



# **Half-Yearly Financial Report as at 30 June 2017**

*drafted according to IAS/IFRS international accounting standards*

**Approval: Board of Directors on 28 September 2017**

## **NOTORIOUS PICTURES SPA**

Registered office: LARGO BRINDISI 2 – 00182 - ROME

Head office: VIA DELLA SIGNORA 2a – 20122 MILAN

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**

All tables included in this report are drawn up in units of Euro unless otherwise specified.

**1.1 KEY DATA**

Income Statement Data	1 <sup>st</sup> half 2017	1 <sup>st</sup> half 2016	Change	%
<b>Revenues</b>	9,143,329	13,403,678	(4,260,349)	-31.78%
<b>Operating costs</b>	4,825,277	9,601,048	(4,775,771)	-49.74%
<b>Value added</b>	<b>4,318,052</b>	<b>3,802,630</b>	<b>515,422</b>	<b>13.55%</b>
<i>% value added</i>	47.2%	28.4%		
<b>Personnel costs</b>	<b>523,473</b>	<b>770,042</b>	(246,570)	-32.02%
<b>EBITDA</b>	<b>3,794,580</b>	<b>3,032,588</b>	<b>761,992</b>	<b>25.13%</b>
<i>% EBITDA</i>	41.5%	22.6%		
<b>Depreciation, amortisation, and provisions</b>	2,199,161	1,984,027	215,134	10.84%
<b>EBIT</b>	<b>1,595,419</b>	<b>1,048,560</b>	<b>546,858</b>	<b>52.15%</b>
<i>% EBIT</i>	17.4%	7.8%		
<b>Net financial charges</b>	(47,890)	(3,406)	(44,484)	1306.05%
<b>Pre-tax profit/(loss)</b>	<b>1,547,529</b>	<b>1,045,154</b>	<b>502,374</b>	<b>48.07%</b>
Taxes	(386,128)	47,796	(433,924)	-907.86%
<b>Net profit/(loss) for the year</b>	<b>1,161,401</b>	<b>1,092,951</b>	<b>68,450</b>	<b>6.26%</b>
<i>% profit/(loss)</i>	12.7%	8.2%		
	<b>EPS</b>	<b>0.05</b>	<b>0.05</b>	
Statement of Financial Position Data	30/06/2017	31/12/2016	Change	%
<b>Fixed assets</b>	<b>11,851,394</b>	<b>10,929,424</b>	<b>921,970</b>	<b>8%</b>
Operating assets	17,483,871	17,979,534		
Operating liabilities	6,556,122	6,684,358		
<b>Net working capital</b>	<b>10,927,749</b>	<b>11,295,176</b>	<b>(367,428)</b>	<b>-3%</b>
<b>Provisions</b>	<b>5,362,009</b>	<b>5,324,309</b>	<b>37,700</b>	<b>1%</b>
<b>Net invested capital</b>	<b>17,417,134</b>	<b>16,900,291</b>	<b>516,843</b>	<b>3%</b>
<b>Net financial position</b>	<b>(3,303,320)</b>	<b>(3,848,561)</b>	<b>545,241</b>	<b>-14%</b>
<b>Shareholders' equity</b>	<b>20,720,454</b>	<b>20,748,852</b>	<b>(28,398)</b>	<b>0%</b>

<b>Net financial position</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>	<b>%</b>
Cash and cash equivalents	3,303,320	3,848,561	(545,241)	-14%
<b>Net financial position</b>	<b>(3,303,320)</b>	<b>(3,848,561)</b>	<b>545,241</b>	<b>-14%</b>

<b>Cash Flow Statement</b>	<b>30/06/2017</b>	<b>30/06/2016</b>
A. Opening balance - cash and cash equivalents	3,848,561	6,354,774
B. Cash flow from operations	3,765,689	2,979,573
C. Cash flow from investment activities	(3,121,131)	(2,240,213)
D. Cash flow from financing activities	(1,177,569)	(1,820,874)
E. Net increase (decrease) in cash and cash equivalents	(545,241)	(1,081,514)
F. Closing balance - cash and cash equivalents	3,303,320	5,273,261

### ***Operating performance and financial results***

The year 2017 was one of 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 international co-production activities, which has allowed us to begin a path of robust and sustainable growth. In the first half 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.

**Revenues** for the first half of 2017 amounted to EUR 9,143 thousand (EUR 13,404 thousand in the first half of 2016), posting a decrease of 32%. It should be noted that in the first half of 2016, revenues from executive production, activities of a non-continuous nature, totalled EUR 4,080 thousand, of which EUR 975 thousand from the relative tax credit. Net of these amounts, revenues for the first half of 2016 would have been EUR 9,324 thousand, in line with the first half of 2016.

**EBITDA** amounted to EUR 3.8 million, up by 25.1% from EUR 3.0 million at 30 June 2016; the EBITDA margin grew significantly to 41.5% (22.6% at 30 June 2016) due to the revenue mix having a greater weight from business lines with higher margins. Excluding the revenues and costs of the executive production business, EBITDA would have been 42.6% in the first half of 2017 compared to 30.6% in the first half of 2016.

**Net operating profit (EBIT)** was EUR 1.6 million, up by 52.2% compared with the EUR 1.1 million at 30 June 2016, with a strong increase in the margin on revenues, which went from 7.8% [9.3% if executive production activities are excluded] to 17.4% at 30 June 2017.

**Net profit** was EUR 1.2 million, up by 6.3% from EUR 1.1 million in the first half of 2016, or 8.2% of revenue compared to 12.7% at 30 June 2017.

The Company recorded a negative **net financial position** (net cash) of EUR 3.3 million (EUR 3.8 million at 31 December 2016) after paying dividends totalling EUR 1.2 million in May 2017 and investing EUR 3.1 million to acquire films, of which approximately EUR 2 million were advances for films that will be released in 2017 and 2018, and EUR 1.1 million for films that were released in the first half of 2017.

Net **shareholders' equity** is equal to EUR 20.72 million (EUR 20.74 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 the first half of 2017 (compared with the corresponding ratios at 30 June 2016):

<b>Profitability indices</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>
ROE	6%	6%
ROA	5%	3%
EBITDA Margin	42%	23%
EBIT Margin	17%	8%

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 loans as well as the breakdown of funding sources (against the corresponding ratios at 31 December 2016) .

<b>Structural indices</b>	<b>30/06/2017</b>	<b>31/12/2016</b>
Equity less non-current assets	8,869,127	9,839,157
Equity to non-current asset ratio	175%	190%
Equity plus non-current liabilities minus non-current assets	14,231,136	15,143,737
Equity plus non-current liabilities to non-current assets ratio	220%	239%
Quick ratio	314%	324%
Current ratio	317%	327%

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:** This is the sum of inventories, trade receivables, tax credits and other assets.

**Non-current assets:** the sum of the items "Distribution Rights" and "Publishing rights", other intangible assets, tangible assets, financial receivables, and deferred tax assets.

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

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

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

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

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

**Amortisation, depreciation, write-downs 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 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.

*05 June 2017:* signing of co-production agreement with KimeraFilm for the film “Il Contagio (Tainted Souls)”.

### Corporate structure

The results of the shareholders' registry as at 30 June 2017 are summarised in the following table:

<b>Results of the shareholders' registry as at 30 June 2017</b>			
Guglielmo Marchetti	Italy	18,449,600	
<b>total shareholders holding more than 2%</b>		<b>18,449,600</b>	<b>82.03%</b>
Roberto Lombardi	Italy	360,000	1.60%
Goldman Sachs International Ltd	USA	349,800	1.56%
AZ Fund Multi Asset	Italy	251,200	1.12%
NOTORIOUS PICTURES - Treasury shares	Italy	231,200	1.03%
<b>total shareholders holding between 1% and 2%</b>		<b>1,192,200</b>	<b>5.30%</b>
Raffaele Giannoni	Italy	220,000	0.98%
8A+Investimenti SGR Spa	Italy	159,960	0.71%
AZ Multi Asset Institutional Italy	Italy	119,160	0.53%
Stefano Patrizi	Italy	115,600	0.51%

<b>total shareholders holding between 0.5% and 1%</b>	<b>614,720</b>	<b>2.73%</b>
<b>other shareholders</b>	<b>2,234,960</b>	<b>9.94%</b>
<b>Total</b>	<b>22,491,480</b>	<b>100.00%</b>

<b>Results of the shareholders' registry as at 30 June 2017</b>		
1 shareholder holding more than 2%	18,449,600	82.03%
4 shareholders holding between 1% and 2%	1,192,200	5.30%
4 shareholders holding between 0.5% and 1%	614,720	2.73%
other shareholders	2,234,960	9.94%
<b>Total</b>	<b>22,491,480</b>	<b>100.00%</b>

### ***Share price performance***

As at 30 June 2017, the share price was EUR 1.1520, with a capitalisation of EUR 25,910,185.

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

<b>Date</b>	<b>Price</b>	<b>Shares</b>	<b>market cap</b>
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

### ***Buy-Back Plan***

As already indicated in the annual financial report for 2016, at the Shareholders' Meeting on 29 January 2016, 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;
- transactions for the 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 7,067,858;
- 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

No treasury shares were purchased in the first half of 2017.

At 30 June 2017, 231,200 treasury shares purchased or 1.0279% of the 22,491,480 outstanding shares; the total outlay for the purchase of treasury shares during the 18-month period of the plan was EUR 180,270.

The Buy Back Plan ended on 29 July 2017.

### **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 the first half of 2017 Notorious Pictures distributed 8 cinematographic works in cinemas, generating a Box Office of € 3,188,859,

with a total attendance of 572,307 (Source: Cinetel). In the second half of 2017, 9 cinematographic works are expected to be released.

### **Film library acquisitions and distribution**

In the first half of 2017, Notorious Pictures actively participated in the leading global markets and festivals for the industry and, based on the excellent relationships established with primary sector operators, has managed to acquire 27 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 1 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, Vodafone and TIMVISION.

### **Commercial agreements**

In the first half of 2017, a commercial agreement was signed with Vodafone Italia for the non-exclusive sale of SVOD (Subscription Video On Demand) rights to 58 films that will be available on Vodafone TV.

Also during the half-year, a new commercial agreement was signed with Sky Italia to grant rights to 44 films, some of which are current while others are 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.

Moreover, Notorius negotiated and signed a commercial agreement with TIM for the non-exclusive sale of SVOD rights to 71 films that will be available on the TIMVISION platform.

### **Film Production**

The production (and co-production) activity aims to strengthen the growth strategy and achieve important artistic and commercial results in Italy and abroad, with the involvement of leading independent production and international distribution companies.

In June 2017 Notorious Pictures signed a co-production agreement with KimeraFilm for the film "*Contagio (Tainted Souls)*". Rai Cinema and Gekon Productions are also part of the production team.

The main actors are Vinicio Marchioni (1993 TV series, “Tutta colpa di Freud (It’s all Freud’s Fault)”, Crime Novel TV series), Anna Foglietta (“Perfetti sconosciuti (Perfect strangers)”, “Noi e la Giulia (Giulia and us)”, “Che vuoi che sia (What would it be)”) and Vincenzo Salemme in his first dramatic role.

The film is based on the novel by Walter Siti, author of several successful novels and winner of the Strega Prize 2013.

*Il Contagio (Tainted Souls)* is the second work of Matteo Botrugno and Daniele Coluccini, who made their directorial debut with the feature *Et in terra pax*, winner in 2011 of a special mention at the Nastri d'Argento awards and participated in over 30 international festivals.

Notorious handles marketing through all distribution channels. The film is to be released in cinemas at the end of September 2017.

#### 1.4 INVESTMENTS DURING THE YEAR

As more fully described below, investments were related to the acquisition of films for EUR 3,097 thousand, of which approximately EUR 2,035 thousand as advances on films that will be released in the second half of 2017 and 2018, and EUR 1,061 thousand for films that were released in the first half of 2017.

Investments of approximately EUR 15 thousand were made for development activities.

Investments representing the “core business” are those made for improvement of the library. The situation at the reporting date of these half-yearly 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	903,079	158,403	2,035,128	3,096,610
<b>Total library</b>	<b>14,686,236</b>	<b>1,910,664</b>	<b>8,145,165</b>	<b>24,742,065</b>

In addition, EUR 2,338 thousand were invested in costs to launch films released in cinemas in the first half of 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 Directors<sup>1</sup>

#### Chairman and CEO

Guglielmo Marchetti

#### Deputy Chairman

Ugo Girardi

#### Directors

Stefano Di Giuseppe - Leonardo Pagni - Davide Rossi<sup>2</sup>

### Board of Statutory Auditors<sup>3</sup>

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

#### Supervisory Body

Fabrizio Ventimiglia (Chairman) - Paolo Mundula - Enrico Locatelli

### Independent Auditors<sup>4</sup>

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 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 and 24 March 2015.

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<sup>1</sup> In office until approval of the Financial Statements at 31.12.2017

<sup>2</sup> Independent Director

<sup>3</sup> In office until approval of the Financial Statements at 31.12.2017

<sup>4</sup> In office until approval of the Financial Statements at 31.12.2017

<sup>5</sup> 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

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

### **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 19 March 2015.

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.

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).

## 1.7 SIGNIFICANT EVENTS AFTER 30 JUNE 2017

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

We note that on *4 July 2017* the Company purchased an additional 13 films purchased from LakeShore Entertainment, world leader in the distribution, production and sale of films.

On *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....)”, acknowledging the film as the best Italian comedy.

Moreover, on *13 July 2017* Notorius Pictures was named an 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”.

There are two, cumulative, benefits introduced by the Stability Law 2017 that render an investment in innovative SMEs listed on AIM Italy more attractive:

- tax benefits for professional and retail investors: natural persons will be allowed to deduct 30% of the invested amount from their taxes, while companies will be allowed to deduct 30% from their taxable income, as well as benefit from capital gain exemption if the shares are placed in an individual savings plan;
- maximum benefit: the maximum investment on which to calculate the deduction rises to EUR 1 million from EUR 500 thousand (for entities/individuals liable to pay IRES the maximum investment in each tax period remains at EUR 1.8 million).

In addition to tax benefits, a further innovation is linked to the introduction of long-term Individual Savings Plans (PIR), which are tax reduction schemes in which savers can invest up to 30 thousand euros per year, up to a maximum of 150 thousand euros over 5 years. The measure, which also comprises the AIM Italia market, will allow investors to purchase a minimum number of shares of 10 companies with a maximum annual amount per company of EUR 3,000.

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

*24 July 2017* saw the launch of co-production of the new comedy by Francesco Falaschi, produced by Verdeoro and co-produced with TC Filmes and Gullame Entertainment, Brazilian companies.

On *28 July 2017*: Notorius Pictures presents the films “Il Contagio (Tainted Souls)” and “Pablo Escobar” at the 74th Venice Film Festival.

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

On *3 August 2017*, TIM and Notorius Pictures announce an agreement to broadcast over 70 films on TIMVISION.

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 FINANCIAL POSITION AS AT 30.06.2017**

FINANCIAL POSITION	Note	As at 30/06/17	As at 31/12/16	Change	Change %
<b>Non-current assets</b>					
- Distribution rights		7.359.111	5.293.230	2.065.881	39%
- Publishing rights		562.855	509.097	53.758	11%
- Works in progress and advances		3.510.022	4.699.573	(1.189.551)	-25%
- Other intangible assets		130.121	128.452	1.669	1%
Intangible assets	4	11.562.109	10.630.352	931.757	9%
Tangible assets	5	91.478	101.361	(9.883)	-10%
Financial assets	6	12.265	12.168	97	1%
Deferred tax assets	7	185.541	185.541	-	-
<b>Total non-current assets</b>		<b>11.851.393</b>	<b>10.929.423</b>	<b>921.971</b>	<b>8%</b>
<b>Current assets</b>					
Inventories	8	174.901	140.847	34.054	24%
Trade receivables	9	16.271.769	16.593.742	(321.973)	-2%
Tax credits	7	429.305	503.417	(74.112)	-15%
Other current assets	10	607.896	741.529	(133.632)	-18%
Cash and cash equivalents	11	3.303.320	3.848.561	(545.241)	-14%
<b>Total current assets</b>		<b>20.787.191</b>	<b>21.828.096</b>	<b>(1.040.904)</b>	<b>-5%</b>
<b>Total assets</b>		<b>32.638.584</b>	<b>32.757.518</b>	<b>(118.934)</b>	<b>-0,4%</b>
<b>Non-current liabilities</b>					
Employee severance indemnity	12	204.260	166.561	37.699	23%
Provisions	12	87.036	87.036	-	-
Deferred tax liabilities	7	5.070.713	5.070.713	-	-
<b>Total non-current liabilities</b>		<b>5.362.009</b>	<b>5.324.310</b>	<b>37.699</b>	<b>1%</b>
<b>Current liabilities</b>					
Trade payables	13	6.149.829	6.320.235	(170.406)	-3%
Income tax payables	7	92.367	85.902	6.465	8%
Other current liabilities	14	313.926	278.221	35.705	13%
<b>Total current liabilities</b>		<b>6.556.122</b>	<b>6.684.358</b>	<b>(128.236)</b>	<b>-2%</b>
<b>Total liabilities</b>		<b>11.918.131</b>	<b>12.008.668</b>	<b>(90.537)</b>	<b>-1%</b>
- Share capital		562.287	562.287	-	
- (Treasury shares)		(180.270)	(180.270)	-	
- Other Reserves and Retained Earnings		19.177.036	17.564.048	1.612.989	9%
- Profit/(loss) for the year		1.161.401	2.802.788	(1.641.387)	-59%
<b>Total shareholders' equity</b>	15	<b>20.720.454</b>	<b>20.748.852</b>	<b>(28.398)</b>	<b>-0,1%</b>
<b>Total liabilities + shareholders' equity</b>		<b>32.638.585</b>	<b>32.757.519</b>	<b>(118.935)</b>	<b>-0,4%</b>

**2.2 INCOME STATEMENT**

Income statement	Note	1° Half 2017	1° Half 2016	Change 1° H17 - 1°H16	Change %
Revenues from sales and services	19	8.391.515	12.006.967	(3.615.452)	-30%
Other revenues and income	19	717.761	1.354.147	(636.386)	-47%
Change in finished product inventories	8	34.054	42.565	(8.511)	-20%
Operating costs	20	(4.718.684)	(9.514.569)	4.795.885	-50%
Costs for raw materials, consumables, and goods	20	(124.026)	(174.492)	50.465	-29%
Costs for services	20	(4.521.647)	(9.229.147)	4.707.500	-51%
Use of third party assets	19	(73.011)	(110.930)	37.919	-34%
Personnel costs	21	(523.473)	(770.042)	246.570	-32%
Sundry charges and income	23	(106.592)	(86.479)	(20.113)	23%
Amortisation of intangible assets	22	(2.188.320)	(1.973.523)	(214.797)	11%
Depreciation of tangible assets	22	(10.841)	(10.504)	(337)	3%
Bad debt provision	9	-	-	-	
Other risk provisions	23	-	-	-	
<b>Operating result</b>		<b>1.595.419</b>	<b>1.048.560</b>	<b>546.858</b>	52%
Financial income and charges	24	(47.890)	(3.406)	(44.484)	1306%
<b>Profit before tax</b>		<b>1.547.529</b>	<b>1.045.155</b>	<b>502.374</b>	48%
Income taxes	25	(386.128)	47.796	(433.924)	-908%
<b>Net profit/(loss)</b>		<b>1.161.401</b>	<b>1.092.951</b>	<b>68.450</b>	6%

**2.2.1 STATEMENT OF COMPREHENSIVE INCOME**

Statement of Comprehensive Income	1 <sup>st</sup> half 2017	1 <sup>st</sup> half 2016
<b>Net profit/(loss)</b>	<b>1,161,401</b>	<b>1,092,951</b>
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	-	-
<b>Comprehensive profit/(loss)</b>	<b>1,161,401</b>	<b>1,092,951</b>

**2.3 CASH FLOW STATEMENT**

<b>CASH FLOW STATEMENT</b>	<b>As at 30/06/17</b>	<b>As at 30/06/16</b>
<b>A. OPENING BALANCE - CASH AND CASH EQUIVALENTS</b>	3.848.561	6.534.774
<b>Income Management</b>		
<b>Profit for the year</b>	<b>1.161.401</b>	<b>1.092.951</b>
<i>adjustments for non-monetary items not recorded as items in the NWC</i>		
Depreciation and amortisation	2.199.161	1.984.027
Change in provisions	37.700	33.735
Change in tax provision		
Change in provision for returns		
<b>Cash flow before changes in working capital</b>	<b>3.398.261</b>	<b>3.110.713</b>
(Increase) decrease in inventories	(34.054)	(42.565)
(Increase) decrease in trade receivables	321.973	(1.121.151)
(Increase) decrease in tax credits	74.112	(1.514.307)
(Increase) decrease in accrued income and prepayments		
(Increase) decrease in other current assets	133.632	526.395
Increase (decrease) in trade payables	(170.377)	2.104.877
Increase (decrease) in income tax payables	6.465	(134.916)
Increase (decrease) in other current liabilities	23.446	50.527
<b>B. CASH FLOW FROM OPERATIONS</b>	<b>3.753.459</b>	<b>2.979.573</b>
<b>(Investments) Disinvestments</b>		
- Intangible assets	(3.117.118)	(2.250.063)
- Tangible assets	(3.916)	6.692
- Financial assets	(97)	3.158
<b>C. CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(3.121.131)</b>	<b>(2.240.213)</b>
<b>Financial activity</b>		
capital transactions	-	(21.556)
Dividends paid	(1.177.569)	(1.799.318)
(Increase) decrease in financial receivables and securities		
Increase (decrease) in financial payables		
<b>D. CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(1.177.569)</b>	<b>(1.820.874)</b>
<b>E. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)</b>	<b>(545.242)</b>	<b>(1.081.513)</b>
<b>F. CLOSING BALANCE - CASH AND CASH EQUIVALENTS</b>	<b>3.303.320</b>	<b>5.273.261</b>

## 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 30 June 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											0
Net profit/(loss) for the year									1.161.401		1.161.401
Balances as at 30 June 2017	562.287	6.885.713	100.000	112.457	(180.270)	-	(431.127)	12.509.992	1.161.402	(0,20)	20.720.454

## 2.5 EXPLANATORY NOTES

### 1 Introduction

Notorious Pictures S.p.A. was established on 4 July 2012. Active as an independent distributor of Cinematographic Rights it has been active in the market since January 2013.

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

As at 30 June 2017 the Company's library comprised more than 380 titles, all under temporary concession with the exception of the production film "La verità vi spiego sull'amore (The Truth About Love Is...)" which is owned by the Company.

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 Half-Year Financial Report includes the condensed half-year simplified 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 financial statements as at 31 December 2016, drawn up in accordance with the IAS/IFRS (hereinafter also referred to as the "restated financial statements").

This report has been prepared in compliance with IAS/IFRS international accounting standards, pursuant to art. 18, paragraph 1 of the AIM Issuers' Regulations and pursuant to paragraph 2 of the same article, as the Company has included the Information Document prepared for listing purposes according to the same principles.

### **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.

### **Preparation criteria for the restated financial statements**

The condensed financial statements of Notorius Pictures S.p.A. as 31 December 2017 were prepared on a going concern basis, adopting the same accounting standards used to prepare the restated financial statements for the year ended 31 December 2016.

At the reporting date, the European Union had not yet completed its endorsement process for three following standards and amendments:

- On 28 May 2014, the IAS published IFRS 15 - Revenue from Contracts with Customers ), 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 standard is applicable from 1 January 2018, though early application is allowed.

The directors are still evaluating the possible impact of the application of IFRS 15 on the amounts recorded as revenues and on the related information reported in the financial statements.

## ***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. For films produced directly by the Company, for which the Company has an unlimited right of ownership and exploitation over time, any tax credit accrued in accordance with current legislation is recorded as a direct reduction in the value of the related asset (see the paragraph below entitled "Public grants").

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**

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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**

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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**

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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**

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

### **Provisions**

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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**

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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**

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

**Revenue recognition**

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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**

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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.

As mentioned above, tax credit contributions relating to films in production are deducted from the value of the asset.

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**

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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**

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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.

### **Taxes**

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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 for taxable temporary differences relating to the different timing between the national accounting standards that form the basis for payment of current taxes and the IAS/IFRS international accounting standards according to which these financial statements are prepared, as applicable to the revenues and costs in the financial statements, and therefore in the tax declaration,. The book value of the deferred tax assets is reviewed at each balance sheet date and reduced when it is no longer probable that sufficient taxable income will exist to allow recovery of all or part of these assets. 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	<b><i>Non-current assets: intangible</i></b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>11,562,110</b>	<b>10,630,354</b>	<b>931,576</b>

This item increased during the year by approximately EUR 931 thousand.

Intangible assets	Distribution and production rights	Dubbing rights	Works in progress and advances	Other intangible rights	Trademarks	R&D	Total
<b>Net book value at 31/12/2016</b>	<b>5.293.230</b>	<b>509.097</b>	<b>4.699.573</b>	<b>43.960</b>	-	<b>84.492</b>	<b>10.630.354</b>
Investments at 30/06/17	903.079	158.403	2.035.128	5.908	-	14.600	3.117.118
Reclassifications at 30/06/17	3.136.679	88.000	(3.224.679)		-	-	-
Uses of accumulated amortisation at 30/06/17	-	-			-		-
Amortisation at 30/06/17	(1.973.877)	(192.646)	-	(7.095)	-	(11.744)	(2.185.362)
Historical Cost at 30/06/17	19.203.207	1.998.663	3.510.022	67.321	3.000	120.215	24.902.429
Accumulated amortisation at 30/06/17	(11.844.096)	(1.435.808)	-	(24.548)	(3.000)	(32.867)	(13.340.320)
<b>Net book value at 30/06/17</b>	<b>7.359.111</b>	<b>562.855</b>	<b>3.510.022</b>	<b>42.773</b>	-	<b>87.348</b>	<b>11.562.110</b>

The “Film distribution and production rights” and related “publishing rights” refer to the films in concession or which were produced/co-produced and are part of the “library”.

Work in progress and advances refer to Guaranteed Amounts already paid to licensors for films to be distributed during 2017-2018. It is hereby noted that the production of the film “La verità vi spiego sull'amore (The Truth About Love Is...)” was completed in the first half of the year; consequently, the relative amount totalling EUR 2,146 thousand, net of the relative tax credit, was reclassified from the item “Work in progress and advances” to “Distribution rights” after which the amortisation process began.

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	<b>Non-current assets: tangible</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>91,478</b>	<b>101,361</b>	<b>(9,883)</b>

This item decreased by EUR 9.9 thousand during the year.

Tangible assets	Plant and machinery	Other tangible assets	Total
<b>Net book value at 31/12/2016</b>	<b>10.776</b>	<b>90.585</b>	<b>101.361</b>
Investments at 30/06/17	-	3.916	3.916
Disposals at 30/06/17	-	-	-
Uses of accumulated depreciation at 30/06/17	-	-	-
Depreciation at 30/06/17	(1.925)	(11.874)	(13.799)
Historical Cost at 30/06/17	25.883	148.119	174.002
Depreciation at 30/06/17	(17.032)	(65.492)	(82.523)
<b>Net book value at 30/06/17</b>	<b>8.851</b>	<b>82.628</b>	<b>91.478</b>

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

No technology equipment was acquired through leasing contracts.

6	<b>Non-current assets: financial</b>	30/06/2017	31/12/2016	Change
		<b>12,265</b>	<b>12,168</b>	<b>97</b>

This item increased by EUR 97 due to a new security deposit.

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

7	<b>Tax credits</b>	30/06/2017	31/12/2016	Change
		<b>429,305</b>	<b>503,417</b>	<b>(74,112)</b>

The breakdown of the item is shown below:

<b>Tax credits</b>	30/06/2017	31/12/2016	Change
VAT tax	30,421	-	30,421
Current IRAP tax	-	34,921	(34,921)
Current IRES tax	53,924	382,632	(328,708)
INAIL advances	3,761	9,282	(5,521)
Tax credits from special laws	341,158	76,466	264,692
Withholdings on interest income	42	116	(74)
<b>Total</b>	<b>429,305</b>	<b>503,417</b>	<b>(74,112)</b>

The decrease from 31 December 2016 refers to the use of the IRES and IRAP credits used to offset the amounts due for the current IRES and IRAP taxes for the period and its application to the accrued

but not yet used residual tax credit for the production of the film “La verità vi spiego sull'amore (The Truth About Love Is...)” and the executive production of the film “Black Butterfly”.

7	<b>Deferred tax assets</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>185,541</b>	<b>185,541</b>	<b>-</b>

With regard to non-current deferred tax assets, this item is mainly attributable to IRES on tax losses 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	<b>Deferred tax liabilities</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>5,070,713</b>	<b>5,070,713</b>	<b>-</b>

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. Consequently, the temporary differences that are reasonably expected to be realised for tax purposes after the tax year 2017 have been measured at this rate.

7	<b>Income tax payables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>92,367</b>	<b>85,902</b>	<b>6,465</b>

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

<b>Tax payables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
VAT tax	-	11,128	(11,128)
Withholding taxes on income of third parties	69,985	74,775	(4,789)
Current IRAP tax	22,382	-	22,382
<b>Total</b>	<b>92,367</b>	<b>85,902</b>	<b>6,465</b>

8	<b>Inventories</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>174,901</b>	<b>140,847</b>	<b>34,054</b>

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.

Products are measured at the average cost incurred for production, including the SIAE stamp.

9	<b>Trade receivables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>16,271,769</b>	<b>16,593,742</b>	<b>(321,973)</b>

The breakdown of the item is shown below:

<b>Trade receivables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Amounts due from customers	16,448,830	16,770,803	(321,973)
Bad debt provision	(177,062)	(177,062)	-
<b>Total trade receivables</b>	<b>16,271,768</b>	<b>16,593,742</b>	<b>(321,973)</b>

The nominal value of receivables was adjusted to their presumed realisable value through a specific bad debt provision amounting to EUR 177,062. The company maintains that credit risk exists almost exclusively with regard to customers that have a small account balance.

10	<b>Other current assets</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>607,896</b>	<b>741,529</b>	<b>(133,632)</b>

<b>Other current assets</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
P&A prepaid expenses	314,361	155,684	158,678
Advances to suppliers	26,627	6,530	20,097
Advances to employees	1,219	4,100	(2,880)
Other receivables	265,688	575,215	(309,527)
<b>Total</b>	<b>607,896</b>	<b>741,529</b>	<b>(133,632)</b>

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 the second half of 2017.

The other receivables refer to the residual portion of the EU contributions for the market performance of the works distributed.

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 at 30 June 2017, there were no activities of this type with a duration of more than five years.

11	<b><i>Cash and cash equivalents</i></b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>3,303,320</b>	<b>3,848,561</b>	<b>(545,241)</b>

<b><i>Cash and cash equivalents</i></b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Bank current account balances	3,301,496	3,845,223	(543,727)
Cash on hand	1,824	3,338	(1,515)
<b>Total</b>	<b>3,303,320</b>	<b>3,848,561</b>	<b>(545,242)</b>

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

12	<b><i>Employee severance indemnity and provisions</i></b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>291,296</b>	<b>253,596</b>	<b>37,700</b>

In total, this item increased by EUR 37.7 thousand, for which the analysis is as follows:

<b><i>Employee severance indemnity and provisions</i></b>	<b>31/12/2016</b>	<b>Allocations</b>	<b>Uses</b>	<b>30/06/2017</b>	<b>Change</b>
Employee severance indemnity	166,561	40,723	(3,023)	204,260	37,700
Provision for estimated sales returns	87,036	-	-	87,036	-
<b>Total</b>	<b>253,597</b>	<b>40,723</b>	<b>(3,023)</b>	<b>291,296</b>	<b>37,700</b>

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 30 June 2017 and that therefore were included in revenues for the year.

13	<b>Trade payables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>6,149,829</b>	<b>6,320,235</b>	<b>(170,406)</b>

Trade payables are broken down as follows:

<b>Trade payables</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Payables to Italian suppliers	5,545,695	6,034,843	(489,149)
Payables to foreign suppliers	604,134	285,391	318,743
<b>Total payables to suppliers</b>	<b>6,149,829</b>	<b>6,320,235</b>	<b>(170,406)</b>

“Payables to suppliers” are recognised net of trade discounts; cash discounts are recorded upon payment and total EUR 5,546. Compared to 2016, payables to Italian suppliers decreased by EUR 489 thousand.

Payables to foreign suppliers, equal to EUR 604 thousand, are contracts with European suppliers (Hungary, Great Britain, Germany, Ireland, and France). Compared to 2016, there was an increase of EUR 319.

Both changes are mainly due to the different payment dynamics.

14	<b>Other current liabilities</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>313,926</b>	<b>278,221</b>	<b>35,705</b>

<b>Other current liabilities</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Payables to social security institutions	102,094	79,054	23,039
Customer advances	3,116	3,088	29
Sundry employee payables	208,716	196,078	12,637
<b>Total other current liabilities</b>	<b>313,926</b>	<b>278,221</b>	<b>35,705</b>

Amounts due to social security institutions and employees mainly refer to accrued vacation, thirteenth and fourteenth month's salary and related contributions not yet paid at 30 June 2017.

15	<b>Shareholders' equity</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
		<b>20,720,454</b>	<b>20,748,852</b>	<b>(28,398)</b>

<b>Shareholders' equity</b>	<b>30/06/2017</b>	<b>31/12/2016</b>	<b>Change</b>
- 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)	(180,270)	(180,270)	-
- (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	1,161,401	2,802,788	(1,641,387)
<b>Total</b>	<b>20,720,454</b>	<b>20,748,852</b>	<b>(28,398)</b>

The change in shareholders' equity of EUR 28 thousand is due to the recording of the profit for the period, net of retained earnings for 2016 of EUR 1,163 thousand and dividends distributed for the year of EUR 1,190 thousand in accordance with the shareholders' resolution approving the statutory financial statements at 31 December 2016.

## 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, in the first half of 2017, the company benefited from the tax credit on executive production for foreign films shot in Italy, for the film "Black Butterfly" and the production and distribution tax credit for the film "La verità vi spiego sull'amore (The Truth About Love Is...)".

The Company collected part of the European contributions accrued during 2017.

## 17 Contingent liabilities

The Board of Directors believes that there are no significant contingent liabilities that should be recorded or discussed in this Half-Yearly Financial Report as at 30 June 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 to licensees totalling approximately EUR 7,625 thousand for films released after the end of the financial year

- Commitments for future lease instalments for the offices in Rome, expiring on 31 August 2018, for EUR 49 thousand;
- Commitments for future lease instalments for the offices in Milan, expiring on 30 April 2021, of approximately EUR 212 thousand.

19	<b>Revenues from sales and services and other revenues and income</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>9,143,329</b>	<b>13,403,678</b>	<b>(4,260,349)</b>

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

<b>Revenues from sales and services and other revenues and income</b>	<b>1<sup>st</sup> half 2017</b>	<b>% of total revenues</b>	<b>1<sup>st</sup> half 2016</b>	<b>% of total revenues</b>	<b>Change</b>	<b>% Change</b>
Theatrical revenues	1,450,576	15.9%	2,835,563	21.2%	(1,384,987)	-48.84%
Home video revenues	26,423	0.3%	411,391	3.1%	(384,968)	-93.58%
Newsstand revenues	9,841	0.1%	51,791	0.4%	(41,950)	-81.00%
Pay TV revenues	2,680,000	29.3%	3,560,000	26.6%	(880,000)	-24.72%
Free TV revenues	2,730,000	29.9%	1,776,500	13.3%	953,500	53.67%
Pay-Per-View revenues	70,500	0.8%	191,842	1.4%	(121,343)	-63.25%
New Media revenues	1,094,176	12.0%	74,757	0.6%	1,019,419	1363.64%
Services rendered for executive production	330,000	3.6%	3,105,123	23.2%	(2,775,123)	-89.37%
	<b>8,391,516</b>	<b>91.8%</b>	<b>12,006,967</b>	<b>89.6%</b>	<b>(3,615,451)</b>	<b>-30.11%</b>
Change in product inventories	34,054	0.4%	42,565	0.3%	(8,511)	-20.00%
Other revenues and income	717,761	7.8%	1,354,147	10.1%	(636,386)	-47.00%
<b>Total</b>	<b>9,143,331</b>		<b>13,403,678</b>		<b>(4,260,347)</b>	<b>-31.78%</b>

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

throughout Italy.

**Revenues** for the first half of 2017 amounted to EUR 9,143 thousand (EUR 13,404 thousand in the first half of 2016), posting a decrease of 32%. In this regard, note that in the first half of 2016 there were revenues for executive production totalling EUR 4,080 thousand, of which EUR 975 thousand relating to the tax credit, allocated among other revenues. Net of these amounts, the value of revenues for the first half of 2016 would be equal to EUR 9,324 thousand with a decrease of 1.98%.

Theatrical revenues for the year totalled EUR 1,450 thousand and decreased by 49%, mainly due to the postponement in the release of important films, which had direct consequences on box office results. Pay TV revenues were EUR 2,680 thousand, a decrease of approximately 25% compared to 2016. The Free TV channel revenues were EUR 2,730 thousand, an increase of 54% compared to the previous year. In general, the revenues from Home Video, Newsstand and Pay per View channels decreased compared to the results for the first half of 2016, though this was more than offset by the New Media revenues of EUR 1,094 thousand.

Revenues for the provision of executive production services for the film Black Butterfly totalled EUR 330 thousand.

Other revenues, amounting to EUR 718 thousand, refer to the tax credit on executive production, and income from promotional activities and merchandise exchanges.

20	<b>Operating costs</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
	Costs for materials, consumables, and goods	<b>74,718</b>	<b>94,781</b>	<b>(20,064)</b>
	Costs for services	<b>4,643,967</b>	<b>9,419,788</b>	<b>(4,775,821)</b>
	<b>Total operating costs</b>	<b>4,718,685</b>	<b>9,514,569</b>	<b>(4,795,885)</b>

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

<b>Operating costs</b>	<b>1<sup>st</sup> half 2017</b>	<b>% of total costs</b>	<b>1<sup>st</sup> half 2016</b>	<b>% of total costs</b>	<b>Change</b>	<b>% Change</b>
Purchase costs of various materials	17,332	0.4%	13,920	0.1%	3,411	24.51%
HV production and packaging costs	57,386	1.2%	80,861	0.8%	(23,475)	-29.03%
<b>Costs for materials, consumables, and goods</b>	<b>74,718</b>	<b>1.6%</b>	<b>94,781</b>	<b>1.0%</b>	<b>(20,064)</b>	

Executive production costs	340,602	7.2%	3,899,325	41.0%	(3,558,724)	-91.27%
Compensation for directors, statutory auditors, and independent auditors	164,147	3.5%	136,189	1.4%	27,958	20.53%
Consulting and collaborations	149,104	3.2%	144,496	1.5%	4,608	3.19%
Costs for sundry services	109,241	2.3%	92,191	1.0%	17,050	18.49%
Costs for use of third-party assets	73,011	1.5%	110,930	1.2%	(37,919)	-34.18%
Broker commissions	42,604	0.9%	107,403	1.1%	(64,799)	-60.33%
P&A and marketing costs	3,765,258	79.8%	4,929,253	51.8%	(1,163,995)	-23.61%
<b>Costs for services</b>	<b>4,643,967</b>	<b>98.4%</b>	<b>9,419,788</b>	<b>99.0%</b>	<b>(4,775,821)</b>	
<b>Total</b>	<b>4,718,685</b>		<b>9,514,569</b>		<b>(4,795,884)</b>	

The decrease in costs for services is mainly attributable to the reduction of executive production work for the film "Black Butterfly". Miscellaneous remuneration and consulting and auditing costs increased by approximately 24% compared to the first half of 2016, to reach EUR 313 thousand.

Costs for the use of third party assets decreased by approximately 34% to EUR 73 thousand. 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...)". Broker commissions totalled EUR 42.6 thousand, down compared to the previous year, mainly due to the lower theatrical revenues to which they are correlated.

P&A and Advertising costs of EUR 3,765 thousand were down by approximately 24% compared to the first half of the previous year.

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

21	<b>Personnel costs</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>523,473</b>	<b>770,042</b>	<b>(246,570)</b>

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 analysis of the costs is provided in the table below:

<b>Personnel costs</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>	<b>% Change</b>
Salaries and wages	236,841	540,836	(303,995)	-56.21%
Social security costs	220,430	165,158	55,272	33.47%
Employee severance indemnity	47,898	39,191	8,706	22.21%
Other costs	18,305	24,857	(6,553)	-26.36%
<b>Total</b>	<b>523,473</b>	<b>770,042</b>	<b>(246,569)</b>	

The reduction in costs is due to the capitalisation 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 Truth About Love Is...)”.

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

Headcount	1 <sup>st</sup> half 2017	1 <sup>st</sup> half 2016	Change	Average
Executives	4	2	2	3
Office staff	19	19	-	19
<b>Total headcount</b>	<b>23</b>	<b>21</b>	<b>2</b>	<b>22</b>

22	<b>Depreciation, amortisation, and provisions</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>2,199,161</b>	<b>1,984,027</b>	<b>215,134</b>

The difference of EUR 215 thousand reflects operating activities. Depreciation and amortisation mainly refer to the films under concession and/or which were produced or co-produced as detailed below.

<b>Depreciation and amortisation</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>	<b>% Change</b>
Amortisation of distribution and production rights	1,973,877	1,815,924	157,953	8.70%
Amortisation of dubbing rights	192,646	152,740	39,906	26.13%
Amortisation of various intangible assets	18,839	1,893	16,946	895.07%
<b>Total amortisation of intangible assets</b>	<b>2,185,362</b>	<b>1,970,557</b>	<b>214,805</b>	<b>10.90%</b>
Depreciation of machinery and plants	1,925	1,931	(5)	-0.28%
Depreciation of various tangible assets	11,874	11,540	334	2.90%
<b>Total depreciation of tangible assets</b>	<b>13,799</b>	<b>13,470</b>	<b>329</b>	<b>2.44%</b>
Allocation to provision for sales returns	-	-	-	
<b>Total</b>	<b>2,199,161</b>	<b>1,984,027</b>	<b>215,134</b>	<b>10.84%</b>

23	<b>Sundry charges and income</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>106,592</b>	<b>86,479</b>	<b>20,113</b>

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	<b>Financial income and expenses</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>47,890</b>	<b>3,406</b>	<b>44,484</b>

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

25	<b>Income taxes</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
		<b>386,128</b>	<b>(47,796)</b>	<b>433,924</b>

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

<b>Taxes</b>	<b>1<sup>st</sup> half 2017</b>	<b>1<sup>st</sup> half 2016</b>	<b>Change</b>
Current IRES tax	328,824	48,697	280,127
Current IRAP tax	57,303	15,455	41,848
<b>Current taxes</b>	<b>386,127</b>	<b>64,152</b>	<b>321,975</b>
Prepaid IRES for the year	-	(111,948)	111,948
<b>Deferred tax assets</b>	<b>-</b>	<b>(111,948)</b>	<b>111,948</b>
<b>Total taxes</b>	<b>386,127</b>	<b>(47,796)</b>	<b>433,923</b>
of which IRES	328,824	(63,252)	392,076
of which IRAP	57,303	15,455	41,848

	<b>Taxable income</b>	<b>Change</b>	<b>Taxes</b>
<b>IRES tax reconciliation</b>			
Pre-tax profit/(loss) and theoretical tax charge	1,547,529		
Theoretical tax charge at 24%		24.00%	371,407
Permanent differences that will not be reversed in subsequent years			
<u>plus</u>			
- entertainment expenses	7,968	24.00%	1,912
- sundry expenses for automobiles	43,733	24.00%	10,496
- sundry expenses for communication	3,184	24.00%	764
- grants to employees	300	24.00%	72
- contingent liabilities	45,860	24.00%	11,006
- taxes on bonuses and fines	5,650	24.00%	1,356
<u>less</u>			
- sundry tax credits	(85,752)	24.00%	(20,581)
- export tax recovery	(198,371)	24.00%	(47,609)



Total permanent differences	(177,428)	24.00%	(42,583)
IRES for previous year			-
<b>TOTAL IRES</b>			<b>328,824</b>

## 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

Basic earnings per share attributable to holders of the company's ordinary shares at the end of the year are equivalent to EUR 0.0529.

## 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 30 June 2017, trade receivables amounted to EUR 16,449 thousand and the bad debt provision was EUR 177 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 3.3 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 30/06/2017		Year ending 30/06/2016	
	Payables	Operating costs	Payables	Operating costs
Guglielmo MARCHETTI (1) (3)	25,683	149,855	26,212	149,855
Ugo GIRARDI (2)	10,688	37,440	10,688	37,440
Stefano DI GIUSEPPE (4)	2,984	19,377	3,044	19,276
Leonardo PAGNI (4)	2,736	6,000	2,718	6,000
Davide ROSSI (4)	2,700	6,000	2,743	6,000
Paolo MUNDULA (5)	7,280	7,280	7,280	7,280
Marco D'AGATA (5)	5,720	5,720	5,720	5,720
Giulio VARELLA (5)	5,720	5,720	5,720	5,720
EXPERION S.r.l. (6)	19,425	17,500	7,117	5,833
<b>Total transactions with related parties</b>	<b>82,936</b>	<b>254,892</b>	<b>71,242</b>	<b>243,124</b>

- (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.

<b>Compensation to directors and statutory auditors</b>		<b>Resolution</b>	<b>Offices</b>	<b>Employment</b>
Guglielmo MARCHETTI	Chairman	72,000		77,855
Ugo GIRARDI	Director	12,000	24,000	
Stefano DI GIUSEPPE	Director	6,000		13,377
Leonardo PAGNI	Director	6,000		
Davide ROSSI	Director	6,000		
Paolo MUNDULA	Statutory Auditor	7,000	1,000	
Marco D'AGATA	Statutory Auditor	5,500		
Giulio VARELLA	Statutory Auditor	5,500		
<b>Total compensation</b>		<b>120,000</b>	<b>25,000</b>	<b>91,232</b>

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 Half-Yearly Financial Report at 30 June 2017, amounted to EUR 35 thousand.

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

Milan, 28 September 2017

For the Board of Directors

Chairman

Guglielmo Marchetti