Annual Financial Report
as at December 31, 2018

drafted according to IAS/IFRS international accounting standards

Approval: Board of Directors on March 22, 2019

NOTORIOUS PICTURES SPA

Registered office: LARGO BRINDISI 2 – 00182 - ROME
Enrolled in the Business Registry of: ROME
Taxpayer Code and registration number: 11995341002
Enrolled in the ROME Economic and Administrative Index, no. RM-1342431
Subscribed share capital EUR: 562,287.00 fully paid-in
VAT no.: 11995341002

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1. BOARD OF DIRECTORS' REPORT

In application of the Legislative Decree of 28 February 2005, no. 38 "Exercise of the options under art. 5 of the regulation (EC) no. 1606/2002 concerning international accounting standards", Notorious Pictures S.p.A. (hereinafter also "the Company" or "Notorious Pictures"), availed of the right to redraft the financial statements in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Union (OJ).
Starting with the annual financial statements as of December 31, 2018, the Company applied the above regulatory provisions. The Accounting Schedules and Explanatory Notes of the Company for the period January 1st - December 31, 2018, thus were drawn up in compliance with the IFRS issued by the IASB and approved by the European Union in effect as at December 31, 2018. See the explanatory notes both for the breakdown and the means of application of the accounting standards, both for the reconciliation between the Net Shareholders' Equity as at January 1, 2017, December 31, 2017, and the profit for the year 2017 determined based on the Italian accounting standards and the IFRS.
The tables shown below and commented therefore have been prepared reclassifying and adjusting the data for the financial year as at December 31, 2017 to the IAS/IFRS, originally drawn up according to the national Accounting Standards (ITA GAAP), to which reference is to be made.

The comparative data as at December 31, 2017, thus redetermined also happen to match that in the "financial statements restated" in accordance with IAS/IFRS, prepared by the Company voluntarily up until the closing of the 2017 financial year, as set forth in art. 18, first paragraph of the AIM Issuer Regulation and as set forth in the second paragraph of that same article, 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.

The ad hoc section of the Explanatory Notes includes the prospectus required for the purposes of the IFRS 1 regarding the first application of the EU IFRS.

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 31/12/2018	Year ending 31/12/2017	Change	%
Revenues	31,533,818	18,138,707	13,395,111	73.85%
Operating costs	(18,472,826)	(10,649,442)	(7,823,384)	73.46%
Value added	**13,060,992**	**7,489,266**	**5,571,726**	**74.40%**
% value added	*41.4%*	*41.3%*		
Personnel costs	**(1,942,016)**	**(1,474,243)**	(467,774)	31.73%
EBITDA	**11,118,975**	**6,015,023**	**5,103,953**	**84.85%**
% EBITDA	*35.3%*	*33.2%*		
Depreciation, amortisation, and provisions	(6,971,079)	(4,117,639)	(2,853,440)	69.30%
EBIT	**4,147,897**	**1,897,384**	**2,250,513**	**118.61%**
% EBIT	*13.2%*	*10.5%*		
Net financial charges	(29,096)	(79,283)	50,187	-63.30%
Pre-tax profit/(loss)	**4,118,801**	**1,818,101**	**2,300,700**	**126.54%**
Taxes	34,108	(338,722)	372,831	-110.07%
Net profit/(loss) for the year	**4,152,909**	**1,479,379**	**2,673,530**	**180.72%**
% profit/(loss)	*13.2%*	*8.2%*		
EPS	***0.19***	***0.07***		

Statement of Financial Position Data	31/12/18	31/12/2017	Change	%
Fixed assets	**14,645,970**	**13,839,746**	**806,224**	**6%**
Operating assets	18,604,209	13,344,351		
Operating liabilities	(9,393,263)	(7,218,760)		
Net working capital	**9,210,947**	**6,125,590**	**3,085,356**	**50%**
Provisions	**3,709,384**	**5,164,559**	**(1,455,175)**	**-28%**
Net invested capital	**20,147,533**	**14,800,778**	**5,346,755**	**36%**
Net financial position	**(3,410,064)**	**(6,218,889)**	**2,808,825**	**-45%**
Shareholders’ equity	**23,557,597**	**21,019,667**	**2,537,930**	**12%**

Net financial position	31/12/2018	31/12/2017	Change	%
Cash and cash equivalents	3,410,064	6,218,889	(2,808,825)	-45%
Net financial position	**(3,410,064)**	**(6,218,889)**	**2,808,825**	**-45%**

Cash Flow Statement	31/12/2018	31/12/2017
A. Opening balance - cash and cash equivalents	6,218,889	3,848,561
B. Cash flow from operations	6,274,931	10,741,196
C. Cash flow from investment activities	(7,470,207)	(7,174,534)
D. Cash flow from financing activities	(1,613,549)	(1,196,334)
E. Net increase (decrease) in cash and cash equivalents	(2,808,825)	2,370,327
F. Closing balance - cash and cash equivalents	3,410,064	6,218,889

Operating performance and financial results

The year 2018 saw the organization become more established and further development of the businesses managed; the considerable investments made in the past years also continued to launch production activities and purchase rights for Direct to Video (DTV) sales.

The implementation of the new “Franceschini” law (Law 220/2016) targeted at developing the entire film sector, also had positive repercussions on Notorious’ activities. International producers started to see Italy as an attractive country in terms of tax concessions, and due to the undoubted and proven professional talents of film industry personnel.

The project to diversify the business continued, with the strengthening of national production activities and international co-productions, which has allowed us to begin a path of robust and sustainable growth. The executive production business recorded a significant increase compared to 2017 and, in the first part of 2018, the executive productions of the foreign films *Bent* and *Lamborghini* commenced. The executive production of *Bent* concluded by the end of the year 2018, while the second one is going on in the 2019 financial year, too.

As far as film production, throughout 2018, Notorious Pictures completed an associated film production, *Quanto basta* (Just Enough) (theatrical release in the month of April), and, began a new, associated production of the film *Non è vero ma ci credo* (It's Not True But I Believe It)”, which was distributed in theatres in October 2018; in the month of July the associated productions of the film

Achille Tarallo, distributed in theatres in the month of October 2018, and that of the film *Copperman*, which came out in theatres in the month of February 2019.

In addition, investments continued to enhance the library intended for shopping networks and New Media.

As regards the works for which the Company acquired the exclusive distribution rights for Italy, the most successful films include *Belle e Sebastien – Amici per sempre* (Belle and Sebastien – Friends for Life), *Escobar – il fascino del male* (Loving Pablo) and *Ben is back*.

Revenues for 2018 amounted to EUR 31,534 thousand (EUR 18,139 thousand in 2017), marking an increase of around 74% year-over-year. With respect to the year 2017, the best performances were recorded by theatrical revenues, which rose from EUR 4,472 thousand in 2017 to EUR 5,922 thousand in 2018, Free TV revenues, which went from EUR 5,675 thousand in 2017 to EUR 7,958 thousand in 2018 and Pay TV revenues, which rose from EUR 3,388 thousand in 2017 to EUR 4,117 thousand in 2018. In this regard, note that in the year 2018 there were revenues for executive production totalling EUR 10,983 thousand (relating to the above-mentioned works), of which EUR 2,234 thousand relating to the tax credit, compared to 1,903 thousand in 2017.

EBITDA amounted to EUR 11.1 million, up by 85% from EUR 6.0 million in 2017; the EBITDA margin stood at 35.3% (33.2% at December 31, 2017) owing to the lower margins from executive production activities with respect to other business areas.

Net operating profit (EBIT) was EUR 4.1 million, up by 119% compared with the EUR 1.9 million at year-end 2017; the margin on revenues came to 13.2%.

Net profit was EUR 4.1 million, up by 181% from EUR 1.5 million in the year 2017, or 8.2% of revenues compared to 13.2% at 31 December 2018.

The Company recorded a negative **net financial position** (net cash) of EUR 3.4 million (EUR 6.2 million at 31 December 2017) after paying dividends totalling EUR 1.2 million in May 2018 and investing EUR 7,459 thousand to acquire films, of which about 3,395 thousand were advances for films that will be released in 2019 and 2020.

Net shareholders' equity is equal to EUR 23.558 million (EUR 21.020 million at 31 December 2017).

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 2018 (compared with the corresponding ratios at December 31, 2017):

Profitability indices	**2018**	**2017**
ROE	18%	7%
ROA	11%	6%
EBITDA Margin	35%	33%
EBIT Margin	13%	10%

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 2017) .

Structural indices	**31/12/2018**	**31/12/2017**
Equity less non-current assets (SE - fixed assets)	8,911,627	7,179,921
Equity to non-current asset ratio	161%	152%
Equity plus non-current liabilities minus non-current assets	12,621,011	12,344,480
Equity plus non-current liabilities to non-current assets ratio	186%	189%
Quick ratio	234%	271%
Current ratio	232%	268%

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 2018 are summarised below.

Corporate structure

The results of the shareholders' registry as at December 31, 2018 are summarised in the following table:

Results of the shareholders' registry as at December 31, 2018		
1 shareholder holding more than 2%	18,449,600	82.03%
3 shareholders holding between 1% and 2%	1,075,600	4.78%
4 shareholders holding between 0.5% and 1%	619,920	2.76%
other shareholders	2,346,360	10.43%
Total	**22,491,480**	**100.00%**

Share price performance

As at December 28, 2018, the share price was EUR 3.200, with a capitalisation of EUR 71,972,736.

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
30-Jun-2018	1.82000	22,491,480	40,934,494
28-Dec-2018	3.20000	22,491,480	71,972,736

Buy-Back Plan

As already outlined in the 2017 annual financial report, at the Shareholders’ Meeting on November 8, 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.

The previous Buy-Back Plan, which concluded in 2017, registered a purchase of 231,200 treasury shares.

The new Buy-back activities started in December 2017 and, as at December, 31 2018, total treasury shares purchased amounted to 524,800 shares, representing 2.3333% of the 22,491,480 outstanding shares; the total outlay for purchases of treasury shares during the year amounted to EUR 415,480, which is allocated in a specific negative equity reserve, together with the amount already allocated previously.

1.3 DESCRIPTION OF OPERATING CONDITIONS FOR BUSINESS ACTIVITIES

Operating conditions

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).

During 2018, Notorious Pictures distributed 19 film productions in cinemas, generating box office revenues of EUR 14,134,515, with total attendance of 2,318,523 (Source: Cinetel), which resulted in its ranking as third 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 6 new films that strengthen the 2019 line up and establish the foundation for 2020, further increasing the potential of the company's film library, in terms of quantity and quality.

In the first half of 2018, the distribution rights of around 300 films were acquired en bloc, geared towards increasing the sale of DTV rights, thus making it possible to further enhance the Notorious library.

In the month of September a three-year agreement was closed with Networld S.r.l. for the purchase of the distribution rights of a Library made up of 178 films of great artistic value and great sales potential.

The granting of rights for the distribution of the films will be in Home Video, Pay Tv, Free Tv, or SVoD (Subscription Video on Demand): Notorious Pictures is entitled to a distribution fee from the revenue the marketing of the films generated.

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 June 2018, Notorious Pictures renewed the commercial agreement with SKY Italia for the exclusive concession of the rights to films that will be distributed in cinemas by Notorious from July 1, 2018 to June, 30 2021. The films purchased by Sky Italia will be broadcast over the Pay per View, Pay TV and Video on Demand channels.

Also in June, Notorious Pictures signed and executed a commercial agreement with Mediaset RTI for the exclusive concession of Free TV rights of a package of films.

In addition, Notorious Pictures signed and executed an agreement with RAI Cinema for the concession of Free TV rights of a library of 32 films.

In the month of September, a new commercial agreement was signed and executed with Sky Italia worth around EUR 1.6 million for the television distribution of 22 films.

In the month of October a two-year agreement was signed with TaTaTu, an innovative Avod (advertising video on demand) entertainment social network platform that shows the third-party operator to the world on a blockchain basis, for the concession of utilisation rights to 300 films. Notorious' payment will be on a revenue sharing basis.

Film Production

During the year 2018, four co-productions were completed.

In February, post-production of the film *Quanto Basta* (Just Enough) was completed, which was distributed in cinemas in April 2018.

Later on in 2018 came the shooting of the co-production of the film *Non è vero ma ci credo* (It's Not True But I Believe It), which was then distributed in cinemas in the month of October 2018.

Shooting of the film *Copperman* started in July 2018, for which Notorious is the producer with Rai Cinema and Elio Film. The film was later distributed in the month of February 2019.

July also saw an associate production agreement signed for the film "Achille Tarallo", which was distributed in cinemas in October 2018.

We should point out that, on July 10, 2018, Notorious Pictures launched an international co-production with the Belgian company Tarantula for the film *The Shift*. The total spending budget amounted to around EUR 2.7 million, of which 60% relating to Notorious and 40% to the Belgian company Tarantula.

The production activity will begin in the month of March 2019.

We also should point out that Notorious Pictures launched an international co-production with the English company Tempo Production Ltd for the film *Love, Weddin, Repeat*. The spending budget amounted to around EUR 5 million, of which 80% relating to Notorious and 20% to the English Tempo Production.

During 2018 two international executive productions of foreign films went on, like *Bent*, begun and finished during the year, and *Lamborghini*, which will conclude during 2019.

1.4 INVESTMENTS DURING THE YEAR

As more fully described below, investments were mainly related to the acquisition of films for EUR 7,510 thousand, of which approximately EUR 3,395 thousand as advances on films that will be released in 2019 and 2020.

In addition, investments were made in software licenses, performing rights and in the company's website, amounting to about EUR 14 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:

Library investments	Distribution rights	Dubbing 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	3,040,117	493,443	3,578,028	7,111,588
2018 gross investments	3,766,648	348,200	3,395,321	7,510,169
Total library	**20,589,922**	**2,593,904**	**13,083,387**	**36,267,212**

In addition, EUR 4,115 thousand were invested in costs to launch films released in cinemas in 2018, 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[1]

Chairman and CEO

Guglielmo Marchetti

Deputy Chairman

Ugo Girardi

Directors

Stefano Di Giuseppe - Leonardo Pagni - Davide Rossi[2]

Board of Statutory Auditors[3]

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

Supervisory Body

Fabrizio Ventimiglia (Chairman) – Paolo Mundula – Patrizia Giannini

Independent Auditors[4]

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

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

Corporate Governance

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

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

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[1] In office until approval of the Financial Statements at 31.12.2020
[2] Independent Director
[3] In office until approval of the Financial Statements at 31.12.2020
[4] In office until approval of the Financial Statements at 31.12.2020

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

- ✓ grants and revokes proxies and operational responsibilities to directors;
- ✓ determines, after consulting the Board of Statutory Auditors, the compensation of directors pursuant to art. 2389 of the Italian Civil Code third paragraph;
- ✓ 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 by the Shareholders' Meeting of April 27, 2018, and shall remain in office until approval of the financial statements as at December 31, 2020.

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

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

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

1.6 MAIN RISKS AND UNCERTAINTIES THAT NOTORIOUS PICTURES S.p.A. IS EXPOSED TO

As well expressed by the Bank of Italy's Financial Bulletins—which the description below refers to—in 2018 the global economy continued to grow, but there were signs of cyclical deterioration in many advanced and emerging economies. The uncertainties on the picture in question have had repercussions on the international financial markets. Risks regarding a negative outcome of the trade negotiations between the United States and China, as well as the chance that financial tensions in emerging countries spark back up and the means by which Brexit will take place, weigh on the global prospects.

In the Eurozone growth has lost momentum; in November the industrial production significantly diminished in Germany, France and Italy. While remaining on largely positive values, inflation dropped because the energy goods prices slowed. The Board of Governors of the BCE underscored its intention to maintain a meaningful monetary stimulus for a long period of time.

In Italy, after the growth was interrupted starting from the third quarter of 2018, the indicators available at that time suggest that business could keep decreasing. The drop in the internal demand fuelled the dwindling of the summer months, particularly the drop in investments, and to a lesser extent, families' spending. According to the usual survey conducted in that period by the Bank of Italy in association with *Il Sole 24 Ore*, in 2019 the investment plans of industry business and of services were more frugal after both the political and economic uncertainty and business tensions.

The credit offer conditions are still valid all-in-all; the interest rates on the loans are only slightly higher than they were in May, before tensions formed on the government bonds market. However, from one perspective, with the sovereign bonds and the cost of bank deposits staying high the cost of credit would continue being pushed upwards. In the latest surveys, businesses are reporting less favourable conditions of access to credit.

Against this national and international backdrop, we can highlight the main uncertainties and risks that the activity of the Company is exposed to:

TYPE	SITUATION	ACTION
Risks linked to the general conditions of the economy	The consolidated statement of financial position of the Company is certainly influenced by different factors that makeup the macro-economic trends. If, despite the slow comeback underway and the measures set in place by the Governments and monetary authorities - or as a consequence of their amendment that reduces or eliminates its extent - the situation of worldwide weakness of the economy continues in some ways or comes back in others, the business, strategies and prospects of the Company could be negatively affected with a consequent negative impact on its consolidated statement of financial position.	The company has therefore set in place diversification strategies to be able to reduce the critical consequences caused or even cyclical fluctuations. Continuous honing of the quality of the products and broadening of the offering, also through bold interaction with the development of the digital activities, centred around the strength and value of fundamental assets like brand and content.
Compliance and regulatory risks	The variety of the areas of business it operates in sets the Company up against a complex and elaborate regulatory backdrop. The evolution of the regulations, in terms of new provisions or changes to the current legislation can have a major effect on the competitive variables and on the market conditions in specific areas of activity, as well as generate higher costs in internal compliance processes in the scope of corporate governance. Issues may arise linked to the regulatory evolution on specific business issues concerning the areas of activity the Company operates in.	The Company has set up an adequate internal control and risk management system that By identifying and managing the main company risks, helps ensure the protection of the company's assets, efficiency and efficacy of company processes, reliability of the financial information and the following of laws and rules, as well as the company by-laws and internal procedures. Accurate monitoring as far as the issuance of new regulative provisions Timely adaptation of business activities and products to the amendments made.

Also see paragraph 28 “Management of financial risk: objectives and criteria” of the Explanatory Notes where the risks of financial nature relevant to the Company are fully addressed.

1.7 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 Company shall continue researching and developing orders in the area of international executive productions.

It is expected that 2019 will be the year that the Company will launch the industry of TV series productions, as described below; to this regard, we hereby announce that in the past 18 months the

Company purchased the rights to various literary works that will be used to write screenplays to submit to the different national and international broadcasts/OTTs, with the goal of generating revenue from this new business area starting in 2020.

The 2019 line-up includes the cinema release of 18 films.

1.8 SIGNIFICANT EVENTS AFTER DECEMBER 31 2018

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

Incorporation "Notorious Cinemas Srl" and entry into the business of cinema management

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

By launching Notorious Cinemas, Notorious Pictures enters the business of cinema management, an area of business contingent to the company's core business, with the objective of offering the Italian market a new experiential entertainment (cinema) model by offering an innovative cinema format. The project is developed with the guidance of Andrea Stratta, Top Manager with proven experience on the panorama of cinema circuits both nationally and internationally.

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

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

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

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

The rental agreement, lasting more than one year, requires initial running for nine years starting on March 1, 2019, at the end of which another nine years are to be added.

In a strategic position, the multiplex will be entirely renovated during the summer; Notorious will create an innovative cinema format, so-called Notorious Cinemas "Experience", developed with the international expertise of the Chief Executive Officer, Andrea Stratta. The format offers a new model of entertainment based on higher audio and video technical standards, top notch comfort, qualified greeting, carefully chosen locations, food & beverage quality and computerisation and automation of the ticketing area. The final contract was signed on the date February 27, 2019.

The first weeks of management of the Multiplex by the subsidiary showed results in line with the budget forecast and with the market trend

New film productions and co-productions

On the date January 21, 2019, the Company signed the first agreement for the international executive production of 10 web series with the American producer AMBI Distribution Corp.

The total value of the order is equal to 7.0 million dollars. During 2019 Notorious Pictures will make the following web series: *Andron, 2047, All Roads lead to Rome, Black Butterfly, Bent, Future World, Rupture, In Dubious Battle, The Music of Silence* and *Beyond the Edge*.

On January 30, 2019, Notorious Pictures purchased exclusive distribution rights to the film *The Upside*, an American remake of the French film *Intouchables* (written and directed by Olivier Nakache and Éric Toledano in 2011) from STX Entertainment for the Italian market.

The film tells the story of the unlikely friendship between a tetraplegic billionaire and an unemployed man with no qualifications he hires as a caretaker. It is directed by Neil Burger and Bryan Cranston (the rich Phil) and Kevin Hart (the helper Dell) play the lead roles. Nicole Kidman is also part of the cast in the role of Phil's personal assistant (Yvonne).

Presented at a première at the Toronto International Film Festival, *The Upside* came out in the USA at cinemas on January 11, 2019, and to date has generated about USD 51 million at the Box Office (EUR 44 million).

The shootings of the new co-productions will begin for *Love, Wedding, Repeat* will start on May 6th and end on July 7th, while those for The Shift in the month of July 2019.

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

1.8 OTHER INFORMATION

Information on the financial instruments issued by the company

(Ref. art. 2427, first paragraph, no. 19, civil code)

The company did not issue financial instruments.

Information on the fair value of the derivative instruments

(Ref. art. 2427-bis, first paragraph, no. 1, civil code)

The company does not have derivative instruments.

Bonus shares; Convertible bonds; Other Securities

The company has neither issued bonus shares and bonds convertible into shares nor securities or similar values.

Other financial instruments issued

The company has not issued other financial instruments as set forth in no. 19 of paragraph 1 of art. 2427 of the Civil Code.

Shareholder loans

The company has not received any loans from the shareholders.

Monetary revaluations

As set forth in and by effect of art. 10 of Law 19 March 1983, no. 72, as also referenced by the following monetary revaluation laws, it is hereby specified that no monetary revaluation was carried out on the goods still existent among the assets.

Assets allocated to a specific deal

As at the reporting date, no assets were allocated to a specific deal as set forth in no. 20 of the first paragraph of art. 2427 of the Civil Code.

Loans allocated to a specific deal

As at the reporting date, no loans were allocated to a specific deal as set forth in no. 21 of the first paragraph of art. 2427 of the Civil Code.

Transactions with retrocession obligation at the end

Over the course of the year, the company did not set in place any transaction subject to the retrocession obligation at the end.

Financial charges recognised within amounts stated under assets

All the interest and other financial charges were entirely expensed in the year. For the purposes of art. 2427, par. 1, no. 8 of the Civil Code, it is thus affirmed that no capitalisations of financial charges subsist.

Revenue from holdings other than dividends

Revenue from holdings as set forth in art. 2425, no. 15 of the Civil Code.

Agreements not shown on the Balance Sheet

Over the course of the year no agreement not shown on the Balance Sheet were set in place.

2. ACCOUNTING SCHEDULES AND NOTES

2.1 FINANCIAL POSITION AS AT 31.12.2018

STATEMENT OF FINANCIAL POSITION		As at 31/12/18	As at 31/12/17	Change 2018 vs 2017	Change %
Non-current assets					
- Distribution rights		*8.506.315*	*7.346.960*	1.159.354	*16%*
- Publishing rights		*702.247*	*627.493*	74.753	*12%*
- Works in progress and advances		*4.920.832*	*5.593.618*	(672.787)	*-12%*
- Other intangible assets		*106.753*	*138.304*	(31.552)	*-23%*
Intangible assets	4	14.236.145	13.706.377	529.768	*4%*
Tangible assets	5	57.356	82.137	(24.781)	*-30%*
Financial assets	6	9.903	12.265	(2.362)	*-19%*
Deferred tax assets	7	342.566	38.968	303.599	*779%*
Total non-current assets		**14.645.970**	**13.839.747**	**806.223**	*6%*
Current assets					
Inventories	8	214.033	181.729	32.304	*18%*
Trade receivables	9	14.682.834	12.409.747	2.273.087	*18%*
Tax credits	7	3.256.415	405.199	2.851.216	*704%*
Other current assets	10	450.927	347.676	103.251	*30%*
Cash and cash equivalents	11	3.410.064	6.218.889	(2.808.825)	*-45%*
Total current assets		**22.014.273**	**19.563.240**	**2.451.034**	*13%*
Total assets		**36.660.244**	**33.402.986**	**3.257.257**	**10%**
Non-current liabilities					
Employee severance indemnity	12	285.065	245.075	39.990	*16%*
Provisions	12	87.035	87.036	(1)	*0%*
Deferred tax liabilities	7	3.337.284	4.832.448	(1.495.164)	*-31%*
Total non-current liabilities		**3.709.384**	**5.164.559**	**(1.455.175)**	*-28%*
Current liabilities					
Trade payables	13	7.164.082	6.685.686	478.395	*7%*
Income tax payables	7	1.742.580	136.007	1.606.573	*1181%*
Other current liabilities	14	486.601	397.066	89.534	*23%*
Total current liabilities		**9.393.263**	**7.218.760**	**2.174.502**	*30%*
Total liabilities		**13.102.647**	**12.383.319**	**719.327**	**5,8%**
- Share capital		562.287	562.287	1	*0%*
- (Treasury shares)		(614.515)	(199.035)	(415.480)	*209%*
- Other Reserves and Retained Earnings		19.456.915	19.177.036	279.880	*1%*
- Profit/(loss) for the year		4.152.909	1.479.379	2.673.530	*181%*
Total shareholders' equity	15	**23.557.597**	**21.019.667**	**2.537.931**	**12,1%**
Total liabilities + shareholders' equity		**36.660.244**	**33.402.986**	**3.257.258**	**9,8%**

2.2 INCOME STATEMENT

Income statement	Balance sheet 31/12/2018	Balance sheet 31/12/2017	Change 2018 vs 2017	Change %
Revenues from sales and services	28.048.701	16.869.483	11.179.218	*66%*
Other revenues and income	3.452.812	1.228.342	2.224.470	*181%*
Change in finished product inventories	32.304	40.882	(8.578)	*-21%*
Total Revenues	**31.533.818**	**18.138.707**	**13.395.111**	
Costs for raw materials, consumables, and goods	(333.425)	(255.855)	(77.570)	*30%*
Costs for services	(17.764.408)	(9.863.901)	(7.900.507)	*80%*
Use of third party assets	(224.129)	(206.824)	(17.305)	*8%*
Personnel costs	(1.942.016)	(1.474.243)	(467.773)	*32%*
Sundry charges and income	(150.865)	(322.861)	171.996	*-53%*
Amortisation of intangible assets	(6.943.807)	(4.089.291)	(2.854.516)	*70%*
Depreciation of tangible assets	(27.271)	(28.348)	1.077	*-4%*
Operating result	**4.147.897**	**1.897.384**	**2.250.513**	*119%*
Financial income and expenses	(29.096)	(79.283)	50.187	*-63%*
Profit before tax	**4.118.801**	**1.818.101**	**2.300.700**	*127%*
Income taxes	34.108	(338.722)	372.830	*-110%*
Net profit/(loss)	**4.152.909**	**1.479.379**	**2.673.530**	*181%*

2.2.1 STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income	Year as at 31/12/2018	Year as at 31/12/2017
Net profit/(loss)	**4,152,909**	**1,479,379**
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)	4,152,909	1,479,379

2.3 CASH FLOW STATEMENT

CASH FLOW STATEMENT	As at 31/12/18	As at 31/12/17
A. OPENING BALANCE - CASH AND CASH EQUIVALENTS	6.218.889	3.848.561
Income Management		
Profit for the year	**4.152.909**	**1.479.379**
adjustments for non-monetary items not recorded as items in the NWC		
Depreciation and amortisation	6.971.079	4.117.639
Change in provisions	39.990	78.515
Change in tax provision	(1.495.164)	(238.265)
Change in provision for returns	-	-
Cash flow before changes in working capital	**9.668.813**	**5.437.266**
(Increase) decrease in inventories	(32.304)	(40.882)
(Increase) decrease in trade receivables	(2.276.582)	4.183.995
(Increase) decrease in tax credits	(2.851.216)	144.227
(Increase) decrease in other current assets	(406.849)	540.426
Increase (decrease) in trade payables	478.395	365.392
Increase (decrease) in income tax payables	1.606.572	4.096
Increase (decrease) in other current liabilities	88.102	106.675
B. CASH FLOW FROM OPERATIONS	**6.274.931**	**10.741.196**
(Investments) Disinvestments		
- Intangible assets	(7.473.327)	(7.165.314)
- Tangible assets	757	(9.123)
- Financial assets	2.362	(97)
C. CASH FLOW FROM INVESTMENT ACTIVITIES	**(7.470.207)**	**(7.174.534)**
Financial activity		
capital transactions	(415.480)	(18.765)
Dividends paid	(1.198.069)	(1.177.569)
(Increase) decrease in financial receivables and securities		
Increase (decrease) in financial payables		
D. CASH FLOW FROM FINANCING ACTIVITIES	**(1.613.549)**	**(1.196.334)**
E. NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	(2.808.825)	2.370.327
F. CLOSING BALANCE - CASH AND CASH EQUIVALENTS	**3.410.064**	**6.218.889**

2.4 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Statement of changes in shareholders' equity accounts for the year ended as at 31 December 2015, 2016,2017 and 2018

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	Total
Balances as at 31 December 2015	**562.287**	**6.885.713**	**100.000**	**111.580**	**-**	**-**	**(431.127)**	**5.611.616**	**7.085.584**	**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**	**20.748.852**
Allocation of result for 2016						1.189.799		1.612.988	(2.802.789)	**(1)**
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**	**1.479.379**	**21.019.666**
Allocation of result for 2017						1.199.502		279.879	(1.479.379)	-
Dividends						(1.199.502)				**(1.199.502)**
Treasury shares					(415.477)					**(415.477)**
Net profit/(loss) for the year									4.152.909	**4.152.909**
Balances as at 31 December 2018	**562.287**	**6.885.713**	**100.000**	**112.457**	**(614.512)**	**-**	**(431.127)**	**12.789.871**	**4.152.909**	**23.557.597**

2.5 EXPLANATORY NOTES

1 Introduction

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

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

As at December 31, 2018, the Company's library comprised 867 titles, under temporary concession, plus 7 produced and co-produced films owned by the company.

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

The publication of the consolidated financial statements of the Annual Financial Report for the year ended December 31, 2018, was authorised with resolution of the Board of Directors on March 22, 2019.

2 Accounting standards and measurement criteria

As illustrated in the Directors' Report, in application of Legislative Decree February 28, 2005, no. 38, "Exercise of the options under art. 5 of the regulation (EC) no. 1606/2002 concerning international accounting standards", the Company availed of the right to redraft the financial statements in compliance with the international accounting standards (IFRS).

Starting with the annual financial statements for the year ended December 31, 2018, the Company applied the above regulatory provisions. The Accounting Schedules and Explanatory Notes of the Company for the period January 1st - December 31, 2018, thus were drawn up in compliance with the international accounting standards (IFRS) in effect as at December 31, 2018, approved by the European Union (EU IFRS).

By IFRS we mean all the International Financial Reporting Standards, all the International Accounting Standards (IAS), all the interpretations of the International Reporting Interpretations Committee (IFRIC), formerly called Standing Interpretations Committee (SIC).

Specifically, it was found that the EU IFRS were applied consistently with all the periods presented in this document. The financial statements were therefore drawn up based on the best knowledge of the EU IFRS and taking into account the best doctrine on the subject; any future orientations and interpretative updates will be reflected in later financial years by the means required each time by reference accounting standards.

These financial statements are drawn up according to the EU IFRS are subject to audit by the independent auditors Deloitte & Touche S.p.A.

The ad hoc section of these Explanatory Notes includes the prospectus required for the purposes of the IFRS 1 regarding the first application of the EU IFRS.

Format and content

The financial statements of as at December 31, 2018 were prepared on a going concern basis; the directors have verified the Company's ability to meet future obligations and hold that no major uncertainties as defined by the IAS 1.25 subsist concerning its ability to operate on an ongoing basis in the foreseeable future.

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.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLIED AS OF JANUARY 1, 2018

The following accounting principles, amendments and IFRS interpretations were applied for the first time by the Company starting on January 1, 2018:

- On May 28, 2014, the IASB published ***IFRS 15 - Revenue from Contracts with Customers***, which together with further clarifications published on the date April 12, 2016, 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 in 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.

  At the phase of first-time adoption of IFRS 15, the complete retrospective method was adopted, without identifying the effects that involved the re-statement of the values of the comparative financial statements.

- On the date July 24, 2018, the IASB published the final version of the **IFRS 9 – *Financial Instruments: recognition and measurement***. The document incorporates the results of the IASB project designed to replace IAS 39. The new standard must be applied in financial statements beginning on or after January 1, 2018.

  The standard introduces new criteria for classifying and measuring financial assets and liabilities. Specifically, for the financial assets the new standard uses a unique approach based on the means of management of the financial instruments and on the characteristics of the contractual cash flows of the financial assets themselves in order to determine their measurement criterion, substituting the different rules required by the IAS 39. Instead for the financial liabilities, the main change made concerns the accounting treatment of the variations in fair value of a financial liability designated as financial liability valued at fair value through the income statement, if these variations are due to variation in the issuer of the liability's credit rating. According to the new standard, these variations must appear in the "Other comprehensive income" prospectus and no longer in the income statement. Moreover, in the changes to financial liabilities defined as being non-material, it is no longer allowed to spread out the financial effects of the renegotiation over the residual debt maturity changing the effective interest rate on that date, but it will be necessary to show the related effect in the income statement.

  Regarding impairment, 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. The standard requires that this impairment model be applied to all the financial instruments, that is, to all the financial assets valued at amortised cost, to those valued at fair value through other comprehensive income, to the receivables from rental contracts and to trade receivables.

  Lastly, the standard introduces a new model of hedge accounting to the goal to adjust the requisites required by the current IAS 39 that sometimes are considered too strict and not suitable to reflect the companies' risk management policies. The main novelties in the document regard:

  - increase in the type of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities to be managed in hedge accounting;

- the change in the accounting methods for forward contracts and options when included in a hedge accounting relationship in order to lower the volatility of the income statement;
- the changes to the stress test by replacing the current method based on the 80-125% parameter with the principle of the "economic relationship" between the hedged item and the hedging instrument; in addition, assessment of the retrospective effectiveness of hedging will no longer be required.

The greater flexibility of the new accounting rules is offset by additional requests for information on the company's risk management activities.

At the phase of first-time application of IFRS 9, the modified retrospective method was adopted. Consequently, no changes were made to the comparative financial statements and the associated impacts were booked to opening shareholders' equity.
In relation to the main changes introduced by IFRS 9, the following impacts are reported:

Write-down of receivables.
Pursuant to IFRS 9, the Expected Credit Loss model was adopted.
In particular, as regards trade receivables, the application of this method required the specific write-down of receivables that present collection problems, and a generic write-down for all other receivables, including those not past due. This approach essentially corresponds to the approach also adopted in previous years and, therefore, did not entail the recognition of additional write-downs.

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 DECEMBER 31, 2018:

- **IFRS 16 - Leases** (published on January 13, 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 lease contracts from service provision contracts, identifying as determining factors: identification of the asset, right to replace the asset, right to obtain substantially all economic benefits deriving from the use of the asset, and lastly the right to direct the use of the asset underlying the contract.

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

The standard is applicable from January 1, 2019, though early application is allowed.

The Company is completing the preliminary assessment project of the potential impacts of applying the new standard on the transition date (January 1, 2019). This process was divided up into different steps, including the complete mapping of the contracts potentially suitable to containing a lease and their analysis in order to figure out the main clauses relevant for the purposes of the IFRS 16.

- On June 7, 2017, the IASB published the interpretation document **IFRIC 23 – Uncertainty over Income Tax Treatments**. The document addresses the issue of uncertainties over the tax treatment to adopt regarding income taxes. The document provides that uncertainties in the determination of tax liabilities or tax assets are only reflected in the financial statements when it is likely that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure obligation but underlines that the entity must establish whether it is necessary to provide information on the considerations reached by management and relating to the uncertainty regarding accounting for taxes, in accordance with the provisions of IAS 1. The new interpretation applies from January 1, 2019, but early application is allowed.

Accounting standards, amendments and interpretations still not endorsed by the European Union:

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

- “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”.
-“Annual Improvements to IFRSs 2015-2017 Cycle”
-“Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)”.
-“Definition of a Business (Amendments to IFRS 3)”.
-“Definition of Material (Amendments to IAS 1 and IAS 8)”.
-“IFRS 10 e IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”

The directors do not expect a significant effect on the Company's financial statements from the adoption of this interpretation.

Measurement criteria

<u>Intangible rights and other non-current intangible assets</u>

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

The receivables recognised in the financial statements are for rights to be obtained, at an identified o identifiable deadline, fixed or determinable sums of cash from clients or other parties. The receivables that came from the sale of goods and provision of services are shown following the requirements in the paragraph that comments on the revenue. The receivables that come from anything other than the exchange of goods and services may be recognised in the financial statements if "title" to the credit subsists, that is to say, if they actually are a third-party obligation toward the Company. The trade receivables that expire 12 months or more after the time of their initial recognition, without payment of interest or with contractual interest significantly different from the market interest rates, are initially recognised at the set value, actualising the future cash flows with the market interest rate. The difference between the receivable's value of initial recognition thus determined and the value at the end must be recognised in the Income Statement as a financial income for the entire duration of the receivable using the effective interest rate criterion. Regarding the presumed realisable value, the book value of the receivables is adjusted with a bad debt provision to take into account the probability that the receivables have lost value. For these purposes they are considered indicators - both specific and based on experience and all other useful elements - that lead one to believe there was a loss in the value of the receivables.

The receivables are deleted from the financial statements when the contractual rights on the financial flows from the receivable are closed or when the title of the contractual rights on the financial flows from the receivable is transferred and with it, substantially so are all the risks inherent to the receivable. For the purposes of assessment of the transfer of risk, all contractual clauses are taken into consideration. When the receivable is deleted from the financial statements when the above described conditions subsist, the difference between the payment and the book value of the receivable at the time of the sale is recognised in the Income Statement as loss on receivables, as long as the transfer agreement does not allow identification of other financial components of a different nature, even financial.

The impairment losses of the receivables are recognised in the Income Statement when objective proof is found that the Company will not be able to recover the receivable based on the contractual terms.

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

The Payables are liabilities of a set nature and certain existence that represent obligations to pay fixed or determinable sums of cash and cash equivalents to financiers, suppliers and other parties. The payables that came from purchases of goods are recognised when the production process of the goods is completed and the substantial passage of the title of ownership has occurred, taking on the transfer of risks and benefits as parameter of reference. The payables for services are recognised when the services are received; that is to say when the service has been rendered. The loan payables and those that came up for reasons other than the purchase of goods and services are recognised when the obligation of the Company to pay the other party arises. The payables for the advances from clients are recognised when the right to collect the advance arises. The payables are recognised in the financial statements according to the criterion of amortised cost, taking into account the time factor. The criterion of amortised cost is not applied in cases where its effects are irrelevant, generally for short-term payables or when the transaction costs or commissions paid between the parties and all other differences between the initial value and the value when the payable expires are of little importance. These payables are initially recognised at their nominal value net of premiums, discounts, and rebates under the contract or in any event granted and are later valued still at the nominal value plus the interest due calculated at the nominal interest rate, having subtracted the payments for capital and interest. The trade payables that expire 12 months or more after the time of their initial recognition, without payment of interest or with contractual interest significantly different from the market interest rates, and the related costs, are initially recognised at the set value, actualising the future cash flows with the market interest rate. The difference between the payable's value of initial recognition thus determined and the value at the end is recognised in the Income Statement as a financial charge for the entire duration of the payable using the effective interest rate criterion. The payables are entirely or partially eliminated from the financial statements when the contractual and/or legal obligation is closed due to fulfilment or other causes, or transferred. The financial liabilities, trade payables and other payables were initially recognised at fair value, net of the auxiliary costs of direct allocation and later were valued at the amortised cost, applying the actual interest rate criterion. If there is an estimable change in the expected cash flows, the value of the liabilities is recalculated to reflect this change based on the current value of the new expected cash flows and the initially set internal dividend yield.

The financial liabilities are classified among the current liabilities, unless the Company has an unconditional right to defer their payment for at least 12 months after the date of reference.
The financial liabilities are stricken from the financial statements upon their extinction and when the Company has transferred all the relative risks and charges to the instrument itself.

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

The sales revenue is recognised in the financial statements, net of sales discounts, rebates and returns, when the right to the payment and the financial benefits resulting from the sale become unconditional and the obligation is met. In the case of film rights, that moment is identified with the delivery of the media, given the contractual provisions. 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 January 1, 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 amounts

Costs for guaranteed amounts 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.

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.

The deferred tax liabilities are recognised on the temporary taxable differences for the different "timing" of recognition of revenue and costs in the financial statements, and therefore in the tax declaration, between the international accounting standards IAS/IFRS according to which these financial statements are drawn up, and the applicable tax regulations.

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 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	31/12/2018	31/12/2017	Change
		14,236,145	***13,706,377***	***529,769***

This item increased during the year by EUR 530 thousand.

Intangible assets	Distribution and production rights	Dubbing rights	Works in progress and advances	Other intangible rights	Trademarks	R&D	Total
Net book value at 31/12/2017	**7.346.960**	**627.493**	**5.593.618**	**37.310**	**-**	**100.994**	**13.706.376**
Investments at 31/12/18	3.766.648	348.200	3.395.321	9.858	251,00	4.420	7.524.698
Trade recivable			-				-
Reclassifications at 31/12/18	3.899.588	117.400	(4.016.988)		-	-	-
Uses of accumulated amortisation at 31/12/18	-	-			-		-
Assets decrease			(51.120)				(51.120)
Amortisation at 31/12/18	(6.506.881)	(390.847)	-	(14.616)	(50)	(31.413)	(6.943.807)
Historical Cost at 31/12/18	28.553.785	2.711.303	4.920.832	77.965	3.251	157.066	36.424.202
Accumulated amortisation at 31/12/18	(20.047.470)	(2.009.056)	-	(45.414)	(3.050)	(83.065)	(22.188.056)
Net book value at 31/12/18	**8.506.315**	**702.247**	**4.920.832**	**32.551**	**201**	**74.000**	**14.236.145**

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

Work in progress and advances refer for about Euro 3,395 to Guaranteed Amounts already paid to licensors for films to be distributed during 2019-2020.

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	31/12/2018	31/12/2017	Change
		57,356	***82,137***	***(24,781)***

The item decreased by roughly EUR 25 thousand during the period.

Tangible assets	Plant and machinery	Other tangible assets	Total
Net book value at 31/12/2017	**6,894**	**75,244**	**82,137**
Investments at 31/12/2018	2,050	1,507	3,556
Disposals at 31/12/2018	-	(4,314)	(4,314)
Uses of accumulated amortisation at 31/12/2018	-	3,248	3,248
Amortisation at 31/12/2018	(4,036)	(23,235)	(27,271)
Historical Cost at 31/12/2018	27,932	150,520	178,452
Accumulated depreciation at 31/12/2018	(23,025)	(98,070)	(121,095)
Net book value at 31/12/2018	**4,907**	**52,450**	**57,356**

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

No technology equipment was acquired through leasing contracts.

		31/12/2018	31/12/2017	Change
6	***Non-current assets: financial***			
		9,903	***12,265***	***(2,362)***

This item decreased by EUR 2.4 thousand due to the repayment of a security deposit.

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

		31/12/2018	31/12/2017	Change
7	***Tax credits***			
		3,256,415	***405,199***	***2,851,216***

Tax credits	31/12/2018	31/12/2017	Change
VAT tax	1,271,751	36,741	1,235,010
Current IRES tax	-	47,648	(47,648)
INAIL advances	5,898	3,761	2,137
Tax credits from special laws	1,978,766	316,978	1,661,788
Withholdings on interest income	-	71	(71)
Total	**3,256,415**	**405,199**	**2,851,216**

Tax credits from special laws refer to the residual tax credit accrued on production and executive production, and to distribution tax credit accrued but not yet used as at December 31, 2018. The change in the year is linked to the accrual of the tax credits for the executive productions accrued during 2018 and not yet used in offsetting in the year.

The significant VAT credit increase compared to the last closure of the year is due to the major growth of the executive production in the year 2018 that generates tax credit.

7	*Deferred tax assets*	31/12/2018	31/12/2017	Change
		342,566	***38,968***	***303,598***

With regard to non-current deferred tax assets, this item is mainly attributable to IRES and IRAP on non-tax deductible amortisation in the year and to director's fees in the fourth quarter of 2018, allocated in the financial statements but paid in the month of January 2019.

The analysis of deferred tax assets is the following:

situation as at 31/12/2017		Taxable amount IRES	Taxable amount IRAP	% IRES	IRES Tax	% IRAP	Taxable amount IRAP	Total taxes
Bad debt provision	2013	13,513.18		24%	3,243		0.00	
Bad debt provision	2014	55,575.86		24%	13,338		0.00	
allocation to provision for sales returns	2016	87,035.55		24%	20,889		0.00	
Tax loss	2016	-0		24%	0		0.00	
ACE	2016	0.00		24%	0		0.00	
Adm.fees Girardi 2017 unpaid	2017	6,240.00		24%	1,498		0.00	
Total		**162,364.59**	**0.00**	**24%**	**38,968**	**-**	**-**	**38,968**
Utilisation 2018								
utilisation bad debt provision	2018	6,174		24%	1,482			1,482
Adm.fees Girardi 2017 unpaid	2017	6,240		24%	1,498			1,498
Total		**12,414**			**2,979**			**2,979**
Allocations 2018								
Amort. 2018 over 50%	2018	1,016,307	1,016,307	24.0%	243,914	4.33%	44,016	287,930
Adm.fees 2018 unpaid	2018	77,700		24.0%	18,648			18,648
Total		**1,094,007**	**1,016,307**		**262,562**		**44,016**	**306,578**
situation as at 31/12/2018								
Total		**1,243,957**		**24%**	**298,550**		**44,016**	**342,566**

7	*Deferred tax liabilities*	31/12/2018	31/12/2017	Change
		3,337,284	***4,832,448***	***(1,495,164)***

As of the 2018 tax period, the company fulfils tax obligations based on statutory financial statements prepared according to international accounting standards IAS/IFRS. The amounts in the deferred taxes show the allocations for IRES and IRAP put in the restated financial statements according to the international accounting standards IAS/IFRS in the financial years from 2014 up to 2017, to be applied to the differences between the values taken on by the items affected by the differences between the two sets of accounting standards (ITA, GAAP, for the financial statements, based on which the Company recognised the taxable amount, and IAS/IFRS). The item decreased by about EUR 1,329 thousand in the year, independently from the set-off of the temporary differences below.

7	***Income tax payables***	**31/12/2018**	**31/12/2017**	**Change**
		1,742,580	***136,007***	***1,606,572***

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

Tax payables	**31/12/2018**	**31/12/2017**	**Change**
Withholding taxes on income of third parties	86,589	73,308	13,281
Current IRES tax	1,440,967	-	1,440,967
Current IRAP tax	215,023	62,699	152,324
Total	**1,742,580**	**136,007**	**1,606,572**

The increase in the debit balance for IRES and IRAP current taxes compared to year-end 2017 is due to the growth of the taxable base of the current taxes compared to the previous year, as described more in detail in the part on taxes.

8	***Inventories***	**31/12/2018**	**31/12/2017**	**Change**
		214,033	***181,729***	***32,304***

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***	**31/12/2018**	**31/12/2017**	**Change**
		14,682,834	***12,409,747***	***2,273,087***

The breakdown of the item is shown below:

Trade receivables	31/12/2018	31/12/2017	Change
Amounts due from customers	14,841,020	12,574,106	2,266,914
Bad debt provision	(158,186)	(164,359)	6,174
Total trade receivables	**14,682,834**	**12,409,747**	**2,273,087**

The item's increase is essentially linked to receivables for invoices to be issued for contracts closed and for films delivered but not yet invoiced to the clients.

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

10	*Other current assets*	31/12/2018	31/12/2017	Change
		450,927	***347,676***	***103,251***

Other current assets	31/12/2018	31/12/2017	Change
P&A prepaid expenses	214,582	346,902	(132,321)
Advances to suppliers	355	12	342.55
Advances to employees	1,817	761	1,055
Other receivables	234,173	-	234,173
Total	**450,927**	**347,676**	**103,250**

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

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

As at December, 31 2018, there were no activities of this type with a duration of more than five years.

11	*Cash and cash equivalents*	31/12/2018	31/12/2017	Change
		3,410,064	***6,218,889***	***(2,808,825)***

Cash and cash equivalents	31/12/2018	31/12/2017	Change
Bank current account balances	3,409,841	6,218,088	(2,808,247)

Cash on hand	224	801	(577)
Total	**3,410,064**	**6,218,889**	**(2,808,825)**

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

12	***Employee severance indemnity and provisions***	**31/12/2018**	**31/12/2017**	**Change**
		372,101	***332,111***	***39,990***

In total, this item increased by EUR 39.9 thousand, for which the analysis is as follows:

Employee severance indemnity and provisions	**31/12/17**	**Allocations**	**Uses**	**31/12/18**	**Change**
Employee severance indemnity	245,075	98,461	(58,472)	285,065	39,990
Provision for estimated sales returns	87,036	-	-	87,036	-
Total	332,111	98,461	(58,472)	372,101	39,990

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 December, 31 2018 and that therefore were included in revenues for the year.

13	***Trade payables***	**31/12/2018**	**31/12/2017**	**Change**
		7,164,082	***6,685,686***	***478,395***

Trade payables are broken down as follows:

Trade payables	31/12/2018	31/12/2017	Change
Payables to Italian suppliers	6,331,698	5,982,937	348,761
Payables to foreign suppliers	832,384	702,749	129,635
Total payables to suppliers	**7,164,082**	**6,685,686**	**478,395**

Payables to suppliers are recognised net of trade discounts; cash discounts are recorded upon payment. There was an increase of EUR 478 thousand compared to yearend 2017, principally due to changed payment dynamics.

Payables to foreign suppliers, equal to EUR 832 thousand, are contracts with European suppliers (Hungary, Great Britain, Germany, Ireland, and France).

14	*Other current liabilities*	31/12/2018	31/12/2017	Change
		486,601	***397,066***	***89,535***

Other current liabilities	31/12/2018	31/12/2017	Change
Payables to social security institutions	140,020	185,602	(45,583)
Customer advances	99,266	3,028	96,238
Sundry employee payables	247,316	208,436	38,880
Total other current liabilities	**486,601**	**397,066**	**89,535**

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 2018 paid in January 2019, as well as to the different accruals for deferred compensation.

15	*Shareholders' equity*	31/12/2018	31/12/2017	Change
		23,557,597	***21,019,667***	***2,537,929***

Shareholders' equity	31/12/2018	31/12/2017	Change
- Share capital	562,287	562,287	-
- Legal reserve	112,457	112,457	-
- Share premium reserve	6,885,713	6,885,713	-
- Reserve for capital contributions	100,000	100,000	-
- FTA IAS Reserve	11,145,959	11,145,959	-
- (Treasury shares in portfolio)	(614,515)	(199,035)	(415,480)
- Retained earnings/(losses)	1,212,786	932,908	279,879
- Profit/(loss) for the year	4,152,909	1,479,379	2,673,530
Total	**23,557,597**	**21,019,667**	**2,537,929**

The change in shareholders’ equity of EUR 2,538 thousand is due to the recognition of profit for the year, net of 2017 profits carried forward amounting to EUR 280 thousand and the increase in the reserve to purchase treasury shares for EUR 415,480, net of the use cited hereunder.

It should be pointed out that, as a result of the resolution of the Board of Directors on January 8, 2018, 10,000 company shares from those held by the latter in the portfolio were assigned to an executive, free of charge and as extraordinary remuneration. As a result of this assignment, the equity reserve was reduced by EUR 13,550.

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

The earnings carried forward FTA-IAS, equal to EUR 105 thousand, represent the effects of the reconciliation and the financial results prepared according to Italian accounting standards (ITA GAAP) and those prepared applying the new accounting standards as at December 31, 2017.

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

The following tables analytically show the shareholders’ equity items, specifying their origin, possibility of use and distributability, as well as how they were used in past years.

Reserve situation as at 31 december 2018

Description	Amount	Possibility of use	Available portion	Distributable portion	Summary of utilizations in the previous year	
					for loss coverage	Other reasons
Share capital	562.287	B	-	-		
Share capital Reserve						
- Share premium reserve	6.885.713	A,B,C	6.885.713	6.885.713		
- Reserve for capital contributions	100.000					
- FTA IAS Reserve	11.145.959	A,B	11.145.959	11.145.959		
Profit Reserve:						
- Legal reserve	112.457	A,B	112.457	-		
- Statutory Reserve	-		-	-		
- Retained earnings/(losses)	1.212.786	A,B,C	1.212.786	1.212.786	(70.988)	
Totale	**20.019.203**		**19.356.916**	**19.244.459**	**(70.988)**	

Note

A: for capital increase B: for loss coverage C: for shareholder distribution

Note:	**31.12.18**
the net book value of establisment cost is:	-
the net book value of R&D cost is:	74.000
net losses on unrealized exchange rates for	-
	74.000

16 Tax position

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

The company has no disputes with the tax authorities.

The company has not yet taken advantage of exemptions, but has benefited from Italian and European Community grants to support the film industry. In particular, in 2018, the company benefited from the tax credit on executive production for foreign films shot in Italy, for the film *Black Butterfly*, *Bent* and *Lamborghini*, from the production tax credit for the film *Non è vero ma ci credo* (It's not True, but I believe it) and that for the distribution for the films *La verità vi spiego sull'amore* (The Truth About Love Is...), *Il Contagio* (Tainted Souls) and *Quanto Basta* (Just Enough).

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 December 31, 2018.

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 7,723 thousand for films released after the end of the financial year 2018.

- Commitments for future lease instalments for the offices in Rome for EUR 238 thousand. On the date August 31, 2018 the Rome contract was renewed for another six years at the same contractual conditions as before.
- Commitments for lease instalments for the offices in Milan, expiring on April 30, 2021, of approximately EUR 146 thousand.

19	Revenues from sales and services and other revenues and income	2018	2017	Change
		31,533,818	***18,138,707***	***13,395,111***

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

Revenues from sales and services and other revenues and income	**2018**	**% of total revenues**	**2017**	**% of total revenues**	**Change**	**% Change**
Theatrical revenues	5,922,458	18.8%	4,471,830	24.7%	1,450,628	32.44%
Home video revenues	391,623	1.2%	193,638	1.1%	197,984	102.24%
Newsstand revenues	55,355	0.2%	20,632	0.1%	34,723	168.29%
International sales revenues	63,513	0.2%	3,207	0.0%	60,306	
Pay TV revenues	7,598,000	24.1%	5,675,000	31.3%	1,923,000	33.89%
Free TV revenues	4,116,982	13.1%	3,388,092	18.7%	728,890	21.51%
Pay-Per-View revenues	491,367	1.6%	326,101	1.8%	165,266	50.68%
New Media revenues	624,526	2.0%	1,262,983	7.0%	(638,458)	-50.55%
Revenues for commissions	35,000	0.1%	-	0.0%	35,000	
Services rendered for executive production	8,749,878	27.7%	1,528,000	8.4%	7,221,878	472.64%
	28,048,701	**88.9%**	**16,869,483**	**93.0%**	**11,179,218**	**66.27%**
Change in product inventories	32,304	0.1%	40,882	0.2%	(8,578)	-20.98%
Other revenues and income	3,452,812	10.9%	1,228,342	6.8%	2,224,470	181.10%
Total	**31,533,818**		**18,138,707**		**13,395,111**	73.85%

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

Revenues for 2018 amounted to EUR 31,534 thousand (EUR 18,135 thousand as at December 31, 2017), posting an increase of 74%. With respect to the year 2017, the best performances were recorded by theatrical revenues, which rose from EUR 4,472 thousand in 2017 to EUR 5,922 thousand in 2018, growing by 32%, Free TV revenues, which went from EUR 5,675 thousand in 2017 to EUR

7,958 thousand in 2018, growing by 21.5%, and Pay TV revenues, which rose from EUR 3,388 thousand in 2017 to EUR 4,117 thousand in 2018, growing by 34%. In this regard, note that in 2018 there were revenues for executive production totalling EUR 10,983 thousand (relating to the above-mentioned works), of which EUR 2,234 thousand relating to the tax credit, allocated among the other revenue, compared to 1,903 thousand in 2017.

In general, the Home Video, Newsstand and Pay-Per-View channels posted an increase compared to 2017 results.

The other revenue totalling EUR 3,514 thousand is from tax credit contributions for executive productions and distribution for about EUR 2,800 thousand, film commission contributions for about EUR 177 thousand, European media contributions for about EUR 234 thousand and for the remainder from the income from advertising activities and goods exchange.

20 *Operating costs*	2018	2017	Change
Costs for raw materials, consumables, and goods	***150,794***	***147,175***	***3,618***
Costs for services	***18,171,167***	***10,179,405***	***7,991,762***
	18,321,961	***10,326,580***	***7,995,381***

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

Operating costs	2018	% of total costs	2017	% of total costs	Change	% Change
Purchase costs of various materials	36.143	0,4%	37.615	0,1%	(1.472)	24,51%
HV production and packaging costs	114.651	1,2%	109.560	0,8%	5.091	-29,03%
Costs for raw materials, consumables, and goods	**150.794**	1,6%	**147.175**	1,0%	**3.618**	
Executive production costs	8.991.797	7,2%	1.791.902	41,0%	7.199.895	-91,27%
Compensation for directors, statutory auditors, and independent auditors	353.299	3,5%	317.335	1,4%	35.964	20,53%
Consulting and collaborations	409.140	3,2%	397.198	1,5%	11.942	3,19%
Costs for sundry services	136.407	2,3%	188.158	1,0%	(51.751)	18,49%
Costs for use of third-party assets	224.129	1,5%	206.824	1,2%	17.305	-34,18%
Broker commissions	266.056	0,9%	214.911	1,1%	51.145	-60,33%
P&A and marketing costs	7.790.340	79,8%	7.063.077	51,8%	727.263	-23,61%
Costs for services	**18.171.167**	98,4%	**10.179.405**	99,0%	**7.991.762**	
Total	**18.321.961**		**10.326.580**		**7.995.381**	

The increase in costs for services is mainly attributable to the growth in executive production work, as already discussed previously. Costs of consulting and collaborations rose by around 3% compared to 2017, amounting to EUR 409 thousand, mainly related to consulting concerning advisory activities for the Stock Market.

Costs for the use of third-party assets increased by approximately 8% to EUR 224 thousand. Broker commissions totalled EUR 266 thousand, up compared to the previous year, mainly due to the higher theatrical revenues to which they are correlated.

P&A and marketing costs of EUR 7,790 thousand were up by approximately 10% compared to the previous year, due primarily to higher expenses for film launches during the period.

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

21	***Personnel costs***	**2018**	**2017**	**Change**
		1,942,016	***1,474,243***	***467,774***

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:

Personnel costs	**2018**	**2017**	**Change**	**% Change**
Salaries and wages	1,286,623	842,982	443,641	52.63%
Social security costs	503,678	491,756	11,922	2.42%
Employee severance indemnity	102,243	99,441	2,802	2.82%
Other costs	49,473	40,064	9,409	23.49%
Total	**1,942,016**	**1,474,243**	**467,774**	

The increase in personnel costs is due to the capitalisation, in 2017, of the part directly attributable to the work in question of the costs of internal personnel working on the production of the film *La verità vi spiego sull’amore* (I’ll tell you the truth about love).

In the year, the costs of the personnel that participated in the making of the film *Non è vero ma ci credo* (It's Not True But I Believe It), for the sum of EUR 30 thousand were capitalised.

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

Headcount	**31/12/2018**	**31/12/2017**	**change**	**average**
Executives	*5*	*5*	*-*	*5.0*
Office staff	*21*	*22*	*(1)*	*21.5*
Total headcount	*26*	*27*	*(1)*	*26.5*

22	*Depreciation, amortisation, and provisions*	2018	2017	Change
		6,971,079	***4,117,639***	***2,853,440***

The difference of EUR 2,718 thousand reflects operating activities. Depreciation and amortisation mainly refer to the films under concession as detailed below.

Depreciation and amortisation	2018	2017	Change	% Change
Amortisation of distribution rights	6,506,881	3,670,370	2,836,511	77.28%
Amortisation of dubbing rights	390,847	375,047	15,800	4.21%
Amortisation of various intangible assets	46,079	43,874	2,206	5.03%
Total amortisation of intangible assets	**6,943,807**	**4,089,291**	**2,854,517**	69.80%
Depreciation of machinery and plants	4,036	3,882	154	3.96%
Depreciation of various tangible assets	23,235	24,465	(1,230)	-5.03%
Total depreciation of tangible assets	**27,271**	**28,348**	**(1,076)**	-3.80%
Total	**6,971,079**	**4,117,639**	**2,853,440**	69.30%

The higher amortisation/depreciation in the period is linked to the growth in turnover in the year and to an update to the multi-year revenue plans of the entire library.

23	*Sundry charges and income*	2018	2017	Change
		150,865	***322,861***	***(171,996)***

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*	2018	2017	Change
		29,096	***79,283***	***(50,187)***

The principal component of financial income for 2018 refers to interest income accrued on bank accounts, profits accrued in managing the “Treasury Shares” bank of shares and to the net balance on foreign exchange gains and losses.

25	*Income taxes*	2018	2017	Change
		(34,108)	***338,722***	***(372,831)***

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

Taxes	2018	2017	Change
Current IRES tax	1,635,497	184,543	1,450,954
Current IRAP tax	295,026	80,003	215,022
Current taxes	**1,930,523**	**264,546**	**1,665,976**
Deferred IRES tax	-	(43,164)	43,164
Deferred IRAP tax	-	(29,233)	29,233
Deferred taxes	**-**	**(72,397)**	**72,397**
Prepaid IRES for the year	(259,582)	(1,712)	(257,871)
Prepaid IRES from previous years, reversed	(1,070,410)	148,285	(1,218,695)
Prepaid IRAP for the year	(44,016)	-	(44,016)
Prepaid IRAP from previous years, reversed	(590,623)		(590,623)
Deferred tax assets	**(1,964,631)**	**146,573**	**(2,111,204)**
Total taxes	**(34,108)**	**338,722**	**(372,831)**
of which IRES	305,505	287,952	17,553
of which IRAP	(339,613)	50,771	(390,384)

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 April 27, 2018, the Shareholders' Meeting resolved to distribute profit equivalent to EUR 0.0543 per share. The total value distributed was equal to EUR 1,198,069.00.

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 0.19

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 December 31, 2018, trade receivables amounted to EUR 14,841 thousand and the bad debt provision was EUR 158 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 around EUR 3.4 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 31/12/2018		Year ending 31/12/2017	
	Payables	Operating costs	Payables	Operating costs
Guglielmo MARCHETTI (1) (3)	29,482	331,280	22,047	299,710
Ugo GIRARDI (2)	12,291	81,120	10,688	74,880
Stefano DI GIUSEPPE (4)	3,652	41,228	3,376	38,755
Leonardo PAGNI (4)	3,336	14,000	2,588	12,000
Davide ROSSI (4)	3,062	14,000	2,740	12,000
Paolo MUNDULA (5)	19,247	19,247	16,718	16,718
Marco D'AGATA (5)	11,440	11,440	11,440	11,440
Giulio VARELLA (5)	11,440	11,440	11,440	11,440
EXPERION S.r.l. (6)	32,025	35,000	21,350	35,000
Total transactions with related parties	**125,976**	**558,755**	**102,387**	**511,943**

(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	174,000		157,280
Ugo GIRARDI	Director	28,000	48,000	
Stefano DI GIUSEPPE	Director	14,000		27,127
Leonardo PAGNI	Director	14,000		
Davide ROSSI	Director	14,000		
Paolo MUNDULA	Statutory Auditor	14,000	3,000	
Marco D'AGATA	Statutory Auditor	11,000		
Giulio VARELLA	Statutory Auditor	11,000		
Total compensation		**280,000**	**51,000**	**184,407**

The consideration pertaining to the year for services provided by independent auditors for the legal accounting audit, as well as the voluntary audit of the Annual Financial Report at December 31, 2018, amounted to EUR 35 thousand.

These fees are net of the obligatory social security charges and were amended by the Shareholders' Meeting resolution of April 27, 2018.

31 INFORMATION AS SET FORTH BY LAW 124/17 ART. 1, PARAGRAPHS 125 AS AMENDED

Law no. 124/2017 includes the obligation to provide information on subsidies or grants, paid assignments and/or financial benefits of any kind received from the Italian government. To this regard, the table below shows the payments collected by the company Notorious Pictures S.p.A: over the course of the year.

«Information pursuant to art. 1, paragraph 125, of law August 4 2017, no. 124 on public grants				
Issuing Body	reason	amount deliberated or accrued	amount collected or offset f24	remaining credit
Lazio Region	Film Commission	176,803	(158,738)	18,065
Mibact	Production tax credit	250,800		250,800
Mibact	Executive Production tax credit	2,533,043	(1,373,652)	1,159,391
Mibact	Distribution tax credit	568,575		568,575

Allocation of the earnings and consequent resolutions

Dear Shareholders,

Notorious Pictures S.p.A.'s 2018 financial statements close with EUR 4,152,909 in profits and a shareholder's equity of EUR 23,557,597.

In light of the considerations made in the points above and that set forth in these Explanatory Notes, we ask you to:

- approve the financial statements for the year ended at 31/12/2018 together with these Explanatory Notes and the Management Report attached to them.
- allocate the earnings of EUR 4,152,909 in the following manner:
  - the sum of EUR 1,800,120 to be distributed to the shareholders as a dividend in a EUR 0.0820 part per share held
  - EUR 2,352,789 carried forward

We therefore ask you to approve the financial statements as submitted.

Final comments

These financial statements made up of the Balance Sheet, Income Statement and Explanatory Notes match the accounting records kept at the Company.

Milan, March 22 2019

For the Board of Directors

Chairman

Guglielmo Marchetti

33 Transition to IAS/IFRS international accounting standards

In compliance with that required by IFRS 1, the quantitative and qualitative information regarding the effects of the transition to the IAS/IFRS accounting standards approved in the European Union (EU IFRS) are given.

Specifically, together with the respective explanatory notes, below are the schedules of reconciliation between the net shareholders' equity expressed according to the Italian accounting standards (ITA GAAP) and that determined according to the IAS/IFRS accounting standards as at January 1, 2017, transition date, as well as the schedules of reconciliation between the net shareholders' equity expressed according to the Italian accounting standards and those prepared applying the new accounting standards as at December 31, 2017.

The IAS/IFRS statements of financial position and the IAS/IFRS income statements were obtained making the appropriate IAS/IFRS adjustments and reclassifications to the final data, prepared according to the regulations of Italian law, to reflect the changes to the presentation, recognition and valuation criteria required by the IAS/IFRS.

The accounting schedules and reconciliation schedules were drawn up solely for the preparation of the first complete financial statements at December 31, 2018, according to the IAS/IFRS approved by the European Commission. The above said schedules therefore do not have any comparative data and the necessary explanatory notes would be required to reliably represent the statement of financial position and the financial results of the company Notorious Pictures S.p.A. in compliance with IAS/IFRS standards. The above said reconciliation schedules are subjected to audit according to the instructions in Consob Communication no. DEM/6064313 of July 28, 2006.

The adjustments were made in compliance with the IAS/IFRS accounting standards currently in effect.

Initial application of the international accounting standards (IFRS 1)

As required by IFRS 1, on the date of transition to the new principles (January 1, 2017):

- a statement of financial position was drawn up recognising all and only the assets and liabilities recognisable based on the IAS/IFRS;
- the items previously listed in the financial statements according to means other than those required by the IAS/IFRS have been reclassified;
- all IAS/IFRS accounting principles have been applied in the valuation of all the assets and liabilities recognised.

The effect of the adjustment to the new accounting principles was recognised among the shareholders' equity items, taking into account the relative tax effects recognised among the deferred tax assets or the deferred tax liabilities.

Preferred treatments in the scope of the options foreseen

The reworking of the statement of financial position as at January 1, 2017, and the accounting schedules as at December 31, 207, also entailed some choices from among the options provided for by the IAS/IFRS, explained below.

- Valuation of the tangible and intangible assets: after initial recognition to the cost, the IAS 16 - Plant and machinery, Par. 30, and the IAS 38 – Intangible assets. Par. 72, require that the tangible and intangible assets may be valued at the cost net of the amortisation accumulated and the impairment, or periodically determining the market value and adjusting the accounting balance to that value at the reference date of the valuation of the market value. It was decided to adopt the cost method.

Optional exemptions from the complete retrospective adoption of the IAS-IFRS

The companies that adopt the IAS/IFRS for the first time can opt for the application of some optional exemptions from full retroactive application of the accounting standards.

It was decided not to recognise all of the actuarial gains and losses accumulated as at the date of transition, which would have arisen from the retrospective application of the IAS 19 - Employee benefits.

Mandatory exemptions from the complete retrospective adoption of the IAS-IFRS

The IFRS 1 establishes some mandatory exceptions to the retrospective application of the international accounting principles in the transition process to the IAS-IFRS.

Below are the mandatory exemptions applicable to the Company:

- Deletion of financial assets and liabilities: the financial assets and/or liabilities other than derivative instruments for transactions made before January 1, 2017, that were deleted from the financial statements prepared according to the Italian accounting standards must neither be recognised nor reappear in the financial statements.
- Estimates: the estimates made as at the date of passage to IAS-IFRS must match the estimates made on the same date according to the Italian accounting standards (after the necessary adjustments to reflect any differences in the accounting standards).

Schedules of transition to IAS-IFRS

Below are the following schedules complete with the explanatory notes referred to herein:

- Schedule of reconciliation of the net shareholders' equity as at the transition date (1.1.17)
- Summary schedule of reconciliation of the financial position as at the transition date (1.1.17)
- Summary schedule of reconciliation of the income statement for the year 2017
- Schedule of reconciliation of the net shareholders' equity as at the date 31/12/2017.
- Summary schedule of reconciliation of the financial position as at the date 31/12/2017.

Schedule of reconciliation of the net shareholders' equity as at the transition date (1.1.17)

Notes	Net shareholders' equity according to Italian accounting standards	9,602,894
1	Spending effect for system costs	-8,575,774
2	Effect multi-year revenue rediscount on rights granting	30,010,416
3	Effect greater amortisation on rights	-4,398,833
4	Effect capitalisation of costs only on ita gaap	-387,473
5	Effect non-deferral of costs inherent to non-rediscounted revenue	-393,281
6	Effect advance of costs for growing rental fees	-38,383
7	Tax effects	-5,070,713
	rounding	-1
	Net shareholders' equity according to accounting standards IAS IFRS	**20,748,852**

NOTES

1. Spending effect for system costs

The costs under examination for the charges incurred by the Company for the launch and promotion of films were capitalised for the purposes of the ITA-GAAP accounting standards and are instead recognised in the income statement in compliance with the IAS-IFRS.

2. Effect multi-year revenue rediscount on rights granting

In the financial statements according to ITA-GAAP, the revenue for granting third parties the rights to use films were recognised for the entire duration of the contracts starting when the rights were made available to the clients. This led to the suspension and deferral in time according to mathematical formulas.

The revenue in question is instead recognised under IAS-IFRS when there is an actual transfer of the control, as set forth in the IFRS 15 on the works in question. In the case of film rights, the control is deemed transfer upon delivery of the media, in light of the contractual provisions, no longer possessing the manageriality of the rights transferred at that moment. This implied recognition of the revenue that had been suspended (rediscounted) under ITA-GAAP in the shareholders' equity.

3. Effect greater amortisation on rights

Both for the purposes of ITA-GAAP and those of IAS-IFRS, the rights to use the works were amortised according to the method usually used in the industry defined as individual film forecasting method which requires the accumulated amortisation of the costs for each film be redetermined year by year, referencing the relationship between the revenue already made for each film and the total revenue expected for that same film.

The fact that, as stated in the note above, for IAS-IFRS purposes higher amounts of the revenue were recognised entailed the recognition of higher amortisation amounts.

4. Effect capitalisation of costs only for the purposes of ITA GAAP

Some costs for works in the area of film production attributable to the use of personnel directed by the company were capitalised for the purposes of ITA-GAAP in 2016 and for the purposes of IAS-IFRS in 2017.

5. Effect non-deferral of costs inherent to non-deferred revenue

This has to do with prepaid expenses recognised in the ITA-GAAP financial statements and functionally inherent to revenue that was deferred only for ITA-GAAP purposes and not for IAS-IFRS purposes as well.

This entailed these costs being expensed in the IAS-IFRS financial statements and allocated to shareholders' equity in the situation in question.

6. Effect advance of costs for growing rental fees

The difference in question comes from the different allocation to the income statement of the rental instalments if contractual instalments rise because of incentives granted by the lessor (IAS 37).

In the ITA-GAAP financial statements, the contractual instalments were expensed paid little by little, while for IAS-IFRS purposes, costs are allocated that match the total amount of the instalments for the entire contract, divided by the contractual periods. The difference in question thus is the higher costs allocated in the IAS-IFRS financial statements compared to those in ITA-GAAP.

7. Tax effects

The item in question includes the tax adjustments that arose in redetermining the financial statement values after applying the IAS-IFRS.

Summary schedule of reconciliation of the financial position as at the transition date (1.1.17)

STATEMENT OF FINANCIAL POSITION	ITA GAAP	adjustments	reclassifications	effects of the conversion	IAS
	01/01/2017				**01/01/2017**
Non-current assets					
- Distribution and production rights	*18,820,895*	*-12,974,607*	*-43,961*	*-13,018,568*	*5,802,327*
- Works in progress and advances	*5,087,046*	*-387,473*		*-387,473*	*4,699,573*
- Other intangible assets	*111,327*		*17,126*	*17,126*	*128,453*
Intangible assets	24,019,268	-13,362,080	-26,835	-13,388,915	*10,630,353*
Tangible assets	74,526		26,835	*26,835*	*101,361*
Financial assets	12,168			*0*	*12,168*
Deferred tax assets	185,541			*0*	*185,541*
Total non-current assets	**24,291,503**	**-13,362,080**	**0**	**-13,362,080**	**10,929,423**
Current assets					
Inventories	140,847			*0*	*140,847*
Trade receivables	17,168,957		-575,215	*-575,215*	*16,593,742*
Tax credits	503,417			*0*	*503,417*
Other current assets	559,596	-393,281	575,215	*181,934*	*741,530*
Cash and cash equivalents	3,848,561			*0*	*3,848,561*
Total current assets	**22,221,378**	**-393,281**	**0**	**-393,281**	**21,828,097**
Total assets	**46,512,881**	**-13,755,361**	**0**	**-13,755,361**	**32,757,520**
Non-current liabilities					
Employee severance indemnity	166,561			0	166,561
Provisions	87,036			0	87,036
Deferred tax liabilities	0	5,070,713		5,070,713	5,070,713
Total non-current liabilities	**253,597**	**5,070,713**	**0**	**5,070,713**	**5,324,310**
Current liabilities					
Trade payables	6,281,852	38,383		38,383	6,320,235

Income tax payables	85,902			0	85,902
Other current liabilities	30,288,636	- 30,010,416		-30,010,416	278,220
Total current liabilities	**36,656,390**	**- 29,972,033**	**0**	**-29,972,033**	**6,684,357**
Total liabilities	**36,909,987**	**- 24,901,320**	**0**	**-24,901,320**	**12,008,667**
- Share capital	562,287			0	562,287
- (Treasury shares)	-180,270			0	-180,270
- Other Reserves and Retained Earnings	8,029,487	9,534,561		9,534,561	17,564,048
- Profit/(loss) for the year	1,191,390	1,611,398		1,611,398	2,802,788
Total shareholders' equity	**9,602,894**	**11,145,959**	**0**	**11,145,959**	**20,748,853**
Total liabilities + shareholders' equity	**46,512,881**	**- 13,755,361**	**0**	**-13,755,361**	**32,757,520**

In addition to the effects on the net shareholders' equity as illustrated above, the adoption of the international accounting standards IAS/IFRS entailed the need to reclassify some of the items in the shareholders' equity assets and liabilities items, without affecting the net shareholders' equity as at the transition date and at 31/12/2017:

Below is a summary of the reclassifications made as at 01/01/2017 and at 31/12/2017

Schedule of the accounting reclassifications as at the transition date 01/01/2017		
	reclassifcation expenses on third-party goods	-26,835
1 recl	reclassifcation expenses on third-party goods	26,835
3 recl	reclassification other receivables	-575,215
	reclassification other receivables	575,215

Schedule of the accounting reclassifications as at the date 31/12/2017		
4 recl	Other Intangible Assets	-20,870
	Tangible Fixed Assets	20,870

Reclassifications number 1 and 4 are for improvements on third-party goods that for the purposes of ITA GAAP are classified as intangible, while for IAS-IFRS purposes, as tangible.

Reclassification 3 refers to receivables for European Media Grants that for ITA GAAP purposes were classified among the trade receivables and that then were reclassified for IAS-IFRS purposes among the other current assets.

Summary schedule of reconciliation of the 2017 income statement

INCOME STATEMENT	ITA GAAP	adjustments	reclassifications	effects of the conversion	IAS
	2017				2017
Revenues from sales and services	14,255,191	2,614,292		2,614,292	16,869,483
Other revenues and income	2,737,728	-1,509,386		-1,509,386	1,228,342
Change in finished product inventories	40,882			0	40,882
Operating costs	-8,492,477	-1,834,103		-1,834,103	-10,326,580
Personnel costs	-1,849,571	375,328		375,328	-1,474,243
Sundry charges and income	-322,861			0	-322,861
Amortisation of intangible assets	-4,272,041	176,785		176,785	-4,095,256
Depreciation of tangible assets	-22,383			0	-22,383
Bad debt provision	0			0	*0*
Other risk provisions	0			0	*0*
Operating result	**2,074,468**	**-177,084**	**0**	**-177,084**	**1,897,384**
Financial income and charges	-79,283			0	*-79,283*
Profit before tax	**1,995,185**	**-177,084**	**0**	**-177,084**	**1,818,101**
Income taxes	-411,120	**72,398**		72,398	*-338,722*
Net profit/(loss)	**1,584,065**	**-104,686**	**0**	**-104,686**	**1,479,379**

Schedule of reconciliation of the net shareholders' equity as at 31/12/2017.

Notes	Net shareholders' equity according to Italian accounting standards	9,978,395
1	Spending effect for system costs	-10,042,450
2	Effect deferral of multi-year revenue on rights granting	32,584,999
3	Effect greater amortisation on rights	-6,056,818
4	Effect non-deferral of costs inherent to non-deferred revenue	-393,281
5	Effect advance of costs for rising rental instalments	-52,862
6	Tax effects on deferred tax fund	-4,832,448

6	Tax effects on tax credits	-140,472
6	Tax effects on tax payables	-25,396
	Net shareholders' equity according to accounting standards IAS IFRS	**21,019,667**

NOTES

1. Spending effect for system costs

The costs under examination for the charges incurred by the Company for the launch and promotion of films were capitalised for the purposes of the ITA-GAAP accounting standards and are instead recognised in the income statement in compliance with the IAS-IFRS.

2. Effect deferral of multi-year revenue on rights granting

In the financial statements according to ITA-GAAP, the revenue for granting third parties the rights to use films were recognised for the entire duration of the contracts starting when the rights were made available to the clients. This led to the suspension and deferral in time according to mathematical formulas.

The revenue in question is instead recognised under IAS-IFRS when there is an actual transfer of the control, as set forth in the IFRS 15 on the works in question. In the case of film rights, the control is deemed transfer upon delivery of the media, in light of the contractual provisions, no longer possessing the manageriality of the rights transferred at that moment. This implied recognition of the revenue that had been suspended (rediscounted) under ITA-GAAP in the shareholders' equity.

3. Effect greater amortisation on rights

Both for the purposes of ITA-GAAP and those of IAS-IFRS, the rights to use the works were amortised according to the method usually used in the industry defined as individual film forecasting method which requires the accumulated amortisation of the costs for each film be redetermined year by year, referencing the relationship between the revenue already made for each film and the total revenue expected for that same film.

The fact that, as stated in the note above, for IAS-IFRS purposes higher amounts of the revenue were recognised entailed the recognition of higher amortisation amounts.

4. Effect non-deferral of costs inherent to non-deferred revenue

This has to do with prepaid expenses recognised in the ITA-GAAP financial statements and functionally inherent to revenue that was deferred only for ITA-GAAP purposes and not for IAS-IFRS purposes as well.

This entailed these costs being expensed in the IAS-IFRS financial statements and allocated to shareholders' equity in the situation in question.

5. Effect advance of costs for growing rental fees

The difference in question comes from the different allocation to the income statement of the rental instalments if contractual instalments rise because of incentives granted by the lessor (IAS 37).

In the ITA-GAAP financial statements, the contractual instalments were expensed paid little by little, while for IAS-IFRS purposes, costs are allocated that match the total amount of the instalments for the entire contract, divided by the contractual periods. The difference in question thus is the higher costs allocated in the IAS-IFRS financial statements compared to those in ITA-GAAP.

6. Tax effects

The item in question includes the tax adjustments that arose in redetermining the financial statement values after applying the IAS-IFRS.

Summary schedule of reconciliation of the financial position as at 31/12/2017.

STATEMENT OF FINANCIAL POSITION	ITA GAAP	adjustments	reclassifications	effects of the conversion	IAS
	31/12/2017				31/12/2017
Non-current assets					
- Distribution and production rights	*24,111,032*	*-16,099,268*	*-37,711*	*-16,136,979*	*7,974,053*
- Works in progress and advances	*5,593,618*			*0*	*5,593,618*
- Other intangible assets	*121,864*		*16,841*	*16,841*	*138,705*
Intangible assets	29,826,514	-16,099,268	-20,870	-16,120,138	*13,706,376*
Tangible assets	61,267		20,870	*20,870*	*82,137*
Financial assets	12,265			*0*	*12,265*
Deferred tax assets	38,968			*0*	*38,968*
Total non-current assets	**29,939,014**	**-16,099,268**	**0**	**-16,099,268**	**13,839,746**
Current assets					
Inventories	181,729			*0*	*181,729*
Trade receivables	12,409,747			*0*	*12,409,747*
Tax credits	545,671	-140,472		*-140,472*	*405,199*
Other current assets	740,957	-393,281		*-393,281*	*347,676*

Cash and cash equivalents	6,218,889			*0*	*6,218,889*
Total current assets	**20,096,993**	**-533,753**	**0**	**-533,753**	**19,563,240**
Total assets	**50,036,007**	**-16,633,021**	**0**	**-16,633,021**	**33,402,986**
Non-current liabilities					
Employee severance indemnity	245,075			0	245,075
Provisions	87,036			0	87,036
Deferred tax liabilities	0	4,832,448		4,832,448	4,832,448
Total non-current liabilities	**332,111**	**4,832,448**	**0**	**4,832,448**	**5,164,559**
Current liabilities					
Trade payables	6,632,824	52,862		52,862	6,685,686
Income tax payables	110,611	25,396		25,396	136,007
Other current liabilities	32,982,066	-32,584,999		-32,584,999	397,067
Total current liabilities	**39,725,501**	**-32,506,741**	**0**	**-32,506,741**	**7,218,760**
Total liabilities	**40,057,612**	**-27,674,293**	**0**	**-27,674,293**	**12,383,319**
- Share capital	562,287			0	562,287
- (Treasury shares)	-199,035			0	-199,035
- Other Reserves and Retained Earnings	8,031,078	11,145,959		11,145,959	19,177,037
- Profit/(loss) for the year	1,584,065	-104,687		-104,687	1,479,378
Total shareholders' equity	**9,978,395**	**11,041,272**	**0**	**11,041,272**	**21,019,667**
Total liabilities + shareholders' equity	**50,036,007**	**-16,633,021**	**0**	**-16,633,021**	**33,402,986**

Milan, March 22 2019

For the Board of Directors

Chairman

Guglielmo Marchetti