



Annual Financial Report as at 31 December 2017

drafted according to IAS/IFRS international accounting standards

Approval: Board of Directors on 30 March 2018

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

TABLE OF CONTENTS

1. BOARD OF DIRECTORS' REPORT

1.1 KEY DATA	3
1.2 GENERAL COMMENTS	8
1.3 DESCRIPTION OF OPERATING CONDITIONS FOR BUSINESS ACTIVITIES	11
1.4 INVESTMENTS DURING THE YEAR	12
1.5 CORPORATE GOVERNANCE	13
1.6 MANAGEMENT OUTLOOK	16
1.7 SIGNIFICANT EVENTS AFTER REPORTING DATE	16

2. ACCOUNTING SCHEDULES AND NOTES

2.1 STATEMENT OF FINANCIAL POSITION	17
2.2 INCOME STATEMENT	18
1 STATEMENT OF COMPREHENSIVE INCOME	18
2.3 CASH FLOW STATEMENT	19
2.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	20
2.5 EXPLANATORY NOTES	20
1 Introduction	20
2 Accounting standards and measurement criteria	20
3 Segment information	29
4 Non-current assets: intangible	30
5 Non-current assets: tangible	31
6 Non-current assets: financial	31
7 Assets and liabilities for current and deferred taxes	31
8 Inventories	33
9 Trade receivables	33
10 Other current assets	33
11 Cash and cash equivalents	34
12 Employee severance indemnity and provisions	34
13 Trade payables	35
14 Other current liabilities	35
15 Shareholders' equity	36
16 Tax position	36
17 Contingent liabilities	36
18 Commitments	37
19 Revenues from sales and services and other revenues and income	37
20 Operating costs	38
21 Personnel costs	39
22 Depreciation and amortisation	40
23 Sundry charges and income	40
24 Financial income and expenses	40
25 Income taxes	41
26 Dividends	41
27 Earnings per share	42
28 Financial risk management: objectives and criteria	42
29 Transactions with related parties	43
30 Compensation of corporate bodies, statutory auditors, and independent auditors	43

1. BOARD OF DIRECTORS' REPORT

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

1.1 KEY DATA

Income Statement Data	Year ending 31/12/2017	Year ending 31/12/2016	Change	%
Revenues	18,138,707	22,993,206	(4,854,499)	-21.11%
Operating costs	10,649,442	14,883,517	(4,234,076)	-28.45%
Value added	7,489,266	8,109,689	(620,423)	-7.65%
<i>% value added</i>	41.3%	35.3%		
Personnel costs	1,474,243	1,517,751	(43,508)	-2.87%
EBITDA	6,015,023	6,591,938	(576,915)	-8.75%
<i>% EBITDA</i>	33.2%	28.7%		
Depreciation, amortisation, and provisions	4,117,639	3,422,349	695,290	20.32%
EBIT	1,897,384	3,169,589	(1,272,205)	-40.14%
<i>% EBIT</i>	10.5%	13.8%		
Net financial charges	(79,283)	(3,838)	(75,445)	1965.70%
Pre-tax profit/(loss)	1,818,101	3,165,751	(1,347,650)	-42.57%
Income taxes	(338,722)	(362,963)	24,241	-6.68%
Net profit/(loss) for the year	1,479,379	2,802,788	(1,323,409)	-47.22%
<i>% profit/(loss)</i>	8.2%	12.2%		
	<i>EPS</i>	0.07	0.13	
Statement of Financial Position Data	31/12/2017	31/12/2016	Change	%
Fixed assets	13,839,746	10,929,424	2,910,322	27%
Operating assets	13,344,351	17,979,534		
Operating liabilities	7,218,760	6,684,358		
Net working capital	6,125,590	11,295,176	(5,169,586)	-46%
Provisions	5,164,559	5,324,309	(159,751)	-3%
Net invested capital	14,800,778	16,900,291	(2,099,513)	-12%
Net financial position	(6,218,889)	(3,848,561)	(2,370,328)	62%
Net shareholders' equity	21,019,667	20,748,852	270,815	1%

Net financial position	31/12/2017	31/12/2016	Change	%
Cash and cash equivalents	6,218,889	3,848,561	2,370,328	62%
Net financial position	(6,218,889)	(3,848,561)	(2,370,328)	62%

Cash Flow Statement	31/12/2017	31/12/2016
A. Opening balance - cash and cash equivalents	3,848,561	6,354,774
B. Cash flow from operations	10,741,196	6,498,648
C. Cash flow from investment activities	(7,174,534)	(7,025,273)
D. Cash flow from financing activities	(1,196,334)	(1,979,589)
E. Net increase (decrease) in cash and cash equivalents	2,370,327	(2,506,213)
F. Closing balance - cash and cash equivalents	6,218,889	3,848,561

Operating performance and financial results

The year 2017 was characterised by organisational consolidation and expansion in the mix of managed businesses. The considerable investments made in the second half of 2016 continued throughout 2017 to launch production activities and purchase rights for Direct to Video (DTV) sales. In fact, the project to diversify the business continues with the strengthening of production and co-production activities, which has allowed us to begin a path of robust and sustainable growth. In the early months of 2017, Notorious Pictures completed its first film production, "La verità vi spiego sull'amore (The Truth About Love Is...)" (theatrical release in first quarter of 2017), and, began a new, associated co-production of the film "Il contagio (Tainted Souls)", which was distributed at the end of September 2017. Furthermore, investments continued to enrich the library for sales to television and new media and an associated production of the film "Quanto basta" was launched, which will be released in cinemas in April 2018.

From a strategic point of view, 2017 was particularly important, in that the company focused its attention on "development", purchasing option rights to develop series productions intended particularly for television release. Specifically, the rights to "The Father" by Vito Bruschini and "Splendido visto da qui" by Walter Fontana were acquired.

The most successful films include "Shot Caller", "The Nut Job 2 - Nutty by Nature" and "The Man Who Invented Christmas". At the same time, the company was affected by the extraordinary events surrounding the Weinstein scandal, which caused a postponement in the release of 2 important films scheduled for the fourth quarter of 2017, on the scheduled 18-film pipeline.

Revenues for 2017 amounted to EUR 18,139 thousand (EUR 22,993 thousand at 31 December 2016), posting a decrease of 21%. In this regard, note that 2016 benefited from revenues for executive

production for a total of EUR 5,264 thousand, of which EUR 1,211 thousand relating to the tax credit, allocated among other revenues. Meanwhile, 2017 revenues from executive productions, in total, amounted to EUR 1,902 thousand. Net of these amounts, the value of 2016 revenues would be equal to EUR 17,729 thousand with a decrease of 8.4%.

Theatrical revenues for the year totalled EUR 4,472 thousand and decreased by 6%, mainly due to the postponement in the release of important films scheduled in 2017, due to the events reported above, which had direct consequences on box office results.

Pay TV revenues amounted to EUR 5,675 thousand, a slight decrease of about 4% compared to 2016 (EUR 5,920 thousand). New Media revenues amounted to EUR 1,263 thousand, a reduction of 45% compared to 2016 (EUR 2,306 thousand).

Free TV revenues were EUR 3,388 thousand, an increase of 69% compared to the prior year (EUR 2,009 thousand). In general, the Home Video, Newsstand and Pay-Per-View channels posted a decrease compared to 2016 results.

Other revenues, amounting to EUR 1,228 thousand, refer to the tax credit on executive production, for EUR 375 thousand, and to income from promotional activities and merchandise exchanges.

EBITDA amounted to EUR 6.0 million, down 8.8% from EUR 6.6 million at 31 December 2016; the EBITDA margin grew significantly to 33.2% (28.7% at 31 December 2016) due to the revenue mix having a greater weight from business lines with higher margins compared to executive production.

EBIT totalled EUR 1.9 million, a decrease of 40% from EUR 3.2 million at 31 December 2016: EBIT margin is 10.5% compared to 13.8% at 31 December 2016.

Net profit was EUR 1.5 million, a decrease of 47% from EUR 2.8 million at 31 December 2016, or 8.2% of revenue compared to 12.2% at 31 December 2016.

The Company recorded a negative **net financial position** (net cash) of EUR 6.2 million (EUR 3.8 million at 31 December 2016) after paying dividends totalling Euro 1.2 million in May 2017 and investing to acquire films for EUR 7.1 million, of which approximately EUR 1.5 million for advances on films that will be released in 2018 and 2019, and EUR 1.4 million in relation to co-production of the film "Quanto basta", which will be released in cinemas in April 2018.

Net shareholders' equity is equal to EUR 21.02 million (EUR 20.75 million at 31 December 2016).

The financial data confirm the solidity of the business.

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 = (Net profit/Shareholders' equity)*100
- **ROA:** Return on Asset - index of return on invested capital = current profit before financial charges/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 2017 (compared with the corresponding ratios at 31 December 2016):

Profitability indices	Year ending 31/12/2017	Year ending 31/12/2016
ROE	7%	14%
ROA	6%	10%
EBITDA Margin	33%	29%
EBIT Margin	10%	14%

The company'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 company'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 2016) .

Structural indices	31/12/2017	31/12/2016
Equity less non-current assets (SE - fixed assets)	7,179,921	9,819,428
Equity to non-current asset ratio	152%	190%
Equity plus non-current liabilities minus non-current assets	12,344,480	15,143,737
Equity plus non-current liabilities to non-current assets ratio	189%	239%
Quick ratio	271%	327%
Current ratio	268%	324%

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:

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, financial receivables, and deferred tax assets.

Operating liabilities: sum of trade payables, tax payables, as well as other short-term liabilities and provisions

Non-current liabilities: sum of the provision for risks, 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 2017 are summarised below.

20 February 2017: Acquisition of 6 new films at the European Film Market in Berlin.

11 April 2017: signing of commercial agreement with Vodafone Italia for the distribution of 58 works on Vodafone TV.

23 May 2017: acquisition of 8 new films at Cannes 2017.

1 June 2017: signing of co-production agreement with KimeraFilm for the film "Il Contagio (Tainted Souls)".

4 July 2017: additional 13 films purchased from LakeShore Entertainment, world leader in the distribution, production and sale of films.

5 July 2017: Ambra Angiolini wins the "Golden Cinéciak" in the "Best Female Comedienne" category for "La Verità Vi Spiego sull'Amore (The Truth About Love Is...)", recognising the film as the best Italian comedy.

13 July 2017: qualification as INNOVATIVE SME by the Rome Chamber of Commerce, which recognises the company's broad support for technological innovation in the evolution of its business. As a result of this qualification, Notorious Pictures' shares may be more attractive to investors, who will be able to benefit from tax incentives envisaged in the "2017 Stability Law".

Notorious Pictures is the 16th Innovative SME listed on the AIM Italia.

24 July 2017: launch of co-production for "Quanto basta", the new comedy by Francesco Falaschi, produced by Verdeoro and co-produced with TC Filmes and Gullame Entertainment, Brazilian companies.

28 July 2017: presentation at the 74th Venice Film Festival of the films "Il Contagio (Tainted Souls)" and "Pablo Escobar".

2 August 2017: signing of a new agreement with Sky worth EUR 3.4 million for television distribution of 44 films in its library.

3 August 2017: TIM and Notorious Pictures announce an agreement to broadcast over 70 films on TIMVISION.

27 September 2017: "Hostiles", a film released by Notorious during 2018, is the opening film for the 2017 Rome Film Festival.

18 October 2017: Banca Finnat appointed as Nominated Advisor and Specialist Operator and Intermonte SIM S.p.A. appointed as Corporate Broker.

31 October 2017: Signing of new agreements with Viacom International Media Networks and Turner Broadcasting System for the distribution of 7 films on Free TV.

16 November 2017: Acquired option rights for the development of serial productions intended primarily for television of the book "The Father" by Vito Bruschini.

17 November 2017: Acquired 4 new films at the American Film Market in Los Angeles.

Corporate structure

The results of the shareholders' registry as at 31 December 2017 are summarised in the following table:

Results of the shareholders' registry as at 31 December 2017			
no. 2	shareholders holding more than 2%		
	- Guglielmo Marchetti	18,435,200	81.97%
	- State Street Bank and Trust Co.	710,000	3.16%
no. 4	shareholders holding between 1% and 2%	1,509,800	6.71%
no. 4	shareholders holding between 0.5% and 1%	529,120	2.35%
no. 1	treasury shares	244,800	1.09%
no. 203	other shareholders	1,062,560	4.72%
no. 214	Total	22,491,480	100.00%

Share price performance

As at 31 December 2017, the share price was EUR 1.3630, with a capitalisation of EUR 30,655,887.

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
30-Jul-2015	2.97800	22,491,480	66,979,627
31-Aug-2015	2.90000	22,491,480	65,225,292
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

Buy-Back Plan

At the Shareholders' Meeting on 8 November 2017, 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;
- purchase 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

In December 2017, the buy-back plan was initiated for a total of 13,600 treasury shares.

At December 31, 2017, total treasury shares purchased amounted to 244,800 shares, representing 1.0884% of the 22,491,480 outstanding shares; the total outlay for purchases of treasury shares during the year amounted to EUR 18,819.80, which is allocated in a specific negative equity reserve.

1.3 DESCRIPTION OF OPERATING CONDITIONS FOR BUSINESS ACTIVITIES

Operating conditions

Notorious Pictures is 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).

The company is the fourth largest independent distributor. During 2017, Notorious Pictures distributed 16 films in cinemas, generating box office revenues of EUR 10,384,181, with total attendance of 1,868,568 (Source: Cinetel), which resulted in its ranking as 4th largest Italian independent distributor.

Film library acquisitions and distribution

Notorious Pictures has actively participated in the leading global markets and festivals for the industry and, based on the excellent relationships established with primary operators, has managed to acquire 18 new films that strengthen the 2018 line up and establish the foundation for 2019 and 2020, further increasing the potential of the company's film library, in terms of quantity and quality.

Since it began its business activities, Notorious Pictures has chosen to strengthen its competitive position in theatrical distribution by selecting films having a notable artistic and commercial value.

This commercial approach has resulted in the company strengthening its presence throughout the distribution chain, allowing it to negotiate and finalise agreements with the main Italian players in these sectors, such as UCI Italia S.p.A. ("UCI"), The Space Cinema S.p.A. ("The Space"), Rai Cinema S.p.A. ("Rai Cinema"), Arnoldo Mondadori Editore S.p.A. ("Mondadori"), Sky Italia, Mediaset, RSI, Apple, Google, Netflix, Chili and Telecom.

Commercial agreements

In April 2017, a commercial agreement was signed with Vodafone Italia for the non-exclusive sale of SVOD rights to 58 films that will be available on Vodafone TV.

In August 2017, a new commercial agreement was signed with Sky Italia to grant rights to 44 films, some of which are current, i.e., that have completed the theatrical distribution period, others direct to video (DtV), or films that do not pass from theatrical distribution but are primarily distributed through the television channel, while others were titles from the proprietary library.

Additionally in August 2017, the agreement with TIM was finalised and implemented to offer TIMVISION customers 71 films as part of TIM's on-demand TV package.

In October 2017, a commercial agreement was signed with VIACOM International Media Networks

Italia for the concession of Free TV rights to 5 films that will be broadcast on the Paramount Channel. At the same time, another agreement was signed with Turner Broadcasting System to grant Free TV rights for 2 films that will be distributed on the Boing and Cartoonito channels.

In December 2017, a new agreement was signed with NETFLIX to grant rights to broadcast 32 films through SVOD (Subscription Video on Demand) for two different types of content, in part Current Second Pay, which is broadcast after the first Pay TV broadcast window, in part from the proprietary library of Notorious.

Film Production

In June 2017, a co-production agreement was signed with KimeraFilm for the film "Il Contagio (Tainted Souls)", according to which, Notorious, in addition to part ownership of the film, also handled marketing for all distribution channels. The film was released in cinemas on 28 September 2017.

In July 2017, production began on a new comedy by Francesco Falaschi, "Quanto basta", produced by Verdeoro and co-produced with the TV Filmes and Gullame Entertainment of Sao Paolo, Brazil. In addition to ownership of a portion of the film rights, Notorious will handle marketing in Italy for all distribution channels. The film will be released in cinemas on 4 April 2018.

1.4 INVESTMENTS DURING THE YEAR

As more fully described below, investments were primarily related to the acquisition of films for EUR 7,112 thousand, of which approximately EUR 2,127 thousand as advances on films that will be released in 2018 and 2019, and EUR 1,451 thousand for co-production of the film "Quanto basta", which will be released in theatres in April 2018.

In addition, investments were made in software licenses and in development related to an application and the company's website, amounting to EUR 47 thousand.

Investments representing the "core business" are those that are designed to enhance the library. The situation at the reporting date of these financial statements is shown in the following table:

Investments library	Distribution rights	Publishing rights	Works 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	3,040,116	493,443	3,578,028	7,111,588
Total library	16,823,273	2,245,704	9,688,066	28,757,043

In addition, EUR 3,301 thousand were invested in costs to launch films released in cinemas in 2017, with a multi-year value but expensed in the year in which they were incurred, in compliance with international accounting standards.

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 Varrella

Supervisory Board

Fabrizio Ventimiglia (Chairman) - Paolo Mundula - Enrico Locatelli

Independent Auditors⁴

Deloitte & Touche S.p.A.

¹ In office until approval of the financial statements as at 31 December 2017

² Independent Directors

³ In office until approval of the financial statements as at 31 December 2017

⁴ In office for the statutory audit of the financial statements, pursuant to Italian Legislative Decree 39/2010, until the approval of the financial statements as at 31 December 2017

Proxies

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

On 24 April 2013, the Board of Directors appointed Guglielmo Marchetti as Chief Executive Officer, granting him broad powers to carry out the company's activities. The powers were confirmed and expanded on 15 April 2014.

Corporate Governance

The Corporate Governance system, which is still being implemented, 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, as resolved by the Shareholders' Meeting on 15 April 2014.

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, paragraph 3 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 establish 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 when the company was incorporated and will remain in office until the Shareholders' Meeting approving the financial statements as at 31 December 2017.

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.

The adoption and effective implementation of this system not only allows the company to benefit from the exemption provided for by Italian Legislative Decree 231/2001, but, within its limits, improves corporate governance, reducing the risk that the offences contemplated in Italian Legislative Decree 231/2001 are committed.

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 2018 line-up includes the launch of 18 films, including two Notorious Pictures productions.

1.7 SIGNIFICANT EVENTS AFTER 31 DECEMBER 2017

No events or transactions occurred that could influence these financial statements.

Please note that:

- on 30 January 2018, option rights were acquired for the development of serial productions intended primarily for television of the book "Splendido visto da qui" by Walter Fontana;
- on 8 March 2018, the company participated in the European Film Market in Berlin, where it acquired 4 new films.

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

2. ACCOUNTING SCHEDULES AND NOTES**2.1 STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017**

STATEMENT OF FINANCIAL POSITION		As at 31/12/17	As at 31/12/16	Change	Change %
Non-current assets					
- Distribution rights		7.346.960	5.293.230	2.053.730	39%
- Publishing rights		627.493	509.097	118.396	23%
- Works in progress and advances		5.593.618	4.699.573	894.045	19%
- Other intangible assets		138.304	128.452	9.852	8%
Intangible assets	4	13.706.377	10.630.353	3.076.024	29%
Tangible assets	5	82.137	101.361	(19.225)	-19%
Financial assets	6	12.265	12.168	97	1%
Deferred tax assets	7	38.968	185.541	(146.573)	-79%
Total non-current assets		13.839.746	10.929.423	2.910.323	27%
Current assets					
Inventories	8	181.729	140.847	40.882	29%
Trade receivables	9	12.409.747	16.593.742	(4.183.995)	-25%
Tax credits	7	405.199	503.417	(98.218)	-20%
Other current assets	10	347.676	741.529	(393.853)	-53%
Cash and cash equivalents	11	6.218.889	3.848.561	2.370.328	62%
Total current assets		19.563.240	21.828.095	(2.264.855)	-10%
Total assets		33.402.986	32.757.519	645.466	2%
Non-current liabilities					
Employee severance indemnity	12	245.075	166.561	78.515	47%
Provisions	12	87.036	87.036	-	0%
Deferred tax liabilities	7	4.832.448	5.070.713	(238.265)	-5%
Total non-current liabilities		5.164.559	5.324.309	(159.751)	-3%
Current liabilities					
Trade payables	13	6.685.686	6.320.235	365.452	6%
Income tax payables	7	136.007	85.902	50.105	58%
Other current liabilities	14	397.066	278.221	118.846	43%
Total current liabilities		7.218.760	6.684.358	534.402	8%
Total liabilities		12.383.319	12.008.667	374.652	3,1%
- Share capital		562.287	562.287	-	0%
- (Treasury shares)		(199.035)	(180.270)	(18.765)	10%
- Other Reserves and Retained Earnings		19.177.036	17.564.048	1.612.989	9%
- Profit/(loss) for the year		1.479.379	2.802.788	(1.323.409)	-47%
Total shareholders' equity	15	21.019.667	20.748.852	270.815	1,3%
Total liabilities + shareholders' equity		33.402.986	32.757.519	645.466	2,0%

2.2 INCOME STATEMENT

Income statement	Balance sheet 2017	Balance sheet 2016	Change 2017 vs 2016	Change %
Revenues from sales and services	16.869.483	20.555.454	(3.685.971)	-18%
Other revenues and income	1.228.342	2.404.450	(1.176.108)	-49%
Change in finished product inventories	40.882	33.302	7.580	23%
Operating costs	(10.326.580)	(14.806.048)	4.479.468	-30%
Costs for raw materials, consumables, and goods	(147.175)	(304.179)	157.004	-52%
Costs for services	(9.972.581)	(14.274.759)	4.302.178	-30%
Use of third party assets	(206.824)	(227.109)	20.285	-9%
Personnel costs	(1.474.243)	(1.517.751)	43.508	-3%
Sundry charges and income	(322.861)	(77.469)	(245.392)	317%
Amortisation of intangible assets	(4.089.291)	(3.295.092)	(794.199)	24%
Depreciation of tangible assets	(28.348)	(27.867)	(481)	2%
Bad debt provision		-	-	
Other risk provisions	-	(99.390)	99.390	-100%
Operating result	1.897.384	3.169.589	(1.272.205)	-40%
Financial income and expenses	(79.283)	(3.838)	(75.445)	1966%
Profit before tax	1.818.101	3.165.751	(1.347.650)	-43%
Income taxes	(338.722)	(362.963)	24.241	-7%
Net profit/(loss)	1.479.379	2.802.788	(1.323.409)	-47%

2.2.1 STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income	Year ending 31/12/2017	Year ending 31/12/2016
Net profit/(loss)	1,479,379	2,802,788
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)	1,479,379	2,802,788

2.3 CASH FLOW STATEMENT

CASH FLOW STATEMENT	As at 31/12/17	As at 31/12/16
A. OPENING BALANCE - CASH AND CASH EQUIVALENTS	3.848.561	6.354.774
Income Management		
Profit for the year	1.479.379	2.802.788
<i>adjustments for non-monetary items not recorded as items in the NWC</i>		
Depreciation and amortisation	4.117.639	3.322.959
Change in provisions	78.515	64.492
Change in tax provision	(238.265)	566.275
Change in provision for returns	-	26.168
Cash flow before changes in working capital	5.437.266	6.782.681
(Increase) decrease in inventories	(40.882)	(33.302)
(Increase) decrease in trade receivables	4.183.995	(613.582)
(Increase) decrease in tax credits	144.227	(490.141)
(Increase) decrease in other current assets	540.426	370.659
Increase (decrease) in trade payables	365.392	622.272
Increase (decrease) in income tax payables	4.096	(164.052)
Increase (decrease) in other current liabilities	106.675	24.112
B. CASH FLOW FROM OPERATIONS	10.741.196	6.498.647
(Investments) Disinvestments		
- Intangible assets	(7.165.314)	(7.026.471)
- Tangible assets	(9.123)	(1.960)
- Financial assets	(97)	3.158
C. CASH FLOW FROM INVESTMENT ACTIVITIES	(7.174.534)	(7.025.273)
Financial activity		
capital transactions	(18.765)	(180.270)
Dividends paid	(1.177.569)	(1.799.318)
(Increase) decrease in financial receivables and securities		
Increase (decrease) in financial payables		
D. CASH FLOW FROM FINANCING ACTIVITIES	(1.196.334)	(1.979.588)
E. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	2.370.327	(2.506.214)
F. CLOSING BALANCE - CASH AND CASH EQUIVALENTS	6.218.889	3.848.561

2.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity accounts for the year ended as at 31 December 2015, 2016 and 31 December 2017

Changes in shareholders' equity	Share capital	Share premium reserve	Shareholders' capital payments	Legal reserve	Reserve for treasury shares	Dividends	Cost of share capital increase	Retained earnings/accumulated losses	Profit/loss for the year	Rounding	Total
Balances as at 31 December 2015	562.287	6.885.713	100.000	111.580	-	-	(431.127)	5.611.616	7.085.584	(0,20)	19.925.652
Allocation of result for 2015				877		1.799.318		5.285.388	(7.085.583)		-
Dividends						(1.799.318)					(1.799.318)
Treasury shares					(180.270)						(180.270)
Net profit/(loss) for the year									2.802.788		2.802.788
Balances as at 31 December 2016	562.287	6.885.713	100.000	112.457	(180.270)	-	(431.127)	10.897.004	2.802.789	(0,20)	20.748.852
Allocation of result for 2016						1.189.799		1.612.988	(2.802.788)		-
Dividends						(1.189.799)					(1.189.799)
Treasury shares					(18.765)						(18.765)
Net profit/(loss) for the year									1.479.379		1.479.379
Balances as at 31 December 2017	562.287	6.885.713	100.000	112.457	(199.035)	-	(431.127)	12.509.992	1.479.380	(0,20)	21.019.667

2.5 EXPLANATORY NOTES

1 Introduction

Notorious Pictures S.p.A. was established on 4 July 2012. It is an independent company that produces and acquires films, operating in the market since January 2013.

The Company oversees the entire chain of the utilisation of rights for Italy.

The library currently consists of 388 titles, of which 84 are primarily intended for theatrical release and 304 DTV titles (Direct to Video).

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

2 Accounting standards and measurement criteria

Format and content

The Board of Directors of Notorious Pictures S.p.A. prepared and approved the annual financial statements according to national accounting standards on 30 March 2018, in compliance with governing civil law, and prepared this Annual Financial Report including the financial statements as at 31 December 2017 adopting IAS/IFRS international accounting standards on a voluntary basis, in order to provide continuity in financial disclosures, as the prospectus for the stock exchange listing included the financial statements restated for IAS/IFRS standards.

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.

Criteria for drafting the restated financial statements

The restated financial statements as at 31 December 2017 of Notorious Pictures S.p.A. were drafted under the going-concern assumption, adopting the same accounting standards used to prepare the restated financial statements for the year ending 31 December 2016.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS, APPROVED BY THE EUROPEAN UNION, NOT YET REQUIRED TO BE APPLIED AND NOT ADOPTED IN ADVANCE BY THE COMPANY AS AT 31 DECEMBER 2017:

- **IFRS 15 - Revenue from Contracts with Customers** (published on 28 May 2014 and supplemented with further clarifications published on 12 April 2016), which is intended to replace IAS 18 - Revenue, IAS 11 - Construction Contracts, as well as IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers, and SIC 31 - Revenue-Barter Transactions Involving Advertising Services. The standard sets out a new model for revenue recognition, which will apply to all contracts stipulated with customers, with the exception of those that fall within the application scope of other IAS/IFRS standards such as leases, insurance contracts, and financial instruments. The fundamental steps for revenue accounting according to the new model are:

- identification of the contract with the customer;
- identification of the performance obligations of the contract;
- determination of the price;
- allocation of the price to the contract's performance obligations;
- criteria for recognising revenue when the entity satisfies each performance obligation.

The principle is applicable from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - Revenue from Contracts with Customers, were approved by the European Union on 6 November 2017.

- Final version of **IFRS 9 - Financial Instruments** (published on 24 July 2014). The document incorporates the results of the IASB project designed to replace IAS 39:
 - introduces new criteria for classifying and measuring financial assets and liabilities (together with assessing non-substantial changes in financial liabilities);
 - for the impairment model, the new standard requires that losses on receivables are estimated based on the expected losses model (and not on the incurred losses model used by IAS 39), using information that can be supported, available without unreasonable costs or effort, which includes historic, current and future data;
 - introduces a new hedge accounting model (more types of transactions eligible for hedge accounting, change in the accounting method for forward contracts and options when included in a hedge accounting relationship, and changes to the effectiveness test).

The new standard must be applied in financial statements beginning on or after 1 January 2018.

- **IFRS 16 - Leases** (published on 13 January 2016), intended to replace IAS 17 - Leases, as well as 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 leasing contracts from service 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 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, also providing the possibility of not recognising as lease contracts those involving low-value assets and leases with a contract term of 12 months or less. In contrast, the standard does not include significant changes for lessors.

The principle is applicable from 1 January 2019 and early application is permitted, but only for companies that have already applied IFRS 15 Revenues from Contracts with Customers.

The possible effects from applying the new accounting standards described above are currently being assessed by the directors.

Measurement criteria

Intangible rights and other non-current intangible assets

Intangible assets are recognised at cost of acquisition or production, including ancillary charges, according to the criteria indicated for tangible assets. For co-productions that envisage, in addition to any cash outflows, the simultaneous transfer to the co-producer of a portion of the rights, the cost is defined based on the criteria described in the following paragraph, that is, recognising the cost excluding invoices to be issued.

In the case of acquired intangible assets for which the availability for use and related payments are deferred beyond normal terms, the purchase value and related payable are discounted by recognising the implicit financial charges in the original price.

Film rights, which constitute the company's "library", are amortised, in accordance with the standards adopted by industry operators, according to the "individual-film-forecast-computation method", based on the percentage ratio of revenues earned at the reporting date, calculated on the date the financial statements are prepared for each title in the "library", based on sales plans drawn up by the directors, considering an overall 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.

Development costs may be capitalised provided that the cost can be reliably determined and it can be demonstrated that the asset is able to produce economic benefits.

Costs incurred to acquire intangible assets in currencies other than Euro are converted at the exchange rate on the transaction date.

The recoverability of their value is reviewed according to the criteria established by IAS 36, described below.

Tangible assets

Tangible assets are recognised at acquisition cost and adjusted by the corresponding accumulated depreciation.

The book value considers ancillary charges and costs incurred for the use of the asset and significant commercial discounts and cash discounts are treated as a reduction to cost.

Depreciation expense, charged to the income statement, was calculated according to the economic-technical duration of the assets, based on the criterion of residual possibility of use, a criterion that is considered to be represented by the following rates, which have not changed from the prior year and are halved for the year the asset becomes operational:

- Plant and machinery: 15%
- Office machinery and furniture 20%
- Automobiles 25%

If an asset is impaired, it is appropriately written down, regardless of depreciation already recognised. If the assumptions for the write-down no longer apply in subsequent years, the original value may be recovered, adjusted only for depreciation.

Impairment of assets

IAS/IFRS standards require that tangible and intangible assets are assessed to determine the existence of impairment losses in the presence of indicators that suggest that this problem may exist. In the case of goodwill, intangible assets with an indefinite useful life, or assets not available for use, this assessment is performed at least annually.

The book value recorded in financial statements is compared with the greater of the net sale price (if there is an active market) and the value in use of the asset in order to verify if the recognised values can be recovered.

The value in use is defined by discounting expected cash flows from the use of the asset (or from an aggregation of assets - known as cash-generating units) and from its disposal at the end of its useful

life. Cash-generating units have been identified, in line with the company's organisational and business structure, as homogeneous aggregations that generate independent cash flows deriving from the continuous use of the assets attributable to them.

Inventories

Inventories are valued at the lower of the production cost, including ancillary costs, and the presumed realisable value based on market prices. The production cost is obtained by averaging, without weighting, the relative costs of all products.

Receivables

Receivables are recognised according to their presumed realisation value.

Trade receivables are recognised at their nominal value, reduced by an appropriate write-down to reflect estimated losses on receivables. Appropriate write-downs to estimate non-recoverable amounts are recorded in the income statement when there is objective evidence that the receivables have lost value. Write-downs are determined as the difference between the book value of receivables and the present value of estimated future cash flows, discounted at the effective interest rate calculated at initial recognition and for which an allocation is made only if there are expected losses.

Cash and cash equivalents

The item relating to cash and cash equivalents includes cash, bank current accounts, demand deposits, and other highly liquid short-term financial investments, which are readily converted into cash and subject to an insignificant risk of changes in value.

Trade payables

Trade payables are recognised at their nominal value net of trade discounts and invoice adjustments.

Provisions

Provisions are recorded in financial statements when the company has a current obligation as a result of a past event and it is probable that it will be required to fulfil the obligation. Provisions are allocated based on directors' best estimates of the funds required to fulfil the obligation at the reporting date, and are discounted when the effect is significant.

Employee severance indemnity

The amounts recorded in financial statements are calculated according to Italian labour law, which, however, does not at present differ significantly from the results generated from the actuarial method provided for in IAS 19.

Dividends

Dividends are recognised in the accounting period in which distribution is approved.

Revenue recognition

Revenues from sales and services are recognised when the risks and benefits deriving from ownership or performance are effectively transferred. In the case of film rights, the risk and benefits are considered transferred with the delivery of the media, given the contractual provisions.

Revenues are shown net of returns, discounts, rebates, and premiums, as well as directly related taxes.

The revenues deriving from DVD BRD sales contracts are recorded based on the physical delivery of the media and net of discounts and returns granted at the reporting date and taking into account the communication of the sale received by the distributor RAI Cinema. Revenues are decreased for future returns on sales made during the year. With regard to PPV sales, revenues were recognised by taking into account the reporting from television broadcaster SKY.

Public grants

With specific reference to the film sector, the company currently takes advantage of two types of public grants, specifically:

- incentives in the form of a tax subsidy deriving from tax credits granted to film production companies in connection with creating works of film as per Italian Law 244/2007 (amended by Italian Law 220/2016, effective 1 January 2017), as regulated by the Producers Tax Credit Decree, containing the application methods. In particular, this legislation is designed to incentivise Italian film production by recognising a tax credit corresponding to a certain percentage of the total cost of the film;
- distribution grants recognised by European Community institutions (“2014-2020 Creative Europe” programme set up by the European Commission in order to, *inter alia*, promote the transnational distribution of films within the EU), based on the market performance of distributed works that meet the programme’s eligibility requirements.

These types of public incentives (including the market value of non-monetary grants) cannot be recognised in financial statements until it is reasonably certain that:

- the business has met the conditions for their assignment;
- the grants were recognised, in the sense that the related resolutions were taken.

Grants are recognised in financial statements only if the two conditions above are met. In particular, the grants are recognised upon their receipt or, if earlier, upon receipt of written notice, with which the issuing body states that the payment resolution has been formalised and all obligations envisaged for the grant have been absolved.

Revenues from public grants (tax credits) obtained for film productions/co-productions are recorded in the financial statements when there is reasonable certainty that the company will meet all the dependent conditions, and that they will be received. Grants are recognised in the income statement throughout the period in which the related costs are recognised. Revenues are also recorded, inclusive of royalties or other types of costs, for usage of rights in the event that the risks underlying the sale (in particular counterparty risk, price risk, credit risk) are essentially retained by the company. For this reason, revenues from sales and services are recognised and presented at the gross amount invoiced to end customers, since the cost incurred to pay the principals for distribution is recorded in production costs.

Interest income is recognised by applying the accrual principle, based on the amount financed and the applicable effective interest rate, which represents the rate that discounts estimated future cash receipts over the expected life of the financial asset to the present book value of the financial asset.

Costs recognised for guaranteed minimum

Costs for guaranteed minimums referring to the acquisition of usage rights are capitalised and expensed according to the rules for intangible rights.

Transactions in foreign currencies

In preparing the company's financial statements, transactions in currencies other than the Euro are initially recorded at the exchange rates on the transaction dates. At the reporting date, monetary assets and liabilities denominated in these foreign currencies are recalculated if they result in significant differences at the exchange rates prevailing on that date. Exchange differences arising from the settlement of monetary items and their restatement at current exchange rates at year-end are recorded in the income statement for the year.

Income taxes

Income taxes for the year represent the sum of current and deferred taxes.

Current taxes are based on the taxable profit for the year. Taxable income differs from the profit reported in the income statement because it excludes positive and negative components that will be taxable or deductible in other years and excludes items that will never be taxed or deductible. The liability for current taxes is calculated using the rates in force or substantively in force at the reporting date.

Deferred taxes are taxes that are expected to be paid or recovered on temporary differences between the book value of assets and liabilities in financial statements and the corresponding tax value used in calculating taxable income, recognised according to the liability method. Deferred tax liabilities are generally recognised for all temporary taxable differences, while deferred tax assets are recognised to the extent that it is likely that there will be future taxable results that allow the use of temporary deductible differences. These assets and liabilities are not recognised if the temporary differences are generated by goodwill or from the initial recognition (other than business combination transactions) of other assets or liabilities in transactions that have no influence on the accounting result or taxable income.

Deferred tax liabilities are recognised on the temporary taxable differences relating to the different "timing" of recognition for revenues and costs in financial statements, and therefore in the tax declaration, between Italian accounting principles, which form the basis of the current tax payment, and IAS/IFRS international accounting standards, which are used to draft these financial statements.

The book value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be recovered.

Deferred taxes are calculated based on the tax rate that is expected to be in effect at the time the asset is realised or the liability is settled. Deferred taxes are charged directly to the income statement, with the exception of those relating to items recognised directly in shareholders' equity, in which case the related deferred taxes are also recognised in shareholders' equity.

Income taxes for the year were recorded considering the weighted annual average tax rate expected for the entire year.

Specifically, as regards these restated financial statements, as they are not representative of a relevant period for tax purposes, the temporary differences in taxable income are not taken into account in the calculation, rather only the permanent differences.

Principal measurement decisions in applying accounting standards

The preparation of the restated financial statements and related explanatory notes required estimates and assumptions to be made based on subjective assessments, historic experience, and available information; the final data may differ, possibly significantly, from these estimates following potential changes in factors considered in developing the estimates themselves.

The estimates and assumptions are reviewed periodically and the effects of any changes are immediately reflected in the income statement.

The principal decisions adopted in applying accounting standards are as follows:

- ✓ Estimate of the library's future sales plans for the purpose of calculating amortisation according to the "individual-film-forecast computation method", considering the absence of historical data for the company.
- ✓ Estimate of distribution returns for home video products.
- ✓ Estimate of collectability of receivables.

Earnings per share

Base earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

3 Segment information

The company is not organised into separate business sectors for management purposes. Instead, the company 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	Non-current assets: intangible	31/12/2017	31/12/2016	Change
		13,706,377	10,630,354	3,076,023

This item increased during the year by EUR 3,076 thousand.

Intangible assets	Distribution and production rights	Dubbing rights	Works in progress and advances	Other usage rights	Trademarks	R&D	Total
Net book value at 31/12/2016	5.293.230	509.097	4.699.573	43.960	-	84.492	10.630.354
Investments at 31/12/2017	3.040.116	493.443	3.578.028	6.695	-	47.031	7.165.314
Reclassifications at 31/12/2017	2.683.983	-	(2.683.983)	-	-	-	-
Uses of accumulated amortisation at 31/12/2017	-	-	-	-	-	-	-
Depreciation expense at 31/12/2017	(3.670.370)	(375.047)	-	(13.345)	-	(30.529)	(4.089.291)
Historical Cost at 31/12/2017	20.887.549	2.245.703	5.593.618	68.108	3.000	152.646	28.950.624
Accumulated amortisation at 31/12/2017	(13.540.589)	(1.618.210)	-	(30.798)	(3.000)	(51.652)	(15.244.249)
Net book value at 31/12/2017	7.346.960	627.493	5.593.618	37.311	-	100.994	13.706.377

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

Works in progress and advances consist of EUR 3,923 thousand related to guaranteed minimums already paid to the licensors for films to be distributed in 2018-2019-2020, and, for EUR 1,670 thousand, to costs incurred up to the reporting date for the production or co-production of proprietary films (of which EUR 1,451 thousand related to the film "Quanto basta" as previously stated) intended for theatrical release during 2018.

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.

Other intangible assets mainly refer to investments in standardised software.

5	Non-current assets: tangible	31/12/2017	31/12/2016	Change
		82,137	101,361	(19,225)

This item decreased by EUR 19.2 thousand during the year.

Tangible assets	Plant and machinery	Other tangible assets	Total
Net book value at 31/12/2016	10,776	90,585	101,361
Investments at 31/12/2017	-	9,123	9,123
Depreciation at 31/12/2017	(3,882)	(24,465)	(28,348)
Historical Cost at 31/12/2017	25,883	153,326	179,209
Accumulated depreciation at 31/12/2017	(18,989)	(78,083)	(97,072)
Net book value at 31/12/2017	6,894	75,243	82,137

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

No technology equipment was acquired through leasing contracts.

6	Non-current assets: financial	31/12/2017	31/12/2016	Change
		12,265	12,168	97

This item decreased by EUR 97 due to the repayment of a security deposit.

7 **Assets and liabilities for current and deferred taxes**

7	Tax credits	31/12/2017	31/12/2016	Change
		405,199	503,417	(98,218)

The breakdown of the item is shown below:

Tax credits	31/12/2017	31/12/2016	Change
VAT tax	36,741	-	36,741
Current IRAP tax	-	34,921	(34,921)
Current IRES tax	47,648	382,632	(334,984)
INAIL advances	3,761	9,282	(5,521)
Tax credits from special laws	316,978	76,466	240,512
Withholdings on interest income	71	116	(45)
Total	405,199	503,417	(98,218)

Tax credits from special laws refer to the residual tax credit accrued on executive production, distribution tax credit, and tax credit on research and development, accrued but not yet used as at 31 December 2017.

7	<i>Deferred tax assets</i>	31/12/2017	31/12/2016	Change
		38,968	185,541	(146,573)

With regard to non-current deferred tax assets, this item is mainly attributable to IRES on tax losses and the recovery of export credit and is related, as explained in the paragraph on accounting policies, to the existence of cost items that are recognised for tax purposes in subsequent financial years compared to those in which the accrual and matching principle would imply their recognition in the income statement.

7	<i>Deferred tax liabilities</i>	31/12/2017	31/12/2016	Change
		4,832,448	5,070,713	(238,265)

As discussed in the introductory paragraph, the company fulfils tax obligations based on statutory financial statements prepared according to Italian accounting standards. The amount recognised in financial statements also includes the adjustment of the IRES rate to 24%, introduced by the 2016 Stability Law (Italian Law 208 of 28 December 2015) effective 1 January 2017.

7	<i>Income tax payables</i>	31/12/2017	31/12/2016	Change
		144,627	85,902	58,725

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

<i>Tax payables</i>	31/12/2017	31/12/2016	Change
VAT tax	-	11,128	(11,128)
Withholding taxes on income of third parties	73,308	74,775	(1,467)
Current IRAP tax	71,319	-	71,319
Total	144,627	85,902	58,725

8	Inventories	31/12/2017	31/12/2016	Change
		181,729	140,847	40,882

This item represents 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 company's sole distributor.

Management of the physical warehouse does not represent a strategic initiative for the company. The 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.

9	Trade receivables	31/12/2017	31/12/2016	Change
		12,409,747	16,593,742	(4,183,995)

The breakdown of the item is shown below:

Trade receivables	31/12/2017	31/12/2016	Change
Amounts due from customers	12,574,106	16,770,803	(4,196,697)
Bad debt provision	(164,359)	(177,062)	12,702
Total trade receivables	12,409,747	16,593,742	(4,183,995)

The nominal value of receivables was adjusted to their presumed realisable value through a specific bad debt provision amounting to EUR 164,359. The company maintains that credit risk exists almost exclusively with regard to customers that have a small account balance.

10	Other current assets	31/12/2017	31/12/2016	Change
		347,676	741,529	(393,853)

Other current assets	31/12/2017	31/12/2016	Change
P&A prepaid expenses	346,902	155,684	191,219
Advances to suppliers	12	6,530	(6,518)
Advances to employees	761	4,100	(3,338)
Other receivables	-	575,215	(575,215)
Total	347,676	741,529	(393,853)

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.

They are mainly attributable to costs incurred for films that will be paid in 2018.

For these items, the criteria adopted in the measurement and conversion of values expressed in foreign currencies are shown in the initial section of these explanatory notes.

As of 31 December 2017, there is no asset of this type with a duration of more than five years.

11	<i>Cash and cash equivalents</i>	31/12/2017	31/12/2016	Change
		6,218,889	3,848,561	2,370,328

<i>Cash and cash equivalents</i>	31/12/2017	31/12/2016	Change
Bank current account balances	6,218,088	3,845,223	2,372,865
Cash on hand	801	3,338	(2,537)
Total	6,218,889	3,848,561	2,370,328

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

12	<i>Employee severance indemnity and provisions</i>	31/12/2017	31/12/2016	Change
		332,111	253,596	78,515

In total, this item increased by EUR 78 thousand, for which the analysis is as follows:

<i>Employee severance indemnity and provisions</i>	31/12/2016	Allocations	Uses	31/12/2017	Change
Employee severance indemnity	166,561	99,441	(20,927)	245,075	78,515
Provision for estimated sales returns	87,036	-	-	87,036	-
Total	253,596	99,441	(20,927)	332,111	78,515

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 recent establishment of the company and 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 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 31 December 2017 and that therefore were included in revenues for the year.

13	Trade payables	31/12/2017	31/12/2016	Change
		6,685,686	6,320,235	365,452

Trade payables are broken down as follows:

Trade payables	31/12/2017	31/12/2016	Change
Payables to Italian suppliers	5,982,937	6,034,843	(51,906)
Payables to foreign suppliers	702,749	285,391	417,358
Total payables to suppliers	6,685,686	6,320,235	365,452

Payables to suppliers are recognised net of trade discounts; cash discounts are recorded upon payment. There was an increase of EUR 365 thousand compared to 2016, principally due to changed payment dynamics.

Payables to foreign suppliers, equal to EUR 703 thousand, are contracts with European suppliers (Hungary, Great Britain, Germany, Ireland, and France) for EUR 687 thousand and, for the residual amount, with US suppliers.

14	Other current liabilities	31/12/2017	31/12/2016	Change
		397,066	278,221	118,846

Other current liabilities	31/12/2017	31/12/2016	Change
Payables to social security institutions	185,602	79,054	106,548
Customer advances	3,028	3,088	(60)
Sundry employee payables	208,436	196,078	12,357
Total other current liabilities	397,066	278,221	118,846

Payables to social security institutions were paid at the beginning of the current year on the respective legal due dates.

Payables to employees refer to payables for the salaries of December 2017 paid in January 2018, as well as to the different accruals for deferred compensation.

15	Shareholders' equity	31/12/2017	31/12/2016	Change
		21,019,667	20,748,852	270,815

Shareholders' equity	31/12/2017	31/12/2016	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	-
- Euro rounding reserve	(0.20)	(0.20)	-
- (Treasury shares in portfolio)	(199,035)	(180,270)	(18,765)
- (Cost of share capital increase)	(431,127)	(431,127)	-
- Retained earnings/(losses)	12,509,994	10,897,005	1,612,989
- Profit/(loss) for the year	1,479,379	2,802,788	(1,323,409)
Total	21,019,667	20,748,852	270,815

The change in shareholders' equity of EUR 271 thousand is due to the recognition of profit for the year, net of dividends distributed during the year for EUR 1,189 thousand, the carrying forward of profits for EUR 1,613 thousand, in accordance with the Shareholders' Meeting resolution to approve the statutory financial statements at 31 December 2016, as well as the recognition of the reserve to purchase treasury shares for EUR 18,765.

16 Tax position

Due to the company's recent incorporation, tax periods that may still be subject to assessment are 2012, 2013, 2014, 2015 and 2016, both for direct taxes and VAT.

The company has no disputes with the tax authorities nor are there any tax audits underway.

The company has not yet taken advantage of exemptions, but has benefited from Italian and European Community grants to support the film industry. In particular, during 2017, the company benefited from the tax credit on executive production for foreign films shot in Italy, for the film "Black Butterfly", the production and distribution tax credit for the film "La verità vi spiego sull'amore (The Truth About Love Is...)," and the tax credit for research and development carried out internally as previously described.

17 Contingent liabilities

The Board of Directors believes that there are no significant contingent liabilities that should be recorded or discussed in this Annual Financial Report as at 31 December 2017.

18 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 with licensees for EUR 8,867 thousand for films being released after the end of the year;
- Commitments for future lease instalments for the offices in Rome, expiring on 31 August 2018, for EUR 28 thousand;
- Commitments for future lease instalments for the offices in Milan, expiring on 30 April 2021, for EUR 201 thousand.

19	Revenues from sales and services and other revenues and income	2017	2016	Change
		18,138,707	22,993,206	(4,854,499)

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

Revenues from sales and services and other revenues and income	2017	% of total rev.	2016	% of total rev.	Change	% Change
Theatrical revenues	4,471,830	24.7%	4,775,445	20.8%	(303,615)	-6.36%
Home video revenues	193,638	1.1%	882,641	3.8%	(689,002)	-78.06%
Newsstand revenues	20,632	0.1%	79,283	0.3%	(58,651)	-73.98%
International sales revenues	3,207	0.0%	-	0.0%	3,207	
Pay TV revenues	5,675,000	31.3%	5,920,000	25.7%	(245,000)	-4.14%
Free TV revenues	3,388,092	18.7%	2,008,691	8.7%	1,379,401	68.67%
Pay-Per-View revenues	326,101	1.8%	530,209	2.3%	(204,108)	-38.50%
New Media revenues	1,262,983	7.0%	2,305,565	10.0%	(1,042,582)	-45.22%
Execut.Production Services	1,528,000	8.4%	4,053,620	17.6%	(2,525,620)	-62.31%
	16,869,483	93.0%	20,555,454	89.4%	(3,685,971)	-17.93%
Change in product inventories	40,882	0.2%	33,302	0.1%	7,580	22.76%
Other revenues and income	1,228,342	6.8%	2,404,450	10.5%	(1,176,108)	-48.91%
Total	18,138,707		22,993,206		(4,854,499)	-21.11%

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

Revenues for 2017 amounted to EUR 18,139 thousand (EUR 22,993 thousand at 31 December 2016), posting a decrease of 21%. Note that 2016 benefited from revenues for executive production for a total of EUR 5,264 thousand, of which EUR 1,211 thousand relating to the tax credit, allocated among other revenues; conversely, executive production revenues in 2017 totalled EUR 1,902 thousand. Net of these amounts, 2016 revenues would be equal to EUR 17,729 thousand with a decrease of 8.4%.

Theatrical revenues amounted to EUR 4,472 thousand, showing a decline of 6%. The company was affected by the extraordinary events surrounding the Weinstein scandal, which caused a postponement of the release of 2 important films scheduled for the fourth quarter of 2017, on the scheduled 18-film pipeline.

Pay TV revenues amounted to EUR 5,675 thousand, a slight decrease of about 4% compared to 2016 (EUR 5,920 thousand). New Media revenues amounted to EUR 1,263 thousand, a reduction of 45% compared to 2016 (EUR 2,306 thousand).

Free TV revenues were EUR 3,388 thousand, an increase of 69% compared to the previous year (EUR 2,009 thousand). In general, the Home Video, Newsstand and Pay-Per-View channels posted a decrease compared to 2016 results.

Other revenues, for EUR 1,228 thousand, refer to the tax credit on executive production, for EUR 375 thousand, and to income from promotional activities and merchandise exchanges.

20	Operating costs	2017	2016	Change
	Costs for raw materials, consumables, and goods	147,175	304,179	(157,003)
	Costs for services	10,179,405	14,501,870	(4,322,465)
		10,326,580	14,806,048	(4,479,468)

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

Operating costs	2017	% of total costs	2016	% of total costs	Change	% Change
Purchase costs of various materials	37,615	0.4%	30,085	0.2%	7,530	25.03%
HV production and packaging costs	109,560	1.1%	274,093	1.9%	(164,533)	-60.03%
Costs for raw materials, consumables, and goods	147,175	1.4%	304,179	2.1%	(157,003)	-51.62%

Executive production costs	1,791,902	17.4%	5,015,844	33.9%	(3,223,942)	-64.28%
Compensation for directors, statutory auditors, and independent auditors	317,335	3.1%	294,451	2.0%	22,884	7.77%
Consulting and collaborations	397,198	3.8%	302,880	2.0%	94,318	31.14%
Costs for sundry services	188,158	1.8%	162,651	1.1%	25,507	15.68%
Costs for use of third-party assets	206,824	2.0%	227,109	1.5%	(20,285)	-8.93%
Agencies commissions	214,911	2.1%	212,954	1.4%	1,957	0.92%
P&A and marketing costs	7,063,077	68.4%	8,285,980	56.0%	(1,222,902)	-14.76%
Costs for services	10,179,405	98.6%	14,501,870	97.9%	(4,322,465)	-29.81%
Total	10,326,580		14,806,048		(4,479,468)	

The decrease in costs for services is mainly attributable to the conclusion of executive production for the film “Black Butterfly”, which began in 2016.

Costs for use of third-party assets showed a reduction from the prior year. This is due to the capitalisation for internal work of part of the lease instalments on the Rome and Milan offices, used for production activities for the film “La verità vi spiego sull’amore (The Truth About Love Is...)”.

The P&A and marketing costs of EUR 7,063 thousand were down 12% from the previous year due to fewer promotional activities.

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

21	Personnel costs	2017	2016	Change
		1,474,243	1,517,751	(43,508)

The applicable collective labour agreement is that of the entertainment, film, production and dubbing sector. Employees work at the registered office in Rome and the Milan office. The cost analysis is provided in the table below:

Personnel costs	2017	2016	Change	% Change
Salaries and wages	842,982	1,072,175	(229,193)	-21.38%
Social security costs	491,756	316,578	175,178	55.33%
Employee severance indemnity	99,441	83,240	16,201	19.46%
Other costs	40,064	45,759	(5,695)	-12.45%
Total	1,474,243	1,517,751	(43,508)	

The reduction in costs is due to the capitalisation during the year of internal work for a portion of personnel costs directly involved in the production activities for the film “La verità vi spiego sull’amore”.

The changes in company staff, broken down by category, is shown below compared to the previous year.

Total headcount	2017	2016	Change	Average
Executives	5	4	1	5
Office staff	22	19	3	19
Total headcount	27	23	4	24

22 Depreciation, amortisation, and provisions	2017	2016	Change
	4,117,639	3,422,349	695,290

The difference of EUR 695 thousand reflects operating activities. Depreciation and amortisation mainly refer to the films under concession as detailed below.

Depreciation and amortisation	2017	2016	Change	% Change
Amortisation of distribution and production rights	3,670,370	2,971,907	698,463	23.50%
Amortisation of dubbing rights	375,047	289,180	85,868	29.69%
Amortisation of various intangible assets	43,874	34,006	9,868	29.02%
Total amortisation of intangible assets	4,089,291	3,295,092	794,199	24.10%
Depreciation of machinery and plants	3,882	3,882	-	0.00%
Depreciation of various tangible assets	24,465	23,984	481	2.01%
Total depreciation of tangible assets	28,348	27,867	481	1.73%
Allocation to provision for sales returns	-	99,390	(99,390)	
Total	4,117,639	3,422,349	695,290	20.32%

23 Sundry charges and income	2017	2016	Change
	322,861	77,469	245,392

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

24 Financial income and expenses	2017	2016	Change
	79,283	3,838	75,445

The principal component of financial income for 2017 refers to interest income accrued on bank accounts and to the net balance on foreign exchange gains and losses.

25	Income taxes	2017	2016	Change
		338,722	362,963	(24,241)

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

Taxes	2017	2016	Change
Current IRES tax	325,015	27,962	297,053
Current IRAP tax	105,399	(85,964)	191,363
Current taxes	430,414	(58,001)	488,415
Deferred IRES tax	(183,637)	510,335	(693,972)
Deferred IRAP tax	(54,629)	55,940	(110,568)
Deferred taxes	(238,265)	566,275	(804,540)
Prepaid IRES for the year	(1,712)	(165,910)	164,198
Prepaid IRES from previous years, reversed	148,285	20,599	127,686
Prepaid IRAP for the year	-	-	-
Deferred tax assets	146,573	(145,311)	291,884
Total taxes	338,722	362,963	(24,241)
of which IRES	287,952	392,987	(105,035)
of which IRAP	50,771	(30,024)	80,794

26 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 27 April 2017, the Shareholders' Meeting resolved to distribute profit equivalent to EUR 0.0529 per share. The total value distributed was equal to EUR 1,189,799.00.

27 Earnings per share

Base earnings per share attributable to holders of the company's ordinary shares at the end of the year are equivalent to EUR 0.0543

28 Financial risk management: objectives and criteria

The company's financial instruments consist solely of demand deposits.

The company's primary financial risks are:

1. credit risk
2. liquidity risk
3. exchange risk
4. interest rate risk

Credit risk

The management of this risk consists above all in selecting customers that are reliable and solvent and in limiting, where possible, exposure to individual customers.

The positions, if individually significant, for which there is a risk that amounts due may not be recovered, in part or in full, are subject to individual write-down.

For receivables that are not subject to individual write-down, a provision is set aside on a collective basis, as more fully explained in the explanatory notes.

At 31 December 2017, trade receivables amounted to EUR 12,574 thousand and the bad debt provision was EUR 164 thousand.

Liquidity risk

Liquidity risk can be generated by the inability to obtain, at favourable conditions, the financial resources necessary for the company's operations. This risk is very low, as the company has a negative net financial position (net cash) of EUR 6.2 million.

Exchange risk

The company has exposure in relation to foreign currency transactions (US dollars). This exposure is generated by investments.

The currency risk is not yet considered significant and therefore no specific hedging techniques have been adopted at this time.

Interest rate risk

Exposure to interest rate risk is minimal, given that there is no financial exposure.

29 Transactions with related parties

Transactions with related parties	Year ending 31/12/2017		Year ending 31/12/2016	
	Payables	Operating costs	Payables	Operating costs
Guglielmo MARCHETTI (1) (3)	22,047	299,710	21,179	299,710
Ugo GIRARDI (2)	10,688	74,880	-	74,880
Stefano DI GIUSEPPE (4)	3,376	38,755	3,505	38,654
Leonardo PAGNI (4)	2,588	12,000	2,648	12,000
Davide ROSSI (4)	2,740	12,000	2,743	12,000
Paolo MUNDULA (5)	16,718	16,718	21,675	17,766
Marco D'AGATA (5)	11,440	11,440	13,957	11,440
Giulio VARELLA (5)	11,440	11,440	14,241	11,724
EXPERION S.r.l. (6)	21,350	35,000	21,428	23,397
Total transactions with related parties	102,387	511,943	101,376	501,571

- (1) Chairman
(2) Deputy Chairman
(3) Majority shareholder and CEO
(4) Director
(5) Statutory Auditor
(6) Entity owned or controlled by a related party

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

The total compensation due to the directors and the control body is presented below.

Compensation to directors and statutory auditors	Resolution	Offices	Employment
Guglielmo MARCHETTI	Chairman		155,710
Ugo GIRARDI	Director	48,000	
Stefano DI GIUSEPPE	Director		26,755
Leonardo PAGNI	Director		
Davide ROSSI	Director		
Paolo MUNDULA	Statutory Auditor	2,000	
Marco D'AGATA	Statutory Auditor		
Giulio VARELLA	Statutory Auditor		
Total compensation	240,000	50,000	182,465

The consideration pertaining to the year for services provided by independent auditors for the legal accounting audit, including the fees for the voluntary audit of these financial statements restated for

the adoption of IAS/IFRS accounting standards, as well as the voluntary audit of the Annual Financial Report at 31 December 2017, amounted to EUR 46 thousand.

These fees are net of the obligatory social security charges and were amended by the Shareholders' Meeting resolution of 19 March 2015.

Milan, 30 March 2018

For the Board of Directors

Chairman

Guglielmo Marchetti