousand from Euro 1,021 thousand at 30 June 2018 to Euro 1,138 thousand at 30 June 2019. The balance is detailed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Taxes on income	(220)	(289)	69
VAT payable	(268)	(33)	(235)
Other tax payables	(650)	(699)	49
Total tax payables	**(1,138)**	**(1,021)**	**(117)**

The increase is due to higher VAT payable by foreign subsidiaries.

16. Current provisions

This caption amounts to Euro 856 thousand at 30 June 2019 and has increased by Euro 2 thousand compared to 30 June 2018 due to the updating of interest expenses. It represents the Directors' estimate – also considering the opinion of their tax advisors – of the liabilities emerging from the tax inspection report issued to subsidiary 505 Games S.p.A. in July 2017 and, then, incorporated in the tax demand issued in December 2017. The Directors assessed the contingent liabilities resulting from the tax inspection process and concluded that, on the whole, they could not make a reliable estimate, except in relation to certain findings regarding royalties received by software developers. The Directors concluded that there was a probable risk in that case and have created a provision for risks and charges of Euro 856 thousand. The Company has not made any provision in respect of the other findings although there is a risk of future liabilities as is typical in such processes.

17. Other current liabilities

Other current liabilities amount to Euro 3,761 thousand and have increased by Euro 2,520 thousand compared to 30 June 2018. Details are provided below:

Euro Thousands	**30 June 2018**	**30 June 2017**	**Change**
Amounts due to social security institutions	(341)	(365)	24
Amounts due to employees	(573)	(664)	91
Amounts due to contract staff	(47)	(52)	5
Other payables	(2,800)	(160)	(2,640)
Total other current liabilities	**(3,761)**	**(1,241)**	**(2,520)**

Amounts due to employees include accrued holiday pay and leave of absence not taken by the end of the reporting period and amounts accrued for the future payment of the 14th monthly salary.

Other payables mainly include advance payments received by 505 Games S.p.A. from several customers (Euro 2,666 thousand), especially in relation to sub-licensing and/or game development contracts, where revenue recognition is deferred until the time of market launch.

SHAREHOLDERS' EQUITY

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

Euro Thousands	**Share capital (A)**	Share premium reserve	Legal reserve	IAS transition reserve	Translation reserve	Other reserves	**Total reserves (B)**	**Treasury shares (C)**	Retained earnings (Accumulated losses)	Profit (Loss) for the period	**Total retained earnings (D)**	**Consolidated equity attributable to Group (A+B+C+D)**
Total at 1 July 2018	**5,704**	18,486	1,141	1,367	(1,441)	1,071	**20,624**	**0**	31,110	9,174	**40,284**	**66,612**
Application of IFRS 9							**0**		(1,473)		**(1,473)**	**(1,473)**
Allocation of profit							**0**		9,174	(9,174)	**0**	**0**
Other changes						798	**798**				**0**	**798**
Comprehensive income (loss)					91	(290)	**(199)**			(1,513)	**(1,513)**	**(1,712)**
Total at 30 30 June 2019	**5,704**	18,486	1,141	1,367	(1,350)	1,579	**21,223**	**0**	38,811	(1,513)	**37,298**	**64,225**

Share capital at 30 June 2019 is unchanged compared to 30 June 2018 and is divided into 14,260,837 ordinary shares with a par value of Euro 0.4 each, for a total of Euro 5,704,334.80. No other shares of any nature are in issue. There are no rights, liens or restrictions associated with the ordinary shares.

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

The change in Other reserves includes a positive amount of Euro 798 thousand to restate the stock option reserve, a negative amount of Euro 266 thousand to restate the reserve for securities measurement and a negative amount of Euro 24 thousand to restate the IAS 19 reserve.

NET FINANCIAL POSITION

The following table contains details of the Group's Net Financial Position at 30 June 2019 together with comparative figures at 30 June 2018:

	Euro Thousands	30 June 2019	30 June 2018	Change
22	Cash and cash equivalents	4,767	4,282	485
23	Current bank borrowing	(20,795)	(1,975)	(18,820)
24	Other current financial assets and liabilities	2,155	(206)	2,361
	Current net financial position	**(13,873)**	**2,101**	**(15,974)**
25	Non-current financial assets	1,942	1,374	568
26	Non-current bank borrowing	(4,293)	(4,533)	240
27	Other non-current financial liabilities	(9)	(25)	16
	Non-current net financial position	**(2,360)**	**(3,184)**	**824**
	Total net financial position	***(16,233)***	***(1,083)***	***(15,150)***

The net financial position shows net debt of Euro 16,233 thousand, an increase of Euro 15,150 thousand compared to 30 June 2018 when it showed net debt of Euro 1,083 thousand.

The increase in net debt is mainly due to an Euro 18,820 thousand increase in current bank borrowing that was only partially offset by a Euro 2,361 thousand increase in other current financial assets and liabilities.

Current net financial position

The current net financial position is analysed as follows:

	Euro Thousands	30 June 2019	30 June 2018	Change
22	Cash and cash equivalents	4,767	4,282	485
23	Current bank borrowing	(20,795)	(1,975)	(18,820)
24	Other current financial assets and liabilities	2,155	(206)	2,361
	Net financial position, current	**(13,873)**	**2,101**	**(15,974)**

22. Cash and cash equivalents

Cash and cash equivalents amounted to Euro 4,767 thousand at 30 June 2019, an increase of Euro 485 thousand compared to 30 June 2018. They are unrestricted and consist entirely of current account deposits accessible on demand.

23. Current bank borrowing

Current bank borrowing consists of advances on invoices and notes receivable, import loans and other short-term loans for a total of Euro 19,347 thousand, plus the current portion of Euro 290 thousand of the unsecured loan granted to 133 W Broadway, Inc. by Intesa San Paolo S.p.A. New York Branch.

Details are as follows:

Euro Thousands	30 June 2019	30 June 2018	Change
Bank borrowing – current account overdrafts	(1,588)	0	(1,588)
Bank borrowing – import and export finance	(8,938)	0	(8,938)
Bank borrowing – advances on invoices and notes	(2,055)	(1,709)	(346)
Instalment loans due within a year	(7,924)	0	(7,)
Bank borrowing – unsecured loans	(290)	(266)	(24)
Total bank borrowing - current	**(20,795)**	**(1,975)**	**(18,820)**

Instalment loans due within a year includes three separate loans granted to 505 Games S.p.A. The first loan has been granted by Unicredit S.p.A. to 505 Games S.p.A. and provides for one or more partial disbursements of up to a maximum of Euro 3,900 thousand for use in partially funding the capex plan for the development cost of the video game called Bloodstained. The loan was originally due to expire on 30 September 2018 but it has been extended until 1 December 2019. 505 Games S.p.A. undertakes to repay the amount borrowed in two quarterly instalments in arrears to be paid on 1 September 2019 and 1 December 2019. 505 Games S.p.A. will make quarterly interest payments on each loan disbursement based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 3 percentage points. The second loan consists of the short-term portion of another loan granted by Unicredit S.p.A. to 505 Games S.p.A. to top up the loan described above in partial coverage of the capex plan for the development of the Bloodstained video game and the Control video game. It provides for one or more partial disbursements of up to a maximum of Euro 5,000 thousand. This loan is repayable in two six-monthly instalments in arrears on 31 March 2020 and 30 September 2020 and 505 Games S.p.A. will make quarterly interest payments on each disbursement based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 3 percentage points. Finally, the third loan consists of the short-term portion of a loan totalling Euro 4,000 thousand granted by Mediocredito Italiano S.p.A. to 505 Games S.p.A. This loan is subject to increasing quarterly, principal repayments between 31 December 2019 and 31 December 2021; 505 Games S.p.A. will make quarterly interest payments based on a variable quarterly rate equal to the Euribor 3 Month rate plus a spread of 1.85 percentage points.

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

24. Other current financial assets and liabilities

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

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
Advances on trade receivables factored without recourse	(106)	(191)	85
Lease instalments due within a year	(16)	(15)	(1)
Loan to developers	2,277	0	2,277
Total other current financial assets and liabilities	**2,155**	**(206)**	**2,361**

Advances on trade receivables factored without recourse totalled Euro 106 thousand and decreased by Euro 85 thousand compared to 30 June 2018.

Loans to developers include:

- a loan of Euro 1,404 thousand granted by 505 Games S.p.A. to Shinshuppatsu Junbi Co. Ltd. in the original amount of JPY 150,000,000. This loan generates interest at a rate of 7% per annum. It is repayable on demand and the Group expects the borrower to repay it during the next reporting period. The loan was granted to the company as part of a broader commercial agreement regarding the development of video games. The change compared to 30 June 2018 is due to interest, the restatement of the foreign currency loan receivable to reflect forex fluctuation and the restatement relating to the introduction of IFRS 9

- a loan of Euro 873 thousand granted to US developer Lab Zero which is developing the video game Indivisible for 505 Games. The loan is for up to a maximum amount of USD 1,002 thousand, of which USD 993 thousand had been disbursed by 30 June 2019. This loan generates interest at a rate of 4% per annum on the first USD 400 thousand disbursed and will be repaid before the launch of the video game. If repayment does not occur or if only partial repayment is made, the amount not repaid will be automatically recovered from the royalties accruing.

Non-current net financial position

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

	Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
25	Non-current financial assets	1,942	1,374	568
26	Non-current bank borrowing	(4,293)	(4,533)	240
27	Other non-current financial liabilities	(9)	(25)	16
	Non-current net financial position	**(2,360)**	**(3,184)**	**824**

25. Non-current financial assets

Non-current financial assets includes a loan of Euro 1,942 thousand granted by Digital Bros S.p.A. to Vartvre AB which is the main shareholder of Starbreeze AB. The loan – original amount Euro 2 million – matures on 21 November 2020 and generates interest at a rate of 5% per annum. It is secured by a pledge of 6,713,564 Starbreeze A shares and 1,305,142 Starbreeeze B shares. The balance at 30 June 2019 includes interest accruing at that date and the restatement of the nominal amount of the loan due to introduction of IFRS 9.

26. Non-current bank borrowing

At 30 June 2019, non-current bank borrowing included:

- Euro 1,610 thousand representing the non-current portion of the loan granted by Unicredit S.p.A. to 505 Games S.p.A., as described above;
- Euro 2,683 thousand representing the non-current portion of the loan granted by Mediocredito S.p.A. to 505 Games S.p.A., as described above.

27. Other non-current financial liabilities

Other non-current financial liabilities amount to Euro 9 thousand and refer to lease repayments due after more than a year under two finance lease agreements entered into with Unicredit Leasing for the purchase of a server and a motor vehicle. The first lease agreement provides for a financed amount of Euro 54 thousand and the payment of fifty-nine monthly instalments plus an advance payment of Euro 5 thousand and a final purchase option of Euro 1 thousand. The finance lease expires on 29 December 2020. Lease instalments due after more than a year amount to Euro 5 thousand. The interest rate is variable and is determined based on the Euribor 3 month rate plus a spread of 3 percentage points. The lease agreement for the motor vehicle involves a financed amount of Euro 31 thousand and requires payment of fifty-nine monthly instalments plus an advance payment of Euro 1 thousand and a final purchase option of Euro 1 thousand. This finance lease expires on 28 April 2021. Lease instalments due after more than a year amount to Euro 4 thousand. There is a variable rate of interest of 1.41%.

The following table shows finance lease payments by maturity:

Euro Thousands	**30 June 2019**	**30 June 2018**	**Change**
Within 1 year	16	15	1
1-5 years	9	25	(16)
More than 5 years	0	0	0
Total	**25**	**40**	**(15)**

COMMITMENTS AND RISKS

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

Euro Thousands	30 June 2019	30 June 2018	Change
Commitments under signed contracts	31,165	37,809	(6,644)
Commitments for subscription of capital of Seekhana Ltd.	1,177	1,149	28

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

Commitments to subscribe to Seekhana Ltd.'s capital relate to an agreement signed on 18 January 2016 for the subscription of an amount of USD 2 million, of which USD 660 thousand had already been paid as at 30 June 2019.

7. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

3. Net revenue

The following table contains a breakdown of revenue by operating segment. It does not include the Holding operating segment as it does not generate revenue:

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

At 30 June 2018, the breakdown was as follows:

	Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other activities	Total
1	Gross revenue	5,813	54,138	15,443	644	76,038
2	Revenue adjustments	0	(3,402)	(1,909)	(322)	(5,633)
3	**Total net revenue**	**5,813**	**50,736**	**13,534**	**322**	**70,405**

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

8. Cost of sales

Cost of sales is analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Purchase of products for resale	(14,675)	(19,377)	4,702	-26.5%
Purchase of services for resale	(6,586)	(6,488)	(98)	-18.2%
Royalties	(20,671)	(15,016)	(5,655)	-23.2%
Changes in inventories of finished products	(1,150)	2,244	(3,394)	-67.9%
Total cost of sales	**(43,082)**	**(38,637)**	**(4,445)**	**-27.2%**

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

10. Other revenue

Other revenue amounts to Euro 3,406 thousand, an increase compared to Euro 2,796 thousand for the year ended 30 June 2018. It includes internal costs capitalised in relation to the development of future versions of Hawken and Assetto Corsa.

11. Costs for services

Costs for services are analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Advertising, marketing, trade fairs and exhibitions	(4,315)	(4,216)	(99)	2.3%
Transport and freight	(601)	(729)	128	-17.6%
Other sales related costs	(297)	(402)	105	-26.3%
Subtotal: sales related services	**(5,213)**	**(5,347)**	**134**	**-2.5%**
Sundry insurance	(246)	(251)	5	-1.8%
Consulting fees	(2,016)	(2,070)	54	-2.6%
Postage and telegraph	(234)	(299)	65	-21.8%
Travel and subsistence costs	(909)	(957)	48	-5.0%
Utilities	(246)	(264)	18	-6.9%
Maintenance	(98)	(80)	(18)	22.3%
Statutory auditors' fees	(108)	(108)	0	0.0%
Subtotal: general services	**(3,857)**	**(4,029)**	**172**	**-4.3%**
Total costs for services	**(9,070)**	**(9,376)**	**306**	**-3.3%**

Costs for services have decreased by Euro 306 thousand mainly because of a reduction in transport and freight costs and other sales related costs.

12. Lease and rental costs

Lease and rental costs are broadly in line with those for the year ended 30 June 2018 and are analysed in the following table:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Office rental Italian companies	(681)	(690)	9	-1.3%
Office rental 505 Games Ltd.	(99)	(79)	(20)	25.3%
Office rental DR Studios Ltd.	(49)	(58)	9	-15.5%
Office rental Digital Bros France S.a.s.	(46)	(46)	0	0.0%
Office rental Digital Bros Spain Slu	(18)	(20)	2	-10.0%
Office rental 505 Games US Inc.	(420)	(390)	(30)	7.6%
Office rental 505 Games GmbH	(3)	(3)	0	0.0%
Office rental Digital Bros China Ltd.	(11)	(39)	28	-71.8%
Office rental Digital Bros Asia Pacific	(45)	0	(45)	n.m.
Office rental Kunos S.r.l.	(23)	(22)	(1)	4.5%
Office rental Hawken Entertainment Inc.	0	(27)	27	n.m.
Car and warehouse equipment rental	(65)	(84)	19	-22.6%
Total lease and rental costs	**(1,460)**	**(1,458)**	**(2)**	**0.1%**

13. Labour costs

Labour costs, including directors' fees approved by the shareholders, amounts paid to temporary workers and contract staff and the cost of cars assigned to employees, totalled Euro 17,903 thousand and decreased by Euro 463 thousand compared to prior year:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Wages and salaries	(11,420)	(11,885)	464	-3.9%
Social contributions	(2,899)	(2,995)	96	-3.2%
Employee termination indemnity	(228)	(210)	(18)	8.4%
Stock option plan	(796)	(796)	0	n.m.
Directors' fees	(956)	(1,148)	192	-16.7%
Temporary labour and contract staff	(1,527)	(1,244)	(283)	22.7%
Agents' commission	(31)	(41)	11	-26.5%
Other labour costs	(44)	(47)	2	-4.4%
Total labour costs	**(17,903)**	**(18,366)**	**463**	**-2.5%**

Labour costs have decreased compared to prior year due to non-payment of variable remuneration as a result of failure to achieve objectives set at the start of the period which envisaged the launch of OVERKILL's The Walking Dead.

Labour costs, in the narrow sense, consist of employee wages and salaries, social contributions and the cost of employee termination indemnities. They have decreased by Euro 543 thousand compared to prior year while the average cost per employee has decreased by 6.7%:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Wages and salaries	(11,420)	(11,885)	464	-3.9%
Social contributions	(2,899)	(2,995)	96	-3.2%
Employee termination indemnity	(228)	(210)	(18)	8.4%
Total labour costs	**(14,547)**	**(15,089)**	**543**	**-3.6%**
Average number of employees	186	180	6	3.3%
Average cost per employee	**(78.2)**	**(83.8)**	**5.6**	**-6.7%**

A breakdown of the Group's workforce by employee category at 30 June 2019 is provided in the Directors' Report.

14. Other operating costs

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

Euro Thousands	30 June 2019	30 June 2018	Change	%
Purchases of sundry materials	(69)	(41)	(28)	70.1%
General & Administrative costs	(970)	(899)	(71)	7.9%
Entertainment expenses	(51)	(37)	(14)	39.2%
Sundry bank charges	(133)	(100)	(33)	33.0%
Total other operating costs	**(1,223)**	**(1,077)**	**(146)**	**13.7%**

Other operating costs have increased by 13.7% from Euro 1,077 thousand in prior year to Euro 1,223 thousand in the year ended 30 June 2019, mainly because of higher general and administrative costs.

21. Non-monetary operating income and expenses

Non-monetary operating expenses include:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Depreciation and amortisation	(6,970)	(7,728)	758	-9.8%
Impairment adjustments to assets	(2,051)	(122)	(1,929)	n.m.
Total non-operating income and expenses	**(9,021)**	**(7,850)**	**(1,171)**	**14.9%**

Net non-operating expenses, amounting to Euro 9,021 thousand, have increased by Euro 1,171 thousand compared to the year ended 30 June 2018. This increase is the net effect of two contrasting trends: depreciation and amortisation have decreased by Euro 758 thousand due to completion of the amortisation period of certain intellectual property owned by the Group while impairment adjustments to assets have increased by Euro 1,929 thousand; this is mainly due to the decision not to continue with certain ongoing development projects totalling Euro 2,225 thousand and to an increase in the allocation to the provision for doubtful debts, as partially countered by Euro 277 thousand representing the effect of application of the new IFRS 9.

25. Net financial income / (expenses)

This item may be analysed as follows:

	Euro Thousands	30 June 2019	30 June 2018	Change	%
23	Interest and financial income	1,438	1,998	(560)	-28.0%
24	Interest and financial expenses	(1,406)	(1,347)	(59)	4.4%
25	**Net financial income / (expenses)**	**32**	**651**	**(619)**	**-95.0%**

There was net financial income of 32 thousand compared to Euro 651 thousand in prior year.

Interest and financial income may be analysed as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Exchange gains	890	1,795	(905)	-50.4%
Financial income	524	88	436	n.m.
Other	24	115	(91)	-78.9%
Total interest and financial income	**1,438**	**1,998**	**(560)**	**-28.0%**

Interest and financial income have decreased by Euro 560 thousand compared to prior year.

Interest and financial expenses totalled Euro 1,406 thousand. This represented a Euro 59 thousand increase compared to the year ended 30 June 2018 because of a Euro 238 thousand increase in interest expenses on bank current accounts and trade finance, as partially offset by a Euro 139 thousand reduction in exchange losses.

Interest and financial expenses are analysed in detail as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Interest expenses on current accounts and trade finance	(285)	(47)	(238)	n.m.
Other interest expenses	0	(12)	12	n.m.
Interest expenses on loans and leases	(223)	(149)	(74)	49.7%
Factoring interest expenses	(5)	(9)	4	-44.4%
Total interest expenses on sources of finance	**(513)**	**(217)**	**(296)**	**n.m.**
Exchange losses	(850)	(989)	139	-14.0%
Equity valuation of investments	(43)	(141)	98	-69.5%
Total interest and financial expenses	**(1,406)**	**(1,347)**	**(59)**	**4.4%**

29. Taxation

Current and deferred taxes for the year ended 30 June 2019 are detailed below:

Euro Thousands	30 June 2019	30 June 2018	Change	%
Current taxes	28	293	(265)	-90.5%
Deferred taxes	(228)	(263)	35	-13.7%
Total taxes	**(200)**	**30**	**(230)**	**n.m.**

Current taxes are analysed in more detail as follows:

Euro Thousands	30 June 2019	30 June 2018	Change	%
IRES	640	820	(180)	-22.0%
IRAP	(185)	(158)	(27)	17.1%
Current taxes of non-Italian companies	(427)	(259)	(168)	64.9%
Other current taxes	0	(110)	110	n.m.
Total current taxes	**28**	**293**	**(265)**	**-90.4%**

IRES for the year was determined as follows:

Euro Thousands	30 June 2019	30 June 2018
Taxable income for IRES purposes (A)	(3,004)	(3,225)
IRES rate (B)	24.0%	24.0%
IRES for the period (A)*(B)	721	774
Taxes relating to prior period	(81)	46
IRES for the period	**640**	**820**

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

Euro Thousands	30 June 2019		30 June 2018	
Parent company profit before taxation	**520**		**15,118**	
IRES rate	**24.0%**		**24.0%**	
Theoretical taxation	**(125)**	**-24.0%**	**(3,628)**	**-24.0%**
Tax effect of non-deductible costs	769	148%	4.100	27%
Tax effect of utilisation of tax losses not previously utilised	0		0	
Net tax effect of reversal of deferred tax assets not included in above items	59		86	
IRES on gain classified under financial income	0		28	
Tax effect of share of profits of subsidiaries	17		189	
Prior year taxation	(80)		46	
Taxes on income for the year and effective tax rate	**640**	**123%**	**820**	**5%**

IRAP for the period was determined as follows:

Euro Thousands	30 June 2019	30 June 2018
Taxable income for IRAP purposes	4,769	4,443
IRAP rate	3.9%	3.9%
IRAP for the period	(186)	(173)
IRAP relating to prior year	1	15
IRAP for the period	**(185)**	**(158)**

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

Euro Thousands	30 June 2019		30 June 2018	
Operating margin/EBIT of Parent Company	**(3,508)**		**(5,196)**	
IRAP rate	**3.9%**		**3.9%**	
Theoretical IRAP	**0**	**0.0%**	**0**	**0.0%**
Tax effect of non-deductible costs	0	0.0%	0	0.0%
Tax effect of share of results of subsidiaries	(185)	5.3%	(158)	4.5%
Tax on income for the period and effective tax rate	**(185)**	**5.3%**	**(158)**	**4.5%**

32. Basic earnings per share

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

Euro Thousands	**30 June 2019**	**30 June 2018**
Net result from continuing operations (1)	(1,513)	(2,882)
Net result from discontinued operations (2)	0	12,056
Total net result	**(1,513)**	**9,174**
Average number of shares in issue (3)	14,260,837	14,260,837
Number of treasury shares held during the period (4)	0	0
Total average number of shares (5)=(3)-(4)	**14,260,837**	**14,260,837**
Net earnings per share from continuing operations (1)x1000/(5) in Euro	**(0.11)**	**(0.20)**
Net earnings per share from discontinued operations (2)x1000/(5) in Euro	**0.00**	**0.85**
Total net earnings per share in Euro	**(0.11)**	**0.65**

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

33. Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share as no financial instruments convertible into shares have been issued (as at 30 June 2018).

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

The main financial instruments used by the Group are:

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

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

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

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

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

The additional disclosures required by IFRS 7 in order to evaluate the significance of financial instruments to the Group's results and financial position are provided in the following tables for the years ended 30 June 2019 and 2018.

Financial Instruments: Statement of Financial Position at 30 June 2019

Category of financial assets in terms of IFRS 9

Financial Instruments – Assets at 30 June 2019 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying Amount at 30 June 2019	Note
Non-current receivables and other assets	-	9,322	-	9,322	5
Trade receivables	-	55,070	-	55,070	11
Other current assets	-	1,668	-	1,668	13
Cash and cash equivalents	-	4,767	-	4,767	22
Other current financial assets	-	2,277	-	2,277	24
Other non-current financial assets	-	1,942	-	1,942	25
Total	**-**	**75,046**	**-**	**75,046**	

Category of financial liabilities in terms of IFRS 9

Financial Instruments - Liabilities at 30 June 2019 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	Carrying Amount at 30 June 2019	Note
Trade payables	-	24,630		24,630	14
Other current liabilities	-	3,761		3,761	17
Current bank borrowing	-	20,795		20,795	23
Other current financial liabilities	-	122		122	24
Non-current bank borrowing	-	4,293		4,293	26
Other non-current financial liabilities	-	9		9	27
Total	**-**	**53,610**		**53,610**	

Financial Instruments: Statement of Financial Position at 30 June 2018

Category of financial assets in terms of IAS 39

Financial Instruments - Assets at 30 June 2018 (in Euro Thousands)	FVTPL	Assets at amortised cost	FVTOCI	Carrying Amount at 30 June 2018	Note
Non-current receivables and other assets	-	9,524	-	9,524	5
Trade receivables	-	35,854	-	35,854	11
Other current assets	-	3,600	-	3,600	13
Cash and cash equivalents	-	4,282	-	4,282	22
Other current financial assets	-	-	-	-	24
Other non-current financial assets	-	1,374	-	1,374	25
Total	**-**	**54,634**	**-**	**54,634**	

Category of financial liabilities in terms of IAS 39

Financial Instruments - Liabilities at 30 June 2018 (in Euro Thousands)	FVTPL	Liabilities at amortised cost	FVTOCI	Carrying Amount at 30 June 2018	Note
Trade payables	-	20,811		20,811	14
Other current liabilities	-	1,241		1,241	17
Current bank borrowing	-	1,975		1,975	23
Other current financial liabilities	-	206		206	24
Non-current bank borrowing	-	4,533		4,533	26
Other non-current financial liabilities	-	25		25	27
Total	**-**	**28,791**		**28,791**	

The main risks to which the Group is subject are:

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

Interest rate risk

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

These risks are mitigated by:

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

Liquidity risk

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

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

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

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

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

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

Financial liabilities at 30 June 2019 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Current bank borrowing	20,795	20,795						20,795	23
Other current financial liabilities	122	122						122	24
Non-current bank borrowing	4,293		3,391	902				4,293	26
Other non-current financial liabilities	9		9					9	27
Total	**25,219**	**20,917**	**3,400**	**902**	**0**	**0**	**0**	**25,219**	

Financial liabilities at 30 June 2018 (in Euro Thousands)	Carrying amount	Within a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total	Note
Current bank borrowing	1,975	1,975						1,975	23
Other current financial liabilities	206	206						206	24
Non-current bank borrowing	4,533		3,403	251	251	251	377	4,533	26
Other non-current financial liabilities	25		16	9				25	27
Total	**6,739**	**2,181**	**3,419**	**260**	**251**	**251**	**377**	**6,739**	

The Group has sufficient financial resources to satisfy its debt maturing within one year. These financial resources include cash and cash equivalents, unutilised credit facilities totalling around Euro 39 million at the reporting date and cash flows from operating activities.

Exchange rate risk

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

In order to monitor the EUR/USD and EUR/GBP exchange rate risk, the Group analyses forecast exchange rate trends – also based on reports by independent analysts - and may use derivative instruments to hedge this risk as appropriate (no such instruments are used at present).

When preparing forecasts, the Group uses models that take account of the various currencies in which Group companies operate and uses forward exchange rates based on reports issued by independent analysts.

The risk is mitigated by the fact that foreign currency payments are often made in advance. The Group books actual royalty costs in advance and manages to reflect any additional expenses due to exchange rate fluctuation in its selling prices.

Risk of dependence on key customers and collection risk

During the reporting period, the top ten global customers accounted for around 75% of trade receivables while the top 50 customers accounted for 98%. Gradual market digitalisation will necessarily lead to a further increase in the level of receivables concentration as sales will be made on marketplaces operating on a global scale. The concentration of revenues on a small number of key customers makes the Group reliant on the decisions made by a handful of companies. Indeed, there is a risk that if a specific product is not selected for purchase, it might not have the necessary visibility on store shelves, in case of physical distribution, but also on digital platforms, thus leading to the loss of expected sales potential. In contrast, a product may acquire additional sales potential if it gains particularly favourable positioning, especially on digital marketplaces.

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

The following table provides details of receivables from customers by due date at 30 June 2019 and 2018:

Euro Thousands	**30 June 2019**	**% of total**	**30 June 2018**	**% of total**
Not overdue	27,016	94%	4,962	75%
0 -30 days overdue	495	2%	487	7%
30 - 60 days overdue	70	0%	28	0%
60 - 90 days overdue	5	0%	2	0%
> 90 days overdue	1,070	4%	1,095	17%
Total receivables from customers	**28,656**	**94%**	**6,574**	**75%**

Fair value of financial assets and liabilities and calculation models used

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

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

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

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

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

Euro Thousands	Carrying amount at 30 June 2019	Mark to Market Fair Value	Mark to Model Fair Value	Total *Fair Value*	Note
Cash and cash equivalents	4,767	4,767		4,767	22
Current bank borrowing	(20,795)	(20,795)		(20,795)	23
Other current financial assets and liabilities	2,155	2,155		2,155	24
Other non-current financial assets and liabilities	1,942	1,942		1,942	25
Non-current bank borrowing	(4,293)	(4,293)		(4,293)	25
Other non-current financial liabilities	(9)	(9)		(9)	27
Total	**(16,233)**	**(16,233)**		**(16,233)**	

Euro Thousands	Carrying amount at 30 June 2018	Mark to Market Fair Value	Mark to Model Fair Value	Total *Fair Value*	Note
Cash and cash equivalents	4,282	4,282		4,282	22
Current bank borrowing	(1,975)	(1,975)		(1,975)	23
Other current financial assets and liabilities	(206)	(206)		(206)	24
Other non-current financial assets and liabilities	1,374	1,374		1,374	25
Non-current bank borrowing	(4,533)	(4,533)		(4,533)	25
Other non-current financial liabilities	(25)	(25)		(25)	27
Total	**(1,083)**	**(1,083)**		**(1,083)**	

Exchange rate risk: sensitivity analysis

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

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

At 30 June 2019, the Group was not exposed any additional risks, such as the commodity risk.

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

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

Type of change	Effect on net financial position	Effect on profit before taxation
+10% USD	597	(185)
-10% USD	(730)	228

Fair Value hierarchy

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

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

The Group uses various measurement and valuation models to determine the fair value of financial instruments. The following table contains a summary of such financial instruments at 30 June 2019. At 30 June 2018, there were no financial instruments measured at fair value:

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

9. NON-RECURRING INCOME AND EXPENSES

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

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

10. INFORMATION BY OPERATING SEGMENT

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

Following sale in the previous reporting period of the investment in US company Pipeworks Inc., revenues and expenses relating to that subsidiary for the portion of the reporting period up until the disposal date have been disclosed in the consolidated statement of profit or loss under the caption net profit/loss from discontinued operations. The Development business segment ceased to exist following the disposal and the Group is now organised into five operational business segments:

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

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

The results by operating segment for the years ended 30 June 2019 and 2018 are set out below. See the Directors' Report for related comments.

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

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

Information by operating segment

Consolidated statement of financial position at 30 June 2019

	Consolidated figures in Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other activities	Holding	Total
	Non-current assets						
1	Property, plant and equipment	74	569	2,381	123	437	3,584
2	Investment property	0	0	0	0	0	0
3	Intangible assets	4,657	13,172	0	254	258	18,341
4	Equity interests	0	0	0	0	1,706	1,706
5	Non-current receivables and other assets	0	186	5	0	9,131	9,322
6	Deferred tax assets	329	1,710	695	11	0	2,745
	Total non-current assets	**5,060**	**15,637**	**3,081**	**388**	**11,532**	**35,698**
	Non-current liabilities						
7	Employee benefits	0	(123)	(436)	(14)	0	(573)
8	Non-current provisions	0	0	(81)	0	0	(81)
9	Other non-current payables and liabilities	0	0	0	0	(923)	(923)
	Total non-current liabilities	**0**	**(123)**	**(517)**	**(14)**	**(923)**	**(1,577)**
	Net working capital						
10	Inventories	0	7,237	6,672	0	0	13,909
11	Trade receivables	1,449	51,829	1,782	10	0	55,070
12	Current tax receivables	142	971	1,041	9	3,913	6,076
13	Other current assets	58	206	330	262	812	1,668
14	Trade payables	(447)	(22,645)	(918)	(136)	(485)	(24,631)
15	Current tax liabilities	(147)	(824)	(145)	(22)	0	(1,138)
16	Current provisions	0	(856)	0	0	0	(856)
17	Other current liabilities	(40)	(2,952)	(609)	(138)	(22)	(3,761)
	Total net working capital	**1,015**	**32,967**	**8,153**	**(16)**	**4,218**	**46,337**
	Total	**6,075**	**48,480**	**10,717**	**358**	**14,827**	**80,457**

Statement of profit or loss by operating segment for the year ended 30 June 2018

	Consolidated figures in Euro Thousands	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding	Total
1	Revenue	5,813	54,138	15,443	644	0	76,038
2	Revenue adjustments	0	(3,402)	(1,909)	(322)	0	(5,633)
3	**Total revenue**	**5,813**	**50,736**	**13,534**	**322**	**0**	**70,405**
4	Purchase of products for resale	0	(8,129)	(11,248)	0	0	(19,377)
5	Purchase of services for resale	(2,197)	(3,043)	(1,192)	(56)	0	(6,488)
6	Royalties	(140)	(14,848)	0	(28)	0	(15,016)
7	Changes in inventories of finished products	0	176	2,068	0	0	2,244
8	**Total cost of sales**	**(2,337)**	**(25,844)**	**(10,372)**	**(84)**	**0**	**(38,637)**
9	**Gross profit (3+8)**	**3,476**	**24,892**	**3,162**	**238**	**0**	**31,768**
10	Other income	1,293	1,146	33	62	262	2,796
11	Costs for services	(498)	(5,393)	(1,568)	(459)	(1,458)	(9,376)
12	Lease and rental costs	(85)	(586)	(36)	(18)	(733)	(1,458)
13	Labour costs	(3,048)	(9,253)	(1,466)	(740)	(3,859)	(18,366)
14	Other operating costs	(71)	(352)	(182)	(47)	(425)	(1,077)
15	**Total operating costs**	**(3,702)**	**(15,584)**	**(3,252)**	**(1,264)**	**(6,475)**	**(30,277)**
16	**Gross operating margin (EBITDA) (9+10+15)**	**1,067**	**10,454**	**(57)**	**(964)**	**(6,213)**	**4,287**
17	Depreciation and amortisation	(2,126)	(4,512)	(320)	(553)	(217)	(7,728)
18	Allocations to provisions	0	0	0	0	0	0
19	Impairment adjustments to assets	0	(8)	(54)	0	(60)	(122)
20	Reversal of impairment adjustments and non-monetary income	0	0	0	0	0	0
21	**Total non-monetary operating income and expenses**	**(2,126)**	**(4,520)**	**(374)**	**(553)**	**(277)**	**(7,850)**
22	**Operating margin (EBIT) (16+21)**	**(1,059)**	**5,934**	**(431)**	**(1,517)**	**(6,490)**	**(3,563)**

Information by operating segment

Consolidated statement of financial position at 30 June 2018

	Consolidated figures in Euro Thousands	Development	Free to Play	Premium Games	Italian Distribution	Other Activities	Holding
	Non-current assets						
1	Property, plant and equipment	93	744	2,540	140	2,482	6,000
2	Investment property	0	0	0	0	0	0
3	Intangible assets	4,892	9,566	138	232	303	15,131
4	Equity investments	0	0	0	0	1,270	1,270
5	Non-current receivables and other assets	0	182	3	1	9,338	9,524
6	Deferred tax assets	353	1,397	449	96	70	2,365
	Total non-current assets	**5,338**	**11,890**	**3,130**	**469**	**13,464**	**34,290**
	Non-current liabilities						
7	Employee benefits	0	(86)	(418)	(12)	0	(516)
8	Non-current provisions	0	0	(80)	0	0	(80)
9	Other non-current payables and liabilities	0	0	0	0	(901)	(901)
	Total non-current liabilities	**0**	**(86)**	**(498)**	**(12)**	**(901)**	**(1,497)**
	Net working capital						
10	Inventories	0	7,672	7,387	0	0	15,059
11	Trade receivables	2,009	31,579	2,256	10	0	35,854
12	Current tax receivables	42	1,731	1,041	16	1,486	4,316
13	Other current assets	42	287	399	236	2,636	3,599
14	Trade payables	(591)	(17,338)	(1,999)	(166)	(717)	(20,811)
15	Current tax liabilities	(30)	(758)	(216)	(14)	(2)	(1,021)
16	Current provisions	0	(854)	0	0	0	(854)
17	Other current liabilities	(44)	(272)	(741)	(167)	(16)	(1,241)
	Total net working capital	**1,427**	**22,046**	**8,126**	**(85)**	**3,386**	**34,901**
	Total	**6,766**	**33,850**	**10,758**	**373**	**15,949**	**67,694**

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

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

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

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

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

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

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

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

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

Other Activities**:** this operating segment handles all of the Group's lesser activities which are grouped together in a separate operating segment for presentation of the results. It includes the operations of subsidiary Digital Bros Game Academy S.r.l. which organises video game training and professional update courses and the activities of Game Network S.r.l.. Until last year, Game Network S.r.l. managed paid games under concession from AAMS (Italian State Monopoly Administration). However, given the limited profitability of the paid games under concession, the Group decided not to take part in the new competitive tendering process for future concessions and, consequently, it ended its activities under the AAMS concession in June 2018.

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

Information by geographical area

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

Euro Thousands	**30 June 2019**		**30 June 2018**		**Change**	
Europe	13,354	16%	14,627	19%	(1,273)	-8.7%
Americas	47,116	58%	41,215	54%	5,901	14.3%
Rest of the World	6,535	8%	4,109	5%	2,426	59.0%
Total foreign revenue	**67,005**	**82%**	**59,951**	**79%**	**7,054**	**11.8%**
Italy	14,312	18%	16,087	21%	(1,775)	-11.0%
Total consolidated gross revenue	**81,317**	**100%**	**76,038**	**100%**	**5,279**	**6.9%**

Foreign revenue represented 82% of consolidated gross revenue compared to 79% in prior year and decreased by 11.8% compared to the year ended 30 June 2018.

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

The most significant portion of foreign revenue is generated by the Premium Games operating segment which generated foreign revenue of Euro 60,432 thousand i.e. 90% of total foreign revenue.

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

Euro Thousands	**30 June 2019**		**30 June 2018**		**Change**	
Free to Play	6,573	10%	5,813	10%	760	13.1%
Premium Games	60,432	90%	54,138	90%	6,294	11.6%
Total gross foreign revenue	**67,005**	**100%**	**59,951**	**100%**	**7,054**	**11.8%**

11. RELATED PARTY TRANSACTIONS

In accordance with Consob Resolution 17221 of 12 March 2010, it is hereby disclosed that all commercial and financial transactions between Digital Bros Group companies and between those companies and other non-subsidiary related parties have been conducted at arm's length and cannot be classed as atypical or unusual transactions.

Intercompany transactions

Intercompany transactions have already been described in section 9 of the Directors' Report.

Other related parties

Other related party transactions regard:

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

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

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

Euro Thousands	**Receivables**		**Payables**		**Revenues**	**Costs**
	Trade	Financial	Trade	Financial		
Dario Treves	0	0	(22)	0	0	(262)
Matov Imm. S.r.l.	0	635	0	0	0	(728)
Matov LLC	0	130	0	0	0	(420)
Ovosonico S.r.l.	21	210	(105)	0	29	0
Total at 30 June 2019	**21**	**975**	**(127)**	**0**	**29**	**(1,410)**

Euro Thousands	**Receivables**		**Payables**		**Revenues**	**Costs**
	Trade	Financial	Trade	Financial		
Dario Treves	0	0	(48)	0	0	(335)
Matov Imm. S.r.l.	0	635	0	0	0	(736)
Matov LLC	0	127	0	0	0	(390)
Ovosonico S.r.l.	0	210	0	0	0	0
Total at 30 June 2018	**0**	**972**	**(48)**	**0**	**0**	**(1,461)**

Digital Bros S.p.A.'s financial receivable from Matov Imm. S.r.l. refers to the guarantee deposit paid in relation to lease instalments due for the premises at Via Tortona 37, Milan.
The financial receivable due to 505 Games (US) Inc. by Matov LLC relates to a guarantee deposit paid against lease obligations concerning the premises used as the U.S. subsidiary's head office.

Lease instalments for the Milan offices paid during the year by Digital Bros S.p.A. to Matov Imm. S.r.l. amounted to Euro 682 thousand while those paid by 505 Games France S.a.s. for the premises in Francheville amounted to Euro 46 thousand. Effective December 2015, upon renewal of the lease for a further six years, the annual lease charge for the Milan offices was reduced by Euro 60 thousand.

In November 2013, a lease agreement was entered into between the subsidiary 505 Games (US) Inc. and Matov LLC, a related party owned by the Galante family; the lease was renewed in 2018. The transaction was governed by the "Procedure for related party transactions" adopted by Digital Bros S.p.A. pursuant to Consob Regulation 17221 of 12 March 2010 and provides for an annual lease charge of USD 479 thousand.

The receivables of Euro 210 thousand and Euro 210 thousand due from associated company Ovosonico S.r.l. relate, respectively, to a property lease and to a loan made during the previous reporting period. The payable of Euro 105 thousand relates to the video game development activities carried out by Ovosonico S.r.l..

Tax consolidation

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

12. ATYPICAL OR UNUSUAL TRANSACTIONS

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

13. INFORMATION ON ASSETS REVALUED UNDER SPECIFIC LAWS

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

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

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

15. EXTERNAL AUDIT FEES

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

Nature of service	Fees pertaining to FY 2018/19					
	Parent company auditor			Parent company auditor's network	Auditors not pertaining to parent network	Total
	to parent company	to other companies	Total	to other companies	to other companies	
Audit	182,758	96,652	279,410	21,000	41,028	341,438
Certification services						
Tax advisory services						
Other services (to be detailed)						
- Fairness opinions						
- Accounting, tax, legal and administrative due diligence						
- Agreed upon procedures						
- Advisory services to the financial reporting manager (Art. 154-bis CFA)						
- Opinions on the application of new accounting standards						
- Consultancy on accounting matters						
- Other services						
Total	**182,758**	**96,652**	**279,410**	**21,000**	**41,028**	**341,438**

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

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

- the adequacy in relation to the characteristics of the business; and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for the period 1 July 2018 - 30 June 2019. No significant issues have arisen.

We also confirm that:

1. the consolidated financial statements of Digital Bros Group for the year ended 30 June 2019:
   a) have been prepared in accordance with applicable International Financial Reporting Standards endorsed by the European Union pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of 19 July 2002;
   b) reflect the accounting books and records;
   c) give a true and fair view of the results and financial position of the issuer and of the entities included in the consolidation;

2. the Directors' Report accompanying the consolidated and separate financial statements includes a reliable analysis of the results, as well as a description of the main risks and uncertainties to which Digital Bros S.p.A. and the consolidated entities are exposed.

Milan, 12 September 2019

Signed

Chairman of the Board of Directors	Financial Reporting Manager
Abramo Galante	Stefano Salbe

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