



Consolidated Half-Yearly Financial Report as at 30 June 2019

drafted according to IAS/IFRS international accounting standards

Approval: Board of Directors on 19 September 2019

NOTORIOUS PICTURES SPA

Registered office: LARGO BRINDISI 2 – 00182 - ROME

Enrolled in the Business Registry of: ROME

Taxpayer Code and registration number: 11995341002

Enrolled in the ROME Economic and Administrative Index, no. RM-1342431

Subscribed share capital EUR: 562,287.00 fully paid-in

VAT no.: 11995341002

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1. BOARD OF DIRECTORS' REPORT

In application of Italian Legislative Decree no. 38 of 28 February 2005, "Exercise of the options under art. 5 of the regulation (EC) no. 1606/2002 concerning international accounting standards", Notorious Pictures S.p.A. (hereinafter also "the Company" or "Notorious Pictures") availed of the right, from the financial year ending 31 December 2018, to redraft the financial statements in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Union (OJ).

The figures reported as at 30 June 2019 in the statements shown below, refer to the consolidated financial position of the Notorious Pictures S.p.A. Group (hereinafter also "the Group"), which includes the Parent Company Notorious Pictures S.p.A. (hereinafter also "the Parent Company" or "the Company") and the wholly-owned subsidiary Notorious Cinemas S.r.l., established on 9 January 2019, whose core business is to manage cinemas.

This Financial report as at 30 June 2019 was drawn up for the first time on a consolidated basis.

The comparative figures shown in the balance sheet (31 December 2018), income statement, statement of comprehensive income and cash flow statement (as at 30 June 2018), refer instead to Notorious Pictures S.p.A. alone, as included in the Financial Statements as at 31 December 2018 and in the Half-Yearly Financial Report as at 30 June 2018, to which we refer.

Therefore, it should be noted that, given the above, the consolidated figures as at 30 June 2019 cannot be compared on a like-for-like basis with those as at 31 December and 30 June 2018.

1.1 KEY DATA

Note that all tables included in this report are drawn up in units of Euro unless otherwise specified.

| Income Statement Data | 1st half 2019 (*) | 1st half 2018 | Change | % |
|---|------------------------------|--------------------------|------------------|----------------|
| Revenues | 24,747,923 | 21,321,934 | 3,425,988 | 16.07% |
| Operating costs | (14,242,865) | (12,337,849) | (1,905,015) | 15.44% |
| Value Added | 10,505,058 | 8,984,085 | 1,520,973 | 16.93% |
| <i>% value added</i> | 42.4% | 42.1% | | |
| Personnel costs | (3,173,389) | (1,027,618) | (2,145,771) | 208.81% |
| EBITDA | 7,331,669 | 7,956,467 | (624,799) | -7.85% |
| <i>% EBITDA</i> | 29.6% | 37.3% | | |
| Depreciation, amortisation, and provisions | (3,511,735) | (4,549,595) | 1,037,860 | -22.81% |
| EBIT | 3,819,934 | 3,406,873 | 413,061 | 12.12% |
| <i>% EBIT</i> | 15.4% | 16.0% | | |
| Net financial charges | (78,051) | (10,233) | (67,818) | 662.75% |
| Pre-tax profit/(loss) | 3,741,883 | 3,396,640 | 345,243 | 10.16% |
| <i>Taxes</i> | (1,081,649) | (374,170) | (707,480) | 189.08% |
| Net profit/(loss) for the year | 2,660,233 | 3,022,470 | (362,237) | -11.98% |
| <i>% profit/(loss)</i> | 10.7% | 14.2% | | |
| EPS | 0.12 | 0.14 | | |

(*) consolidated figures

| Balance Sheet Data | 30/06/19 (*) | 31/12/18 | Change | % |
|-------------------------------|---------------------|--------------------|------------------|--------------|
| Fixed assets | 19,908,685 | 14,645,970 | 5,262,715 | 36% |
| Current operating assets | 30,068,382 | 18,604,209 | | |
| Current operating liabilities | (16,705,011) | (9,393,263) | | |
| Net Working Capital | 13,363,371 | 9,210,946 | 4,152,425 | 45% |
| Provisions | 3,761,496 | 3,709,384 | 52,112 | 1% |
| Net Invested Capital | 29,510,560 | 20,147,533 | 9,363,027 | 46% |
| Net Financial Position | 5,208,086 | (3,410,064) | 8,618,150 | -253% |
| Shareholders' Equity | 24,302,474 | 23,557,597 | 744,877 | 3% |

(*) consolidated figures

| Net Financial Position | 30/06/19 (*) | 31/12/18 | 30/06/18 | Change |
|-------------------------------|---------------------|--------------------|--------------------|--------------------|
| Cash and cash equivalents | 6,867,719 | 3,410,064 | 5,137,658 | 3,457,655 |
| Bank payables | (6,801,419) | | | (6,801,419) |
| Financial payables for ROU | (5,274,386) | | | (5,274,386) |
| Net financial position | 5,208,086 | (3,410,064) | (5,137,658) | (8,618,151) |

| Cash Flow Statement | 30/06/19 (*) | 30/06/18 |
|---|---------------------|-----------------|
| A. Opening balance - cash and cash equivalents | 3,410,064 | 6,218,889 |
| B. Cash flow from operations | 2,070,671 | 2,978,689 |
| C. Cash flow from investment activities | (8,774,450) | (2,591,701) |
| D. Cash flow from financing activities | 10,161,434 | (1,468,219) |
| E. Net increase (decrease) in cash and cash equivalents | 3,457,655 | (1,081,231) |
| F. Closing balance - cash and cash equivalents | 6,867,719 | 5,137,658 |

(*) consolidated figures

Operating performance and financial results

2019 saw the organization become more established and further development of the businesses managed; the considerable investments made in the past years also continued to launch production activities and purchase rights for Direct to Video (DTV) sales.

The project to diversify the business continued, with the strengthening of national production activities and international co-productions, which has allowed us to begin a path of robust and sustainable growth.

In this regard, on the date 9 January 2019, NOTORIOUS CINEMAS SRL was incorporated, a newco with operating office in Milan, 100% controlled by Notorious Pictures, with share capital paid up equal to EUR 100,000, which is dedicated to the direct management of cinemas run exclusively under a rental contract.

Financial results

Revenues for the first half of 2019 amounted to EUR 24,748 thousand (EUR 21,322 thousand in the first half of 2018), marking an increase of around 16% year-over-year. With respect to the first half of 2018, the best performance was recorded by theatrical revenues, which rose from EUR 3,983 thousand

in the first half of 2018 to EUR 5,124 thousand in the first half of 2019, Pay TV revenues, which rose from EUR 3,530 thousand in the first half of 2018 to EUR 5,288 thousand in the first half of 2019, revenues from the distribution of third-party libraries of EUR 5,484 thousand, and various fees and revenues from the cinema management business (relating to Notorious Cinemas) totalling EUR 615 thousand. It should be noted that no revenues were generated in the first half of 2019 relating to international executive production, which is expected to resume in the second half of 2019.

In March 2019, the production of the film "Love, Wedding, Repeat" started, and was still underway on the closing date of this Half-Yearly Report; it should also be noted that, as already communicated to the market, the Company signed an important agreement with an international operator (Netflix) for the concession of exclusive rights at global level, on the above comedy. Given the above, the production costs (both directly and indirectly attributable to the film in question) incurred during the six-month period were suspended through the recognition of inventories for work in progress until the closing date of the period, and recognised under "inventories for work in progress", totalling EUR 6,464 thousand. In accordance with the requirements of the reference accounting standard (IFRS 15), the margin resulting from the film will be fully recognised in the income statement after completion of the same and its handover to the licensee, envisaged to take place before the end of 2019.

The other revenues generated in the first half of 2019 amounted to EUR 662 thousand and mostly refer to contributions for tax credits and other revenues for commercial agreements, compared to EUR 2,197 thousand recorded for the same period of 2018; the change is essentially due to the non-performance of executive production activities in the first half of 2019, as mentioned earlier.

EBITDA amounted to EUR 7.3 million, down by 7.8% from EUR 8 million recorded in the first half of 2018. The EBITDA margin stood at 29.6% (37.3% as at 30 June 2019), and suffered mostly from the dilutive effect of revenues from the distribution of third-party libraries, of EUR 5.5 million (a trading activity characterised by a lower profit margin than traditional distribution, where by contrast a fixed asset is recognised under assets and a guaranteed minimum is paid).

EBIT was EUR 3.8 million, up by 10% compared with the EUR 3.4 million recorded in the first half of 2018; the margin on revenues came to 15.4%.

Net profit was EUR 2.6 million, down by 12% from EUR 3 million in the first half of 2018, representing a smaller share of revenues, down from 14.2% to 10.7% as at 30 June 2019.

The Group recorded a negative **net financial position** of EUR 5.2 million (a positive EUR 3.4 million at 31 December 2018) after paying dividends totalling EUR 1.8 million in May 2019 and investing EUR 2.9

million to acquire films, of which about 771 thousand were advances for films that will be released in 2020 and 2021.

The Group's net financial position is also influenced by the following:

- the adoption, starting from 1 January 2019, of standard IFRS 16 relating to the recognition as fixed assets of all rental and lease contracts, which led to the recognition of financial payables of EUR 5.4 million (see the Explanatory Notes for further details);
- the granting, by two leading Credit institutions, of two long-term loans with a total nominal value of EUR 7 million; The first loan for EUR 6 million, which expires on 31 March 2022, was taken out to finance the production of the film "Love, Wedding, Repeat" and "The Shift", while the second loan for EUR 1 million, which expires on 28 February 2021, was taken out to support the initial phase of the cinema management business.

Consolidated **shareholders' equity** is EUR 24.302 million (EUR 23.558 million at 31 December 2018).

The equity figures confirm the solidity of the Group.

Alternative performance indicators

In addition to conventional financial schedules and indicators envisaged by IFRS, certain reclassified schedules and alternative performance indicators are presented in this document that allow a better assessment of the Company's economic/financial performance. These schedules and indicators should not be considered as substitutes for the conventional IFRS schedules. For these figures, in compliance with the ESMA Guidelines 2015/1415 regarding alternative performance indicators ("Non-GAAP Measures"), the descriptions of criteria adopted in their preparation and specific references to items contained in the mandatory schedules are provided.

In particular, the alternative indicators used include:

- **ROE:** Return on Equity – index of return on own capital = $(\text{Net profit}/\text{Shareholders' equity}) \times 100$
- **ROA:** Return on Assets - index of return on invested capital = $\text{current profit before financial charges}/\text{total assets}$
- **EBIT:** operating profit/(loss) before financial charges and taxes
- **EBITDA:** operating profit/(loss) before depreciation, amortisation, write-downs, financial charges, and taxes
- **Equity less non-current assets:** difference between shareholders' equity and fixed assets

- **Equity plus non-current liabilities minus non-current assets:** difference between shareholders' equity + non-current liabilities and fixed assets
- **Quick ratio:** ratio of current assets to current liabilities
- **Current ratio:** ratio of current assets net of inventories to current liabilities.

The following table shows some profitability ratios for the first half of 2019 (compared with the corresponding ratios at 30 June 2019):

| Profitability indices | 1st half 2019 (*) | 1st half 2018 |
|------------------------------|--------------------------|----------------------|
| ROE | 11% | 13% |
| ROA | 7% | 9% |
| EBITDA Margin | 30% | 37% |
| EBIT Margin | 15% | 16% |

(*) consolidated figures

The Group's solid financial position (i.e., its ability to maintain financial balance in the medium to long term) is evident in the reclassified balance sheet.

To supplement the description of the Group's financial soundness, the table below shows some financial statement ratios relating both to the funding method of medium/long-term loans as well as the breakdown of funding sources (against the corresponding ratios at 31 December 2018).

| Structural indices | 30/06/19 (*) | 31/12/18 |
|---|---------------------|-----------------|
| Equity less non-current assets (SE - fixed assets) | 4,393,789 | 8,911,627 |
| Equity to non-current assets ratio | 122% | 161% |
| Equity plus non-current liabilities minus non-current assets | 8,155,285 | 12,621,011 |
| Equity plus non-current liabilities to non-current assets ratio | 141% | 186% |
| Quick ratio | 194% | 233% |
| Current ratio | 159% | 231% |

(*) consolidated

The items shown in the reclassified financial statements above and on the following pages are in part taken from the schedules required by reference accounting standards (IAS/IFRS) and shown below in this document, and in part aggregated; the breakdown and definitions of the latter are as follows:

Current operating assets: sum of inventories, trade receivables, tax credits and other assets.

Non-current assets: sum of the items “Distribution rights” and “Publishing rights”, other intangible assets, tangible assets, IFRS 16 rights of use, financial receivables, and deferred tax assets.

Current operating liabilities: sum of trade payables, tax payables, the current portion of medium/long-term financial payables as well as other short-term liabilities and provisions.

Non-current liabilities: sum of the provision for risks, financial payables, deferred tax liabilities, and employee severance indemnity.

Net financial position: sum of financial receivables, cash and cash equivalents, and current and non-current financial payables.

Revenues: sum of revenues from sales and services, other revenues, and changes in inventories.

Operating costs: sum of consumable raw materials, personnel costs, and other operating costs.

Depreciation, amortisation, and provisions: sum of amortisation and write-downs of intangible assets, depreciation and write-downs of tangible assets, and bad debt provisions.

1.2 GENERAL COMMENTS

Key corporate events

The key corporate events that occurred during the first half of 2019, in addition to the already cited establishment of Notorious Cinemas S.r.l., are summarised below.

Corporate structure

The results of the shareholders' registry as at 30 June 2019 are summarised in the following table:

| Results of the shareholders' registry as at 30 June 2019 | | |
|--|-------------------|----------------|
| 2 shareholders holding more than 2% | 19,068,400 | 84.78% |
| 1 shareholder holding between 1% and 2% | 230,000 | 1.02% |
| 7 shareholders holding between 0.5% and 1% | 1,026,720 | 4.56% |
| other shareholders | 2,166,360 | 9.63% |
| Total | 22,491,480 | 100.00% |

Share price performance

As at 28 June 2019, the share price was EUR 2.97, with a capitalisation of EUR 66,799,696.

The trend in the share price is provided in the following table:

| Date | Price | Shares | Market cap |
|------|-------|--------|------------|
|------|-------|--------|------------|

| | | | |
|-------------|---------|------------|------------|
| 23-Jun-2014 | 3.00000 | 22,316,000 | 66,948,000 |
| 31-Dec-2014 | 2.76000 | 22,316,000 | 61,592,160 |
| 30-Jun-2015 | 2.83400 | 22,316,000 | 63,243,544 |
| 31-Dec-2015 | 2.06600 | 22,491,480 | 46,467,398 |
| 30-Jun-2016 | 1.01000 | 22,491,480 | 22,716,395 |
| 31-Dec-2016 | 0.84000 | 22,491,480 | 18,892,843 |
| 30-Jun-2017 | 1.15200 | 22,491,480 | 25,910,185 |
| 29-Dec-2017 | 1.36300 | 22,491,480 | 30,655,887 |
| 30-Jun-2018 | 1.82000 | 22,491,480 | 40,934,494 |
| 28-Dec-2018 | 3.20000 | 22,491,480 | 71,972,736 |
| 28-Jun-19 | 2.97000 | 22,491,480 | 66,799,696 |

Buy-Back Plan

- At the Shareholders' Meeting on 17 April 2019, a new plan to purchase and sell treasury shares ("Buy-Back Plan") was resolved in order to: Provide the Company with a portfolio of securities to be used as consideration for extraordinary transactions;
- Fulfil obligations deriving from any share incentive plans for Notorious Pictures' directors, employees and collaborators, which include the assignment of purchase options or free allocation of shares;
- Carry out, in compliance with governing regulations, the activities supporting the share's liquidity in the market and the stabilisation of trading prices, maintaining equal treatment of shareholders.

Note that the authorisation for the purchase and sale of treasury shares is not intended for transactions to reduce share capital by cancelling purchased treasury shares.

The primary characteristics of the Buy-Back Plan approved by the Shareholders' Meeting are:

- Duration of 18 months from the date of approval, with purchase and sale in one or more tranches, exercisable at any time;

- Purchases of ordinary shares up to the maximum permitted pursuant to art. 2357, paragraph 1, of the Italian Civil Code, or within the limits of distributable profits and available reserves resulting from the latest approved financial statements, equal to EUR 7,817,030;
- Right to subsequently dispose of treasury shares, without time limits and even before having reached the maximum quantity that can be bought, and possibly to repurchase shares to the extent that the treasury shares held by the Company do not exceed the limit set by art. 2357-ter, paragraph 1, of the Italian Civil Code.

The previous Buy-Back Plan ended on 7 May 2019. A total of 551,200 shares had been purchased at said date, representing 2.4507% of the 22,491,480 shares outstanding.

In June, the purchases of the third Buy-Back Plan began. A total of 553,600 shares were held as at 30 June 2019, corresponding to 2.4614%.

The total outlay for purchases of treasury shares during the half year amounted to EUR 115,236, which is allocated in a specific negative equity reserve, together with the amount already allocated previously.

1.3 DESCRIPTION OF OPERATING CONDITIONS FOR BUSINESS ACTIVITIES

Operating conditions

The Notorious Group is composed of the Parent Company, Notorious Pictures S.p.A., an independent company active in the production and acquisition of films, and in the distribution and marketing of the rights for these films in all utilisation channels (cinema, home video, television, and New Media), and of the wholly-owned subsidiary Notorious Cinemas S.r.l., established on 9 January 2019, which manages cinemas.

A momentous change took place in 2019, which involved international and national distributors and those in cinema management.

For the first time in Italy, the entire industry came together, with a united front, to be a team and to present the cinema as a form of cultural entertainment throughout the year. The distribution companies will guarantee the release of spectacular and high quality films from January to December, without stopping during the summer season, as cinemas will be open all year. During this summer, 60 films are going to be shown in cinemas, including some American blockbusters.

The launch of this plan to keep cinemas open even in the summer months, led to its first positive response in terms of box office takings, and the number of cinema-goers that continued to come during the summer months also rose.

Film Library Acquisitions and Distribution

The Parent Company Notorious Pictures S.p.A. actively participated in the leading global markets and festivals for the industry, which enabled it to strengthen the 2019 line-up.

In January, the Group purchased exclusive distribution rights to the film *The Upside*, an American remake of the French film *Intouchables* (written and directed by Olivier Nakache and Éric Toleda in 2011) from STX Entertainment for the Italian market.

In March, a film called “Five Feet Apart” recorded winning box office takings in its first 4 days of EUR 1.34 million, then totalling EUR 5.0 million at the end of its run.

In May, the film called “The Professor” was the number one in the box office for that weekend, generating revenues of EUR 517 thousand and recording 79,265 admissions, then totalling EUR 1,491 thousand at the end of its run. The film stars Johnny Depp, back on the big screen, and is directed by Wayne Roberts.

During the first half of 2019, the Notorious Pictures Group distributed 9 films in cinemas, generating Box Office takings of EUR 11,757,934, with a total attendance of 1,900,407 (Source: Cinetel).

Commercial agreements

Last February, the Group signed and executed a commercial agreement with Mediaset RTI for the exclusive concession of Free TV rights, which envisages the distribution of a selection of films. The value of the agreement for the concession of the film rights is EUR 0.8 million.

In May, the Group signed a preliminary agreement with NETFLIX for the concession of exclusive rights at international level for the romantic comedy “Love, Wedding, Repeat”, co-produced by Notorious Pictures and Tempo Productions Ltd.

Film Production

International co-production continues: in May, the filming of “Love. Wedding. Repeat” started in Rome, and was still underway on 30 June 2019. The cast stars: Sam Claflin (Hunger Games saga, Me

before You, Adrift), Oliva Munn (XMen: Apocalypse, Ocean's 8, Office Christmas Party) and Freida Pinto (The Millionaire, Rise of the Planet of the Apes).

Cinema Management

By launching Notorious Cinemas, Notorious Pictures enters the business of cinema management, an area of business contingent to the company's core business, with the objective of offering the Italian market a new experiential entertainment (cinema) model by offering an innovative cinema format, which follows the guidelines of the new concept "Notorious Pictures - The Experience", transforming the "classic" concept of cinema into an avant-garde "Reclining cinema". The project was developed with the guidance of Andrea Stratta, Top Manager with proven experience on the panorama of cinema circuits both nationally and internationally.

Notorious Cinemas' plans set the objective to manage about 20 multiplexes in five years and a target of about 5 million filmgoers in 2023. It is expected that the launch of this new business will not require resorting to dedicated capital increases since the favourable profile of the circulating capital typical of this activity makes it possible for the most part to self-finance the development of the company.

The Notorious Cinemas business model emphasises the user experience, proposing a new offering founded on higher technical standards in terms of audio and video, top notch seat comfort, greeting and qualified personnel, carefully chosen locations, quality and variety of food & beverages, computerisation and automation of the ticketing area and entry to the screening rooms meant to guarantee faster entrance.

The launch of this project benefits from a particularly favourable backdrop; the new law on cinema, which calls for financial resources for the renovation and modernisation of the screening rooms (tax credit); a medium-term visibility on the film product offering with major sales potential; an offering of blockbuster titles during the summer from the Majors and Independents, starting in summer 2019 (so-called deseasonalisation), of a number of important films extremely enticing to audiences; the new law on the utilisation windows among the different media (so-called Windows), for the Italian films, that protects cinemas from the competition of new digital platforms.

On 14 January 2019 the subsidiary Notorious Cinemas, signed a preliminary contract with IGD MANAGEMENT srl, a company entirely controlled by IGD – Immobiliare Grande Distribuzione SIIQ S.p.A., for the rental of a going concern belonging to IGD, of a Multiplex (10 screens) located at the Sarca Mall in Sesto San Giovanni (MI), the first Notorious Cinema brand Multiplex.

The final rental agreement for the business division, signed on 27 February 2019, lasting more than one year, requires initial running for nine years starting on 1 March 2019, at the end of which another nine years are to be added, without prejudice to the right of both parties to exercise an early withdrawal option from the rental agreement.

The Multiplex, which benefits from a strategic location, was fully renovated over the summer and was inaugurated on 19 September 2019.

On 22 March 2019, a letter of intent was signed with Sagittario S.r.l. for the rental of a going concern relating to the multiplex located in the La Fattoria shopping centre in Rovigo.

1.4 INVESTMENTS DURING THE HALF-YEAR

The Group's investments, as detailed below, mainly regarded:

- the acquisition of films for around EUR 2,916 thousand, of which approximately EUR 771 thousand as advances on films that will be released in 2020 and 2021.
- Renovation work on the first cinema located at the Sarca shopping centre in Sesto San Giovanni (MI) of EUR 461 thousand; as this amount relates to work that was still underway on 30 June 2019, it has been recognised under Work in progress and will be partially recharged to the owner of the property, under an agreement between the parties, on completion of the works.
- The purchase of various tangible assets for EUR 76 thousand.

More specifically, investments representing the Parent Company's "core business" are those that are designed to enhance the library. The situation at the reference date of this half-yearly report is shown in the following table:

| Library investments | Distribution rights | Publishing rights | Work in progress and advances | Total library |
|----------------------------|----------------------------|--------------------------|--------------------------------------|----------------------|
| 2012 gross investments | 225,828 | 150,975 | - | 376,803 |
| 2013 gross investments | 1,495,213 | 451,874 | - | 1,947,087 |
| 2014 gross investments | 6,757,031 | 450,362 | 325,376 | 7,532,769 |
| 2015 gross investments | 2,689,450 | 317,250 | 1,877,982 | 4,884,681 |
| 2016 gross investments | 2,615,634 | 381,800 | 3,906,680 | 6,904,114 |
| 2017 gross investments | 3,040,117 | 493,443 | 3,578,028 | 7,111,588 |
| 2018 gross investments | 3,766,648 | 348,200 | 3,395,321 | 7,510,169 |
| 2019 gross investments | 1,960,075 | 184,728 | 771,435 | 2,916,238 |
| Total Library | 22,549,997 | 2,778,632 | 13,854,822 | 39,183,450 |

1.5 CORPORATE GOVERNANCE

Board of Directors¹

Chairman and CEO

Guglielmo Marchetti

Deputy Chairman

Ugo Girardi

Directors

Stefano Di Giuseppe - Leonardo Pagni - Davide Rossi²

Board of Statutory Auditors³

Paolo Mundula (Chairman) - Marco D'Agata - Giulio Varella

Supervisory Board

Fabrizio Ventimiglia (Chairman) – Paolo Mundula – Patrizia Giannini

Independent Auditors⁴

Deloitte & Touche S.p.A.

Proxies

The Chairman Guglielmo Marchetti is the Company's legal representative as required by art. 16 of the Articles of Association.

On 27 April 2018, the Board of Directors confirmed Guglielmo Marchetti as Chief Executive Officer, granting him broad powers for the management of the Company's activities.

On the same date, deputy powers were granted to the Deputy Chairman Ugo Girardi.

Corporate Governance

The Corporate Governance system is based on recommendations provided by the specific committee of listed companies that developed the Code of Conduct.

The Company is administered by a **Board of Directors** currently composed of 5 members, appointed by the Shareholders' Meeting on 27 April 2018, and shall remain in office until approval of the financial statements as at 31 December 2020.

The Board of Directors is the body in charge of defining strategic, organisational and implementing guidelines, as well as verifying the existence and adequacy of control systems necessary to verify the Company's performance. In particular, the Board of Directors:

- ✓ grants and revokes proxies and operational responsibilities to directors;
- ✓ determines, after consulting the Board of Statutory Auditors, the compensation of directors pursuant to art. 2389, third paragraph, of the Italian Civil Code;
- ✓ reviews and approves the Company's strategic plans;
- ✓ monitors the regular performance of operations and specifically examines and approves large transactions;
- ✓ verifies the adequacy of the general organisational and administrative structure;
- ✓ monitors, in particular, situations of conflicts of interest, including potential, and transactions with related parties;
- ✓ reports to the shareholders' meeting.

The Board of Directors is validly convened when an absolute majority of the directors in office are present and resolves with the favourable vote of the majority of those present.

The Board of Directors has not appointed an Executive Committee, Internal Control Committee, or Remuneration Committee.

The compensation of employees, with the exception of those designated as executives, is defined by the Chief Executive Officer within the context of the powers attributed to him.

The Chairman of the Board of Directors is responsible for convening board meetings, setting the agenda in advance, coordinating the Board's activities, and presiding over meetings.

During formal and informal meetings of the Board of Directors, the Chairman ensures that each member of the Board of Directors and the Board of Statutory Auditors has the most detailed information possible on the Company's business activities and, in particular, the activities carried out by the Chairman in exercising the proxies delegated to him.

At each meeting, the administrative body appoints a secretary to record the minutes.

The **Board of Statutory Auditors** consists of three statutory auditors and two alternate auditors elected by the shareholders' meeting, who also establishes their fees.

The auditors are aware that they must:

- ✓ act with autonomy and independence, including with regard to the shareholders who appointed them;

- ✓ act solely in the interest of the company;
- ✓ control the management of the Company by the Board of Directors;
- ✓ coordinate their activities with that of the independent auditors.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of 27 April 2018, and shall remain in office until approval of the financial statements as at 31 December 2020.

The **Supervisory Board** consists of three members elected by the Board of Directors.

The members of the Supervisory Board must ensure propriety and transparency in conducting business activities, in protecting the company's position and image in the market, as well as shareholders' expectations and the work of employees, in the belief that by voluntarily adopting the Model it is possible to increase awareness of all those who work for and on behalf of the Company, so that these parties, in carrying out their activities, base their conduct on principles of propriety, transparency and consistency, so as to prevent the risk of committing the offences contemplated in the decree.

Not only does the adoption and effective implementation of this system allow the company to benefit from the exemption provided by the Legislative Decree 231/2001, but within the limits of the Decree, it improves the company's Corporate Governance, reducing the risk of committing the Offences covered by Legislative Decree 231/2001.

1.6 MANAGEMENT OUTLOOK

The management will continue the strategy of integration and growth in the area of co-productions and productions by signing new commercial agreements with independent Italian and foreign operators. In addition, investments will continue to enhance the library intended for the entire distribution chain, with a focus on sales to Broadcast TV and New Media (EST, VOD and SVOD). The Group shall continue researching and developing orders in the area of international executive productions.

The line-up for the second half envisages the cinema release of 9 films.

In October, the subsidiary Notorious Cinemas plans to open a second Multiplex in Rovigo, in the La Fattoria Shopping Mall.

1.7 SIGNIFICANT EVENTS AFTER 30 JUNE 2019

No events or transactions occurred that could influence these condensed consolidated half-yearly financial statements.

On 26 August 2019, the final agreement with NETFLIX for the concession of exclusive rights at global level for the romantic comedy “Love. Wedding. Repeat” was signed.

On 10 September 2019, two new commercial agreements, partially already executed during the half year, were signed with Sky Italia. The first agreement regards the concession of Free TV distribution rights on 14 titles (library and First Run), while the second contract regards the concession of 700 library titles for Pay TV, on an exclusive basis, and Pay via Internet (SVOD), not exclusive. The total value of the agreements is EUR 7.45 million, relating entirely to the current year and the concession of rights is for 4 years on average.

The Group’s business activities are essentially proceeding according to the strategic directions described in the published plans.

2. ACCOUNTING SCHEDULES AND NOTES**2.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | NOTE S | Situation as at 30/06/2019 | Situation as at 31/12/2018 | Change | % Change |
|--|--------|----------------------------|----------------------------|-------------------|-------------|
| Non-current assets | | | | | |
| - Start-up and expansion costs | | 2,372 | - | 2,372 | |
| - Development costs | | 58,423 | 74,000 | (15,578) | -21% |
| - Distribution and publishing rights | | 10,238,873 | 9,208,561 | 1,030,312 | 11% |
| - Concessions, Licences and Trademarks | | 27,729 | 32,752 | (5,023) | -15% |
| - Work in progress - Advances | | 3,459,111 | 4,920,832 | (1,461,720) | -30% |
| Intangible assets | 4 | 13,786,508 | 14,236,145 | (449,637) | -3% |
| Tangible assets | 5 | 580,974 | 57,356 | 523,618 | 913% |
| Tangible assets - Rights of Use - ROU | 5 | 5,188,513 | | 5,188,513 | |
| Financial assets | 6 | 10,124 | 9,903 | 222 | 2% |
| Deferred tax assets | 7 | 342,566 | 342,566 | - | 0% |
| Total non-current assets | | 19,908,685 | 14,645,970 | 5,262,715 | 36% |
| Current assets | | | | | |
| Inventories | 8 | 6,700,201 | 214,033 | 6,486,168 | 3030% |
| Trade receivables | 9 | 21,615,821 | 14,682,834 | 6,932,987 | 47% |
| Tax credits | 10 | 1,193,282 | 3,256,415 | (2,063,133) | -63% |
| Other current assets | 11 | 559,078 | 450,927 | 108,151 | 24% |
| Cash and cash equivalents | 12 | 6,867,719 | 3,410,064 | 3,457,655 | 101% |
| Total current assets | | 36,936,101 | 22,014,273 | 14,921,827 | 68% |
| Total assets | | 56,844,786 | 36,660,244 | 20,184,542 | 55% |
| Non-current liabilities | | | | | |
| Long-term loans | 13 | 5,012,470 | - | 5,012,470 | |
| Financial payables ROU - IFRS 16 | 14 | 4,741,574 | | 4,741,574 | |
| Employee severance indemnity | 15 | 337,177 | 285,065 | 52,112 | 18% |
| Provisions | 15 | 87,036 | 87,036 | - | - |
| Deferred tax liabilities | 7 | 3,337,284 | 3,337,284 | - | 0% |
| Total non-current liabilities | | 13,515,540 | 3,709,384 | 9,806,155 | 264% |
| Current liabilities | | | | | |
| Trade payables | 16 | 12,424,376 | 7,164,082 | 5,260,294 | 73% |
| Current portions of long-term loans | 13 | 1,788,950 | - | 1,788,950 | |
| Current portions of ROU payables - IFRS 16 | 14 | 532,812 | - | 532,812 | |
| Income tax payables | 17 | 2,964,969 | 1,742,580 | 1,222,389 | 70% |

| | | | | | |
|---|----|-------------------|-------------------|-------------------|--------------|
| Other current liabilities | 18 | 1,315,665 | 486,601 | 829,064 | 170% |
| Total current liabilities | | 19,026,773 | 9,393,263 | 9,633,510 | 103% |
| Total liabilities | | 32,542,312 | 13,102,647 | 19,439,665 | 148% |
| - Share capital | | 562,287 | 562,287 | - | - |
| - (Treasury shares) | | (729,751) | (614,515) | (115,236) | 19% |
| - Other Reserves and Retained Earnings | | 21,809,705 | 19,456,915 | 2,352,789 | 12% |
| - Profit (Loss) for the year | | 2,660,233 | 4,152,909 | (1,492,676) | -36% |
| Total shareholders' equity | 19 | 24,302,474 | 23,557,597 | 744,877 | 3.2% |
| Total liabilities + shareholders' equity | | 56,844,786 | 36,660,244 | 20,184,542 | 55.1% |

2.2 CONSOLIDATED INCOME STATEMENT

| Consolidated Income Statement | Notes | 1st half 2019 | 1st half 2018 | change 2019 vs. 2018 | % chg. |
|--|-----------|-------------------|-------------------|----------------------------|-------------|
| Revenues from sales and services | 23 | 17,599,420 | 19,103,576 | (1,504,156) | -8% |
| Other revenues and income | 23 | 662,335 | 2,196,713 | (1,534,378) | -70% |
| Change in finished product inventories | 8 | 22,109 | 21,646 | 463 | 2% |
| Change in inventories for work in progress | 8 | 6,464,059 | | 6,464,059 | |
| Total Revenues from sales and services, other revenues and income | 23 | 24,747,923 | 21,321,934 | (3,038,071) | -14% |
| Operating costs | 24 | (14,151,360) | (12,287,981) | (1,863,379) | 15% |
| Personnel costs | 25 | (3,173,389) | (1,027,618) | (2,145,771) | 209% |
| Sundry charges and income | 26 | (91,504) | (49,868) | (41,636) | 83% |
| Amortisation of intangible assets and Write-downs | 27 | (3,243,092) | (4,535,980) | 1,292,887 | -29% |
| Depreciation of tangible assets and Write-downs | 27 | (14,139) | (13,615) | (524) | 4% |
| Depreciation of tangible assets ROU | 27 | (254,504) | - | (254,504) | |
| Operating Result | | 3,819,934 | 3,406,873 | 413,061 | 12% |
| Financial income and charges | 28 | (78,051) | (10,233) | (67,818) | 663% |
| Profit before tax | | 3,741,883 | 3,396,640 | 345,243 | 10% |
| Income taxes | 29 | (1,081,649) | (374,170) | (707,480) | 189% |
| Net profit/(loss) | | 2,660,233 | 3,022,470 | (362,237) | -12% |

2.2.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Consolidated Statement of Comprehensive Income | 1st half 2019 | 1st half 2018 |
|---|------------------|------------------|
| Net profit/(loss) | 2,660,233 | 3,022,470 |
| Components to be reclassified in Income Statement | | |
| Components reclassified in Income Statement | | |
| Components not reclassified in Income Statement | | |
| Total other profits/(losses) net of tax effect | - | - |
| Comprehensive profit/(loss) | 2,660,233 | 3,022,470 |

2.3 CONSOLIDATED CASH FLOW STATEMENT

| CONSOLIDATED CASH FLOW STATEMENT | 30/06/19 | 30/06/18 |
|--|--------------------|--------------------|
| A. OPENING BALANCE - CASH AND CASH EQUIVALENTS | 3,410,064 | 6,218,889 |
| Income management | | |
| Profit for the period | 2,660,233 | 3,022,470 |
| <i>adjustments for non-monetary items not recorded as items in the NWC</i> | | |
| Depreciation and amortisation | 3,511,735 | 4,549,595 |
| Change in provisions | 52,112 | 1,808 |
| Change in tax provision | - | 165,868 |
| Cash flow before changes in working capital | 6,224,080 | 7,739,741 |
| (Increase) decrease in inventories | (6,486,168) | (21,646) |
| (Increase) decrease in trade receivables | (6,932,987) | (5,370,182) |
| (Increase) decrease in tax credits | 2,063,133 | (1,989,804) |
| (Increase) decrease in other current assets | (108,151) | 150,241 |
| Increase (decrease) in trade payables | 5,260,294 | 2,155,488 |
| Increase (decrease) in income tax payables | 1,222,389 | 173,543 |
| Increase (decrease) in other current liabilities | 828,079 | 141,308 |
| B. CASH FLOW FROM OPERATIONS | 2,070,671 | 2,978,689 |
| (Investments) Disinvestments | | |
| - Intangible assets | (2,921,192) | (2,588,428) |
| - Tangible assets | (5,980,773) | (951) |
| - Financial assets | (222) | (2,322) |
| C. CASH FLOW FROM INVESTMENT ACTIVITIES | (8,902,187) | (2,591,701) |
| Financial assets | | |
| Purchase of treasury shares | (115,236) | (270,150) |
| Dividends paid | (1,799,136) | (1,198,069) |
| (Increase) decrease in financial receivables and securities | | |
| Increase (decrease) in financial payables | 6,801,419 | |
| Increase (decrease) in payables for ROU - IFRS 16 | 5,274,386 | |

| | | |
|--|-------------------|--------------------|
| D. CASH FLOW FROM FINANCING ACTIVITIES | 10,161,434 | (1,468,219) |
| E. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D) | 3,329,917 | (1,081,231) |
| F. CLOSING BALANCE - CASH AND CASH EQUIVALENTS | 6,739,982 | 5,137,658 |

2.4 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| Changes in Consolidated Shareholders' Equity | Share capital | Share premium reserve | Shareholders' capital payments | Legal reserve | Reserve for treasury shares | FTA IAS Reserve | Dividends | Retained earnings (accumulated losses) | Profit (loss) for the year | Total |
|--|---------------|-----------------------|--------------------------------|---------------|-----------------------------|-----------------|-------------|--|----------------------------|-------------|
| As at 31 December 2018 | 562,287 | 6,885,713 | 100,000 | 112,457 | (614,515) | 11,145,959 | - | 1,212,786 | 4,152,909 | 23,557,597 |
| Allocation of profit for 2018 | | | | | | | 1,800,120 | 2,352,789 | (4,152,909) | 0 |
| Dividends | | | | | | | (1,800,120) | | | (1,800,120) |
| Treasury shares | | | | | (115,236) | | | | | (115,236) |
| Net profit (loss) for the year | | | | | | | | | 2,660,233 | 2,660,233 |
| Balances as at 30 June 2019 | 562,287 | 6,885,713 | 100,000 | 112,457 | (729,751) | 11,145,959 | - | 3,565,575 | 2,660,233 | 24,302,474 |

2.5 EXPLANATORY NOTES

1 Introduction

The Parent Company, Notorious Pictures S.p.A., incorporated on 4 July 2012, is an independent company that produces and acquires films, operating in the market since January 2013.

Listed on the AIM market managed by Borsa Italiana S.p.A., the Parent Company oversees the entire chain of the utilisation of rights for Italy.

As at 30 June 2019, the library comprised 912 titles, under temporary concession, including 7 produced and co-produced films owned by the Company.

As already communicated to the market, on 9 January 2019, NOTORIOUS CINEMAS SRL was incorporated, a newco with operating office in Milan, 100% controlled by Notorious Pictures, share capital paid up equal to EUR 100,000 and dedicated to the direct management of cinemas run exclusively under a rental contract.

This Report is expressed in Euro as the reference functional currency in which most transactions are carried out.

2 Accounting standards and Measurement criteria

As illustrated in the Directors' Report, in application of Italian Legislative Decree no. 38 of 28 February 2005, "Exercise of the options under art. 5 of the regulation (EC) no. 1606/2002 concerning international accounting standards", the Company availed of the right, from the financial year ending 31 December 2018, to redraft the financial statements in compliance with the international accounting standards (IFRS) endorsed by the European Union (EU IFRS).

This Half-Yearly Financial Report, drawn up on a consolidated basis for the first time, includes the condensed consolidated half-yearly financial statements, drawn up in accordance with the provisions of IAS 34, and therefore does not include all the additional information required for the annual financial statements and should be read together with the annual financial statements of the Parent Company as at December 31, 2018.

The condensed consolidated half-yearly financial statements included in this Half-Yearly Financial Report, have been subject to a voluntary limited audit by the independent auditors Deloitte & Touche S.p.A.

Financial statement schedules

The financial statement schedules are prepared as follows:

- current and non-current assets and current and non-current liabilities are shown separately in the statement of financial position;
- in the income statement, costs are analysed based on their type, as the Company has deemed this more representative than the presentation of costs by function;
- the statement of comprehensive income shows revenue and cost items that are not recognised in profit/(loss) for the year, as required or permitted by other IAS/IFRS accounting standards;
- the cash flow statement was prepared using the indirect method.

As previously stated, the values shown in the financial statements and explanatory notes are expressed in units of Euro, unless otherwise indicated. It should also be noted that, in order to make

the data more easily understood and provide a basis for comparison, some specific figures from the previous year, shown in the schedules above as a comparison, were reclassified.

Measurement and preparation criteria for the condensed consolidated half-yearly financial statements

The condensed consolidated half-yearly financial statements of the Notorious Pictures Group were prepared on a going concern basis, adopting the same accounting standards used to prepare the annual financial statements for the year ending 31 December 2018, with the exception of those that entered into force on 1 January 2019.

The Group has not opted for the early adoption of any new standard, interpretation or amendment issued but not yet in force.

IFRS 16 - Leases

On 13 January 2016, the IASB published IFRS 16 - Leases, intended to replace IAS 17 - Leases, as well as interpretations IFRIC 4 - Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The new standard provides a new definition of a lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service provision contracts, identifying as determining factors: identification of the asset, right to replace the asset, right to obtain substantially all economic benefits deriving from the use of the asset, and lastly the right to direct the use of the asset underlying the contract.

The standard establishes a unique model for recognition and measurement of lease contracts for the lessee, which envisages that leased assets, including those under operating leases, are recognised in assets with a contra-entry in financial payables. In contrast, the standard does not include significant changes for lessors. The standard is applicable from 1 January 2019, though early application is allowed.

This process was divided up into different steps, including the complete mapping of the contracts potentially suitable to containing a lease and their analysis in order to figure out the main clauses relevant for the purposes of the IFRS 16.

The application of the new standard to the contracts identified results in the initial recognition in the balance sheet of (i) an asset, representing the right of use pursuant to IFRS 16 (corresponding to the present value of the minimum mandatory future instalments that the tenant must pay starting from 1 January 2019 including prepaid expenses) which will be amortised according to the shorter term between technical economic life and residual duration of the contract, and (ii) a financial payable corresponding to the present value of the minimum mandatory future instalments that the tenant must pay starting from 1 January 2019, including the accrued expenses not yet paid on the transition date.

The payable will be reduced as the lease instalments are paid.

Starting from 2019, in income statements, lease instalments will no longer be recognised in the gross operating margin; instead (i) the amortisation of the right of use and (ii) the financial charges on the payable recorded will be recognised.

The Group has applied IFRS 16 Leases for the first time; the adoption of the retrospective application amended by the model did not require the restatement of the comparative data from the previous period, and did not have any impact on initial shareholders' equity as at 1 January 2019.

In adopting IFRS 16, the Group opted for the exemption granted by paragraph IFRS 16.5 (a) relating to short-term leases, and the exemption granted by IFRS 16.5 (b) regarding lease contracts for which the underlying asset is considered a low-value asset. For these contracts, the introduction of IFRS 16 does not require the recognition of the financial liability of the lease and of the relative right of use, although the lease instalments will be recognised in the income statement on a straight-line basis for the duration of the respective contracts.

The impact of the first application are indicated in note 16.

IFRIC Interpretation 23 - Uncertainty over income tax treatments

The Interpretation defines the accounting treatment for income tax when the tax treatment entails some uncertainties that affect the application of IAS 12 and does not apply to taxes or duties that do not fall within the scope of IAS 12, nor does it include specific requirements relating to interest or sanctions relating to uncertain tax treatments.

The interpretation deals specifically with the following points:

- Whether an entity considers uncertain tax treatments independently;

- The entity's assumptions for taxation authorities' examinations;
- How an entity determines taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity treats changes in facts and circumstances.

An entity has to decide whether each uncertain tax treatment should be considered independently or whether some uncertain tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

The Group applies significant judgement to identify uncertainties over income tax treatments. Given that the Group operates in a complex multinational contest, it has evaluated whether the interpretation may have determined an impact on its interim consolidated financial statements.

At the time of the adoption of the interpretation, the Group examined the existence of uncertain tax positions and the interpretation did not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

According to IFRS 9, a debt instrument may be measured at amortised cost or at fair value in the statement of comprehensive income, on condition that the contractual cash flows are "solely payments of principal and interest on the reference amount" (SPPI criterion) and the instrument is classified in the appropriate business model. The changes to IFRS 9 clarify that a financial asset fulfils the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and regardless of which party is paying or receiving reasonable compensation for the early termination of the contract. These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 establish the accounting rules for cases in which, during the reference period, an amendment, curtailment or settlement of the plan occurs.

The amendments specify that if a plan amendment, curtailment or settlement occurs during the year, the entity must determine the service cost for the remainder of the period following the amendment, curtailment or settlement of the plan, using the relevant actuarial assumptions to remeasure the net liability (asset) for defined benefits so that they reflect the benefits offered by the plan and the assets

of the plan after said event. In addition, an entity must determine the net interest for the remainder of the period following the amendment, curtailment or settlement of the plan: the net liability (asset) for defined benefits that reflect the benefits offered by the plan and the assets of the plan after said event; and the discounting rate used to remeasure the net liability (asset) for defined benefits. These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 28 - Long-term interests in associates and joint ventures

The amendments specify that an entity applies IFRS 9 for long-term investments in an associate or joint venture, for which the equity method is not applied but which, substantially, are part of the net investment in the associate or joint venture (long-term interests).

This clarification is important because it implies that the model of expected losses on receivables of IFRS 9, applies to these long-term investments. The amendments also clarify that, when applying IFRS 9, an entity must not consider any losses of the associate or joint venture or any impairments of the investment, recognised as net adjustments of the investment in the associate or joint venture that result from the application of IAS 28 Investments in Associates and Joint Ventures. These amendments did not have any impact on the consolidated financial statements.

3 Segment information

The Group is not organised into separate business sectors for management purposes. Instead, it manages and constantly monitors each revenue line, characterised by the media channel's usage rights, but given the synergy between the various usage methods and the correlation of commercial results, it has not set up separate income statements for the various business lines and internal transfer prices within the overall business activities considered.

| | | | | |
|---|--|-------------------|-------------------|------------------|
| 4 | <i>Non-current assets: Intangible</i> | 30/06/2019 | 31/12/2018 | Change |
| | | 13,786,508 | 14,236,145 | (449,637) |

The item decreased by roughly EUR 450 thousand during the half-year.

| | Start-up and expansion costs | Distribution and production rights | Publishing rights | Work in progress and advances | Other usage rights | Trademarks | Development | Total |
|-------------------|------------------------------|------------------------------------|-------------------|-------------------------------|--------------------|------------|-------------|-------|
| Intangible assets | | | | | | | | |

| | | | | | | | | |
|--|--------------|------------------|----------------|------------------|---------------|------------|---------------|-------------------|
| Amortisation at 31/12/2018 | | (6,506,881) | (390,847) | - | (14,616) | (50) | (31,413) | (6,943,807) |
| Historical Cost at 31/12/2018 | | 28,553,785 | 2,711,303 | 4,920,832 | 77,965 | 3,251 | 157,066 | 36,424,202 |
| Accumulated amortisation at 31/12/2018 | | (20,047,470) | (2,009,056) | - | (45,414) | (3,050) | (83,065) | (22,188,056) |
| Net book value at 31/12/2018 | | 8,506,315 | 702,247 | 4,920,832 | 32,551 | 201 | 74,000 | 14,236,145 |
| Investments at 30/06/2019 | 2,553 | 1,960,075 | 184,728 | 771,435 | 2,300 | 101 | | 2,921,192 |
| Reclassifications at 30/06/2019 | | 2,054,918 | 50,500 | (2,105,418) | | | | - |
| Production cost suspension | | | | (127,737) | | | | (127,737) |
| Uses of accumulated amortisation at 30/06/2019 | | | | | | | | - |
| Decrease of Assets at 30/06/2019 | | | | | | | | - |
| Amortisation at 30/06/2019 | (182) | (3,043,032) | (176,877) | | (7,392) | (32) | (15,578) | (3,243,092) |
| Historical Cost at 30/06/2019 | 2,553 | 32,568,778 | 2,946,531 | 3,459,111 | 80,265 | 3,352 | 157,066 | 39,217,657 |
| Accumulated amortisation at 30/06/2019 | (182) | (23,090,502) | (2,185,934) | - | (52,805) | (3,082) | (98,643) | (25,431,148) |
| Net book value at 30/06/2019 | 2,372 | 9,478,276 | 760,597 | 3,459,111 | 27,460 | 270 | 58,423 | 13,786,508 |

The “Film distribution rights” and related “publishing rights” refer to the films in concession belonging to the “library”.

“Work in progress and advances” refer for about Euro 3,077 to Guaranteed Amounts already paid to licensors for films to be distributed in 2020 and 2021, while the remainder of around EUR 382 thousand, refers to projects underway for future productions.

Film rights, which constitute the company’s “library”, are amortised according to the “individual-film-forecast-computation method”, based on the percentage of revenues earned at the reporting date, calculated on the date the financial statements are prepared for each title in the “library”, using sales plans drawn up by directors and considering a total period of 10 years from the film’s “release” and total expected revenues. The amortisation period begins when the film is completed and can be commercially utilised.

All costs recognised are reasonably correlated with a utility extended over several years and are systematically amortised according to the criteria set out in paragraph 2 above.

The remaining items relating to intangible assets mainly refer to investments in standardised software.

| | | | | |
|---|-------------------------------------|-------------------|-------------------|----------------|
| 5 | Non-current assets: Tangible | 30/06/2019 | 31/12/2018 | Change |
| | | 580,974 | 57,356 | 523,618 |

The item increased by roughly EUR 524 thousand during the period.

| Tangible assets | Plant and machinery | Other tangible assets | Other tangible assets in progress | Total |
|--|----------------------------|------------------------------|--|----------------|
| Historical Cost at 31/12/2018 | 27,932 | 150,520 | | 178,452 |
| Accumulated depreciation at 31/12/2018 | (23,025) | (98,070) | | (121,095) |
| Net book value at 31/12/2018 | 4,907 | 52,450 | - | 57,356 |
| Investments at 30/06/2019 | 10,155 | 66,168 | 461,434 | 537,757 |
| Disposals at 30/06/2019 | | | | |
| Uses of accumulated depreciation at 30/06/2019 | | | | |
| Depreciation at 30/06/2019 | (1,264) | (12,875) | - | (14,139) |
| Historical Cost at 30/06/2019 | 38,087 | 216,688 | 461,434 | 716,209 |
| Accumulated depreciation at 30/06/2019 | (24,290) | (110,945) | - | (135,234) |
| Net book value at 30/06/2019 | 13,797 | 105,744 | 461,434 | 580,975 |

The increase mainly regards the investments made up until the reporting date of the half-year to renovate the cinema located in the Sarca shopping centre in Sesto San Giovanni (MI) amounting to EUR 461 thousand. The work is expected to be completed by the end of 2019, and in accordance with the agreements entered into with the owner of the property, part of the cost will be borne by the same following specific inspections and approvals. Whilst awaiting this, on the reporting date of the half-year, the amount in question was recognised under “Other tangible assets in progress”.

There are no restrictions on the title and ownership of tangible assets.

| 5 | <i>Non-current assets: Tangible right-of-use assets</i> | 30/06/2019 | 31/12/2018 | Change |
|---|--|-------------------|-------------------|------------------|
| | | 5,188,513 | 0 | 5,188,513 |

Right-of-use assets, granted in lease and rental contracts and in contracts regarding the use of third-party assets, have been recognised separately, and, from January 1, 2019, the date of first time application of accounting standard IFRS 16, amount to EUR 5,443 thousand.

The only changes that occurred during the first half of 2019 are represented by depreciation of EUR 254 thousand.

This item is mainly composed of the capitalisation of the value in use of the lease contract for the new cinema in the Sarca shopping centre in Sesto San Giovanni (MI), as well as the offices in Rome and Milan, where the various company departments are located.

| Tangible assets | Right of Use Buildings | Right of Use Motor vehicles | Total |
|---|------------------------|-----------------------------|------------------|
| Net book value as at 31/12/2018 | - | - | - |
| Adoption of IFRS 16 - investments | 5,293,814 | 149,202 | 5,443,016 |
| ROU depreciation as at 30/06/2019 | (220,799) | (33,704) | (254,503) |
| Historical Cost as at 30/06/2019 | 5,293,814 | 149,202 | 5,443,016 |
| Accumulated depreciation as at 30/06/2019 | (220,799) | (33,704) | (254,503) |
| Net book value as at 30/06/2019 | 5,073,015 | 115,498 | 5,188,513 |

| 6 Non-current assets: Financial | 30/06/2019 | 31/12/2018 | Change |
|--|---------------|--------------|------------|
| | 10,124 | 9,903 | 222 |

The item increased by EUR 0.2 thousand due to a new security deposit.

7 **Assets and liabilities for deferred tax assets and liabilities**

| 7 Deferred tax assets | 30/06/2019 | 31/12/2018 | Change |
|------------------------------|----------------|----------------|--------|
| | 342,566 | 342,566 | - |

With regard to non-current deferred tax assets, this item is mainly attributable to IRES and IRAP on non-tax deductible amortisation in the year and to directors' fees in the second quarter of 2019, allocated in the financial statements but paid in the month of July 2019.

| 7 Deferred tax liabilities | 30/06/2019 | 31/12/2018 | Change |
|-----------------------------------|------------------|------------------|--------|
| | 3,337,284 | 3,337,284 | - |

As of the 2018 tax period, the Company fulfils tax obligations based on statutory financial statements prepared according to international accounting standards IAS/IFRS. The amounts in the deferred taxes show the allocations for IRES and IRAP put in the restated financial statements according to the international accounting standards IAS/IFRS in the financial years from 2014 up to 2017, to be applied to the differences between the values taken on by the items affected by the differences between the two sets of accounting standards (ITA GAAP for the financial statements, based on which the Company recognised the taxable amount, and IAS/IFRS).

| | | | | |
|---|---------------------------|-------------------|-------------------|------------------|
| 8 | <i>Inventories</i> | 30/06/2019 | 31/12/2018 | Change |
| | | 6,700,201 | 214,033 | 6,486,168 |

The majority refers to work in progress, amounting to EUR 6,464 thousand, relating to the production of the film "Love. Wedding. Repeat" which was not completed as at 30 June 2019. The costs incurred during the half year were treated as inventories for work in progress.

EUR 219 thousand of the remainder is represented by HV products (Blu-ray and DVD) held by the distributor RAI Cinema S.p.A. on a sale-or-return basis, but not yet sold by the sole distributor. The remainder of EUR 17 thousand represents the inventories relating to the management of the bar located at the cinema of the Sarca Centre in Sesto San Giovanni (MI).

The management of the physical warehouse is not strategic to the Group. The Home Video products are valued at the average cost incurred for their production, including the SIAE copyright stamp, calculated during the first year of activities and not changed, as no significant changes have occurred. The Food & Beverage products of the Cinemas subsidiary are measured at cost, net of the effective consumption of the material sold at the bar.

| | | | | |
|---|---------------------------------|-------------------|-------------------|------------------|
| 9 | <i>Trade receivables</i> | 30/06/2019 | 31/12/2018 | Change |
| | | 21,615,821 | 14,682,834 | 6,932,987 |

The breakdown of the item is shown below:

| <i>Trade receivables</i> | Situation as at 30/06/2019 | Situation as at 31/12/2018 | Change |
|---------------------------------|-----------------------------------|-----------------------------------|------------------|
| Amounts due from customers | 21,774,007 | 14,841,020 | 6,932,987 |
| Bad debt provision | (158,186) | (158,186) | - |
| Total trade receivables | 21,615,821 | 14,682,834 | 6,932,987 |

The item's increase is essentially linked to receivables for invoices to be issued for contracts closed and for films delivered at the end of the first half of 2019, but not yet invoiced to the clients.

The nominal value of receivables was adjusted to their presumed realisable value through a specific bad debt provision amounting to EUR 158,186. The Company maintains that credit risk exists almost exclusively with regard to customers that have a small account balance.

| | | | | |
|----|--------------------|-------------------|-------------------|--------------------|
| 10 | Tax credits | 30/06/2019 | 31/12/2018 | Change |
| | | 1,193,282 | 3,256,415 | (2,063,133) |

| Tax credits | Situation as at 30/06/2019 | Situation as at 31/12/2018 | Change |
|---------------------------------|---------------------------------------|---|--------------------|
| VAT tax | 259,029 | 1,271,751 | (1,012,722) |
| INAIL advances | 8,781 | 5,898 | 2,883 |
| Tax credits from special laws | 924,814 | 1,978,766 | (1,053,951) |
| Withholdings on interest income | 658 | - | 658 |
| Total | 1,193,282 | 3,256,415 | (2,063,133) |

Tax credits from special laws refer to the residual tax credit accrued on production and executive production, and to distribution tax credit accrued but not yet used as at 30 June 2019. The change relates to the use of the credit to pay various contributions and taxes due during the course of the half year.

The significant fall in VAT credit compared to the end of the previous year is due to the different revenue mix in the half year compared to the previous year and specifically the lack of revenues from international executive productions that are not taxable as regards VAT.

| | | | | |
|----|-----------------------------|-------------------|-------------------|----------------|
| 11 | Other current assets | 30/06/2019 | 31/12/2018 | Change |
| | | 559,078 | 450,927 | 108,151 |

| Other current assets | 30/06/2019 | 31/12/2018 | Change |
|--|-------------------|-------------------|----------------|
| Prepaid expenses P&A costs and other costs | 300,770 | 214,582 | 86,188 |
| Advances to suppliers | 43,230 | 355 | 42,875 |
| Advances to employees | 41,151 | 1,817 | 39,334 |
| Other receivables | 173,927 | 234,173 | (60,246) |
| Total | 559,078 | 450,927 | 108,151 |

Prepaid expenses relate to charges that are deferred in relation to the date of cash disbursement or documentary support but that refer to the current year; they are independent from the payment or collection date of the relative income and expenses, common to two or more financial years and divisible over time, and are mainly attributable to costs incurred in the first half of 2019 for films that will be paid in the second half of 2019.

The Other receivables refer to the EU contributions for the market performance of the works distributed.

As at 30 June 2019, there were no activities of this type with a duration of more than five years.

| | | | | |
|----|----------------------------------|-------------------|-------------------|------------------|
| 12 | Cash and cash equivalents | 30/06/2019 | 31/12/2018 | Change |
| | | 6,867,719 | 3,410,064 | 3,457,655 |

| Cash and cash equivalents | 30/06/2019 | 31/12/2018 | Change |
|----------------------------------|-------------------|-------------------|------------------|
| Bank current account balances | 6,842,303 | 3,409,841 | 3,432,462 |
| Cash on hand | 25,416 | 224 | 25,192 |
| Total | 6,867,719 | 3,410,064 | 3,457,655 |

For more details on changes in cash and cash equivalents, please refer to the Cash Flow Statement.

| | | | | |
|----|--|-------------------|-------------------|------------------|
| 13 | Non-current liabilities: Bank Loans | 30/06/2019 | 31/12/2018 | Change |
| | | 6,801,419 | - | 6,801,419 |

| Payable to Banks | 30/06/2019 | 31/12/2018 | Change |
|------------------------------------|-------------------|-------------------|------------------|
| Payables to Banks | 6,801,419 | - | 6,801,419 |
| <i>Due within 12 months</i> | 1,803,736 | - | 1,788,950 |
| <i>Due beyond 12 months</i> | 4,997,684 | - | 5,012,470 |
| Total payables to suppliers | 6,801,419 | - | 6,801,419 |

In the first half of 2019, the company used bank credit by arranging two loans for a total nominal value of EUR 7 million.

The first loan with a nominal value of EUR 6 million, was taken out to finance the production of the film "Love, Wedding, Repeat" and "The Shift", while the second loan with a nominal value of EUR 1 million, was taken out to support the initial phase of the cinema management business.

| | | | | |
|----|---|-------------------|-------------------|------------------|
| 14 | Non-current liabilities: Payables for right of use | 30/06/2019 | 31/12/2018 | Change |
| | | 5,274,386 | - | 5,274,386 |

| Payables Adoption of IFRS 16 - ROU | 30/06/2019 | 31/12/2018 | Change |
|---|-------------------|-------------------|---------------|
| Payables to Other Lenders - IFRS 16 | 5,274,386 | - | 5,274,386 |
| <i>Due within 12 months</i> | 532,812 | - | 532,812 |
| <i>Due beyond 12 months</i> | 4,741,574 | - | 4,741,574 |

| | | | |
|------------------------------------|------------------|---|------------------|
| Total payables to suppliers | 5,274,386 | - | 5,274,386 |
|------------------------------------|------------------|---|------------------|

Right-of-use liabilities, granted in lease and rental contracts and in contracts regarding the use of third-party assets, have been recognised separately, and, from 1 January 2019, the date of first time application of accounting standard IFRS 16, amount to EUR 5,443 thousand.

This item is mainly composed of the debt generated by the capitalisation of the value in use of the lease contract for the new cinema in the Sarca shopping centre in Sesto San Giovanni (MI), as well as the offices in Rome and Milan, where the various company departments are located.

The only changes that occurred during the first half of 2019 are represented by the payment of the principal portion, of EUR 169 thousand, as specified in the following table, which shows the breakdown of residual debts.

| Type of right of use | Debt for use of Right of use | debt paid as at 30/06/19 | residual debt | short-term within 12 months | long-term beyond 12 months |
|------------------------|------------------------------|--------------------------|------------------|-----------------------------|----------------------------|
| Instrumental Buildings | 5,293,814 | 135,626 | 5,158,188 | 475,060 | 4,683,128 |
| Motor vehicles | 149,202 | 33,005 | 116,198 | 57,752 | 58,446 |
| Total | 5,443,016 | 168,630 | 5,274,386 | 532,812 | 4,741,574 |

| | | | | |
|----|--|-------------------|-------------------|---------------|
| 15 | Employee severance indemnity and provisions | 30/06/2019 | 31/12/2018 | Change |
| | | 424,212 | 372,101 | 52,112 |

In total, this item increased by EUR 52.1 thousand, for which the analysis is as follows:

| Employee severance indemnity and provisions | 31/12/2018 | provisions | uses | 30/06/2019 | Change |
|--|-------------------|-------------------|----------------|-------------------|---------------|
| Employee severance indemnity | 285,065 | 58,962 | (6,851) | 337,177 | 52,112 |
| Provision for estimated sales returns | 87,036 | - | - | 87,036 | - |
| Total | 372,101 | 58,962 | (6,851) | 424,212 | 52,112 |

The employee severance indemnity represents a liability for benefits owed to employees that are paid upon or subsequent to termination of the employment relationship, which are considered defined benefit plans. As there are few employees, the legislation referred to in Italian Law 296/2006 does not apply to the company.

In consideration of the small number of employees and years in service with the company, an actuarial

method performed by an independent professional was not deemed necessary, as recommended by IAS 19.

Increases in the employee severance indemnity represent the benefits accrued for the half year.

The full amount of the provision for sales returns refers to the risk, deemed probable and prudentially estimated in the indicated amount, that in the future there will be returns on sales of audio-visual products (DVDs and BRDs) sold prior to 30 June 2019 and that therefore were included in revenues for the half year.

| | | | | |
|----|---|-------------------|-------------------|------------------|
| 16 | <i>Current liabilities: Trade payables</i> | 30/06/2019 | 31/12/2018 | Change |
| | | 12,424,376 | 7,164,082 | 5,260,294 |

Trade payables are broken down as follows:

| <i>Trade payables</i> | 30/06/2019 | 31/12/2018 | Change |
|------------------------------------|-------------------|-------------------|------------------|
| Payables to Italian suppliers | 12,041,336 | 6,331,698 | 5,709,638 |
| Payables to Foreign suppliers | 383,040 | 832,384 | (449,344) |
| Total payables to suppliers | 12,424,376 | 7,164,082 | 5,260,294 |

Payables to suppliers are recognised net of trade discounts; cash discounts are recorded upon payment. With respect to the end of 2018, an increase of EUR 5,261 thousand was recorded, related mainly to provisions for invoices to be received pertaining to the period but not yet received as at 30/06/2019, relating to brokerage costs for the distribution of third-party libraries.

Payables to foreign suppliers, equal to EUR 383 thousand, relate to contracts with European suppliers (Hungary, Great Britain, Germany, Ireland, and France).

| | | | | |
|----|--|-------------------|-------------------|------------------|
| 17 | <i>Current liabilities: Income tax payables</i> | 30/06/2019 | 31/12/2018 | Change |
| | | 2,964,969 | 1,742,580 | 1,222,389 |

The analysis of current taxes is presented in the table below:

| <i>Tax payables</i> | Situation as at 30/06/2019 | Situation as at 31/12/2018 | Change |
|--|-----------------------------------|-----------------------------------|---------------|
| VAT tax | - | - | - |
| Withholding taxes on income of third parties | 227,330 | 86,589 | 140,740 |
| Current IRES tax | 2,273,092 | 1,440,967 | 832,125 |
| Current IRAP tax | 464,548 | 215,024 | 249,524 |

| | | | |
|--------------|------------------|------------------|------------------|
| Total | 2,964,969 | 1,742,580 | 1,222,389 |
|--------------|------------------|------------------|------------------|

The increase in the debit balance for IRES and IRAP current taxes compared to year-end 2018 is due to the growth of the taxable base of the current taxes compared to the previous year, as the revenues relating to tax credit contributions, exempt from taxes, fell.

| | | | | |
|----|----------------------------------|-------------------|-------------------|----------------|
| 18 | Other current liabilities | 30/06/2019 | 31/12/2018 | Change |
| | | 1,315,665 | 486,601 | 829,064 |

| Other current liabilities | 30/06/2019 | 31/12/2018 | Change |
|--|-------------------|-------------------|----------------|
| Payables to social security institutions | 328,364 | 140,020 | 188,344 |
| Customer advances | 101,618 | 99,266 | 2,353 |
| Sundry employee payables | 405,480 | 247,316 | 158,164 |
| Deferred income | 480,203 | - | 480,203 |
| Total other current liabilities | 1,315,665 | 486,601 | 829,064 |

Amounts due to social security institutions refer to contributions not yet paid at 30 June 2019.

Payables to employees refer to payables for the salaries of June 2019 paid in July 2019, as well as to the different accruals for deferred compensation.

Deferred income refers to revenues for commercial contributions, which are spread over time.

| | | | | |
|----|-----------------------------|-------------------|-------------------|----------------|
| 19 | Shareholders' Equity | 30/06/2019 | 31/12/2018 | Change |
| | | 24,302,474 | 23,557,597 | 744,877 |

| Shareholders' Equity | 30/06/2019 | 31/12/2018 | Change |
|-------------------------------------|-------------------|-------------------|----------------|
| - Share capital | 562,287 | 562,287 | - |
| - Legal reserve | 112,457 | 112,457 | - |
| - Share premium reserve | 6,885,713 | 6,885,713 | - |
| - Reserve for capital contributions | 100,000 | 100,000 | - |
| - FTA IAS Reserve | 11,145,959 | 11,145,959 | - |
| - (Treasury shares in portfolio) | (729,751) | (614,515) | (115,236) |
| - Retained earnings/(losses) | 3,565,575 | 1,212,786 | 2,352,789 |
| - Profit/(loss) for the year | 2,660,233 | 4,152,909 | (1,492,676) |
| Total | 24,302,474 | 23,557,597 | 744,877 |

The change in shareholders' equity of EUR 745 thousand is due to the recognition of profit for the period of EUR 2,660, to net residual profits from 2018 carried forward amounting to EUR 2,353 thousand (after having paid a dividend of EUR 1,800 thousand) and to the increase in the Reserve to purchase treasury shares for EUR 115,236.

The FTA-IAS Reserve totalling EUR 11,146 thousand, represents the effects of the reconciliation between the net shareholders' equity expressed according to the Italian accounting standards (ITA GAAP) and that determined according to the IAS/IFRS accounting standards as at 1 January 2017, transition date of the annual financial statements of the Parent Company to EU IFRS.

The share capital equal to EUR 562,287 is represented by no. 22,491,480 ordinary shares with nominal value of zero (article 2427, first paragraph, nos. 17 and 18, of the Italian Civil Code).

20 Tax position

Due to the Company's recent incorporation, tax periods that may still be subject to assessment are 2013, 2014, 2015, 2016, 2017 and 2018, both for direct taxes and VAT.

The company has no disputes with the tax authorities.

The company has not yet taken advantage of exemptions, but has benefited from Italian and European Community grants to support the film industry. More specifically, in the first half of 2019, the Group accrued a tax credit from the distribution of the films "Just Enough", "Achille Tarallo" and "It's Not True But I Believe It" and a tax credit from the production of the film "Love. Wedding. Repeat".

21 Contingent liabilities

The Board of Directors believes that there are no significant contingent liabilities that should be recorded or discussed in this Consolidated Half-Yearly Report as at 30 June 2019.

22 Commitments

Commitments undertaken by the Company that are not reflected in payables or provisions for risks and charges refer mainly to commitments that do not have any impact on financial statement liabilities, as they have not resulted in any economic flow.

In particular, they refer to:

- Contractual commitments to licensees totalling approximately EUR 6,539 thousand for films

released after 30 June 2019.

| | | | | |
|----|--|--------------------------|--------------------------|------------------|
| 23 | <i>Revenues from sales and services and other revenues and income</i> | 1st half 2019 | 1st half 2018 | Change |
| | | 24,747,923 | 21,321,934 | 3,425,988 |

The analysis of revenues for sales and services is provided below:

| <i>Revenues from sales and services and other revenues and income</i> | 1st half 2019 | % of total revenue s | 1st half 2018 | % of total revenue s | Change | % Change |
|--|--------------------------|---|--------------------------|---|--------------------|---------------------|
| Theatrical revenues | 5,123,997 | 20.7% | 3,983,048 | 18.7% | 1,140,949 | 28.65% |
| Home video revenues | 474,299 | 1.9% | 193,962 | 0.9% | 280,337 | 144.53% |
| Newsstand revenues | 27,469 | 0.1% | 37,969 | 0.2% | (10,500) | -27.65% |
| International sales revenues | 11,654 | 0.0% | 31,796 | 0.1% | (20,142) | |
| Pay TV revenues | 5,287,500 | 21.4% | 3,530,000 | 16.6% | 1,757,500 | 49.79% |
| Free TV revenues | 419,573 | 1.7% | 3,665,000 | 17.2% | (3,245,427) | -88.55% |
| Pay-Per-View revenues | 107,327 | 0.4% | 239,850 | 1.1% | (132,523) | -55.25% |
| New Media revenues | 48,408 | 0.2% | 509,279 | 2.4% | (460,871) | -90.49% |
| Revenues for commissions | 5,483,755 | 22.2% | - | 0.0% | 5,483,755 | |
| Services rendered for executive production | - | 0.0% | 6,912,672 | 32.4% | (6,912,672) | - |
| Various Cinema Fees-Revenues | 615,438 | 2.5% | | | 615,438 | |
| | 17,599,420 | 71.1% | 19,103,576 | 89.6% | (1,504,156) | -7.87% |
| Change in product inventories | 22,109 | 0.1% | 21,646 | 0.1% | 463 | 2.14% |
| Change in inventories for work in progress | 6,464,059 | 26.1% | | | 6,464,059 | |
| Other revenues and income | 662,335 | 2.7% | 2,196,713 | 10.3% | (1,534,378) | -69.85% |
| Total | 24,747,923 | | 21,321,934 | | 3,425,988 | 16.07% |

The breakdown by geographic area is not significant since revenues are evenly distributed throughout

Italy.

Revenues for the first half of 2019 amounted to EUR 24,748 thousand (EUR 21,322 thousand in the first half of 2018), marking an increase of around 16% year-over-year. With respect to the first half of 2018, the best performance was recorded by theatrical revenues, which rose from EUR 3,983 thousand in the first half of 2018 to EUR 5,124 thousand in the first half of 2019, Pay TV revenues, which rose from EUR 3,530 thousand in the first half of 2018 to EUR 5,288 thousand in the first half of 2019, revenues from the distribution of third-party libraries of EUR 5,484 thousand (this initiative started in the second half of 2018), and various fees and revenues from the cinema management business totalling EUR 615 thousand. It should be noted that no revenues were generated in the first half of 2019 relating to international executive production, which is expected to resume in the second half of 2019.

The filming of “Love. Wedding. Repeat” started in March 2019, and was still underway at the end of the first half of 2019. For this reason, the production costs incurred during the six-month period were suspended through the recognition of inventories for work in progress of EUR 6,464 thousand. The other revenues generated in the first half of 2019 amounted to EUR 662 thousand and mostly refer to contributions for tax credits and other revenues for commercial agreements, compared to EUR 2,197 thousand recorded for the same period of 2018; obtained with relation to executive production activities not performed in the first half of 2019, as mentioned earlier.

| | | | | |
|----|--|----------------------|----------------------|------------------|
| 24 | <i>Other operating costs</i> | 1st half 2019 | 1st half 2018 | Change |
| | Costs for raw materials, consumables, and goods | 456,454 | 120,858 | 335,596 |
| | Costs for services | 13,694,907 | 12,167,123 | 1,527,784 |
| | | 14,151,361 | 12,287,981 | 1,863,380 |

The analysis of operating costs by type is provided in the table below:

| <i>Operating costs</i> | 1st half 2019 | % of total costs | 1st half 2018 | % of total costs | Change | % Change |
|--|----------------|------------------|----------------|------------------|----------------|----------------|
| Purchase costs of various materials | 156,824 | 1.11% | 70,728 | 0.6% | 86,097 | 121.73% |
| Purchase costs of various production materials | 226,245 | 1.60% | | | 226,245 | |
| HV production and packaging costs | 73,385 | 0.52% | 50,130 | 0.4% | 23,255 | 46.39% |
| Costs for raw materials, consumables, and goods | 456,454 | 3.23% | 120,858 | 1.0% | 335,596 | 277.68% |
| Executive production costs | - | 0.00% | 7,154,591 | 58.2% | (7,154,591) | -100.00% |
| Compensation for directors, statutory auditors, and independent auditors | 237,355 | 1.68% | 162,134 | 1.3% | 75,221 | 46.39% |

| | | | | | | |
|-------------------------------------|-------------------|---------------|-------------------|---------------|------------------|----------|
| Consulting and collaborations | 270,979 | 1.91% | 209,582 | 1.7% | 61,397 | 29.29% |
| Costs for sundry services | 288,727 | 2.04% | 61,385 | 0.5% | 227,342 | 370.35% |
| Costs for use of third-party assets | 63,273 | 0.45% | 82,170 | 0.7% | (18,897) | -23.00% |
| Broker commissions | 5,162,178 | 36.48% | 105,342 | 0.9% | 5,056,836 | 4800.38% |
| P&A and marketing costs | 4,193,917 | 29.64% | 4,391,919 | 35.7% | (198,002) | -4.51% |
| Miscellaneous production costs | 3,478,478 | 24.58% | | | 3,478,478 | |
| Costs for services | 13,694,907 | 96.77% | 12,167,123 | 99.0% | 1,527,784 | |
| Total | 14,151,361 | 100.0% | 12,287,981 | 100.0% | 1,863,380 | |

Costs for raw materials and goods of EUR 456 thousand, rose by EUR 336 thousand, due to the costs of purchasing raw materials and goods for the management of cars in cinemas and mainly for the production of the film, still underway as at 30 June 2019, "Love. Wedding. Repeat".

The increase in costs for services of EUR 1,528 thousand, is mainly due to the rise of the above-mentioned production activities, , the costs of which as at 30 June 2019 amounted to EUR 3,478 thousand and to costs for brokerage relating to the sales of third-party libraries, which amounted to EUR 5,162 thousand as at 30/06/2019, as mentioned earlier. Costs of consulting and collaborations rose by around 30% compared to the same period of 2018, amounting to EUR 270 thousand, and also related to the management of the subsidiary Cinemas and to consulting concerning advisory activities for the Stock Market.

Costs for sundry services of EUR 288 thousand, rose by 370%. The increase mainly regards rental costs due to distributors for the rental of the films shown at the new multiplex at the Sarca Centre.

The P&A and marketing costs of EUR 4,194 thousand were down 4.5% from the previous year, but in line with the standard expenses incurred for the launch of films during the period.

The breakdown by geographic area is not significant as the majority of costs are incurred in Italy and distributed evenly across the country.

| | | | | |
|----|------------------------|----------------------|----------------------|------------------|
| 25 | Personnel costs | 1st half 2019 | 1st half 2018 | Change |
| | | 3,173,389 | 1,027,618 | 2,145,771 |

Group companies apply two types of collective labour agreements for their employees:

- The collective labour agreement applied by the Parent Company is that of the entertainment, film, production and dubbing sector; the employees are located at the registered office in Rome and at the local office in Milan;

- The collective labour agreement applied by Notorious Cinemas is that of cinema operators and the employees are located at the Multiplex cinema at the Sarca shopping centre in Sesto San Giovanni (Mi).

The analysis of the costs is provided in the table below:

| <i>Personnel costs</i> | 1st half 2019 | 1st half 2018 | Change | % Change |
|------------------------------|--------------------------|--------------------------|------------------|-----------------|
| Salaries and wages | 2,265,290 | 676,270 | 1,589,020 | 234.97% |
| Social security costs | 817,678 | 266,906 | 550,773 | 206.35% |
| Employee severance indemnity | 58,962 | 49,394 | 9,568 | 19.37% |
| Other costs | 31,458 | 35,048 | (3,590) | -10.24% |
| Total | 3,173,389 | 1,027,618 | 2,145,771 | |

The increase in personnel costs of EUR 2,146 thousand is mainly due to the personnel costs for the production of the film “Love.Wedding. Repeat” of EUR 1,904 thousand and to personnel costs for the management of cinemas of EUR 143 thousand.

The changes in the staff of the Notorious Group broken down by category, are shown below compared to the previous year.

| <i>Notorious Group staff</i> | 1st half 2019 | 1st half 2018 | change |
|------------------------------|----------------------|----------------------|---------------|
| Executives | 5 | 5 | - |
| Office staff | 28 | 21 | 7 |
| Part-time staff | 9 | | 9 |
| Apprentices | 1 | | 1 |
| Temporary contracts | 2 | | 2 |
| Total headcount | 45 | 26 | 19 |

| | | | | |
|----|----------------------------------|----------------------|----------------------|---------------|
| 26 | <i>Sundry charges and income</i> | 1st half 2019 | 1st half 2018 | Change |
| | | 91,504 | 49,868 | 41,636 |

The main components of other operating costs are trade association membership fees, taxes, other than on income and various government concessions, miscellaneous bank commission as well as penalties and losses not covered by a specific provision.

The increase is mainly due to the increase of commission costs and other advertising taxes.

| | | | | |
|----|--|----------------------|----------------------|--------------------|
| 27 | <i>Depreciation, amortisation, and provisions</i> | 1st half 2019 | 1st half 2018 | Change |
| | | 3,511,735 | 4,549,595 | (1,037,860) |

| <i>Depreciation and amortisation</i> | 1st half 2019 | 1st half 2018 | Change | % Change |
|--|----------------------|----------------------|--------------------|-----------------|
| Amortisation of distribution rights | 3,043,032 | 4,309,026 | (1,265,993) | -29.38% |
| Amortisation of publishing rights | 176,877 | 204,704 | (27,827) | -13.59% |
| Amortisation of various intangible assets | 23,183 | 22,250 | 933 | 4.19% |
| Total amortisation of intangible assets | 3,243,092 | 4,535,980 | (1,292,887) | -28.50% |
| Depreciation of machinery and plants | 1,264 | 1,961 | (696) | -35.51% |
| Depreciation of various tangible assets | 12,875 | 11,654 | 1,220 | 10.47% |
| Total depreciation of tangible assets | 14,139 | 13,615 | 524 | 3.85% |
| ROU Depreciation | 254,504 | - | 254,504 | +100% |
| Total depreciation of tangible assets | 254,504 | - | 254,504 | +100% |
| Total | 3,511,735 | 4,549,595 | (1,037,860) | -22.81% |

Compared to the previous half year, depreciation fell by EUR 1,038 thousand, mainly due to the revenue mix not being directly correlated to the repayment plans for the Guaranteed Amounts. Total revenues are composed of revenues for commission on third-party libraries not related to the Guaranteed Amounts, instead, the balancing entry for the revenues obtained is the cost of brokerage commission.

Depreciation and amortisation mainly refer to the films under concession.

With regard to the adoption of IFRS 16, note that the cost of depreciating right-of-use assets amounts to EUR 254 thousand.

| | | | | |
|----|---|----------------------|----------------------|---------------|
| 28 | <i>Financial income and expenses</i> | 1st half 2019 | 1st half 2018 | Change |
| | | 78,051 | 10,233 | 67,818 |

Financial income and expenses in the first half of 2019 mainly refers to interest expense accrued on loans taken out with banks for around EUR 22 thousand, to the net position between profits and losses on exchange rates for around EUR 34 thousand and to the impact following the application of

international accounting standard IFRS 16 for around EUR 21 thousand.

| | | | | |
|----|---------------------|--------------------------|--------------------------|----------------|
| 29 | Income taxes | 1st half 2019 | 1st half 2018 | Change |
| | | 1,081,649 | 374,170 | 707,480 |

The change is primarily generated by the fact that the income from the tax credit is not taxable, as previously discussed.

| <i>Taxes</i> | 1st half 2019 | 1st half 2018 | Change |
|--|------------------|----------------|----------------|
| Current IRES tax | 832,124 | 307,208 | 524,916 |
| Current IRAP tax | 252,107 | 66,962 | 185,145 |
| Current taxes | 1,084,231 | 374,170 | 710,061 |
| Deferred IRES tax | | | - |
| Deferred IRAP tax | - | - | - |
| Deferred taxes | - | - | - |
| Prepaid IRES for the year | | | - |
| Prepaid IRES from previous years, reversed | - | | - |
| Prepaid IRAP for the year | (2,581) | | (2,581) |
| Prepaid IRAP from previous years, reversed | | | - |
| Deferred tax assets | (2,581) | - | (2,581) |
| Total taxes | 1,081,649 | 374,170 | 707,480 |
| of which IRES | 832,124 | 307,208 | 524,916 |
| of which IRAP | 249,525 | 66,962 | 182,563 |

30 Dividends

Simultaneous with the approval of the 2015-2017 three-year plan, the Board resolved to adopt a long-term dividend distribution policy - starting from dividends related to 2015 - that would be at least equal to 25% of net profit calculated according to IAS/IFRS standards, although with certain limitations. On 17 April 2019, the Shareholders' Meeting resolved to distribute profit equivalent to EUR 0.082 per share. The total value distributed was equal to EUR 1,800,120.00.

31 Earnings per share

Basic earnings per share attributable to holders of the Parent Company's ordinary shares at the end of the year are equivalent to EUR 0.12.

32 Transactions with related parties

| Transactions with related parties | Period ending 30/06/2019 | | Period ending 30/06/2018 | |
|--|--------------------------|-----------------|--------------------------|-----------------|
| | Payables | Operating Costs | Payables | Operating Costs |
| Guglielmo MARCHETTI (1) (3) | 50,311 | 85,745 | 29,064 | 158,055 |
| Ugo GIRARDI (2) | 13,563 | 35,880 | 13,635 | 38,480 |
| Stefano DI GIUSEPPE (4) | 7,193 | 23,249 | 4,001 | 20,063 |
| Leonardo PAGNI (4) | 4,269 | 3,000 | 2,140 | 6,500 |
| Davide ROSSI (4) | 2,558 | - | 2,116 | 6,500 |
| Paolo MUNDULA (5) | 8,500 | 8,500 | 9,754 | 9,754 |
| Marco D'AGATA (5) | 5,500 | 5,500 | 5,720 | 5,720 |
| Giulio VARELLA (5) | 5,500 | 5,500 | 5,720 | 5,720 |
| EXPERION S.r.l. (6) | 29,930 | 17,356 | 19,425 | 17,500 |
| NETWORLD S.r.l. (6) | 67,704 | 317,237 | - | - |
| Andrea STRATTA (4) | 15,947 | 140,000 | - | - |
| Total transactions with related parties | 210,974 | 641,967 | 91,576 | 268,293 |

(1) Chairman

(2) Deputy Chairman

(3) Majority shareholder and CEO

(4) Director

(5) Statutory Auditor

(6) Entity owned or controlled by a related party

33 Compensation of corporate bodies, statutory auditors, and independent auditors

The total compensation relating to the half year due to the directors and the control bodies of Group companies is presented below.

| Compensation to Directors and Statutory Auditors of the Notorious Group | | Resolution | Offices | Employment |
|---|-------------------|------------|---------|------------|
| Guglielmo MARCHETTI | Chairman | 100,500 | | 79,745 |
| Ugo GIRARDI | Director | 18,000 | 24,000 | |
| Stefano DI GIUSEPPE | Director | 10,500 | | 20,249 |
| Leonardo PAGNI | Director | 10,500 | | |
| Davide ROSSI | Director | 7,500 | | |
| Andrea STRATTA | Director | 36,000 | 104,000 | |
| Paolo MUNDULA | Statutory Auditor | 7,000 | 1,500 | |

| | | | | |
|---------------------------|-------------------|----------------|----------------|---------------|
| Marco D'AGATA | Statutory Auditor | 5,500 | | |
| Giulio VARELLA | Statutory Auditor | 5,500 | | |
| Total compensation | | 201,000 | 129,500 | 99,994 |

The consideration pertaining to the half year for services provided by independent auditors for the legal accounting audit, as well as the voluntary audit of the Half-Yearly Financial Report as at 30 June 2019, amounted to EUR 17.5 thousand. These fees are net of the obligatory social security charges and were amended by the Shareholders' Meeting resolution of 27 April 2018.

34 INFORMATION AS SET FORTH BY LAW 124/17, ART. 1, PARAGRAPHS 125 ET SEQ.

Law no. 124/2017 includes the obligation to provide information on subsidies or grants, paid assignments and/or financial benefits of any kind received from the Italian government. In this regard, the table below shows the payments collected over the course of the half year.

| "Information pursuant to art. 1, paragraph 125, of law no. 124 of 4 August 2017", on public grants | | | | |
|---|-------------------------|---|--------------------------------|------------------|
| Issuing Body | reason | amount resolved or accrued as at 30/06/2019 | amount collected or offset F24 | remaining credit |
| Mise | Publishing tax credit | 136,580 | (22,492) | 114,088 |
| Mibact | Distribution tax credit | 255,230 | (285,234) | 538,570 |
| Mibact | Programming tax credit | 21,356 | | 21,356 |

Milan, 19 September 2019

For the Board of Directors

Chairman

Guglielmo Marchetti