IERVOLINO ENTERTAINMENT

Annual Consolidated Financial Report as at 31 December 2020

Parent Company: IERVOLINO ENTERTAINMENT S.p.A.

Registered office: Via Barberini n. 29 - 00187 - Rome
Registered in the Companies Register of: ROME
Tax code and VAT number: 11636381003
Registered in the Economic and Administrative Index (REA) of ROME no. RM-1318599
Subscribed share capital: €1,400,644.00 fully paid-up

REPORT ON OPERATIONS OF THE IERVOLINO ENTERTAINMENT GROUP FOR THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

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1. Introduction

The consolidated financial statements as at 31 December 2020 of the Iervolino Entertainment Group (hereinafter also the IE Group or Group) represent the first consolidated financial statements that include the equity investments recently acquired in full form, Arte Video S.r.l. and R.E.D. Carpet S.r.l., i.e. established, Iexchange S.r.l. and Iervolino Studios doo.

The consolidated financial statements as at 31 December 2020 closed with total revenues of €120,735 thousand, with a €40,725 thousand increase compared to the 2019 financial statements, which referred to the Parent Company alone (+51%).

In 2020, EBIT, before non-recurring charges for €741 thousand, was equal to €22,780 thousand, up by €133 thousand on 2019 (+1%). In 2020, compared to the previous year, government grants for research & development activities were not recognized as these were no longer received due to a change in legislation. In 2019, government grants were equal to approximately €4.6 million.

These excellent results are the result of our decision to invest in high-quality Intellectual Properties and to produce web series and films intended essentially for international markets and, mainly, for streaming. In this regard, the success of the films "The poison rose", "Waiting for the barbarians" and the first "Arctic Friends" and "Puffins" collections, at the top of the list of the Apple TV subscribers, has validated the choices made.

Conversely, the effects of the Covid-19 pandemic were limited and essentially consisted of (i) an increase in non-recurring costs for production in "smart-working" mode, equal approximately to €2,517 thousand, of which €740 thousand accrued in the year; (ii) a postponement of the production of films; and (iii) a postponement of the corresponding deliveries that has lengthened the cash generation cycle.

2. Macroeconomic context and reference market

Macroeconomic and market context

The macroeconomic context in 2020 was characterized by the impact of the marked slowdown in the global economy, particularly in the first half of the year, due to the restrictions placed on significant daily activities by the Authorities in almost all countries to counteract the spread of the Covid-19 infection.

This had a significant effect on the consumption of media products. During the lock-downs, in fact, the leisure time that people would otherwise have been spent at the cinema, in theatres, or at live events, was spent at home.

In this period of social isolation, it is not surprising that people have consumed large quantities of media products.

The 2020 Global Web Index found that video and show viewing is one of the fastest growing activities, especially among the younger generations.

In this context, users appear to be more inclined to invest in new subscription services, with almost a third of the younger generations considering the purchase of new subscriptions to streaming platforms, in particular Netflix, followed by Disney+.

Understandably, people are becoming increasingly concerned about how much time they are spending on their screens. Some research suggests that screen time in itself is not a cause for concern. Rather, it is the content we choose to consume that can have a significant impact on our psychological well-being.

Regardless of the type of content consumed, each generation relies more than ever on their devices to obtain information and entertainment, creating a huge opportunity for media companies to engage with the public.

Some considerations on future market trends

The marked slowdown of the global economy, due to the restrictions placed on a significant portion of daily activities by the Governments of most countries, has led to changes in the behaviours, activities and wishes of the public, some of which will, probably, last as they represent the acceleration of dynamics already underway.

These are the trends that, unlike the temporary ones, foreshadow the future. Among the trends most analysed by analysts and experts, even if still evolving and not yet consolidated, it is worth mentioning:

- ✓ the new frontiers of healthcare;
- ✓ the new mentality of the Millennials and of the new generations in general;
- ✓ the centrality of ESG factors (Environmental, Social and Governance).

The new frontiers of healthcare will probably be marked by changes in the regulatory framework that imply protection from some risks but also taking of risks. Provisions in support of this trend could give a boost to the development of new drugs, but also to genomics and high-precision medicine, while new rules aimed at protecting against risk could push new technologies able of ensuring more prepared health systems.

The new mentality of the Millennials and of the new generations in general consists in adopting an online approach in all fields, from e-commerce to entertainment and e-learning. Here, too, it is reasonable to think that the trend will outlast the pandemic and that, from the point of view of the investor, will reward companies with a solid digital footprint.

Finally, the commitment to and focus on environmental, social and governance aspects to promote a more sustainable society and economy, which are at the top of the agendas of the major players of our societies and economies.

The relevance of these factors lies in the increasing weight given to non-financial sustainability reporting ("social reporting"), which, together with an adequate communication policy in compliance with the principle of accountability, is an irreplaceable, globally recognized tools to establish a corporate identity.

The effects of the Covid-19 pandemic and future market trends on the activities of the IE Group

Trying to contextualize the macroeconomic effects and market trends outlined above, what follows illustrates the effects on the activities of the IE Group.

a) Activities for the year 2020

With reference to the recent restrictions linked to the Covid-19 pandemic, the IE Group's productions, being mainly intended for streaming platforms, have undergone effects related to the planning of the shooting of the films Women Stories (formerly Together Now), Eddie & Sunny and State of Consciousness, which have been postponed with respect to the original production plan.

The smart-working operating mode (from home with technological adaptations) which, although costly due to technical adaptations, is to be considered as a non-recurring expense, an expanded workforce and, finally, the agreements reached with customer and suppliers to anticipate some deliveries of the web series Arctic Friends from 2021 to 2020, have offset the shooting delays.

The postponed shooting of the aforementioned films resulted in a significant financial commitment in the last quarter of the year, which has affected the net financial position at the end of the year, at the same time allowing the Group to maintain growth and development.

b) Business outlook

The productions of the IE Group will be increasingly focused on the use of streaming platforms and on content with a high social impact following the megatrends mentioned in the previous section on the evolution of the media market.

As these aspects already characterize the Group's core business, there are immediate expectations of increased growth opportunities.

3. IE Group business model

IE Group is a Global Production Group specialising in the production of film and television content including web series, films, TV shows and short TV shows. Boasting relationships with leading international partners, it interacts with internationally renowned actresses and actors to develop audiovisual productions intended for international distribution.

The contents of the IE Group's audiovisual productions are designed for the global market, with the participation of internationally renowned actors. The productions are usually shot directly in English.

The Group starts the production of film and television content after reaching agreements for the sale of international distribution rights that provide for the payment of a "guaranteed minimum", thus transferring the performance risk of the work to the international distributors.

The Group retains the intellectual property rights, which can be used in the years following the content production through remakes, sequels and other derivative products.

Revenues from the sale of the rights on audiovisual work are recognised on delivery of the work, while back-end revenues (variable in their entity according to the individual agreements) are recognised when realised in the years after the delivery of the work or the transfer of the corresponding rights. Government grant income is recognised at the time revenues from the sale of international distribution and back-end rights are realised, assuming their collection is reasonably certain.

The cost of sales for audiovisual work is essentially represented by the portion pertaining to the year of the amortisation of the work calculated according to the international accounting standard described in the notes, i.e. the "film forecast computation method", according to which the amortisation at the reporting date is calculated on the time horizon over which the intangible asset will generate revenues. The amortisation period, based on the specific characteristics of the current individual productions, is estimated over a time horizon of four years.
The Group's activities also include:

- ✓ service activities, i.e. executive production carried out for other producers;
- ✓ licensing of characters and pipelines (processes and processing methods for the production of short animated content);
- ✓ post-production, activity carried out by the subsidiary Arte Video S.r.l., which is also the official encoding house of Apple iTunes, GooglePlay, Sony Entertainment, Amazon, Microsoft, and Rakuten;
- ✓ celebrity management, casting and production of digital ADV content.

Revenues and profits deriving from these latter activities are recognised on an accrual basis based on the production carried out.

For IFRS 8 purposes, the activities carried out by the Group can be classified in three operating segments, the details of which are shown in note 3 of the financial statements:

- ✓ Film production, including service activities (production activities carried out on behalf of third parties - the end Intellectual Property is not owned by the Group) and post-production;

- ✓ Digital delivery activities;

- ✓ Celebrity management, casting and production of digital ADV content.

4. Activities carried out in 2020

Productions

With reference to operating activities, the following production activities of the Parent Company Iervolino Entertainment (IE) should be noted:

Arctic Friends (formerly Arctic Justice)

During the year, work continued on "Arctic Friends", a web series started in 2018, based on the animated film produced by Andrea Iervolino "Arctic Justice". The film was released under the title Arctic Dogs in US cinemas in 2019 and was among the three most viewed titles in the "lock-down" period on Netflix US.

The series consists of mini-episodes of 5 minutes each. For a better distribution of the product on global platforms, it was then decided, in agreement with the distributor, to use, as in other successful cases such as Minions and Tom and Jerry, a universal language consisting of sounds and noises, thus avoiding dubbing in the different local languages.

This series tells the exciting adventures in the life of Swifty, an Arctic fox who has finally reached his dream job: to be the best delivery dog at "Arctic Blast Delivery Service". With the help of his best friend, the polar bear PB, the exuberant red fox Jade and the ABDS team, this team is ready and determined to deliver whatever they are asked to. Constantly opposed by the nefarious mastermind, Otto Van Walrus, and his spiteful puffins, Swifty must outwit and defeat these baddies to make sure that all packages are delivered to their recipients.

During the year, 72 episodes were produced and delivered, resulting in the recognition of revenues for a total of €60,535 thousand (including the pertinent government grants) in addition to back-end revenues, revenues from production pipeline licensing and character licensing for a total of €13,565 (including the pertinent government grants).

The first three "Collections" (a Collection consisting of 4 episodes) began to be distributed on the Apple TV and Amazon Prime platforms at the beginning of September, for viewing in around 80 countries.

In particular, the distribution is for *Apple TV* in: Anguilla Antigua and Barbuda, Argentina, Armenia, Austria, Azerbaijan, Bahamas, Belarus, Belgium, Belize, Bermuda, Bolivia, Botswana, Brazil, British Virgin Islands, Brunei, Bulgaria, Cambodia, Canada, Cape Verde, Cayman Islands, Chile, Colombia, Costa Rica, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, Ecuador, El Salvador, Estonia, Fiji, Finland, France, Gambia, Germany, Greece, Grenada, Guatemala, Guinea-Bissau, Honduras, Hong Kong, Hungary, Ireland, Israel, Italy, Laos, Latvia, Lithuania, Luxembourg, Macau, Malta, Mauritius, Mexico, Micronesia, Moldova, Mongolia, Mozambique, Namibia, Netherlands, Nicaragua, Niger, Norway, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Saint Kitts and Nevis, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Swaziland, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Turkmenistan, Uganda, United Kingdom, United States, Venezuela, Vietnam and Zimbabwe; while for *Amazon Prime*, the regions involved are the USA, UK, Japan and Germany.

The debut on Apple TV was significant: the first season of "Arctic Friends" was ranked second in Italy and first in the family-friendly segment.

The last 68 episodes are expected to be completed in 2021.

Puffins

"Puffins the series" is an animated web series, a spinoff of the family-friendly animated film "Arctic Justice". The episodes, lasting about 5 minutes each, will have as the main characters the puffins, the cute but spiteful creatures of "Arctic Justice".

In June 2020, an agreement was signed to hire Johnny Depp, who will lend his voice for the character Johnny Puff in the "Puffins", for 250 of the 5-minute episodes of the web series. As part of the agreement, Johnny Depp will be available to take part in promotional activities, advertising, interviews and press junkets.

The Company will also carry out merchandising activities focused on the Johnny Puff character, who will preserve the unique characteristics of the actor, and introduce them to the public internationally.

The debut on Apple TV was also significant for the Puffins, where the first season was ranked first in Italy in the family-friendly segment.

In 2020, 50 episodes were produced and delivered to the customer, resulting in the recognition of revenues for a total of €26,888 thousand (including pertinent government grants).

At least 60 episodes will be produced in 2021.

Waiting for the Barbarians

"Waiting for the Barbarians," starring Academy Award winner Mark Rylance (Bridge of Spies), Oscar nominee Johnny Depp (Pirates of the Caribbean, The Chocolate Factory, Fantastic Beasts and Where to Find Them), Robert Pattinson (Twilight and the latest Batman), Gana Bayarsaikhan (Ex Machina) and the internationally renowned Italian actress Greta Scacchi (The girl in the fog). The film was shot in Morocco and around Rome.

The film is based on the novel of the same name written by the 2003 Nobel laureate for literature, J.M. Coetzee, directed by Oscar nominee Ciro Guerra and with Oscar winner Mark Rylance, Johnny Depp and the Twilight saga star, Robert Pattinson.

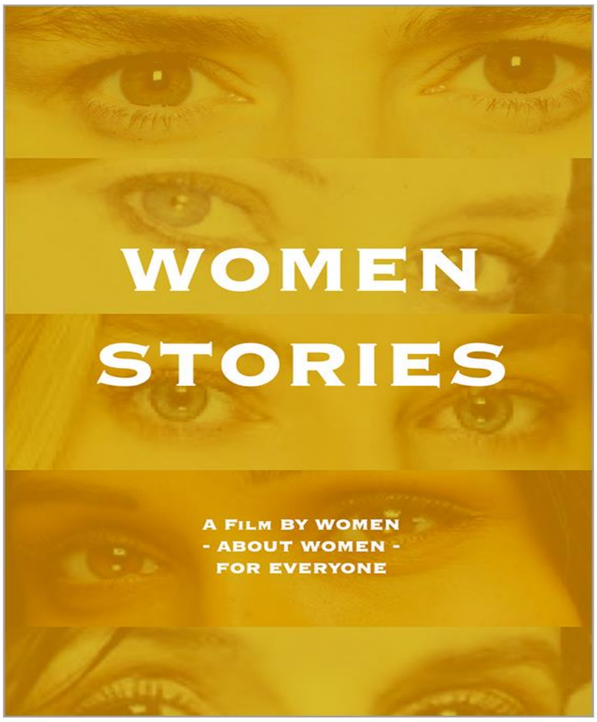
The film is based on the crisis of conscience of the "Magistrate", a faithful servant of the Empire working in a small border town, who does his best to ignore an inevitable war with the "barbarians". After witnessing the cruel and unjust treatment of prisoners of war, he reconsiders his role in the regime and performs a quixotic act of rebellion.

During the year, some international back-end rights were sold to third parties, and revenues from the distribution in Italy of the film already delivered to the customer in 2019 were realised. The release in Italian cinemas took place in September 2020 and the IE handled the distribution.

Total revenues realised in 2020 amounted to €6,515 thousand (including the pertinent government grants).

The film, in full trend with other majors such as Warner Bros and Universal, was released on 7 August 2020 on on-demand and digital platforms, in the USA and Canada, distributed by the American film distribution company Samuel Goldwyn. In its first weeks, it was among the five most viewed films on Apple TV in the United States. In early September, it was the first most viewed film on Apple TV in the UK. Also in Italy, in early March 2021, the film was the first most watched on Apple TV.

Women Stories (formerly Together now)



"Women Stories" is a live action and animation, all-female project produced by Iervolino Entertainment: this film consists of 5 shorts lasting 15 minutes each whose main theme is a story based on animation scenes that represent a significant part of the project. The film, directed by 5 female directors from different parts of the world, encompass different genres, ranging from drama to comedy to docudrama and animation, and starring actresses of international fame.

In 2020, the project entailed the recognition of revenues related to the production and delivery to the customer of three of the five segments of the film, "Unspoken", "Lagonegro" and "Sharing a Ride", for a total of €4,330 thousand (including the pertinent government grants)

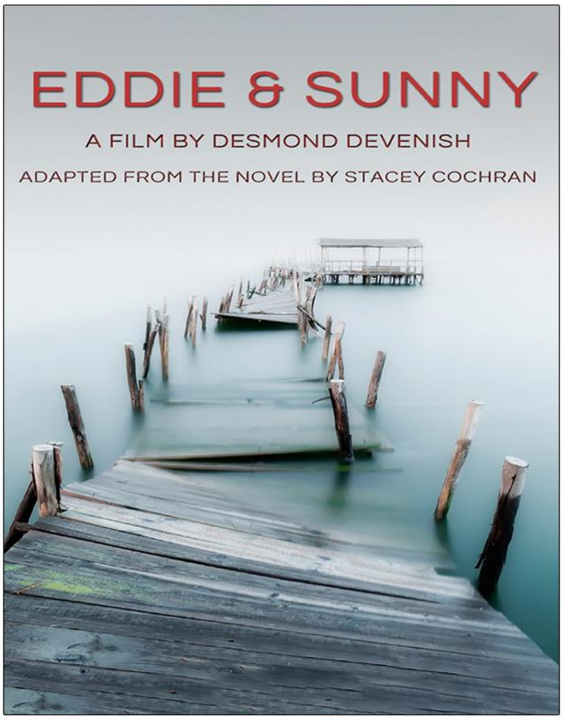
"Unspoken", shot in December 2019 in and around Rome, is directed by Maria Sole Tognazzi and stars Margherita Buy; "Lagonegro", shot in March 2020 near Anguillara Sabazia, is directed by the award-winning Argentine director Lucia Puenzo and stars Eva Longoria. Sharing a Ride, shot in October 2020 in Mumbai, is directed by Leena Yadav and stars Jacqueline Fernandez.

The fourth segment, "Elbows Deep", was filmed in January 2021 in Los Angeles, is directed by Catherine Hardwicke and stars Cara Delevingne and Oscar-winning actress Marcia Gay Harden.

The last segment, completing the film, will also be shot and delivered in 2021.

Eddie & Sunny

In the first half of the year, an agreement was signed with Paradox Studios LLC for the sale of the worldwide distribution rights for the film Eddie & Sunny.



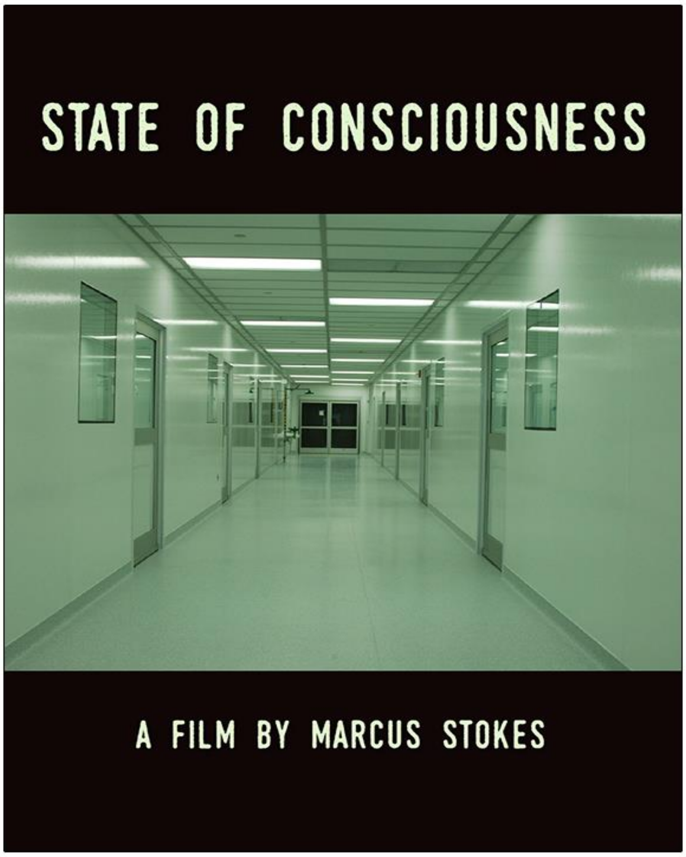
Eddie & Sunny is a film by the English director and screenwriter Desmond Devenish, based on the novel by Stacey Cochran, published in the USA with critical acclaim. The story is about an impulsive homeless couple who, to defend their teenage son, murders an affiliate of a drug cartel and is forced into hiding to escape their vengeance.

The agreement provides for guaranteed minimum revenues of $4.6 million for Iervolino Entertainment, in addition to a share in the worldwide revenues of the film. The rights of use in Italy, however, remain the property of Iervolino Entertainment.

In the first half of the year, shooting began for the film directed by Desmond Devenish and starring US actor Gabriel Luna (known for his role in Terminator: Dark Fate).

Shooting resumed in the second half of September in and around Rome and then continued in Guatemala. The delivery of the film (2D part) in December led to the recognition of revenues of €2,260 thousand (including the pertinent government grants).

State of Consciousness



"State of Consciousness" is a film directed by Marcus Stokes, telling the story of Stephen (Emile Hirsch, known for his role in Into the Wild), an ordinary young man who has to manage a mental short circuit that detaches him from reality, finding himself forced to take drugs for a psychological disorder that he does not actually have. To regain his sanity and resume his normal life, his only chance will be to escape from the diabolical plans of Dr. Laura Fielder.

"State of Consciousness", like every film covered by the agreement with Paradox, is considered an Italian film and is therefore subject to the regulations on government grants and the rules on European quotas.

The agreement provides for revenues of at least $4.8 million for IE, in addition to a share in the worldwide proceeds of the film. The rights of use in Italy, however, remain the property of IE.

This agreement is part of the framework agreement signed with Paradox Studios for the production of five films.

The delivery of the film is currently scheduled for 2021 and entailed the recognition of costs capitalized among intangible assets for a total of €2,303 thousand.

Belle Bimbe Addormentate [Beautiful Girls Asleep]

During the first half of the year, development of a new TV series, a thriller with the title "Belle Bimbe Addormentate" was started, for which Dario Argento is the showrunner. Dario Argento is also the director of the first episode.

After finalizing the story treatment of the series and the scripts of the individual episodes, the casting and location search was started.

The series will be filmed in English for the national and international market. Shooting is scheduled to take place at the end of next year.

Post-production activities

Post-production activities are carried out by the subsidiary Arte Video S.r.l., official encoding house of Apple iTunes, GooglePlay, Sony Entertainment, Amazon, Microsoft and Rakuten.

The company has developed and realised projects in the production and post-production of films and videos, authoring for DVD and Bluray, encoding for VOD platforms, 2D/3D animation, using the most advanced technologies available on the market. Despite having the most recent technologies for the production of DCP (Digital Cinema Package) and KDM (decryption keys), due to the closure of cinemas following the decrees of the President of the Council of Ministers (DPCM), it has suspended production of the latter.

2020 was a year of change in the on-demand platform sector. The already consolidated experience as "Authorized Encoding House" of Apple iTunes, Google Play, Sony Entertainment, Amazon Prime Video, Microsoft, and Rakuten meant that the company was chosen for the creation of the new services for the public for the Apple and Amazon TV channels. In fact, Arte Video S.r.l. has created and still manages the Minerva Channel for Apple and different channels for the Amazon platform such as the Juventus Channel, Mediaset Infinity Channel; new channels such as Zelig, I-Wonder-Full, etc. are being planned. Arte Video S.r.l. is the only Italian company certified by Apple for the creation of film and TV channels packages.

The aggregators that rely on Arte Video for the management of film packages for the VOD platforms (WarnerBros, RaiCom, Minerva, Koch Media, CG ENT, AMBI, Sweet Chili Ent, Under The Milkyway, Pathè) have chosen the company for the quality of the controls carried out on video/film masters before they are placed on the market, a quality that makes Arte Video the Italian leader in the production of HD & UHD DVD and BluRay masters, the latter with Java technology, unique in its category on the Italian market and among the few on the international market. In this regard, in 2020, the film Parasite, winner of 4 Academy Awards, was made entirely in the company’s studios and was produced for DVD, Bluray HD Java and BluRay UHD Java.

In addition to the above services, activities are also carried out in the film and animation post-production sector for cartoon series such as Puffins and Arctic Friends, including the management of 2D -> 3D coding for the different mobile devices on the market.

In the first half of 2020, the company mainly supported cinema distribution companies with the launch of films, which, due to Covid, were released not in theatres, but on the main digital platforms, thus allowing the public to view them in digital previews. The production of DVD, BluRay and Digital Cinema Packages was carried out in smaller quantities, giving the staff space to focus on the VOD service and on post-production of the Arctic Friends and Puffins series.

Casting, celebrity management and digital ADV content production

Casting, celebrity management and the production of digital ADV content are carried out by the subsidiary R.E.D. Carpet. In 2020, the activity refers only to the consolidation period of the second half of the year, which was significantly affected by the slowdowns due to the restrictions imposed to stem the pandemic. Therefore, revenues and profits were modest, but the acquisition of agreements was very successful. In fact, already in the first period of 2021, revenues and profits increased significantly.

Internationalization: development of activities in the Republic of Serbia

In June 2020, Iervolino Entertainment signed a Memorandum of Understanding ("MoU") with the Serbian Republic for the production of web content in short format through Iervolino Studios d.o.o., the newly-established wholly-owned subsidiary incorporated under Serbian law, with offices in Belgrade and Novi Sad. The company had about 70 employees and 30 external contractors as at 31 December 2020, but this number is expected to increase as the production of both animated episodes and films with a combination of animated parts grows.

As part of this agreement, during the year, Iervolino Studios signed a MoU with Archangel Digital Studios, the Serbian company of the Serbian actor and producer Milos Bikovic (much appreciated in the former Yugoslavia and Russia, often awarded at national festivals), the core business of which is the production of animated content, for the licensing of the copyrights of the animated characters of "Arctic Justice", which will subsequently be regulated through special agreements signed between the parties and referring to individual works.
In this context, the first agreements were signed for the licensing of the copyright of the web series "Puffins". These agreements provide for Archangel Digital Studios to obtain the right to use the copyrights of the animated characters of the "Puffins" series ("Intellectual Properties") and to the production process ("Pipeline") of the animated web series by IE. The Iervolino Entertainment Group, for its part, will invest in the project and, through the Serbian subsidiary Iervolino Studios, will provide the production of the new episodes of the series called "Puffins: impossible".

Agreements were signed for the first 36 episodes, which, in 2020, generated revenues for the Iervolino Entertainment Group related to the service activities of approximately €2.7 million.

Closure of the Tatatu ADV business unit

During the first half of the year, the Tatatu ADV business unit was closed, which had carried out only limited activities, thus eliminating all activities with this related party.

Extraordinary finance transactions

Finalisation of the acquisition of 100% of the share capital of Artevideo S.r.l.

The acquisition of 100% of the share capital of Arte Video S.r.l. took place on 15 January 2020. The share, of a nominal value of €4,900, representing 49% of the share capital of Arte Video, was acquired through a capital increase reserved for Arte Video shareholders equal to 30,000 shares that they subscribed, conferring the remaining 49% of the share capital of Arte Video.

Acquisition of 100% of the share capital of R.E.D. Carpet S.r.l.

On 11 June 2020, an agreement was signed for the acquisition of 100% of the share capital of R.E.D. Carpet S.r.l. ("Red Carpet"), a company with legal and operational headquarters in Rome, a reference point in Italy for the selection of VIP castings for the main Italian television shows, which also operates as a creator of video content for television and web.

The transaction, for a total value of €300,000, was carried out, for a 51% share, through direct acquisition from the previous shareholders, and for the remaining share, through a share capital increase reserved for Red Carpet shareholders, with 26,250 shares subscribed transferring the remaining 49% of the share capital of Red Carpet.

Non-convertible 2021-2027 IE bond issue for €8,000,000

On 15 July 2020, the Parent Company Iervolino Entertainment placed a non-convertible, non-subordinated and unsecured bond issue, for a principal amount of €8,000,000, fully subscribed by Intesa Sanpaolo S.p.A.

The bond issue, finalized by virtue of the agreement signed by the issuing company, on one side, and Intesa Sanpaolo S.p.A., as initial subscriber of the notes, and Banca IMI S.p.A., as Arranger of the entire Transaction, on the other, took place through the issue of 80 notes of a nominal value of €100,000 each.

The unsecured bond issue was fully subscribed by Intesa Sanpaolo as part of the broader Basket Bond transaction launched in partnership with ELITE, the private market of the London Stock Exchange Group, providing integrated services and multi-stakeholder networks.

The Transaction was structured by Banca IMI S.p.A., the investment bank of the Intesa Sanpaolo Group. The notes, fully subscribed by Intesa Sanpaolo S.p.A., will be securitized and placed with institutional investors at a later date. The note issue is scheduled to be repaid according to an amortisation plan structured in 7 years including 2 pre-amortisation years. Interest on the notes, equal to 4.07% on an annual basis, will be paid out every six months and in arrears.

The bonds, unlisted, were issued in exemption from the obligation to publish an offer prospectus, pursuant to Art. 1, Par. 4, Regulation (EU) 2017/1129 and Art. 100 of the Consolidated Law on Finance. The Regulation of the bond provides, in particular, specific covenants of an economic-financial nature, related to compliance with predefined thresholds in terms of Net Financial Position/EBIT, Net Financial Position/Shareholders' Equity and EBIT/Gross interest.

As at 31 December 2020, these covenants had been fulfilled.

Conversion of the bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019-2020"

On 23 December 2020, the date of the mandatory conversion into Iervolino Entertainment S.p.A. (IE) ordinary shares of the 77 bonds with a nominal value of €100,000 of the bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019-2020", 1,589,825 new shares were issued at the conversion price of €4.8433. Therefore, the share capital of the Parent Company now consists of 24,016,104 ordinary shares, in addition to 11,000,000 multiple-vote shares.

	Current share capital			**Previous share capital**		
	Euro	No. Shares	Nom. Unit Value	Euro	No. Shares	Nom. Unit Value
Total, of which:	1,400,644	35,016,104	N/A	1,337,051	33,426,279	N/A
Ordinary shares (regular dividend entitlement), coupon number 1, ISIN IT0005380602	960,644	24,016,104	N/A	897,051	22,426,279	N/A
Ordinary shares (special dividend entitlement)	N/A	N/A	N/A	N/A	N/A	N/A
Class B shares (enhanced voting rights) (regular dividend entitlement) coupon number 1, ISIN IT005380669	440,000	11,000,000	N/A	440,000	11,000,000	N/A

It should be noted that, given the characteristics of the bond issue, there was no change in the shareholders' equity of the company since the issue was already recognized in equity in the financial statements as at 31 December 2019.

5. Key figures and alternative performance indicators (APIs)

The key figures described in this Report on Operations refer to the consolidated financial statements of the IE Group as at 31 December 2020, drafted according to the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and approved by the European Union.

The report must therefore be read in conjunction with the Schedules of the consolidated financial statements and corresponding explanatory notes as at 31 December 2020.

In addition, in order to facilitate the understanding of the economic and financial performance of the Group, some alternative performance indicators have been included ("Alternative Performance Indicators" or API) to show the operating performance achieved.

For a correct interpretation of these APIs, the following should be noted:

- ✓ these indicators are based exclusively on historical data of the Group and are not indicative of its future performance;
- ✓ the APIs are not envisaged by IFRS and, although they are derived from the Group's consolidated financial statements, are not audited;
- ✓ the APIs should not be considered as a substitute for the indicators required by the reference accounting standards (IFRS);
- ✓ these APIs should be read alongside the financial information of the Group obtained from the Group comparative consolidated financial statements;
- ✓ as the indicators used by the Group do not derive from IFRS, their definition may not be the same as the one adopted by other groups and therefore may not be comparable with them;

- ✓ the APIs used by the Group are calculated with continuity and uniformity of definition and representation for the financial periods considered. Since amortisation of audiovisual works accounts for most of the Group's cost of sales, EBIT (gross of non-recurring charges) represents the indicator of operating income.

The economic performance of the consolidated operations for the period is described below:

	31/12/2020	**31/12/2019***
Revenues	120,735	80,009
Operating costs	6,559	4,221
Personnel cost	1,730	393
Amortisation/depreciation, write-downs and provisions	89,665	52,748
EBIT	**22,780**	**22,647**
Non-recurring charges (recognised as amortisation)	741	-
EBIT net of non-recurring charges	**22,040**	**22,647**
Net financial charges	657	268
Pre-tax profit	**21,382**	**22,380**
Taxes	(1,884)	(2,130)
Net profit for the period	**19,498**	**20,249**

*Note: the financial statements as at 31 December 2020 are the first consolidated financial statements prepared by the Group; the comparative data provided are for Iervolino Entertainment S.p.A. alone.

The Group reclassified statement of financial position is provided below:

€/000	31/12/2020	31/12/2019*
Assets		
Non-current assets		
Intangible assets	68,057	49,219
Trademark	359	-
Goodwill	75	-
Tangible assets	214	6
Deferred tax assets	6,289	3,778
Equity investments recognised with the equity method	18	-
Other non-current assets	2,334	170
Total non-current assets	**77,345**	**53,173**
Current assets		
Trade receivables	16,787	20,200
Tax receivables	21,721	21,608
Current financial assets (investment funds)	4,348	-
Other current assets	6,367	151
Cash and cash equivalents	3,513	7,952
Total current assets	**52,736**	**49,911**
Total Assets	**130,082**	**103,085**
Shareholders' equity	**67,041**	**47,650**
Non-current liabilities		
Employee benefits	181	36
Deferred tax liabilities	117	-
Provisions for risks and charges	300	300
Non-current financial liabilities	18,108	1,048
Total non-current liabilities	**18,706**	**1,384**
Current liabilities		
Current financial liabilities	5,379	7,453
Trade payables	25,289	26,432
Tax payables	1,625	2,246
Contractual liabilities	2,980	10,558
Other current liabilities	9,062	7,360
Total current liabilities	**44,335**	**54,050**
Total liabilities	**130,082**	**103,085**

*Note: the financial statements as at 31 December 2020 are the first consolidated financial statements prepared by the Group; the comparative data provided are for Iervolino Entertainment S.p.A. alone.

The main Group equity and financial indicators are provided below:

Main equity and financial indicators - €/000	**31/12/2020**	**31/12/2019***
Intangible assets (including trademarks and goodwill)	68,491	49,219
Tangible assets	214	6
Other non-current assets	8,641	3,949
Fixed assets	**77,345**	**53,173**
Receivables from customers	16,787	20,200
Due to suppliers	(25,289)	(26,432)
Other current assets/(liabilities)	14,421	1,594
NWC	**5,919**	**(4,638)**
Employee severance indemnity	(181)	(36)
Other non-current liabilities	(417)	(300)
NIC	**82,667**	**48,199**
	-	-
Shareholders' equity	67,041	47,650
Cash and cash equivalents	(3,513)	(7,952)
Financial assets (investment funds)	(4,348)	-
Financial liabilities	23,487	8,501
NFP	**15,626**	**549**
Sources of funds	**82,667**	**48,199**

*Note: the financial statements as at 31 December 2020 are the first consolidated financial statements prepared by the Group; the comparative data provided are for Iervolino Entertainment S.p.A. alone.

The main indicators of the Group cash flow statement are provided below:

€/000	**31/12/2020**	**31/12/2019***
A - Net cash flows generated/(used) by operating activities	68,782	46,282
B - Net cash flows generated/(used) by investment activities	(88,379)	(57,241)
C - Net cash flows generated/(used) by financing activities	15,158	18,759
D - Total cash flows generated/(used) in the year (A + B + C)	**(4,439)**	**7,801**
E - Cash and cash equivalents at the beginning of the year	**7,952**	**151**
F - Cash and cash equivalents at the end of the year	**3,513**	**7,952**

*Note: the financial statements as at 31 December 2020 are the first consolidated financial statements prepared by the Group; the comparative data provided are for Iervolino Entertainment S.p.A. alone.

A breakdown of the Group NFP is provided below:

Net financial position - €/000	**31/12/2020**	**31/12/2019***
Cash and cash equivalents	(3,513)	(7,952)
Liquidity	**(3,513)**	**(7,952)**
Financial assets (investment funds)	(4,348)	-
Bank payables	23,487	8,270
Financial payables bond loan	-	231
Net financial debt	**19,139**	**8,501**
Debit NFP	**15,626**	**549**

*Note: the financial statements as at 31 December 2020 are the first consolidated financial statements prepared by the Group; the comparative data provided are for Iervolino Entertainment S.p.A. alone.

Management performance and economic and financial results

2020 closed with a Group net profit of €19,498 thousand, down by 4% on 2019, when the Parent Company alone had reported a net profit of €20,249 thousand.

From an operational standpoint, the EBIT of the Group before non-recurring charges was equal to €22,780 thousand, up by 1% compared to 2019, when the Parent Company alone had reported a value of €22,647 thousand. In 2020, compared to the previous year, government grants for research & development activities were not recognized as these were no longer received due to a change in legislation. In 2019, government grants were equal to approximately €4.6 million.

The result derives from revenues from the sale of the rights of the film works minus the related sales cost, essentially consisting of the amortisation of intangible assets (film works) equal to €90,406 thousand, given the low incidence of overhead costs, equal to €8,289 thousand.

From an economic point of view, 2020 EBIT was 19% of total revenues, which were equal to €120,735 thousand.

Operating revenues and income, including government grants recognized on an accrual basis with regard to the productions to which they refer, mainly relate to the productions Waiting For The Barbarians (€6,515 thousand), Arctic Friends (€74,100 thousand), Puffins (€26,888 thousand), Eddy & Sunny (€2,260 thousand) and Woman Stories (€4,330 thousand).

Film productions and web series productions account for 12% and 88% of revenues, respectively.

From a financial point of view, the net invested capital of the Iervolino Entertainment Group mainly consists of intangible assets (cinematic works, intellectual properties and other rights) for €68,491 thousand; other fixed assets were equal to €8,855 thousand while the net working capital was positive and equal to €5,919 thousand.

The resulting net invested capital was equal to €82,667 thousand, up by €34,468 thousand with respect to the level of the previous year (€48,199 thousand), which refers to the Parent Company alone, and is financed by the negative net financial position of €15,626 thousand and shareholders' equity of €67,040 thousand.

The net working capital of the Group was positive for €5,918 thousand, up on the level recorded in the previous year, which was negative and equal to €4,638 thousand.

Working capital mainly includes government grants for film productions, the monetisation of which, through the use to offset other taxes or assignment to authorised intermediaries, take place starting from the following year.

From a financial point of view, cash and cash equivalents as at 31 December 2020 were equal to €3,513 thousand, down by €4,439 thousand compared to the level at the beginning of the period (€7,951 thousand).

Adding the net difference between financial assets and liabilities to the balance of cash and cash equivalents, the net financial position as at 31 December 2020 shows a negative balance of €15,626 thousand, up by €15,077 thousand compared to the balance as at 31 December 2019.

The main investment and financial trends for the year underlying these balances are as follows:

The change in cash and cash equivalents, equal to €4,439 thousand, is the result of funds absorbed by financing activities (€3,601 thousand) and those absorbed by investment activities in audiovisual works (mainly Arctic Friends, Puffins, Puffins impossible, Eddy & Sunny and State of Consciousness) and in the preliminary activities towards future new productions (€31,138 thousand), which exceed the funds generated by operating activities (€22,499 thousand).

The following main financial and investment transactions were carried out during the year:

- ✓ Financial investments of €3,300 thousand to finance the production of ADS, which uses the "service" activities by the subsidiary Iervolino Studios. It should be noted that, adopting a more conservative interpretation and considering the ultimate underlying purpose of the transaction, this investment was recognised under current assets. Therefore, this amount was not included in the net financial position even though it formally represents a financial receivable;
- ✓ €6.2 million were repaid on the loan related to the Waiting For The Barbarians production;
- ✓ a financing transaction and subsequent sale of government grants for €4.1 million;
- ✓ the assignment without recourse of 2018 and 2019 VAT receivables for €1.6 million;
- ✓ the issue of the non-convertible, non-subordinated and unsecured bond for €8,000,000;
- ✓ two new medium-term loans for €4.1 million and €5.5 million, respectively, guaranteed by the assignment of government grants and, therefore, self-liquidating;

In addition to the aforementioned investment in current financial assets in Serbia, it should be noted that in the last quarter of 2020, on the one hand, there was an increase in productions (web series as well as the films Eddy & Sunny and State of Consciousness) and related payments and, on the other, there were delays in the applications for government grants, resulting in a delay in the corresponding assignment.

6. Transactions with related parties

The transactions of the Group with related parties are described below:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,731	-	-	1,090	-
Total related party transactions	**-**	**1,731**	**-**	**-**	**1,090**	**-**
Total of financial statement items	**16,787**	**113,295**	**25,289**	**37,752**	**120,735**	**98,695**
Weight on financial statement items	**0%**	**2%**	**0%**	**0%**	**1%**	**0%**

The transactions carried out by the Group with related parties under market conditions mainly concern the consideration paid by TATATU Enterprises Ltd (now TATATU S.p.A.) to Iervolino Entertainment S.p.A. following the closure of the ADV business unit.

7. Human resources

The IE Group has a lean structure, with 72 permanent employees plus some independent contractors. In addition, some professional service providers have an ongoing relationship with the IE Group and in some cases have specific responsibilities for the purposes of Law 231/2001.

However, It should be noted that when the production of an audiovisual work begins, a considerable number of temporary workers are hired until its conclusion. During the year, 336 temporary employees were hired for the ongoing productions.

8. Research and development

The perimeter of the Research and Development activities (R&D) is defined with the criteria established in the 2015 OECD Frascati Manual "Guidelines for Collecting and Reporting Data on Research and Experimental Development", referred to in section 75 of the Communication of the European Commission "Framework for State aid for research and development and innovation" (2014/C 198/01), legal source of Article 3 of the Decree Law n. 145 of 23 December 2013. To be considered R&D, activities must fall within the list provided in the Manual which follows the Definitions, referred to in Par. 1.3, section 15, of the aforementioned "Framework for State aid for research and development and innovation", relating respectively to "fundamental research" (section m), "industrial research" (section q) and "experimental development" (section j).

These descriptions are also in line with the definition of R&D provided by the IAS/IFRS accounting standards.

In this context, and specifically in the "industrial research" context, (this being research aimed at creation or improvement of processes and products), starting from 2018 Iervolino Entertainment (IE) has launched a Research & Development project. Starting from the idea of developing a new production process in the animation field to achieve improved production of short animations both in qualitative and quantitative terms (production costs), Iervolino Entertainment has commissioned an external supplier, but with its supervision, for the project to study the ideation and the research of new and innovative working processes and methodologies (pipeline) for the production of short animated content lasting 5 minutes each intended for use on digital platforms. The internal technical staff will plan and coordinate the R&D activities, contributing actively to the development and validation of the new processes.

The entire research project is based on the conception, study, design and prototyping of new advanced processing methods applicable to short content. This is because these new products are in line with the habits of use of social media by the new generations who favour video content consumption through web and social channels such as Instagram, Facebook, Youtube etc., but at the same time require high-quality products. The research activity carried out in the first half of 2020 started from the results obtained in 2019.

The contents of the project, articulated in different stages, can be identified in the conception, analysis, development and design of new processes, methodologies and production systems aimed at technological advancement and at identifying, studying and defining procedures that allow high productivity in order to offer the market products able to optimise the production cycle. This will allow prompt intervention, if necessary, on the uncertainty of the result, the timely analysis of the reduction of cycle time, the reduction of production costs, while maintaining a unique level of quality in digital production, the main factor of Iervolino Entertainment, which makes it unique internationally in the development of this innovative project.

The main reason for this Research & Development path is in the constant company need to keep up with global technological advancement by increasing the company know-how and technical knowledge and creating innovative processes capable of making operating margins competitive and increasing the quality standard of its products.

The aim of the project is to innovate the technical and technological solutions with reference to the production activity through the introduction of new and innovative process methods aimed at identifying, studying and defining automated procedures that allow high productivity, reducing production times and cost per minute and keeping the quality standards of the final product high in order to offer the market products capable of satisfying consumers more and more demanding.

The experimental activities planned and carried out within the overall project include:

- analysis, study, design, test and implementation of potential developments in production methods (pipeline);
- study and development of initiatives aimed at improving the production cycle;
- study of correct working and production times.

In general, the research and development activities use the technical staff of Iervolino Entertainment, creator of the project managed by the supervisor and product manager of the project, particularly experienced in animation movies. The external supplier of the commissioned research is the company Al Mashael Movies S.P.C., specialised in planned research and critical investigations aimed at acquiring new knowledge to be used in developing new products and/or improving the same, in existing processes or services or the creation of complex system components, necessary for industrial research and new products development. The company, with the consent and supervision of IE, has set up a JV with Assemblage Entertainment Private Ltd to perform the research and development activity commissioned by IE. Specifically, the activity is performed in the following stages:

RESEARCH, CONCEPT DEFINITION AND FEASIBILITY STUDY

- Analysis of the cost-effectiveness of the new project (pipeline) taking into consideration the assessments of the different functions and production;
- Identification of documentation in support to implementation (procedures, methods, cycles, drawings, acceptability criteria);

- Analysis of the digital model requirements;
- Implementation, analysis and verification of the studies carried out.

RESEARCH, STUDY AND DESIGN ACTIVITIES

- Use of internal experiences and skills and external consultants;
- Presentation of the project to the marketing/management function and consequent proposal of any changes by the technicians;
- Planning of the experimental activities of the design of short content tests and evaluation of the correspondence or inconsistency with the objectives;
- Processing the first episodes to define the technical/functional characteristics, keeping in mind the feasibility in the construction stage;
- Analysis and research of innovative solutions for the creation of the next new test episode;
- Carrying out preliminary checks (image quality, production times, production capacity and cost checks, etc.);
- Final verification and validation of the design.

PROTOTYPE EPISODE DEVELOPMENT AND EXPERIMENTATION

- Planning the activities related to the programming and implementation of production programmes;
- Monitoring of production stages;
- Evaluating the aesthetic and functional characteristics of the test sample in order to ensure the required quality at all stages of the process;
- Creation of the first prototype episodes;
- Checking the first test episodes by the corporate function responsible;
- Revision and possible modifications to the first test episodes, with consequent re-engineering, revision of the project and creation of new versions;
- Recording and production of the first episode to be proposed for market analysis.

In detail, for what concerns the current year, after having conceived and developed in 2019 the production process called Pipeline 0.2 with the implementation of the new software, ATOM (Animation Tracking Operations and Management), the R&D project encountered operational difficulties as the work restriction measures resulting from the outbreak of the Covid-19 pandemic forced a new working method in a smart-working environment.

In particular, in the initial stage, the hardware (workstations and components necessary) to work on the 0.2 pipeline with data pre-dumped (installed) on the physical systems were sent to the residences of the individual researchers. Subsequently, an Auto Sync Toolset integrated in the 0.2 pipeline was used to synchronize the data between the workstations and the central server, located in the Company's premises.

Lastly, utilities were purchased to allow researchers (with a main focus on Lighting, Rendering and Compositing) to integrate the work environment with the central server to communicate effectively with the software.

The activities carried out in 2020 for the implementation of the software / hardware that allowed the new release of the IP 0.2.1 pipeline to reach the desired levels of satisfaction are listed below:

Software:

Teradici & Nomachine: the production team distributed these two software applications to allow users to remotely access their workstation. Each user has been assigned unique access credentials to access the workstation. Teradici was distributed mainly for FX, SHF, Lighting and Compositing activities, while Nomachine was distributed for the other activities: Asset Development, Layout, Animation, Rendering and Production Support Supervision.

Ase-Sync: during the initial lockdown stage our pipeline group developed a new tool for the synchronization of data between all users, thus allowing them to work on their workstations remotely. This tool synchronizes project data securely between our internal memory and the user's workstation. This tool was developed internally to optimise the organizational process.

WFH (Work From Home) Asset and Shot Publish: a completely new publishing tool was developed for users of the Asset and Animation department who work in smart-working mode to publish data in the pipeline from their home workstation.

OS / Pipeline Migration: one of the major problems of the Teradici software was the compatibility of the operating system. As a Company, we rely on the Centos6 system; Teradici works on the Centos7 system. As an immediate challenge, we were faced with the creation and maintenance of 2 pipelines since FX, SHF, Lighting and Compositing had to migrate to Centos7 before distribution. The codes were constructed considering future updates of the operating system and therefore the implementation of the new operating system for some departments was carried out without interruption.

ASE Player: we then started development in 2020 of a proprietary multimedia player (ASE Player) that connects directly to ATOM. This multimedia player allows different departments to review content directly within the pipeline and propagates the notes directly to the interested and relevant parties without leaving the ATOM environment. This is still in the prototype stage but it works and is currently operational in our IP 0.2.1 pipeline

Hardware and network:

New firewall: a redesigned firewall was deployed and the internal network was updated to support more than 350 network users for remote and secure access to workstations.

Increased bandwidth: to allow the transfer of such a high volume of data from remote workers to a studio, the bandwidth was increased from the original 150 Mbps to the current 500 Mbps for easier general connectivity.

New Isilon archive: as part of our efforts to protect data during the migration of many resources and scene files through the network, we purchased the new Isilon archive server, which provides an additional 400 TB of data. The new memory also provided faster performance than previous storage solutions.

Additional stand-alone servers: these servers were distributed to synchronize data between users and storage, as well as for synchronization between departments. In addition, each department used dedicated synchronization servers to load the balance of the department data transfer.

9. Information on the main risks and uncertainties

Financial risk management and management of the change in cash flows

Liquidity risk

Liquidity risk is related to the inability to obtain funds to settle payment obligations. It may derive from the insufficiency of the resources available to meet the financial obligations within the preset terms and due dates in the event of sudden revocation of the uncommitted credit lines or from the possibility that the company be required to meet its financial liabilities before their natural maturity. The Company, through a careful and prudent financial policy, which is reflected in the policy adopted, and the constant monitoring of both the ratio between credit lines granted and used and between short-term and medium/long-term debt, has acquired credit lines of adequate quality and quantity.

In recent years, the activity of IE has been characterized by rapid development, high growth and the acquisition of new intellectual property. In this context of business growth, characterized by a high use of liquidity, IE monitors the risk of a liquidity shortage using a financial planning tool.

Foreign exchange risk

The IE Group has a limited exposure to the financial risks associated with fluctuations in exchange rates, with reference to operations carried out with countries that are not part of the Eurozone. It should also be noted that almost all the receivables and payables are in the same foreign currency (US dollar).

The Group has not entered any exchange rate hedging transactions as the risk is significantly reduced by offsetting the costs incurred in the same currency as the revenues.

Interest rate risk

The Group has no derivative contracts in place to hedge the risks associated with fluctuations in interest rates since this risk exposure is marginal.

Market risk, credit risk and price risk

Risks related to the competitive and cyclical nature of the sector

One element that increasingly characterises the entertainment market is the growing importance of the content offered, which increasingly differs according to the transmission channels.

The Group is constantly looking for new formats and content to be created independently or through service agreements while retaining the ownership of the Intellectual Property in question. Furthermore, the productions are always financed on the basis of the so-called "guaranteed minimum" with relationships with international distributors and always responding to the demands of the general public, which can offer additional business opportunities in the merchandising channel.

Credit risk

IE carries out its business activities with parties that have a good credit standing. The risk that a counterparty might not fulfil its obligations as at 31 December 2020 is limited, even though significant credit concentrations exist. These concentrations concern those customers with which IE carries out recurring transactions.
IE maintains a high level of attention, through monthly controls, on the exposures to its customers to identify the most critical positions. Where necessary, the bad debt provision is supplemented through a specific assessment of the individual positions to align trade receivables with their presumed realisation value.
As at 31 December 2020, past due receivables were equal to 2% of total trade receivables and the

bad debt provision was equal to 40% of the total past due.

10. Significant events after the end of the financial year

No events or transactions that could impact these consolidated financial statements were reported after the end of the financial year.

11. Business outlook

The business will continue to grow following the guidelines of the business plan, which envisage a change in the focus of business priorities, balancing investments with activities with greater cash generation capacity, such as services (executive production) and character and pipeline licensing. The relative effects will begin to be felt from the second half of the current year.

In fact, financial liabilities at the start of 2021 were higher due to payments carried out in the last quarter of the previous year for the investments in Serbia, the film productions delayed to the final part of the year by the restrictions due to the pandemic, as well as delays in applications for government grants, which have resulted in a delay in the related assignment. It should also be noted that these investments were necessary to recover the pace of growth in a context that has been severely affected by the pandemic.

This new focus will entail, in particular for the Intellectual Properties of the web series, a greater use through the service activities and the licensing of characters and pipelines both in Italy and abroad. Therefore, these activities will generate the majority of revenues after the guaranteed minimum of the distribution activities. The following should be included in this context: (i) the activities of Iervolino Studios d.o.o. (Serbia) for the production of episodes related to the Puffins: Impossible web series, for which the production of several episodes is planned for the commissioning producer, in line with the development plan; (ii) the licensing of characters and processes and processing methods for animated production. With reference to new films, particular attention will be paid to timing of revenues.

In this context, in February 2021, the Parent Company signed an agreement with the international distribution company Wwps.TV Corp ("WWPS") for the production and distribution of four Italian films for the global market. This agreement provides for revenues for Iervolino Entertainment that can be estimated at approximately $22 million, divided more or less equally between 2021 and 2022. In this context, two agreements were signed in February, respectively with UNIVERSAL PICTURES, the historic US film production and distribution company, and with the distribution company WWPS, for the sale of the distribution rights of the film "Dakota" for a total of approximately $6,250,000.

Further episodes of the film Women Stories and the film State of Consciousness are also scheduled to be completed in 2021.

Other initiatives are underway and they are expected to materialize in the first half of the year.

Lastly, as regards the investees R.E.D. Carpet, Arte Video and Iervolino Studios, the related activities in the respective operating segments envisaged by IFRS 8 are expected to grow significantly.

In light of the above, revenues and capitalized works are expected to grow in 2021. The new activities will be financed with dedicated and therefore self-liquidating loans. With regard to profits, also in consideration of the general performance of the market, a more moderate increase is expected.

Rome, 19 March 2021

For the Board of Directors

The Chairman
Andrea Iervolino

IERVOLINO ENTERTAINMENT

Consolidated Financial Statements and Explanatory Notes

31 December 2020

CONTENTS

Consolidated statement of financial position
as at 31 December 2020 - values in euro thousands

	Notes	31-dic-20	of which related parties	31-dic-19 *	of which related parties
Assets					
Non-current assets					
Intangible assets	Note 5	68,057	-	49,219	-
Finished productions		40,725	-	31,461	-
Production in progress		5,401	-	4,942	-
Misc. rights		21,806	-	12,817	-
Other intangible assets		124	-	-	-
Trademark	Note 6	359	-	-	-
Goodwill	Note 6	75	-	-	-
Tangible assets	Note 7	214	-	6	-
Deferred tax assets	Note 8	6,289	-	3,778	-
Equity investments recognised with the equity method	Note 9	18	-	-	-
Other non-current assets	Note 10	2,334	1,731	170	-
Total non-current assets		**77,345**	**1,731**	**53,173**	**-**
Current assets					
Trade receivables	Note 11	16,787	-	20,200	743
Tax receivables	Note 12	21,721	-	21,608	-
Current financial assets	Note 13	4,348	-	-	-
Other current assets	Note 14	3,590	-	151	-
Assets deriving from contracts with customers	Note 15	2,777		-	-
Cash and cash equivalents	Note 16	3,513	-	7,952	-
Total current assets		**52,736**	**-**	**49,911**	**743**
Total Assets		**130,082**	**1,731**	**103,085**	**743**
Shareholders' equity					
Share capital	Note 17	1,401	-	1,335	-
Legal reserve	Note 17	497	-	497	-
Other reserves	Note 17	16,464	-	16,263	-
Profits (losses) carried forward	Note 17	29,181	-	9,306	-
Profit (loss) for the year	Note 17	19,498	-	20,249	-
Equity attributable to shareholders of the parent company		**67,041**	**-**	**47,650**	**-**
Minority interest		-	-	-	-
Total shareholders' equity		**67,041**	**-**	**47,650**	**-**
Non-current liabilities					
Employee benefits		181	-	36	-
Deferred tax liabilities		117	-	-	-
Provisions for risks and charges		300	-	300	-
Non-current financial liabilities	Note 18	18,108	-	1,048	-
Total non-current liabilities		**18,706**	**-**	**1,384**	**-**
Current liabilities					
Current financial liabilities	Note 19	5,379	-	7,453	-
Trade payables	Note 20	25,289	-	26,432	132
Tax payables	Note 21	1,625	-	2,246	-
Contractual liabilities	Note 22	2,980	-	10,558	-
Other current liabilities	Note 23	9,062	-	7,360	-
Total current liabilities		**44,335**	**-**	**54,050**	**132**
Total liabilities		**130,082**	**-**	**103,085**	**132**

* The comparison is based on the figures of the financial statements of Iervolino Entertainment S.p.A. as at 31 December 2019

Consolidated statement of comprehensive income
as at 31 December 2020 - values in euro thousands

	Notes	31-dic-20	of which related parties	31-dic-19 *	of which related parties
Revenues	Note 24	97,482	1,090	66,272	16,973
Other revenues and income	Note 25	8,907	-	89	70
Tax credit and other government grants	Note 26	14,346	-	13,648	-
Total operating revenues and income		**120,735**	**1,090**	**80,009**	**17,043**
Purchases of raw materials, consumables and merchandise		302	-	40	-
Service costs	Note 27	6,005	-	3,896	-
Personnel costs	Note 28	1,730	-	393	-
Other operating costs		252	-	284	-
Amortisation/depreciation, write-downs and provisions	Note 29	90,406	-	52,748	1,014
EBIT		**22,040**	**1,090**	**22,647**	**1,014**
Financial income	Note 30	1,127	-	485	-
Financial charges	Note 30	1,784	-	753	-
Pre-tax profit		**21,382**	**-**	**22,380**	**16,029**
Income taxes	Note 31	(1,884)	-	(2,130)	-
Profit for the year		**19,498**	**-**	**20,249**	**-**
Attributable to Group		*19,498*		*20,249*	-
Minority interest		-	-	-	-
Other components of comprehensive income that may subsequently be reclassified to profit or loss, net of tax		-	-	-	-
Other components of comprehensive income that may not subsequently be reclassified in profit or loss, net of tax		(35)	-	-	-
Remeasurement of net liabilities/(assets) for employee benefits		(35)		-	
Total comprehensive profit or loss, net of tax		**19,463**	**-**	**20,249**	**-**
Basic earnings per share (ordinary shares)	**Note 32**	**0.87**	**-**	**1.84**	**-**
Diluted earnings per share (ordinary shares)	**Note 32**	**0.81**	**-**	**1.61**	**-**

* The comparison is based on the figures of the financial statements of Iervolino Entertainment S.p.A. as at 31 December 2019

Statement of changes in consolidated equity

as at 31 December 2020 - values in euro thousands

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other reserves	Translation reserve	Capital contributions	Profits/(losses) carried forward	Profit/(loss) for the year	Total	Third-party equity	Total shareholders' equity
Balance as at 1 January 2019		**1,120**	**7**	**28**	**-**	**-**	**-**	**1,743**	**(2,178)**	**10,203**	**10,923**	**-**	**10,923**
Profit/(loss) for the year		-	-	-	-	-	-	-	-	20,249	20,249	-	20,249
Allocation of 2018 profit		-	490	-	-	-	-	-	9,713	(10,203)	-	-	-
Coverage of losses		-	-	(28)	-	-	-	(1,743)	1,771	-	-	-	-
IPO		200	-	-	8,241	-	-	-	-	-	8,441	-	8,441
Automatically convertible bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019"		-	-	-	7,315	-	-	-	-	-	7,315	-	7,315
Convertible bond loan "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019"		15	-	-	707	-	-	-	-	-	722	-	722
Balance as at 31 December 2019		**1,335**	**497**	**-**	**16,263**	**-**	**-**	**-**	**9,306**	**20,249**	**47,650**	**-**	**47,650**
Balance as at 1 January 2020*		**1,335**	**497**	**-**	**16,263**	**-**	**-**	**-**	**9,306**	**20,249**	**47,650**	**-**	**47,650**
Profit/(loss) for the year	Note 17	-	-	-	-	-	-	-	-	19,498	19,498	-	19,498
Allocation of 2019 profit	Note 17	-	-	-	-	-	-	-	20,249	(20,249)	-	-	-
Capital increase of the "Arte Video" transaction	Note 17	1	-	-	146	-	-	-	-	-	147	-	147
Capital increase of the "RED Carpet" transaction	Note 17	1	-	-	146	-	-	-	-	-	147	-	147
Capital increase converted bonds	Note 17	64	-	-	(64)	-	-	-	-	-	-	-	-
Increase in translation reserve	Note 17	-	-	-	-	-	8	-	-	-	8	-	8
Consolidation changes	Note 17	-	-	-	-	-	-	-	(374)	-	(374)	-	(374)
OCI movement	Note 17	-	-	-	-	(35)	-	-	-	-	(35)	-	(35)
Balance as at 31 December 2020		**1,401**	**497**	**-**	**16,491**	**(35)**	**8**	**-**	**29,181**	**19,498**	**67,041**	**-**	**67,041**

Consolidated statement of cash flow
as at 31 December 2020 - values in euro thousands

	Notes	31-dic-20	31-dic-19 *
Pre-tax profit for the year	Note 17	21,382	22,379.56
Income taxes	Note 31	(1,884) -	2,130.43
Adjustments to reconcile pre-tax profit with net cash flows:			-
Amortisation/depreciation on intangible/tangible assets	Note 29	90,406	52,337.20
Write-downs and provisions		-	410.68
Net exchange differences		215	91.47
Financial income		(2)	-
Financial charges		434	176.29
Allocations (Uses) of personnel-related provisions		109	17.23
Other non-monetary elements		-	(155)
Cash flow generated by operating activities		**110,660**	**73,127**
Change in working capital:			
Change in trade receivables		3,413	(5,465)
Change in trade payables		(26,406)	(21,724)
Change in other receivables and other assets		(11,022)	(7,548)
Change in other payables and other liabilities		(1,305)	12,573
Interest paid		(832)	(78)
Income taxes paid		(5,728)	(4,603)
A - Net cash flows generated/(used) by operating activities		**68,782**	**46,282**
Investments in intangible/tangible assets		(84,031)	(57,070)
Investments in financial assets (equity investments)		-	(170)
Investments in other financial assets	Note 13	(4,348)	-
B - Net cash flows generated/(used) by investment activities		**(88,379)**	**(57,241)**
Share capital increase/Share premium reserve		-	16,263
Mortgages and loans taken out during the year		21,665	2,497
Mortgages and loans paid back during the year		(6,507)	-
C - Net cash flows generated/(used) by financing activities		**15,158**	**18,759**
D - Total cash flows generated/(used) in the year (A + B + C)		**(4,439)**	**7,801**
E - Cash and cash equivalents at the beginning of the year		**7,952**	**151**
F - Cash and cash equivalents at the end of the year		**3,513**	**7,952**

* The comparison is based on the figures of the financial statements of Iervolino Entertainment S.p.A. as at 31 December 2019

Note: according to IAS 7, the net cash flow generated/(absorbed) by investment activities includes only the investments paid, also through offsetting, in the period.

Notes to the consolidated financial statements

1. Corporate information

The publication of the consolidated financial statements of Iervolino Entertainment S.p.A. and its subsidiaries (Group) for the period ended 31 December 2020 was authorised by the Board of Directors on 19 March 2021. The consolidating company, Iervolino Entertainment S.p.A., is a joint stock company listed, registered and domiciled in Italy. The registered office is located at via Barberini 29, 00187 Rome.

The Group specialises in the production of film and television content including films, TV-shows, web series, short TV shows and much more. The contents produced by the Group are high-quality productions in the Hollywood style and involve the participation of internationally renowned actors. The Group's main objective is to produce for the international market, based on the business model used by the major film studios in Hollywood. The Group also handles authoring, encoding & digital delivery and celebrity management, casting and production of digital ADV content (Celebrity Management).

Information on the Group's relations with related parties can be found in Note 33.1.

2. Main accounting standards

2.1 Drafting principles

The consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were prepared on the basis of the historical cost principle.

The consolidated financial statements are shown in euro and all values are expressed in euro, unless otherwise indicated.

The consolidated financial statements consist of the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement and the statement of changes in consolidated shareholders' equity, as well as these explanatory notes.

Considering that the company prepares the first consolidated financial statements as at 31 December 2020, the comparative data included in the consolidated financial statements as at 31 December 2020 and in the explanatory notes to the consolidated financial statements refer to the financial statements as at 31 December 2019 of Iervolino Entertainment S.p.A.

These financial statements were prepared on the basis of the going concern assumption, as the Directors verified the absence of financial, operational or other indicators that could indicate critical issues regarding the Group’s ability to meet its obligations in the foreseeable future. The risks and uncertainties related to the business are described in the dedicated sections of the Report on Operations. A description of how the Group manages financial risks, including liquidity, and capital risks, is contained in the section "Additional information on financial instruments and risk management policies" of these Explanatory Notes. The main accounting standards and valuation criteria applied in preparing the consolidated financial statements are described below.

The Directors, in compliance with the provisions of the reference accounting standards, have made the following choices regarding the financial statement schedules.

Consolidated statement of comprehensive income: this was prepared using the "by nature" format and shows the intermediate values related to the operating profit and the profit before taxes to allow the performance of ordinary operating activities to be measured. The operating profit is calculated as the difference between revenues and other income and operating costs (the latter including non-monetary costs related to amortisation/depreciation and impairment of current and non-current assets, net of any reversal).

Consolidated statement of financial position: this is presented by distinguishing between current and non-current assets and liabilities. An asset/liability is classified as current when it meets one of the following criteria: it is expected to be realised/settled; or it is expected to be sold/used in the normal operating cycle; it is held for trading and is therefore expected to be realised/settled within 12 months from the end of the period. If these conditions are not met, the assets/liabilities are classified as non-current.

Consolidated cash flow statement: this is prepared using the "indirect method" by which the net profit for the period is adjusted for the effects of non-monetary transactions.

Statement of changes in consolidated shareholders' equity: this shows the changes that occurred in the shareholders' equity items.

2.2 Consolidation principles

The consolidated financial statements include the financial statements of Iervolino Entertainment S.p.A. and its subsidiaries as at 31 December 2020.

Considering that the company prepares the first consolidated financial statements as at 31 December 2020, the comparative data included in the consolidated financial statements as at 31 December 2020 and in the explanatory notes to the consolidated financial statements refer to the financial statements as at 31 December 2019 of Iervolino Entertainment S.p.A.

Control is obtained when the Group is exposed or is entitled to variable returns, deriving from its relationship with the investee and, at the same time, has the ability to affect these returns by exercising its power over this entity.

Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (or holds valid rights that give it the ability to direct the relevant activities of the investee);
- exposure or rights to variable returns deriving from the relationship with the investee;
- ability to exercise its power over the investee so as to affect the amount of its returns.

Generally, there is a presumption that the majority of voting rights entails control. In support of this presumption and when the Group holds less than the majority of voting rights (or similar rights), the Group considers all the relevant facts and circumstances to calculate whether it controls the investee, including:

- Contractual agreements with other holders of voting rights;

- Rights deriving from contractual agreements;

- Group voting rights and potential voting rights.

The Group shall reassess whether it has control over an investee if the facts and circumstances indicate that there have been changes in one or more of the three elements relevant to the definition of control. The consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses control. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the time the Group obtains control until the time the Group no longer exercises control over the company.

The profit (loss) for the year and each of the other components of the statement of comprehensive income are attributed to the owners of the parent company and to the minority interests, even if this might imply that the minority interests have a negative balance. When necessary, the appropriate adjustments are made to the financial statements of the subsidiaries, in order to ensure compliance with the accounting policies of the group. All assets and liabilities, shareholders' equity, revenues, costs and intercompany cash flows related to transactions between Group entities are eliminated in full at the time of consolidation.

Changes in the equity investment in a subsidiary that do not result in the loss of control are recognized in shareholders' equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, minority interests and other shareholders' equity components, while any gains or losses are recognized in the income statement. Any equity investment held must be recognized at fair value.

The following table provides information on the subsidiaries as at 31 June 2020, specifically, name, registered office and share capital held directly and indirectly by the Group.

Company name	Registered office	Currency	Interest held
Iervolino Entertainment S.p.A.	Via Barberini 29 - 00187 - Rome	Euro	
Arte Video S.r.l.	Via Barberini 29 - 00187 - Rome	Euro	100%
R.E.D. Carpet S.r.l.	Via del Porto Fluviale 69, 00154 Rome	Euro	100%
Iexchange S.r.l.	Via Barberini 29 - 00187 - Rome	Euro	100%
Iervolino Studios d.o.o.	Svetosavka street 26/9, Pozarevac	Serbian Dinar	100%
Associated companies			
Furuna Crafts d.o.o.	Zeleznicka 4, Novi Sad	Serbian Dinar	50%

The financial statements are presented in euros, which is the functional currency.

2.3 Summary of main accounting standards

a) Business combinations, goodwill and trademark

Business combinations are recognised using the acquisition method. The cost of an acquisition is calculated as the sum of the consideration transferred, measured at fair value at the acquisition date, and the amount of the minority interest in the acquired company. For each business combination, the Group defines whether to measure the minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the net identifiable assets of the acquired company. Acquisition costs are expensed in the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities taken over according to the contractual terms, economic conditions and other relevant conditions at the acquisition date. This includes verifying whether an embedded derivative should be separated from the host agreement.

Any contingent consideration is recognised by the acquiring company at fair value at the date of acquisition. The contingent consideration classified as equity is not subject to remeasurement and its subsequent payment is recognized with contra-entry in shareholders' equity. The change in the fair value of the
contingent consideration classified as an asset or liability, as a financial instrument that is subject to IFRS 9 Financial instruments, must be recognized in the income statement according to IFRS 9. The contingent consideration that does not fall under the purpose of IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognized in the income statement.

Goodwill and trademarks are initially recognized at cost, represented by the excess of the total amount paid and the amount recognised for minority interests over the identifiable net assets acquired and the liabilities taken over by the Group. If the fair value of the net assets acquired exceeds the amount paid, the Group again verifies whether it has correctly identified all the assets acquired and all the liabilities taken over and reviews the procedures used to calculate the amounts to be recognized at the acquisition date. If the new valuation still shows the fair value of the net assets acquired to be higher than the consideration, the difference (profit) is recognized in the income statement.

After initial recognition, goodwill and the trademark are valued at cost, net of accumulated impairment losses. For impairment testing purposes, the goodwill and the trademark acquired in a business combination are allocated, from the acquisition date, to each cash-generating unit of the Group that is expected to benefit from the synergies of the business combination, regardless of whether other assets or liabilities of the acquired entity are assigned to these units.

If the goodwill and the trademark have been allocated to a cash-generating unit and the entity disposes of part of the assets of that unit, the goodwill and the trademark associated with the divested asset are included in the book value of the asset when the gain or loss on disposal is calculated. The goodwill and the trademark associated with the disposed asset are calculated on the basis of the relative values of the disposed asset and the portion of the cash-generating unit retained.

b) Investments in associated companies

An associated company is a company over which the Group exercises significant influence. Significant influence means the power to participate in the determination of the financial and operating policies of the investee without having control or joint control.

The considerations made to establish the existence of significant influence are similar to those made to establish the existence of control over the subsidiaries. The Group's equity investment in associated companies is measured using the equity method.

With the equity method, the investment in an associated company is initially recognized at cost. The book value of the equity investment is increased or decreased to recognize the investor's share of the investee's profits and losses realized after the acquisition date. The goodwill pertaining to the associated company or joint venture is included in the book value of the equity investment and is not subject to a separate impairment test.

The income statement reflects the share of the associated company's profit for the year attributable to the Group. Any change in the other components of comprehensive income related to these investees is presented as part of the Group's statement of comprehensive income. In addition, if an associated company recognizes a change that is directly attributable to shareholders' equity, the Group recognizes its share, where applicable, in the statement of changes in shareholders' equity. Unrealized gains and losses deriving from transactions between the Group and associated companies are offset in proportion to the interest in the associated companies.

The Group's aggregate share of the profit or loss of the associated companies is recognized in the income statement after the operating profit and represents the profit after taxes net of the shares due to the other shareholders of the associated company.

The financial statements of the associated companies are prepared on the same date as the Group's financial statements. Where necessary, the financial statements are adjusted to bring them into line with the Group's accounting standards.

After applying the equity method, the Group assesses whether it is necessary to recognize an impairment of its investment in associated companies or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the equity investments in associated companies have suffered impairment. In this case, the Group calculates the amount of the loss as the difference between the recoverable amount of the associated company and its book value in its own financial statements, recognizing this difference in the income statement as "share in the profits of associated companies".

Upon loss of significant influence over an associated company, the Group measures and recognizes the residual equity investment at fair value. The difference between the book value of the investment at the date of loss of significant influence and the fair value of the residual investment and the consideration received is recognized in the income statement.

c) Intangible assets

Intangible assets acquired separately are initially recognised under assets at purchase cost, including any directly attributable accessory charges, as well as financial charges incurred in the period when the assets are realised. After the initial recognition, intangible assets are shown at cost, net of accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, with the exception of the internal costs of film production, are not capitalised and are recognised in the income statement in the year when they were incurred. Under the item "Intangible assets" the following types of costs relating to the film rights acquired can be distinguished: (i) costs incurred for film productions; (ii) costs for rights acquired for a limited period such as the concessions/licences acquired at a fixed price or with a "minimum guarantee".

The agency/license agreements for acquisition of rights of use on films are recognised as intangible assets at the time control is transferred which usually coincides with the receipt of the invoice. These rights are amortised according to a method based on expected revenues, commonly used in the sector and that provides for the accumulated amortisation at the reporting date being determined by referring to the ratio existing between the revenues realised and the total revenues deriving from the different types of use of the rights, envisaged on the basis of the sales plans, as the Directors believe that this methodology reflects more appropriately and correctly the speed with which the Group envisages the use of the economic benefits associated with these rights.

All the costs relating to the production of films and incurred in the various pre-production, production and post-production phases of the films are capitalised in the items "Finished productions" and "Productions in progress". The Finished productions are amortised using the "film forecast computation method", on the basis of which the amortisation at the reporting date is determined along the time horizon in which the intangible asset will produce revenues. The amortisation period, based on the specific characteristics of the individual existing productions, is set at four years.

At each reporting date, in addition to reviewing their useful life, intangible assets with a defined useful life are analysed so as to identify whether there are any indications of impairment, deriving from both external and internal sources. If such indications are identified, the recoverable value of these assets is estimated and any impairment is recognised in the income statement. The recoverable value of an asset is the greater of its fair value less cost of disposal and its value in use, where the latter is the sum of estimated future revenues for that asset.

An intangible asset deriving from the development (or from the development stage of an internal project) is recognised if, and only if, the following is verified:

a) Technical feasibility of the completion of the intangible asset to ensure this is available for use or sale;
b) Intention to complete the intangible asset and to use or sell it;
c) Ability to use or sell the intangible asset;
d) This is how the intangible asset will generate probable future economic benefits. Furthermore, the entity can demonstrate the existence of a market for the product of the intangible asset or for the intangible asset itself or, if it is to be used for internal purposes, the usefulness of this intangible asset;
e) The availability of adequate technical, financial and other resources to complete the development or sale of the intangible asset;
f) The ability to reliably measure the cost attributable to the intangible asset during its development.

During the development period, the asset is subject to annual impairment test.

The item "Other intangible assets" includes intangible assets with a finite useful life, consisting of Concessions, licenses, trademarks and similar rights; these assets are recognised net of accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life, which is reviewed at least once a year; any changes in the amortisation criteria are applied prospectively. Amortisation begins when the intangible asset is available for use. The estimated useful life of "Other intangible assets" is 5 years.

d) Tangible assets

These are recognised at historical cost, net of accumulated depreciation and impairment losses. The depreciation charges, recognised in the income statement, were calculated according to the economic/technical life of the assets, based on the criterion of remaining useful life. Regardless of previously recorded depreciation, if there is an impairment, the asset is written down. If in subsequent years the reasons for the impairment no longer exist, the original value net of the accumulated depreciation is restored.

e) Financial assets

At the time of the initial recognition, financial assets are classified, depending on the case, according to the subsequent measurement methods, i.e., at amortised cost, at fair value through other comprehensive income (OCI) and at fair value through profit or loss.

The classification of financial assets at the time of initial recognition depends on the features of the contractual cash flows in financial assets and also the business model that the Group uses for its management. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not measured at fair value through profit and loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, are measured at the transaction price calculated as shown in the section p) Revenues.

In order for a financial asset to be classified and measured at amortised cost or at fair value through OCI, it must generate cash flows that depend solely on the principal and interest on the amount of principal to be repaid ("solely payments of principal and interest", or SPPI). This assessment is referred to as the SPPI test and is performed at the level of individual financial instrument. Financial assets with cash flows that do not meet the above requirements (e.g. SPPI) are classified and measured at fair value through profit or loss.

The Group business model for the management of financial assets refers to the way this manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will derive from collecting the contractual cash flows, from the sale of the financial assets or from both.

Financial assets classified and measured at amortised cost are held within the framework of a business model the objective of which is the possession of financial assets aimed at collecting contractual cash flows while financial assets that are classified and measured at fair value through OCI are held within the framework of a business model the objective of which is achieved both through the collection of contractual cash flows and through the sale of financial assets.

The purchase or sale of a financial asset that requires delivery within a deadline usually set by regulation or market conventions (so-called standardised sale or regular way trade) is recognised on the trade date, i.e., the date the Group undertook to buy or sell the asset.

Subsequent valuation

For the purposes of subsequent valuation, financial assets are broken into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at the fair value through other comprehensive income with reclassification of accumulated profits and losses (debt instruments);

- Financial assets at the fair value through other comprehensive income without reversing accumulated profits and losses at the time of elimination (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant for the Group. The Group measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is owned within the framework of a business model the objective of which is to hold financial assets to collect contractual cash flows;

and

- the contractual terms of the financial asset provide for at certain dates cash flows represented solely by payments of principal and interest on the amount of principal to be repaid.

Financial assets at amortised cost are subsequently valued using the effective interest method and are subject to impairment as indicated below. Gains and losses are recognised in the income statement when the asset is written off, modified or revalued.

The Group's financial assets measured at amortised cost include trade receivables.

Cancellation

A financial asset is first cancelled (e.g., removed from the statement of financial position) when:

- the rights to receive cash flows from the asset are extinguished, or
- the Group has transferred the right to receive cash flows from the asset to a third party or has assumed a contractual obligation to pay them in full and without delay and (a) has substantially transferred all the risks and benefits of ownership of the financial asset, or (b) has not transferred or substantially retained all the risks and benefits of the asset, but has transferred control of it.

In cases where the Group has transferred the rights to receive the cash flows from an asset or has signed an agreement under which it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the financial flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has retained the risks and benefits pertaining to possession. In the event that it has neither transferred nor substantially retained all the risks and benefits or has not lost control thereof, the asset continues to be recorded in the Group's financial statements to the extent of its residual involvement in the activity. In this case, the Group also recognises an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that still pertain to the Group.

When the entity's residual involvement is a guarantee on the transferred asset, involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of the consideration received that the entity may have to repay.

Impairment of financial assets

The Group recognises an expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows owed under the agreement and all the cash flows that the Group expects to receive, discounted at a rate approximating the original effective interest rate. The expected cash flows will include the cash flows deriving from the enforcement of the collateral held or other credit guarantees which are an integral part of the contractual conditions.

In relation to credit exposures for which there has been no significant increase in credit risk from the initial recognition, credit losses deriving from an estimate of default events that may occur within the next 12 months need to be recognised (12-month ECL).

For credit exposures for which there has been a significant increase in credit risk from the initial recognition, the expected losses that refer to the residual duration of the exposure must be recognised in full, regardless of the moment in which the default event is expected to occur (''Lifetime ECL'').

f) Financial liabilities

Initial recognition and evaluation

Financial liabilities are classified, at the time of initial recognition, as financial liabilities at fair value through profit or loss, among mortgages and loans, or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value with the addition, in the case of mortgages, loans and payables, of the transaction costs directly attributable to them.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts.

Subsequent valuation

The measurement of financial liabilities depends on their classification, as described below:

Assets and liabilities at amortised cost

This is the most relevant category for the Group. After initial recognition, the loans are measured at the amortised cost using the effective interest rate method. Profits and losses are recognised in the income statement when the liability is extinguished, as well as through the amortisation process.

The amortised cost is calculated by recording the discount or premium on the acquisition and the fees or costs that form an integral part of the effective interest rate. Amortisation at the effective interest rate is included in the financial charges in the income statement.

Cancellation

A financial liability is cancelled when the obligation underlying the liability is extinguished, cancelled or settled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or the conditions of an existing liability are substantially modified, this change or modification is treated as an accounting cancellation of the original liability, accompanied by the recognition of a new liability, with any difference between the book values recognised in the consolidated income statement.

Offsetting of financial instruments

A financial asset and liability can be offset and the net balance shown in the statement of financial position, if there is a current legal right to offset the amounts recognised in the accounts and there is an intention to pay off the net residual amount, or to dispose of the asset and simultaneously extinguish the liability.

g) Impairment of non-financial assets

At the end of each reporting period, the Group assesses the existence of indications of impairment for its assets.

In this case, or in cases where an annual impairment test is required, the Group estimates the recoverable value. The recoverable amount is the higher of the fair value of the asset or cash-generating unit, net of costs of disposal, and its value in use. The recoverable amount is calculated for each individual asset, except when said asset generates cash flows that are not largely independent from those generated by other assets or groups of assets. If the book value of an asset is higher than its recoverable value, this asset has suffered an impairment loss and is consequently written down to its recoverable value.

In calculating the value in use, the Group discounts estimated future cash flows using a pre-tax discount rate, which reflects the market valuations of the present value of money and the specific risks of the asset. In calculating the fair value net of costs of disposal, recent transactions on the market are taken into account. If it is not possible to identify such transactions, an appropriate valuation model is used. These calculations are supported by appropriate valuation multipliers, listed share prices for investees with securities traded on the market, and other available fair value indicators. The Group bases its impairment test on the most recent budgets and forecasts, prepared separately for each cash-generating unit of the Group to which individual assets are allocated. These budgets and forecasts generally cover a period of five years. A long-term growth rate is calculated to forecast future cash flows beyond five years.

Impairment losses on continuing operations are recognized in the consolidated statement of comprehensive income in the cost categories consistent with the allocation of the asset that showed the impairment. Fixed assets previously revalued are an exception, where the revaluation was recognised under other comprehensive income. In these cases, the impairment is in turn recognized under other comprehensive income up to the amount of the previous revaluation. For assets other than goodwill, at each reporting date, the Group assesses the existence of indications that previously recognized impairment losses have been reversed, fully or in part, and, if such indications are found, it estimates the recoverable amount of the asset or CGU. The value of an asset previously impaired can be reinstated only if there have been changes in the assumptions on which the calculation of the recoverable value was based, subsequent to the recognition of the most recent impairment.

The reversal may not exceed the book value that would have been recorded net of amortisation/depreciation, had no impairment loss been recognized in previous years. This impairment reversal is recognized in the consolidated statement of comprehensive income unless the asset is recognized at the revalued value, in which case the reversal is treated as a gain from revaluation. Goodwill is tested for impairment at least once a year or more frequently, when circumstances suggest that the book value could be subject to impairment. The impairment of goodwill is calculated by finding the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill can be attributed. If the recoverable value of the cash-generating unit is lower than the book value of the cash-generating unit to which goodwill has been allocated, an impairment loss is recognized.

The impairment of goodwill cannot be reversed in future years.

Intangible assets with an indefinite useful life are tested for impairment at least once per year, at the level of the cash-generating unit and when circumstances indicate that there may be an impairment loss.

h) Cash and cash equivalents and short-term deposits

Cash and cash equivalents and short-term deposits include cash on hand and overnight and short-term deposits with a maturity of no more than three months, held to meet short-term cash commitments, instead of for investment or other purposes, and which are not subject to significant risks associated with the change in value.

For the purposes of representation in the cash flow statement, cash and cash equivalents are represented by cash and cash equivalents as defined above, net of bank overdrafts as these are considered an integral part of the Group's liquidity management.

i) Pension funds and other post-employment benefits

The Group grants its employees benefits that will be paid out upon termination of the employment relationship through defined benefit pension plans. Defined benefit pension plans, which also include the employee severance indemnity due to employees of Italian companies pursuant to Art. 2120 of the Italian Civil Code, are based on the working life of employees and the remuneration received by these during a pre-specified period of service. In particular, the liability related to employee severance indemnity is recognized in the financial statements on the basis of its actuarial value, as it qualifies as a benefit due to employees on the basis of a defined benefit plan. The recognition of defined benefit plans in the financial statements requires the estimate, using actuarial techniques, of the amount of the benefits accrued by employees in exchange for the work performed in the current and previous years and the discounting of these benefits to calculate the present value of the Group’s commitments. The present value of these commitments is calculated using the "Projected Unit Credit Method". This method, which falls within the more general scope of the techniques used for "accrued benefits", considers each period of service provided by the workers at the company as a unit of additional entitlement: the actuarial liability must therefore be quantified on the basis of the sole seniority accrued at the valuation date; therefore, the total liability is normally recalculated based on the ratio between the years of service accrued at the reference date of the valuation and the total seniority reached at the time when the benefit is expected to be paid. This method also takes into account future salary increases, for any reason due (inflation, promotion, agreement renewals, etc.), up to the termination of the employment relationship.

l) Provisions for risks and charges

The Provisions for risks and charges are made when the Group has to address a current obligation (legal or implicit) resulting from a past event, when an outlay of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount. When the Group believes that a provision for risks and charges will be partially or fully reimbursed, for example, in the case of risks covered by insurance policies, the compensation is recognised distinctly and separately in the assets if, and only if, it is practically certain. In this case, the cost of any provision is recognised in the income statement net of the compensation amount recognised.

If the effect of the value of money over time is significant, the provisions are discounted using a pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the liability is discounted, the increase in the provision due to the passing of time is recognised as a financial charge.

m) Contractual liabilities

A contractual liability is an obligation to transfer the customer goods or services for which the Group has already received a consideration (or a portion of the consideration is due). A contractual liability is recognised if payment has been received or is due (whichever comes first) from the customer before the Group has transferred control of the goods or services. The liabilities deriving from a contract are recognised as revenues when the Group meets the obligations specified in the relevant contract.

n) Revenues

Revenues from sales and services are recognized when the actual transfer of control occurs. A summary description of the recognition, measurement and valuation process applied is provided below for each of the main revenue streams identified.

Revenues related to the use of Intellectual Property

The revenues related to the transfers of the rights to use Intellectual Property (IP) are recognised if both the following conditions are satisfied: (i) the Group has delivered the product to the customer and (ii) the customer, after receiving the product, is able to use it and to benefit from the right transferred.

Revenues from licenses

Revenues related to royalties based on the use and on the sales of an IP licence are recognised if both the following conditions are satisfied: (i) use has occurred and (ii) the performance obligations, based on which some or all the royalties based on the use of an IP licence were allocated, were satisfied.

Revenues from service activities

Contract work usually includes a performance obligation that is fulfilled over time; for these agreements, the Group generally makes use of a method to measure progress in the fulfilment of the performance obligation based on inputs, unless a specific analysis of the agreement suggests the opportunity to use a different method, which best represents the Group's performance obligation met at the reporting date.

For contract work that includes an obligation to perform over time, the Group recognizes revenues over time by measuring the progress towards full fulfilment of that obligation.

It is believed that the method of hours worked by production personnel is generally considered the best method for measuring the progress towards the fulfilment of the Group's performance obligation at the reporting date.

The amount due from the customer for contract work is recognised as an asset deriving from contracts with customers; the amount due to customers for contract work is presented as a liability arising from contracts with customers.

Revenues from service authoring, encoding & digital delivery activities: these are recognized when the service is provided.

Revenues related to Celebrity Management are recognised when the service is provided.

Revenues are shown net of returns, discounts, allowances and bonuses, as well as directly related taxes.

o) Public grants - Tax credits:

Public grants - tax credits are recognised when there is a reasonable certainty that they will be received and that all conditions attached to them will be met. Grants related to cost components are recognised as revenues and are systematically allocated to the different financial years to match the recognition of the costs they are meant to offset. Grants related to an asset are recognised as revenue in shares equal to those applied for the amortisation of the related intangible asset, according to the provisions of IAS 20 "Accounting for government grants and disclosure of government assistance".

This case includes mainly grants from the Ministry of Cultural Heritage and Assets and Tourism (MIBACT) for television and film productions, based on the applicable legal provisions, which are recognised as grants in the income statement according to the estimated useful life of the asset to which they refer.

With specific reference to the film sector, the Group currently benefits from a type of public grants, that is, incentives consisting of tax relief, deriving from the tax credits granted to film production companies in regard to the creation of cinematographic works as set forth in Law 244/2007, as regulated by the "Tax Credit for Film Producers" Decree, which specifies the application methods. In 2020, the Group also took advantage of the "Tax Credit for Film Distribution Companies" in regard to the self-distribution of the film "Waiting for the Barbarians".

Specifically, the aforementioned provisions intend to support the production of Italian films by recognising a tax credit corresponding to a certain percentage of the total cost of the film.

p) Current taxes

Current tax assets and liabilities for the year are recognised for the amount expected to be recovered from or paid to the tax authorities. The tax rates and provisions used to calculate the amount are those issued, or substantially in force, at the reporting date in the country where the Group operates and generates its taxable income.

Current taxes related to items recognised directly in shareholders' equity are also recognised in shareholders' equity and not in the income statement Management periodically reviews the position taken in the tax returns in those cases where the tax rules are subject to interpretation and, where appropriate, makes the appropriate provisions.

q) Deferred taxes

Deferred taxes are calculated by applying the "liability method" to the temporary differences existing at the reporting date between the tax values of the assets and liabilities and the corresponding book values.

Deferred tax assets are recognised against all deductible temporary differences, unused tax credits and losses that can be carried forward, to the extent that it is believed that sufficient future taxable income will be available to use the temporary deductible differences and tax credits and losses carried forward, unless the deferred tax asset connected to the temporary deductible differences derives from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect the profit resulting from the financial statement or the tax returns. The book value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer believed that sufficient taxable income will be available in the future to use this credit fully or in part. Deferred tax assets not recognised are reviewed at each reporting date and are recognised to the extent that it becomes probable that the taxable income will be sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates expected to be applied to the year when the asset is realised or the liability is settled, based on the tax rates in force and those that have been introduced or are substantially in force at the reporting date.

Deferred taxes related to items recognised outside the income statement are also recognised outside the income statement and, therefore, in shareholders' equity or comprehensive income, consistently with the element to which they refer.

r) Translation of foreign currency items

In the consolidated financial statements, the economic results, assets and liabilities are expressed in euro, which is the presentation currency of the Parent Company Iervolino Entertainment S.p.A. For the purposes of the preparation of the consolidated financial statements, the financial statements of the investee Iervolino Studios d.o.o. have been translated into euros by applying the exchange rate in force at the end of the year to assets and liabilities and the average exchange rates for the year to the income statement items provided these are close to the exchange rates in force at the date of the respective transactions.

The Group uses the direct consolidation method; the profit or loss reclassified to the income statement at the time of the sale of a foreign subsidiary represents the amount calculated with this method.

s) Transactions and balances in foreign currency

Foreign currency transactions are initially recognised in the functional currency, applying the spot exchange rate for the transaction date.

Monetary assets and liabilities, denominated in foreign currency, are converted into the functional currency at the exchange rate on the reporting date.

The exchange differences realised or those deriving from the translation of monetary items are recognised in the income statement, with the exception of the monetary elements that are part of the hedging of a net investment in a foreign operation. These differences are recognised in the statement of comprehensive income until the disposal of the net investment, and only then is the overall amount reclassified in the income statement. Taxes attributable to exchange rate differences on monetary elements are also recognised in the statement of comprehensive income.

In preparing the cash flow statement, using the indirect method, the cash flow from operating activities is calculated by adjusting the profit for the effects of unrealised exchange gains or losses, as non-monetary items.

Non-monetary items valued at historical cost in foreign currency are converted at the exchange rates on the date the transaction is initially recognised. Non-monetary items recognised at fair value in foreign currency are converted at the exchange rate on the date this value is calculated. The profit or loss from the conversion of non-monetary items is treated consistently with the recognition of the profits and losses related to the change in the fair value of these items: the conversion differences on the items the change in fair value of which is recognised in the comprehensive income statement or in the income statement are recognised in the comprehensive income statement or in the income statement, respectively.

In determining the spot exchange rate to be used at the time of initial recognition of the related asset, cost or revenue (or part thereof) upon the cancellation of a non-monetary asset or non-monetary liability relating to the advance payment, the transaction date is the date when the Group initially recognises the non-monetary asset or non-monetary liability resulting from the advance payment. If there are multiple payments or advances, the Group determines the transaction date for each payment or advance.

t) Recognition of costs

Costs are recognised at the time of acquisition or consumption of the good or service.

2.3 Effects related to the Covid-19 pandemic

The effects related to the Covid-19 pandemic on the Group's activities and the effects on future activities are described below.

a) Activities for the year 2020

With reference to the recent restrictions linked to the Covid-19 pandemic, the Group's productions, being mainly intended for streaming platforms, have undergone effects related to the planning of the shooting of the films Women Stories (formerly Together Now), Eddie & Sunny and State of Consciousness, which have been postponed with respect to the original production plan.

The smart-working operating mode (from home with technological adaptations) which, although costly due to technical adaptations, is to be considered as a non-recurring expense, an expanded workforce and, finally, the agreements reached with customer and suppliers to anticipate some deliveries of the web series Arctic Friends from 2021 to 2020, have offset the shooting delays.

The postponed shooting of the aforementioned films resulted in a significant financial commitment in the last quarter of the year with a consequent effect on the net financial position at the end of the year, but at the same time allowed the Group to maintain growth and development, as better described in the Report on operations.

2.4 Discretionary measurements and significant accounting estimates

The preparation of the Group's financial statements requires the directors to make discretionary assessments, estimates and assumptions that influence the values of revenues, costs, assets and liabilities and the information relating thereto, as well as the indication of potential liabilities. Uncertainty about these assumptions and estimates could lead to outcomes which will require, in the future, a significant adjustment to the book value of these assets and/or liabilities.

The main assessments requiring the judgement of management are as follows:

Assessments on the existence of control, joint control and significant influence

According to the provisions of IFRS 10, control is obtained when the Group is exposed to, or is entitled to, variable returns deriving from the relationship with the investee and has the ability, through the exercise of power over the investee, to influence the related returns. Power is defined as the current capacity to direct the relevant activities of the investee by virtue of existing substantial rights.

The existence of control does not depend exclusively on the possession of the majority of voting rights, but on the substantial rights of the investor over the investee. As a result, management's judgement is required to assess specific situations resulting in substantial rights that give the Group the power to direct the relevant activities of the investee in such a way as to influence its returns.

For the purpose of assessing the control requirement, management reviews all facts and circumstances, including agreements with other investors, rights deriving from other contractual agreements and potential voting rights. These other facts and circumstances may be particularly relevant in the context of this assessment, especially in cases where the Group holds less than the majority of the voting rights, or similar rights, of the investee.

The Group reviews the existence of the conditions for control over the investee when the facts and circumstances indicate that there has been a change in one or more elements considered for the verification of its existence.

Equity investments in associated companies are those in which the company exercises significant influence, i.e. those in which it has the power to participate in the determination of financial and management policies without having control or joint control. In general, it is assumed that the Group has a significant influence when it holds an interest equal to at least 20% of the investee's capital.

In order to establish the existence of a significant influence, the judgement of management is required to assess all the facts and circumstances.

The Group re-examines the existence of significant influence when facts and circumstances indicate that there has been a change in one or more elements considered to verify the existence of such significant influence.

Amortisation and verification of the recoverable value of intangible assets

The most significant assessment used in the preparation of the income statement relates to the application criterion for calculating future revenues used in applying the "film forecast computation method" (see paragraph c) Intangible assets), which affects the calculation of the amortisation charges for intangible assets. With the film forecast computation method, the amortisation charge at the reporting date is calculated over the time horizon based on the ratio of the revenues realised and the total revenues to be received throughout the life cycle of the film. The application of this method requires the use of estimates to calculate the future revenues generated by the intangible asset.

With reference to the verification of the recoverable value of intangible assets, their future use was verified within the last Business Plan approved by the Board of Directors.

Recovery of Deferred tax assets

Deferred tax assets are recognised against the temporary deductible differences between the values of the assets and liabilities recognised in the financial statements and the corresponding tax value. A discretionary assessment is required from the directors to calculate the amount of deferred tax assets that can be recognised which depends on the estimate of the probable time manifestation and the amount of future taxable profits.

Application of IFRS 15

When each agreement is signed with a customer, management assesses the appropriate method to measure the fulfilment of the contractual obligation deriving from the agreement. For most of the existing agreements, the obligation is outlined in detail according to Par. 38 of IFRS 15. The management, in its opinion, believes this can be identified with the moment when confirmation is obtained about the technical compliance of the production delivered.

Directors, with special reference to revenues related to royalties based on the use of an IP licence, have assessed whether both conditions below are satisfied: (i) the use has occurred and (ii) the performance obligations, based on which some or all the royalties based on the use an IP licence were allocated, were fulfilled.

Recognition of the Film production tax credit

With regard to recognising the film production tax credit, the directors believe that this is considered reasonably certain provided the corresponding recognition procedure has been followed. The related recognition in the revenue depends on the production being delivered and the realised rights.

2.5 Changes in accounting standards and disclosure

New accounting standards, interpretations and amendments adopted by the Group

The Group applied for the first time some standards or amendments that have been in force since 1 January 2020. The Group has not adopted in advance any new standard, interpretation or amendment issued but not yet in force.

Amendments to IFRS 3: Definition of a business

The amendments to IFRS 3 have clarified that to be considered a business, an integrated set of activities and assets must include at least one input and an underlying process that together contribute in a significant way to the ability to create an output. Furthermore, it was clarified that a business can exist without including all the inputs and processes necessary to create an output.

Amendments to IFRS 7, IFRS 9 and IAS 39: Reform of the interest rate benchmark

The amendments to IFRS 9 and IAS 39 provide a number of practical expedients that apply to hedging relationships that are directly impacted by the reform of the reference interest rates. A hedging relationship that is impacted by the reform is subject to uncertainties regarding the timing and amount of cash flows based on the reference rate with reference to the hedged instrument. These amendments have no impact on the Group’s consolidated financial statements as there are no interest rate hedges in place.

Amendments to IAS 1 and IAS 8 - definition of material

The amendments provide a new definition of materiality which states that information is material if it is reasonable to assume that its omission, misstatement or concealment could influence the decisions that the main users of the financial statements prepared for general purposes take on the basis of these financial statements, which provide financial information about the specific entity preparing the financial statements. The materiality depends on the nature or extent of the information, or on both. The entity assesses whether the information, individually or in combination with other information, is material in the context of the financial statements, taken as a whole. The information is hidden if it is communicated in such a way as to have, for the main users of the financial statements, an effect similar to that of the omission or incorrect indication of the same information. These amendments did not have any impact on the consolidated financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework does not represent a standard and none of the concepts contained in it takes precedence over the concepts or requirements of a standard. The purpose of the Conceptual Framework is to support the IASB in the development of standards, to help the drafters to develop homogeneous accounting policies where there are no applicable standards in the specific circumstances and to help all parties involved to understand and interpret the standards.

The revised version of the Conceptual Framework includes some new concepts, provides updated definitions and updated recognition criteria for assets and liabilities and clarifies some important concepts. These amendments did not have any impact on the Group's consolidated financial statements.

Amendment to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB published an amendment to IFRS 16. The amendment allows a lessee not to apply the requirements in IFRS 16 on the accounting effects of the contractual amendments for the reductions in lease payments granted by the lessors that are a direct consequence of the Covid-19 epidemic. The amendment introduces a practical expedient according to which a lessee may choose not to assess whether the reduction in lease payments represent contractual changes. A lessee who chooses to use this expedient accounts for these reductions as if they were not contractual changes in the scope of IFRS 16.

The amendments are applicable to financial statements the accounting period of which starts on 1 June 2020 or later. Early adoption is permitted. These amendments did not have any impact on the Group's consolidated financial statements.

Accounting standards for future application

The list of standards, amendments to standards and interpretations whose effective date for the Group is after 31 December 2020 is provided below:

Amendment to IFRS 16: Covid-19 related rent concessions, issued on 28 May 2020 in order to allow lessees not to account for concessions on lease payments (suspension of lease payments, deferment of payments due for leases, reductions in leases for a period of time, possibly followed by rental increases in future periods) as contractual changes to the lease if they are a direct consequence of the Covid-19 pandemic and meet certain conditions. According to IFRS 16, a contractual change to the lease is a change in the object or consideration of a lease that is not envisaged in the original contractual terms and conditions of the lease; therefore, concessions on lease payments would be contractual changes to the lease, unless they were provided for in the original lease agreement. The amendment applies only to lessees, while lessors are required to apply the current provisions of IFRS 16. The amendment, which applies retrospectively for financial years beginning on or after 1 June 2020, was not adopted in advance by the company.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, issued in September 2014. The amendments clarify the accounting treatment of sales or transfers of assets between an investor and its associated companies or joint ventures. The amendments confirm that the accounting treatment varies according to whether the assets sold or transferred to an associated company or joint venture constitute a "business" (as defined by IFRS 3). The IASB indefinitely postponed the date of first application of the amendments in question; early application is allowed provided that the amendments are applied prospectively.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current issued in January 2020. The amendments concern the provisions of IAS 1 related to the presentation of liabilities. More specifically, the amendments clarify:

- the criteria for classifying a liability as current or non-current, specifying what is meant by a company's right to defer settlement and that this right must exist at the end of the year;
- that the classification is not affected by the intentions or expectations of management as to when a company will exercise its right to defer the settlement of a liability;
- that there is a right to defer only if the company meets the conditions specified in the loan agreement at the end of the year, even if the creditor does not verify compliance until a later date; and
- that the regulation refers to the transfer to the counterparty of liquidity, equity instruments, other goods or services.

The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2023. Early application is allowed.

Amendments to IFRS 3 - Reference to the Conceptual Framework issued in May 2020. The amendments are intended to replace a reference to the definitions of assets and liabilities provided by the Revised Conceptual Framework for Financial Reporting issued in March 2018 (Conceptual Framework) without significantly changing its provisions.

The amendments also added a provision to IFRS 3 (according to which, in relation to transactions and other events that fall within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer applies, instead of the Conceptual Framework, the aforementioned principles to identify the liabilities assumed in a business combination.

Finally, the amendments clarify the existing guidelines in IFRS 3 for contingent assets acquired in a business combination, specifying that, if it is not certain that an asset exists at the acquisition date, the possible asset does not qualify for recognition.

The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2022.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use, issued in May 2020. The amendments prohibit companies from deducting from the cost of an item of property, plant and equipment any income deriving from the sale of items produced while the asset is brought to the location and condition necessary for it to function in the manner intended by management. On the contrary, a company must recognize the income deriving from the sale of these elements and the costs related to their production in the income statement. The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2022. Early application is allowed.

Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract, issued in May 2020. The amendments specify which costs a company includes in calculating the cost necessary to fulfil a contract in order to assess whether the contract is onerous. To this end, the "cost necessary for the performance" of a contract includes costs that refer directly to the contract; the latter may be either incremental costs necessary for the fulfilment of that contract or an allocation of other costs that relate directly to the fulfilment of the contract. The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2022. Early application is allowed.

Annual improvements to IFRS Standards 2018-2020, issued in May 2020. The document mainly makes changes to the following standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards; the amendment simplifies the application of IFRS 1 for an investee company (subsidiary, associated and joint venture) that becomes a new user of the IFRSs after its parent/investing company. In particular, if the investee adopts the IFRSs after its parent/investing company and applies IFRS 1.D16 (a), then this investee may choose to measure the cumulative translation differences for all foreign operations at the amounts included in the consolidated financial statements of the parent/investing company, based on the date of transition of the latter to the IFRSs.

IFRS 16 Leases, the International Accounting Standards Board amended the Illustrative example 13 that accompanies IFRS 16 Leases. In particular, the amendment eliminates the likely confusion in the application of IFRS 16 due to the way in which Illustrative example 13 had described the requirements for lease incentives. Indeed, the example included a reimbursement for leasehold improvements without providing an explanation as to whether the reimbursement met the definition of a lease incentive. The amendment removes from the example the illustration of the reimbursement related to leasehold improvements.

The amendments must be applied prospectively, subject to prior approval, for annual periods beginning on or after 1 January 2022. Early application is allowed.

Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16 - Interest Rate Benchmark Reform - Phase 2, issued in August 2020. The amendments supplement those issued in 2019 ("Interest Rate Benchmark Reform - Phase 1") and address issues that could affect financial reporting after a benchmark has been reformed or replaced with an alternative reference rate due to the reform. The objectives of the amendments of Phase 2 are to assist the companies: (i) in applying the IFRSs when changes are made to the contractual cash flows or to the hedging relationships due to the reform of the benchmarks for calculating interest rates; and (ii) providing useful information to users of financial statements.

Moreover, when the exemptions of Phase 1 cease to be applicable, the companies are required to modify the documentation of the hedging relationship to reflect the changes required by the IBOR reform by the end of the year during which the changes are made (these amendments do not constitute a termination of the hedging relationship). The amounts accumulated in the cash flow hedge reserve, when the description of a hedged element in the documentation of the hedging relationship is changed, are considered based on the alternative reference rate on the basis of which the future cash flows hedged are calculated.

The amendments will require the provision of additional information on the exposure of the company to the risks deriving from the Interest Rate Benchmark Reform and on the related risk management activities.

The amendments will be applicable for annual periods beginning on or after 1 January 2021. Early application is allowed.

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies, issued in February 2021. The amendments are intended to support the companies in deciding which accounting standards to illustrate in the financial statements. The amendments to IAS 1 require companies to provide information on the relevant accounting standards, rather than on the significant ones. A guide on how to apply the concept of materiality to the disclosure on accounting standards is provided by the amendments to IFRS Practice Statement 2. The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2023. Early application is allowed.

Amendments to IAS 8 - Definition of Accounting Estimates, issued in February 2021. The amendments are intended to support companies in distinguishing between changes in accounting standards and changes in accounting estimates; the definition of changes in accounting estimates is replaced with a definition of accounting estimates as "monetary amounts that are subject to measurement uncertainty in the financial statements". The amendments will be applicable, subject to endorsement, for financial years beginning on or after 1 January 2023. Early application is allowed.

At present, the Group does not expect any (significant) impact from such adoptions.

2.5 Management of financial risks

Liquidity risk

Liquidity risk is related to the inability to obtain funds to settle payment obligations.

It may derive from the insufficiency of the resources available to meet the financial obligations within the preset terms and due dates in the event of sudden revocation of the uncommitted credit lines or from the possibility that the company be required to meet its financial liabilities before their natural maturity.

The Group, through a careful and prudent financial policy, which is reflected in the policy adopted, and the constant monitoring of both the ratio between credit facilities granted and used and between short-term and medium/long-term debt, has acquired credit lines of adequate quality and quantity.

In recent years, the Group's activity has been characterized by rapid development, high growth and the acquisition of new intellectual property. In this context of business growth, characterized by a high use of liquidity, the Group monitors the risk of a liquidity shortage using a financial planning tool.

The following table summarizes the time profile of the Group's long-term debt repayment plan.

€/000

Disbursing institution	Type of loan	Interest rate	Amount disbursed	Origination year	Maturity year	Within 1 year	Between 1 and 5 years	Over 5 years
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2024	114	293	-
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2024	114	302	-
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2023	138	277	-
Intesa San Paolo S.p.A.	Loan	4.75% (until 30/06/2020) - 3M Euribor + 2.5% spread	4,100	2020	2025	-	4,100	-
Intesa San Paolo S.p.A.	Loan	3M Euribor + 2.6% spread	5,500	2020	2025	-	5,500	-
Intesa San Paolo S.p.A.	Basket Bond	4.07%	8,000	2020	2027	-	5,535	2,465

The Group's exposure to the banking system amounted to €23.4 million as at 31 December 2020.

The Group also offsets trade payables and receivables which, although shown "gross" in the financial statements, do not generate operating cash flows.

Foreign exchange risk

The Group pays part of its costs in US dollars and receives part of its revenues in this currency. The Group is therefore exposed to the risk of a devaluation of the euro against the US dollar; however, it did not consider it appropriate to hedge this risk as this is significantly reduced by offsetting the costs incurred in the same currency as the revenues. Furthermore, considering the short time interval between the issuance/receipt of the invoice and its settlement, the exposure to exchange rate risk is moderate with respect to the quantity of currency transactions carried out.

In fact, the difference between gains and losses on exchange rates was equal to €92 thousand in 2019 (net exchange loss), and €215 thousand in 2020 (net exchange loss).

Revenue and payment flows in currencies other than the US dollar are irrelevant.

Interest rate risk

The Group is exposed to marginal risks associated with the volatility of interest rates linked to loans. In fact, fixed rate loans represented 42% of the total loans as at 31 December 2020.
Variable-rate loans are all linked to the 3M Euribor, which is currently at historically low levels.

Credit risk

We believe that the Group's business activities are carried out with parties with a good credit standing. The risk that a counterparty might not fulfil its obligations as at 31 December 2020 is limited, even though significant credit concentrations exist. These concentrations concern those customers with which the Group carries out recurring transactions.
The Group maintains a high level of attention, through monthly controls, on the exposures to its customers to identify the most critical positions. Where necessary, the bad debt provision is supplemented through a specific assessment of the individual positions to align trade receivables with their presumed realisation value.

As at 31 December 2020, past due receivables were equal to 2% of total trade receivables and the bad debt provision was equal to 40% of the total past due.

Financial instruments by category

As required by IFRS 7 Par. 8, financial instruments are identified by category of classification in the assets and liabilities of the Group with respect to the classification in the statement of financial position.

2020

	Amortised cost			Fair value				Total	
	Loans and receivables	Fin. ass. held to maturity	Fin. liab. at amortised cost	Fin. ass./liab. designated at initial recognition	Fin. ass./liab. held for trading	Fin. ass. held for sale/Other fin. liab.	Total fin. ass./liab. under IFRS	Ass./liab. not under IFRS	**Total**
	€/000	€/000	€/000	€/000	€/000				
Intangible assets	-	-	-	-	-	-	-	68,057	**68,057**
Trademark	-	-	-	-	-	-	-	359	**359**
Goodwill	-	-	-	-	-	-	-	75	**75**
Tangible assets	-	-	-	-	-	-	-	214	**214**
Deferred tax assets	-	-	-	-	-	-	-	6,289	**6,289**
Equity investments recognised with the equity method	-	-	-	-	-	-	-	18	**18**
Other non-current assets	2,334	-	-	-	-	-	-		**2,334**
Trade receivables	16,787	-	-	-	-	-	-		**16,787**
Tax receivables	-	-	-	-	-	-	-	21,721	**21,721**
Current financial assets	-	-	-	-	-	-	-	4,348	**4,348**
Other current assets	-	-	-	-	-	-	-	3,590	**3,590**
Assets deriving from contracts with customers	-	-	-	-	-	-	-	2,777	**2,777**
Cash and cash equivalents	3,513	-	-	-	-	-	-		**3,513**
Total	**22,634**	**-**	**-**	**-**	**-**	**-**	**-**	**107,448**	**130,082**
Total shareholders' equity	-	-	-	-	-	-	-	67,041	**67,041**
Employee benefits	-	-	-	-	-	-	-	181	**181**
Deferred tax liabilities	-	-	-	-	-	-	-	117	**117**
Provisions for risks and charges	-	-	-	-	-	-	-	300	**300**
Non-current financial liabilities	-	-	18,108	-	-	-	-	-	**18,108**
Current financial liabilities	-	-	5,379	-	-	-	-	-	**5,379**
Trade payables	-	-	-	-	-	-	-	25,289	**25,289**
Tax payables	-	-	-	-	-	-	-	1,625	**1,625**
Contractual liabilities	-	-	-	-	-	-	-	2,980	**2,980**
Other current liabilities	-	-	-	-	-	-	-	9,062	**9,062**
Total	**-**	**-**	**23,487**	**-**	**-**	**-**	**-**	**106,595**	**130,082**

2019

	Amortised cost			Fair value			Total		
	Loans and receivables	Fin. ass. held to maturity	Fin. liab. at amortised cost	Fin. ass./liab. designated at initial recognition	Fin. ass./liab. held for trading	Fin. ass. held for sale/Other fin. liab.	Total fin. ass./liab. under IFRS	Ass./liab. not under IFRS	**Total**
	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000	**€/000**
Intangible assets	-	-	-	-	-	-	-	49,219	**49,219**
Tangible assets	-	-	-	-	-	-	-	6	**6**
Deferred tax assets	-	-	-	-	-	-	-	3,778	**3,778**
Other non-current assets	-	-	-	-	-	-	-	170	**170**
Trade receivables	20,200	-	-	-	-	-	-	-	**20,200**
Tax receivables	-	-	-	-	-	-	-	21,608	**21,608**
Other current assets	-	-	-	-	-	-	-	151	**151**
Cash and cash equivalents	7,952	-	-	-	-	-	-	0	**7,952**
Total	**28,152**	**-**	**-**	**-**	**-**	**-**	**-**	**74,932**	**103,085**
Shareholders' equity	-	-	-	-	-	-	-	47,650	**47,650**
Provisions for risks and charges	-	-	-	-	-	-	-	300	**300**
Employee benefits	-	-	-	-	-	-	-	36	**36**
Financial liabilities	-	-	8,501	-	-	-	-	-	**8,501**
Trade payables	-	-	26,432	-	-	-	-	-	**26,432**
Tax payables	-	-	-	-	-	-	-	2,246	**2,246**
Other current liabilities	-	-	-	-	-	-	-	17,919	**17,919**
Total	**-**	**-**	**34,933**	**-**	**-**	**-**	**-**	**68,151**	**103,085**

As at 31 December 2020, the Group does not hold assets measured at fair value.

3 Main changes in the scope of consolidation

The scope of consolidation of the Group underwent changes compared to the configuration as at 31 December 2019 due to the acquisition of a 49% interest in Arte Video S.p.A. and a 100% interest in R.E.D. Carpet S.r.l. In 2020, the company Iervolino Studios d.o.o. was established. With regard to associated companies recognised with the equity method, the company Furuna Crafts d.o.o., an associated company through Iervolino Studios d.o.o., was included in 2020.

The following tables show the values of the assets acquired related to Arte Video S.r.l. and R.E.D. Carpet S.r.l.:

Arte Video S.r.l.

€/000	Book values	Allocation price adjustments	Post-allocation values
Tangible assets	24	123	147
Intangible assets	51	52	103
Financial assets	12	-	12
Receivables from customers	205	-	205
Other receivables	18	-	18
Cash and cash equivalents	18	-	18
Employee severance indemnity	(11)	-	(11)
Deferred tax liabilities	-	(42)	(42)
Due to banks	(57)	-	(57)
Due to suppliers	(61)	-	(61)
Tax payables	(30)	-	(30)
Other payables	(72)	-	(72)
Net assets acquired	**97**	**133**	**230**
Cost of acquisition	**-**	**-**	**300**
(of which paid in cash)	-	-	150
Goodwill			70

R.E.D. Carpet S.r.l.

€/000	Book values	Allocation price adjustments	Post-allocation values
Receivables from customers	6	-	6
Tangible assets	6	-	6
Intangible assets	10	-	10
Trademarks	14	345	359
Receivables from customers	410	-	410
Other receivables	131	-	131
Cash and cash equivalents	191	-	191
Employee severance indemnity	(31)	-	(31)
Deferred tax liabilities	-	(83)	(83)
Due to banks	(11)	-	(11)
Due to suppliers	(342)	-	(342)
Tax payables	(312)	-	(312)
Other payables	(38)	-	(38)
Net assets acquired	**34**	**262**	**296**
Cost of acquisition	**300**	**300**	**300**
(of which paid in cash)	150	150	150
Goodwill			4

4 Operating Segments: Disclosure

For the purposes of IFRS 8 - Operating segments, the activity carried out by the Group can be classified into three operating segments: (i) Film productions including service activities (production activities carried out on behalf of third parties - the final Intellectual Property is not owned by the Group) and post-production; (ii) Authoring, encoding & digital delivery activities (A, E & DD); (iii) Celebrity Management, casting and production of digital ADV content (Celebrity Management).

The film production segment is the Group’s core business. The Parent Company is a global production company specialising in the production of Hollywood-style film and television content for the international market, from preliminary project evaluation to post-production; for these characteristics, the customers of this operating segment are international sales agents or distributors located outside Italy. From the second half of 2020, the segment also includes the service activities carried out by Iervolino Studios d.o.o. Within this segment, post-production activities are carried out by the subsidiary Arte Video.

As at 31 December 2019, the operating segments included Advertising, a segment connected with the advertising agency activity carried out for the TATATU platform. Following the change in strategy, in the first few months of 2020, the agreement related to the activity as advertisement agent was terminated by mutual consent. Therefore, this operating segment was included in the IFRS 8 disclosure but was indicated as no longer active.

The A, E & DD segment is developed by the subsidiary Arte Video.

The segment of Celebrity Management, casting and production of digital ADV content is related to the development of an internal celebrity management agency and is developed by the subsidiary Red Carpet.

In 2020, the Parent Company also carried out distribution activities for the film "Waiting for the Barbarians" produced by the company itself. Since distribution is not part of the Group’s core business, this activity does not constitute an operating segment and was included in the film productions segment.

The directors monitor the results achieved by the business units separately with the purpose of making decisions about resource allocation and performance verification.

The performance of segments is assessed based on their profits, as resulting from the consolidated financial statements.

Values in thousands of euro	Film productions	A, E & DD	Celebrity management	ADV (Non-operating segment)	Not allocated	Financial statements
Revenues	94,560	935	897	1,090	-	97,482
Other revenues and income	8,849	2	56	-	-	8,907
Tax credit	14,346	-	-	-	-	14,346
Total operating revenues and income	**117,756**	**937**	**953**	**1,090**	**-**	**120,735**
Purchases of raw materials, consumables and merchandise	287	8	8	-	-	302
Service costs	4,163	514	788	540	-	6,005
Personnel costs	1,520	50	160	-	-	1,730
Other operating costs	222	2	28	-	-	252
Amortisation/depreciation, write-downs and provisions	90,310	78	18	-	-	90,406
Write-downs and provisions	-	-	-	-	-	-
EBIT	**21,253**	**286**	**(49)**	**550**	**-**	**22,040**
Financial income	1,127	-	-	-	-	1,127
Financial charges	1,783	-	1	-	-	1,784
Pre-tax profit	**20,597**	**286**	**(50)**	**550**	**-**	**21,382**
Income taxes	(1,937)	(48)	101	-	-	(1,884)
Profit for the period	**18,660**	**238**	**51**	**550**	**-**	**19,498**

Values in thousands of euro	Film productions	A, E & DD	Celebrity management	ADV (Non-operating segment)	Not allocated	Financial statements
Assets						
Non-current assets						
Intangible assets	67,933	124	-	-	-	68,057
Finished productions	40,725	-	-	-	-	40,725
Production in progress	5,401	-	-	-	-	5,401
Misc. rights	21,806	-	-	-	-	21,806
Other intangible assets	-	124	-	-	-	124
Trademark	-	-	359	-	-	359
Goodwill	-	70	4	-	-	75
Tangible assets	87	107	20	-	-	214
Deferred tax assets	6,188	-	101	-	-	6,289
Equity investments recognised with the equity method	18	-	-	-	-	18
Other non-current assets	591	12	0	1,731	-	2,334
Total non-current assets	**74,817**	**313**	**484**	**1,731**	**-**	**77,345**
Current assets						
Trade receivables	15,991	331	465	-	-	16,787
Tax receivables	21,678	-	24	-	-	21,721
Current financial assets	4,348	-	-	-	-	4,348
Other current assets	6,345	-	2	-	-	6,367
Cash and cash equivalents	3,384	-	128	-	-	3,513
Total current assets	**51,709**	**331**	**620**	**-**	**-**	**52,736**
Total Assets	**126,526**	**644**	**1,104**	**1,731**	**-**	**130,082**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**
Share capital	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Profits (losses) carried forward	-	-	-	-	-	-
Profit (loss) for the year	-	-	-	-	-	-
Equity attributable to shareholders of the parent company	**-**	**-**	**-**	**-**	**-**	**-**
Minority interest	-	-	-	-	-	-
Total shareholders' equity	**-**	**-**	**-**	**-**	**67,041**	**67,041**
Non-current liabilities						
Employee benefits	133	-	48	-	-	181
Deferred tax liabilities	-	34	83	-	-	117
Provisions for risks and charges	300	-	-	-	-	300
Non-current financial liabilities	18,108	-	-	-	-	18,108
Total non-current liabilities	**18,541**	**34**	**131**	**-**	**-**	**18,706**
Current liabilities						
Current financial liabilities	5,376	-	3	-	-	5,379
Trade payables	24,428	215	449	-	-	25,289
Tax payables	1,215	-	411	-	-	1,625
Contractual liabilities	2,847	-	133	-	-	2,980
Other current liabilities	9,061	-	1	-	-	9,062
Total current liabilities	**42,927**	**215**	**997**	**-**	**-**	**44,335**
Total liabilities	**61,468**	**248**	**1,127**	**-**	**67,041**	**130,082**

Note 5 Intangible assets

The breakdown of the item Intangible assets as at 31 December 2020, compared with the same values as at 31 December 2019, is shown below:

€/000	31-dic-20	31-dic-19	Change
Finished productions	40,725	31,460	9,265
Productions in progress	5,401	4,942	460
Misc. rights	21,806	12,817	8,989
Other intangible assets	124	-	124
Total intangible assets	**68,057**	**49,219**	**18,838**

Changes in intangible assets are shown below (the decrease column in addition to amortisation for the year also includes other decreases):

€/000	As at 31 December 2019	Increases	Consolidation changes	Reclassifications	Decreases	As at 31 December 2020
Finished productions	31,460	98,208	-	677	(89,620)	40,725
Productions in progress	4,942	5,305	-	(4,845)	-	5,401
Misc. rights	12,817	5,500	-	4,168	(679)	21,806
Other intangible assets	-	-	149	-	(25)	124
Total intangible assets	**49,219**	**109,013**	**149**	**-**	**(90,324)**	**68,056**

The item Finished productions includes the capitalization of the works produced, completed and delivered to the customer. These works refer to (i) the films The Poison Rose and Waiting for the Barbarians delivered in 2018 and 2019 respectively; (ii) 122 episodes of the web series Arctic Friends (15 episodes delivered in 2018, 35 in 2019 and 72 in 2020); (iii) 70 episodes of the Puffins web series (20 episodes delivered in 2019 and 50 in 2020); (iv) the segments of the Together Now film delivered in 2019 and 2020; (v) the film Eddie & Sunny delivered in 2020; (vi) the Vod Cast Giving Back delivered in 2019.

The historical breakdown of the productions completed is as follows:

€/000	**As at 31 December 2018**	**2018 decreases**	**2019 increases**	**2019 decreases**	**As at 31 December 2019**
The Poison Rose	15,977	(12,302)	-	(2,228)	1,447
Waiting for the Barbarians	-	-	14,645	(10,984)	3,661
AF 2018 (15 episodes) - 2018	13,099	(9,824)	-	-	3,275
AF 2019 (35 episodes) - 2019	-	-	31,722	(23,791)	7,931
AF 2020 (72 episodes) - 2020	-	-	-	-	-
AF rights	6,141	(364)	-	(848)	4,929
Total AF	**19,240**	**(10,188)**	**31,722**	**(24,639)**	**16,135**
Puffins 2019 (20 episodes) - 2019	-	-	13,363	(10,022)	3,341
Puffins 2020 (50 episodes) - 2020	-	-	-	-	-
Puffins rights	-	-	6,481	(511)	5,970
Total Puffins	**-**	**-**	**19,844**	**(10,533)**	**9,311**
Eddie & Sunny	-	-	-	-	-
Women Stories	-	-	3,748	(2,842)	906
Giving Back			1,068	(1,068)	-
TOTAL	**35,217**	**(22,490)**	**71,027**	**(52,294)**	**31,460**

€/000	As at 31 December 2019	2020 increases	2020 decreases	Reclassifications	As at 31 December 2020
The Poison Rose	1,447	-	(1,447)	-	-
Waiting for the Barbarians	3,661	-	(3,302)	-	359
AF 2018 (15 episodes) - 2018	3,275	-	(3,275)	-	-
AF 2019 (35 episodes) - 2019	7,931	-	(5,075)	-	2,856
AF 2020 (72 episodes) - 2020	-	59,786	(44,839)	-	14,947
AF rights	4,929	1,123	(2,481)	-	3,571
Total AF	**16,135**	**60,909**	**(55,670)**	**-**	**21,374**
Puffins 2019 (20 episodes) - 2019	3,341	-	-	-	3,341
Puffins 2020 (50 episodes) - 2020	-	30,913	(23,185)	-	7,728
Puffins rights	5,970	2,733	(1,087)	(4,285)	3,331
Total Puffins	**9,311**	**33,646**	**(24,272)**	**(4,285)**	**14,400**
Eddie & Sunny	-	2,912	(2,190)	20	742
Women Stories	906	741	(2,739)	4,942	3,850
Giving Back	-	-	-	-	-
TOTAL	**31,460**	**98,208**	**(89,620)**	**677**	**40,725**

The item Production in progress includes the capitalization of the costs of films that were not completed in 2020.

The historical breakdown of the productions in progress is as follows:

€/000	As at 31 December 2018	2018 decreases	2019 increases	2019 decreases	As at 31 December 2019
State of Consciousness	-	-	-	-	-
Women Stories	-	-	4,942	-	4,942
Musk Movie	-	-	-	-	-
Other projects	-	-	-	-	-
TOTAL	**-**	**-**	**4,942**	**-**	**4,942**

€/000	As at 31 December 2019	2020 increases	2020 decreases	Reclassifications	As at 31 December 2020
State of Consciousness	-	2,283	-	17	2,300
Women Stories	4,942	-	-	(4,942)	-
Musk Movie	-	2,222	-	-	2,222
Other projects	-	799	-	80	879
TOTAL	**4,942**	**5,305**	**-**	**(4,845)**	**5,401**

The item Misc. rights includes capitalisation of the costs incurred for the acquisition of the distribution rights for the films in Italy and the rights related to Intellectual Properties. The increase in the item compared to the previous period is mainly related to the acquisition of the worldwide rights for the film Ladri di Natale.

The historical breakdown of the item Misc. rights is as follows:

€/000	As at 31 December 2018	2018 decreases	2019 increases	2019 decreases	As at 31 December 2019
Library	220	-	-	(37)	183
Arctic Justice 7 Characters	-	-	8,768	-	8,768
Lamborghini distribution rights	1,025	-	1,055	-	2,080
Arctic Justice film distribution rights	930	-	579	-	1,509
Ladri di Natale distribution rights	-	-	-	-	-
Puffins rights	-	-	-	-	-
Misc. rights	-	-	277	-	277
TOTAL	**2,175**	**-**	**10,679**	**(37)**	**12,817**

€/000	As at 31 December 2019	2020 increases	2020 decreases	Reclassifications	As at 31 December 2020
Library	183	-	(37)	-	146
Arctic Justice 7 Characters	8,768	2,274	-	-	11,042
Lamborghini distribution rights	2,080	-	-	-	2,080
Arctic Justice film distribution rights	1,509	530	-	-	2,039
Ladri di Natale distribution rights	-	2,609	-	-	2,609
Puffins rights	-	-	(642)	4,284	3,642
Misc. rights	277	87	-	(117)	247
TOTAL	**12,817**	**5,500**	**(679)**	**4,167**	**21,806**

During the year, no indications of impairment were identified with reference to intangible assets; in fact, the use of intangible assets is considered in the latest Business Plan approved by the Board of Directors.

Note 6 Trademarks and Goodwill

Trademark and goodwill derive from the difference between the prices paid for the acquisitions of controlling interests, and the fair value of the net assets acquired at the time control is acquired. In particular, the trademark relates to the acquisition of the interest in R.E.D. Carpet S.r.l., and goodwill to the acquisition of the interest in Arte Video S.r.l.

Disclosure on impairment testing of assets

Scope of application

IAS 36 requires the assessment of the existence of impairment losses on tangible and intangible assets with a finite useful life in the presence of indications that suggest that impairment may exist. In the case of goodwill and trademarks, as well as any other intangible assets with an indefinite useful life, this assessment is carried out once a year - or more frequently when extraordinary negative events occur that imply a presumption of impairment (triggering events) through the impairment testing process.

As the trademark and the goodwill do not represent, based on international accounting standards, assets in their own right, as they are not able to generate cash flows independently of other assets or groups of assets, they cannot be subject to impairment testing separately from the assets to which they refer. Therefore, the trademark and the goodwill must be allocated to a CGU (cash-generating unit), or a group of CGUs, as the maximum aggregation limit coincides with the notion of "sector" pursuant to IFRS 8. As part of the impairment test, for each year, the goodwill and the trademark acquired through business combinations were allocated to different and separate cash-generating units to test for impairment. It should be noted that the CGUs identified substantially coincide with the operating segments of authoring, encoding & digital delivery and Celebrity Management, casting and production of digital ADV content. The CGU for Celebrity Management, casting and production of digital ADV content also coincides with the company R.E.D. Carpet S.r.l.; the CGU of authoring, encoding & digital delivery does not coincide with the company Arte Video S.r.l. (as this company operates not only in the A, E & DD sector but also in the film production sector).

On these premises, the Group then proceeded to verify the recoverability of the net invested capital of the CGUs identified ("first level test"), authoring, encoding & digital delivery and Celebrity Management, casting and production of digital ADV content.

Valuation approach

The Group carried out impairment tests for both CGUs. The discount rate of cash flows is the weighted average cost of capital (WACC). It was calculated as the weighted average of the cost of equity.

With reference to the cost of equity (kE), the Capital Asset Pricing Model ("CAPM") was used, the parameters of which were identified as follows: (i) the return on risk-free securities (risk-free rate) was calculated with reference to the yield curve of Italian government bonds (10-year BTPs). The risk-free rate used for Italy was equal to 0.68 for 2020; (ii) for the estimate of the non-differentiable systemic risk coefficient, beta, reference was instead made to the inputs used by international practice (i.e. Damodaran), the estimate of which is based on the average values of the relevant sector. The average β value applied was equal to 0.96; (iii) the estimated equity risk premium was equal to 6.62%; (iv) a 4% premium was also added for the additional risk related to the lack of diversification of the portfolio of activities carried out and to the uncertainty about the business outlook.

The discount rate used for the year was equal to 11.04%.

The estimated future cash flows were obtained from a 3-year plan in line with the provisions of IAS 36. At the end of the explicit projection period, a Terminal Value was estimated by projecting in perpetuity a normalized annual cash flow and considering a constant annual growth rate (g) for this flows equal to 5%, estimated considering the prudential appreciation of the future growth potential of the activity beyond the explicit forecast period and the need of the company to make the investments necessary to maintain a competitive advantage.

The impairment test has shown that the recoverable value exceeds the book value.

Lastly, a sensitivity analysis was carried out which confirmed the negative results of the impairment test.

Note 7 Tangible assets

Tangible assets were equal to €214 thousand. The increase in the item compared to 31 December 2019, when it was equal to €208 thousand, is mainly related to the consolidation of the tangible assets of the subsidiaries.

Note 8 Deferred tax assets

Deferred tax assets, equal to €6,289 thousand consist of taxes calculated on the temporary deductible differences deriving from a misalignment between the book values recognised in the financial statements and the corresponding values recognised for tax purposes. The breakdown of the deferred tax assets as at 31 December 2020, compared to 31 December 2019, is provided below:

€/000	31-dic-20	31-dic-19	Change
Amortisation of intangible assets	5,523	3,261	2,262
Write-downs of intangible assets	413	413	-
Other temporary differences	353	104	249
Total deferred tax assets	**6,289**	**3,778**	**2,511**

It should be remembered that deferred tax assets are recognised to the extent that the likelihood of the existence of adequate future tax profits can make applicable the use of the deductible temporary differences and tax assets and liabilities carried forward.

Deferred tax assets were accounted for consistently with the estimate of the probable time manifestation and the amount of future taxable profits, as foreseen in the 2021-2023 business plan.

Note 9 Equity investments recognised using the equity method

Total equity investments in associated companies as at 31 December 2020 were equal to €18 thousand. This amount refers to the company Furuna Crafts d.o.o.

Note 10 Other non-current assets

Other non-current assets were equal to €2,334 thousand and consisted of receivables due beyond the year (i) for the consideration paid to the Group by Tatatu S.p.A. and related to the closure of the ADV Business Unit (€1,731 thousand), and (ii) for a portion of the Minimum Guarantee, equal to €533 thousand, for the film Eddie & Sunny.

Note 11 Trade receivables

Trade receivables were equal to €16,787 thousand. A breakdown is provided below:

€/000	31-dic-20	31-dic-19	Change
Trade receivables due from third-party customers	16,787	19,457	(2,670)
Receivables due from related parties	-	743	(743)
Total trade receivables	**16,787**	**20,200**	**(3,413)**

Trade receivables are generated by normal business activity and are regularly collected at the due dates set in the sales agreements.

The following table provides the geographical breakdown of trade receivables:

€/000	31-dic-20	31-dic-19	Change
Receivables due from Italian customers	5,486	172	5,314
Receivables due from non-EU customers	11,301	20,028	(8,727)
Total trade receivables	**16,787**	**20,200**	**(3,413)**

The company carries out a specific assessment of the credit risk for each customer. As at 31 December 2020, doubtful debts equal to €122 thousand were identified through this analysis.

€/000	31-dic-20	31-dic-19	Change
Gross trade receivables	16,909	20,311	(3,402)
Bad debt provision	(122)	(111)	(11)
Total trade receivables	**16,787**	**20,200**	**(3,413)**

Note 12 Tax receivables

The following table presents the breakdown of the tax receivables as at 31 December 2020 and 31 December 2019:

€/000	31-dic-20	31-dic-19	Change
VAT credit	801	1,586	(785)
Film production tax credit	20,052	13,059	6,993
Film self-distribution tax credit	520	-	520
R&D tax credit	-	6,463	(6,463)
IPO tax credit	209	500	(291)
IRES credit	93	-	93
Other tax receivables	46	-	46
Total tax receivables	**21,721**	**21,608**	**113**

The film production tax credit refers to the tax incentive deriving from the tax credits granted to film production companies in relation to the costs incurred for the production of audiovisual works of Italian nationality.

Note 13 Current financial liabilities

The item, equal to €4,348 thousand, consists of financial investments made by the Group to optimize the management of uncommitted funds.

Note 14 Other current assets

The breakdown of the item Other current assets is provided in the following table:

€/000	31-dic-20	31-dic-19	Change
Advances to suppliers	150	128	22
Receivable from ADS	3,300	-	3,300
Receivables from Lazio Region	117	-	117
Other receivables	-	19	(19)
Prepaid expenses	23	4	19
Total other current assets	**3,590**	**151**	**3,439**

The relationship with ADS is connected with the receivable from the Serbian company Archangel Digital Studios, user of the service activities of the Iervolino Studios Group company.

Note 15 Assets deriving from contracts with customers

The item includes activities for work in progress related to service activities carried out in Serbia and recognized according to the stage of completion.

Note 16 Cash and cash equivalents

The item includes the balance of cash and cash equivalents.

There are no restrictions on cash and cash equivalents as at 31 December 2020 and 31 December 2019.

Note 17 Shareholders' Equity

The composition of the item is provided below:

€/000	31-dic-20	31-dic-19	Change
Share capital	1,401	1,335	66
Legal reserve	497	497	-
Share premium reserve	16,491	16,263	228
Other reserves	(27)	-	(27)
Profits/(losses) carried forward	29,181	9,306	19,875
Profit/(loss) for the year	19,498	20,249	(751)
Total shareholders' equity	**67,041**	**47,650**	**19,391**
of which minority interests	-	-	-

Share Capital

As at 31 December 2020, the share capital was equal to €1,401 thousand, fully paid, and divided among 35,016,104 shares. The increase in share capital compared to the previous period is related to: (i) the acquisition of the subsidiary Arte Video S.r.l. (€1 thousand), (ii) the acquisition of the subsidiary R.E.D. Carpet S.r.l. (€1 thousand), (iii) with the mandatory conversion into ordinary shares of the 77 bonds with a nominal value of €100 thousand of the bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019-2020" (€64 thousand).

Legal reserve

As at 31 December 2020, the legal reserve was equal to €497 thousand.

Share premium reserve

As at 31 December 2020, the share premium reserve consists of:

- listing of the shares on the AIM Italia multilateral trading system ("AIM Italia") organised and managed by Borsa Italiana S.p.A. ended with the start of trading on 5 August 2019 (€8,240 thousand);
- conversion of the bonds deriving from the convertible bond loan "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019" (€707 thousand);
- issue of the automatically convertible bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019" (€7,251 thousand);
- acquisition of the subsidiaries Arte Video S.r.l. and R.E.D. Carpet S.r.l. (€293 thousand).

Automatically convertible bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019-2020"

In December 2019, the Company issued the bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019-2020" for a total amount of €7,700 thousand, after the Shareholders' Meeting in extraordinary session approved the issue.

The Shareholders' Meeting also approved a paid share capital increase, separable, except for the exclusion of the option right, in the service of the bond issue. The mandatory convertible bond issue has a duration of 12 months from the date of issue, that is, it matures on 23 December 2020 and pays a fixed annual interest rate of 3% with deferred semi-annual payments.

On 23 December 2020, the bonds were automatically converted into 1,589,825 new shares at the conversion price of €4.8433.

Other reserves

A breakdown of the item Other reserves as at 31 December 2020 and 2019 is provided below:

€/000	31-dic-20	31-dic-19	Change
Translation reserve	8	-	8
OCI reserve IAS 19	(35)	-	(35)
Other reserves	**(27)**	**-**	**(27)**

The objectives of Iervolino in capital management are inspired by the creation of value for shareholders, the guarantee of the interests of the stakeholders and the safeguarding of the business continuity, as well as the maintenance of an adequate level of capitalization allowing economic access to external sources of financing aimed at adequately supporting the development of the Group's activities.

Note 18 Non-current financial liabilities

A breakdown of the item Non-current financial liabilities as at 31 December 2020 and 2019 is provided below:

€/000	31-dic-20	31-dic-19	Change
Loans	10,281	1,048	9,233
Basket Bond	7,798	-	7,798
Other non-current financial liabilities	29	-	29
Total non-current financial liabilities	**18,108**	**1,048**	**17,060**

The item includes medium/long-term variable and fix rate bank loans. The following table shows the loans taken out by the Company:

€/000

Disbursing institution	Type of loan	Interest rate	Amount disbursed	Origination year	Maturity year	Within 1 year	Between 1 and 5 years	Over 5 years
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2024	114	293	-
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2024	114	302	-
Banca Progetto	Loan	1M Euribor + 5% spread	500	2019	2023	138	277	-
Intesa San Paolo S.p.A.	Loan	4.75% (until 30/06/2020) - 3M Euribor + 2.5% spread	4,100	2020	2025	-	4,100	-
Intesa San Paolo S.p.A.	Loan	3M Euribor + 2.6% spread	5,500	2020	2025	-	5,500	-
Intesa San Paolo S.p.A.	Basket Bond	4.07%	8,000	2020	2027	-	5,535	2,465

In particular, the regulation of the Basket Bond provides for specific economic/financial covenants with predefined threshold values in terms of Net Financial Position/EBIT, Net Financial Position/Shareholders' Equity and EBIT/Gross Interest. As at 31 December 2020, these covenants had been fulfilled.

Note 19 Current financial liabilities

Current financial liabilities as at 31 December 2020 were equal to €5,378 thousand, broken down as follows:

€/000	31-dic-20	31-dic-19	Change
Loans	-	6,193	(6,193)
Short-term portion of non-current financial payables	366	307	59
Financial payables - Bond interest	-	231	(231)
Other current financial liabilities	37	-	37
Current account overdraft	4,975	722	4,253
Total current financial liabilities	**5,378**	**7,453**	**(2,075)**

Note 20 Trade payables

Trade payables were equal to €25,289 thousand, as indicated in the following table:

€/000	31-dic-20	31-dic-19	Change
Trade payables	25,289	26,300	(1,011)
Payables to related parties	-	132	(132)
Total trade payables	**25,289**	**26,432**	**(1,143)**

The total of trade payables represents the amount due by the Company to suppliers for services purchased.

The following table provides a geographical breakdown of trade payables:

€/000	31-dic-20	31-dic-19	Change
Payables to Italian suppliers	10,738	1,868	8,870
Payables to EU suppliers	6,653	219	6,434
Payables to non-EU suppliers	7,898	24,345	(16,447)
Total trade payables	**25,289**	**26,432**	**(1,143)**

Note 21 Tax payables

The item Tax payables includes the amounts due for IRES, IRAP and other current taxes. A breakdown is provided below:

€/000	31-dic-20	31-dic-19	Change
Payables for current taxes	810	2,052	(1,242)
VAT payables of previous years	150	-	150
Sundry tax payables	665	194	471
Total tax payables	**1,625**	**2,246**	**(621)**

Among the tax payables as at 31 December 2020, the most significant item represents income tax due (€810 thousand).

Note 22 Contractual liabilities

As at 31 December 2020, contractual liabilities were equal to €2,980 thousand; the breakdown compared to the amounts as at 31 December 2019 is provided below:

€/000	31-dic-20	31-dic-19	Change
Contractual liabilities	2,980	10,558	(7,578)
Total contractual liabilities	**2,980**	**10,558**	**(7,578)**

The contractual liabilities derive from the cash received for performance obligations that will be fulfilled in the following year.

Note 23 Other current liabilities

As at 31 December 2020, other current liabilities were equal to €9,062 thousand; the breakdown compared to the amounts as at 31 December 2019 is provided below:

€/000	31-dic-20	31-dic-19	Change
Payables to personnel	213	86	127
Deferred income	8,769	7,186	1,583
Other payables	80	88	(8)
Total other current liabilities	**9,062**	**7,360**	**1,702**

Other current liabilities mainly consist of deferred income related to the share of public grants - tax credits that pursuant to IAS 20 must be systematically distributed among the years to match the recognition of the costs they are meant to offset.

Note 24 Revenues

Revenues were equal to €97,482 thousand and refer to the following operating segments:

€/000	31-dic-20	31-dic-19	Change
Film production revenues	94,560	64,208	30,352
ADV revenues	1,090	752	338
Celebrity management, casting and digital ADV content production revenues	897	1,311	(414)
Authoring, encoding & digital delivery revenues	935	-	935
Total revenues	**97,482**	**66,271**	**31,211**

Revenues from film productions relate to: (i) the sale of intellectual property rights during the year (€85,112 thousand); (ii) the transfer of the "pipeline" license (€4,688 thousand); (iii) the transfer of the character license (€1,645 thousand); (iv) revenues for services activities (€2,881 thousand); (v) other revenues (€234 thousand).

€/000	31-dic-20	31-dic-19	Change
IP right sale revenues	85,112	64,208	20,904
Pipeline right sale revenues	4,688	-	4,688
Character right sale revenues	1,645	-	1,645
Service revenues	2,881	-	2,881
Other revenues	234	-	
Total revenues	**94,560**	**64,208**	**30,118**

Revenues from disposals were recognised when the company transferred the right to use the license, pipeline and characters. Pursuant to IFRS 15, revenues are recognised at a point in time, as the company sells a right to use, and connected to services actually contracted during the year.

Revenues related to film production services are recognised with reference to the stage of completion. Revenues related to royalties based on the use and on the sales of an IP licence are recognised if both the following conditions are satisfied: (i) use has occurred and (ii) the performance obligations, based on which some or all the royalties based on the use of an IP licence were allocated, were satisfied.

Estimated revenues are not recognised in the financial statements.

A breakdown of film production revenues by film/web series is provided below:

€/000	31-dic-20	31-dic-19	Change
Sale of IP rights	**85,112**	**64,136**	**20,976**
The Poison Rose	90	2,500	(2,410)
Arctic Friends web series	*55,902*	*30,188*	25,714
Women Stories	3,630	3,750	(120)
Waiting for the Barbarians	200	15,873	(15,673)
Eddie & Sunny	1,585	-	1,585
Puffins web series	23,705	10,725	12,980
Giving Back	-	1,100	(1,100)
Sale of pipeline rights	**4,688**	**-**	**4,688**
Arctic Friends web series	4,688	-	4,688
Sale of character rights	**1,645**	**-**	**1,645**
Arctic Friends web series	1,645	-	1,645
Services activities	**2,881**	**-**	**2,881**
Puffins Impossible	2,881	-	2,881
Other film production revenues	234	72	162
Total film production revenues	**94,560**	**64,208**	**30,352**

Revenues are mainly from non-EU customers (€87.5 million); the remainder is from Italian customers.

The company's revenue is not overall significantly influenced by seasonality related to events occurring at certain times of the year.

Estimated revenues are not recognised with reference to ADV, Celebrity Management and Digital Delivery revenues. ADV, Celebrity Management and Digital Delivery revenues are all from Italian customers.

Note 25 Other revenues and income

The item includes the income realized following the sale of the rights to receive the income from the economic use of the film Waiting for the Barbarians (€4,569 thousand) and the episodes delivered in 2018 of the Arctic Friends web series (€4,045 thousand).

€/000	31-dic-20	31-dic-19	Change
Back-end right sale income	8,614	-	8,614
Other income	293	89	204
Total other revenues and income	**8,907**	**89**	**8,818**

Consistent with the margins of the audiovisual work, the recognition of the income entailed the recognition of the relevant portion of tax credit equal to €2,215 thousand and an adjustment of the capitalized values of intangible assets equal to €6,618 thousand.

Note 26 Tax credits and other government grants

The item mainly consists of the tax credit for film production: it refers to the tax incentive deriving from the tax credits granted to film production companies in relation to the costs incurred for the production of audiovisual works of Italian nationality.

A breakdown of the tax credits and other government grants is provided below:

€/000	31-dic-20	31-dic-19	Change
Film production tax credit	**11,406**	**8,953**	**2,453**
The Poison Rose	338	552	(214)
Arctic Friends web series (different seasons)	5,517	2,737	2,780
Women Stories	700	760	(60)
Waiting for the Barbarians	995	3,142	(2,147)
Eddie & Sunny	674	-	674
Puffins web series (different seasons)	3,182	1,431	1,751
Giving Back	-	331	(331)
R&D tax credit	**2,303**	**4,695**	**(2,392)**
Arctic Friends web series	2,303	4,695	(2,392)
			-
Other government grants	**637**	**-**	**637**
Total tax credits and other government grants	**14,346**	**13,648**	**698**

Note 27 Service costs

A breakdown of the item Service costs and a comparison to the balances of the previous year is provided in the following table:

€/000	31-dic-20	31-dic-19	Change
ADV costs	541	859	(318)
Celebrity management costs	643	1,248	(605)
Costs for providing services	412	-	412
Costs for digital delivery	314	-	314
Self-distribution costs	1,163	-	1,163
Travel and lodging	138	212	(74)
Misc. administrative expenses	869	310	559
Bank fees	60	28	32
Technical consulting	318	325	(7)
Marketing costs	82	79	3
Insurance costs	41	22	19
IPO costs	-	163	(163)
Fees to Directors	1,112	541	571
Rentals and leases	68	45	23
Fees to Board of Statutory Auditors	60	30	30
Other service costs	183	34	149
Total service costs	**6,004**	**3,896**	**2,108**

The increase in the item compared to the previous period is mainly due to the costs incurred for self-distribution and the increase in costs associated with the consolidation of subsidiaries.

Note 28 Personnel costs

A breakdown of the item Personnel costs and a comparison to the balances of the previous year is provided in the following table:

€/000	31-dic-20	31-dic-19	Change
Salary and wages	1381	287	1,094
Social security contributions on salary and wages	283	82	201
Allocation to employee severance indemnity	65	25	40
Total personnel costs	**1,729**	**394**	**1,335**

Note 29 Amortisation/depreciation, write-downs and provisions

The breakdown of the item Amortisation/depreciation, write-downs and provisions and its comparison to the balances of the previous year is provided in the following table:

€/000	31-dic-20	31-dic-19	Change
Amortisation of intangible assets	**90,346**	**52,333**	**38,013**
Amortisation of The Poison Rose	1,447	2,228	(781)
Amortisation of Arctic Friends WS	55,670	24,640	31,030
Amortisation of Puffins WS	24,272	10,534	13,738
Amortisation of Waiting for the Barbarians	3,302	10,984	(7,682)
Amortisation of Women Stories	2,740	2,842	(102)
Amortisation of Eddie & Sunny	2,190	-	2,190
Amortisation of Giving Back	-	1,068	(1,068)
Amortisation of other rights and other intangible assets	725	37	688
Depreciation of tangible assets	**48**	**4**	**44**
Amortisation/depreciation	**90,394**	**52,337**	**38,057**
Write-downs and provisions	**12**	**410**	**(398)**
Total amortisation/depreciation, write-downs and provisions	**90,406**	**52,747**	**37,659**

The increase in amortisation/depreciation is connected with the application of the "film forecast computation method", based on which the amortisation/depreciation at the reporting date is calculated in relation to the useful life of the asset and estimated, having regard to the specific characteristics of the individual productions and their visibility, prudentially over a maximum time horizon of four years.

Note 30 Financial income and charges

The item Financial charges and its comparison to the balances of the previous year are provided in the following table:

€/000	31-dic-20	31-dic-19	Change
Gains on exchange rates	1,124	319	805
Other financial income	3	166	(163)
Total financial income	**1,127**	**485**	**642**
Interest expense on loans	279	279	-
Interest expense on bonds	-	44	(44)
Amortised cost	63	-	63
Losses on exchange rates	1,340	411	929
Other financial charges	102	19	83
Total financial charges	**1,784**	**753**	**1,031**

Note 31 Income taxes

The breakdown of the item Income taxes is as follows:

€/000	31-dic-20	31-dic-19	Change
IRES	4,039	3,848	191
IRAP	465	507	(42)
Taxes from previous years	(110)	(71)	(39)
Deferred taxes	(2,510)	(2,154)	(356)
Total income taxes	**1,884**	**2,130**	**(246)**

The difference between the standard tax rate for IRES, of 24%, and the effective tax rate, of 9%, is mainly attributable to the combined effect produced by: (i) an increase related to the amortisation of intangible assets for €23.1 million; (ii) a decrease of €14.2 thousand in revenues from public grants; (iii) a decrease related to the amortisation charge on intangible assets recovered for taxation in 2020 for €13.6 million.

Note 32 Earnings per share

Basic earnings per share is calculated by dividing the annual profit to be attributed to the Group's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit to be attributed to the Group's ordinary shareholders (after adjustment to take into account the interest on the convertible bonds) by the weighted average number of ordinary shares outstanding during the year and by those deriving from the conversion of all convertible bonds.

The result and information on the shares used to calculate the basic and diluted earnings per share are shown below:

	31-dic-20	31-dic-19
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	22,495,978	10,977,594
Profit for the year	19,498,327	20,249,129
Basic earnings per share (ordinary shares)	**0.87**	**1.84**
Bonds convertible into ordinary shares	1,574,642	1,574,642
Diluted earnings per share (ordinary shares)	**0.81**	**1.61**

Note 33 Other information

33.1 Transactions with related parties

The financial and economic transactions of the Issuer with related parties from 1 January 2020 to 31 December 2020 are as follows:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,731	-	-	1,090	-
Total related party transactions	**-**	**1,731**	**-**	**-**	**1,090**	**-**
Total of financial statement items	**16,787**	**113,295**	**25,289**	**37,752**	**120,735**	**98,695**
Weight on financial statement items	**0%**	**2%**	**0%**	**0%**	**1%**	**0%**

The transactions carried out by the Group with related parties at market conditions concern the consideration paid by TATATU Enterprises Ltd (now TATATU S.p.A.) to Iervolino Entertainment S.p.A. following the closure of the ADV business unit.

The financial and economic transactions of the Issuer with related parties from 1 January 2019 to 31 December 2019 are as follows:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film S.r.l.*	-	-	-	-	-	502
TATATU Enterprises Ltd	642	-	-	-	2,143	375
Ambi Distribution Ltd	31	-	-	-	14,830	-
Arte Video S.r.l.	70	-	110	-	70	110
AIC studio's Inc	-	-	22	-	-	27
Total related party transactions	**743**	**-**	**132**	**-**	**17,043**	**1,014**
Total of financial statement items	**20,200**	**82,884**	**26,432**	**76,652**	**80,009**	**57,362**
Weight on financial statement items	**4%**	**0%**	**0%**	**0%**	**21%**	**2%**

* Note: the company is no longer a related party since June 2019

The transactions carried out by the Parent Company with related parties mainly concern:

- The post-production service related to the Arctic Justice web series carried out by Ladybug Film S.r.l. (a company no longer a related party from June 2019);
- The purchase by TATATU of the world rights for streaming of the Vod Cast Giving Back on the TATATU platform (€1,100 thousand) and the film and extra content of Waiting for the Barbarians (€1,043 thousand);
- The fee paid to TATATU for advertising revenue accrued and collected in the period by Iervolino Entertainment for the advertising agency business (€375 thousand);
- The purchase by Ambi Distribution Ltd of the world rights to the film Waiting for the Barbarians (€14,830 thousand);
- The provision of post-production service related to the Puffins web series carried out by Arte Video S.r.l.

33.2 Fees due to the Independent Auditors

The following table shows the fees for auditing services and for other services provided by the auditing firm:

€/000

Service	Party	Total
Statutory and accounting audit as at 31 December 2020	EY S.p.A.	80
Limited audit of the half-yearly report as at 30 June 2020	EY S.p.A.	20
Other services	EY S.p.A.	8
Total		**108**

33.3 Commitments and guarantees given by the Group

As part of its activities, the Group has received and given guarantees to obtain financial credit lines to obtain short and medium/long-term credit lines.

€/000	31-dic-20
Guarantees provided by the Company	4,364
Guarantees received by the Company	9,930
Total guarantees given and received	**14,294**

33.4 Information pursuant to Art. 1, Par. 125, Law no. 124, 4 August 2017

In compliance with the obligations of transparency of public disbursements introduced by Art. 1, Par. 125-129 of Law no. 124/2017, it should be noted that:

- In regard to grants recognized pursuant to Regional Law no. 2, 13 April 2012, and subsequent amendments, the company recognised under Tax credit and other government grants the following economic benefits not yet collected at the end of the year:

€/000

Granting authority	Contribution recognised	Title of work	Amount
Lazio Region	Investment grants	The Poison Rose	48
Lazio Region	Investment grants	Waiting for the Barbarians	50
Lazio Region	Investment grants	Arctic Friends - season II	6
Lazio Region	Investment grants	Arctic Friends - season III	12
	Total		**116**

- In regard to tax credits for independent producers of audiovisual works pursuant to Art. 8, Par. 2, of Law Decree no. 91, 8 August 2013; Min. Decree 5 February 2015; and Min. Decree Tax Credit 15/03/2018 referring to Art. 15 and Art. 16 of Law no. 220, 14 November 2016, a breakdown of the tax credit accrued in 2019 and 2020 is provided below:

€/000

Granting authority	Title of work	Tax credit accrued in 2020	Tax credit accrued in 2019
MIBACT	Women Stories	-	2,620
MIBACT	Arctic Friends web series (various seasons)	6,177	3,986
MIBACT	Puffins web series (various seasons)	3,971	2,181
MIBACT	Waiting for the Barbarians	520	4,187
MIBACT	Eddie & Sunny	1,233	-
	Total	**11,901**	**12,974**

- Pursuant to Art. 24, Law Decree 34/2020, in 2020, the company did not pay the balance of the 2019 IRAP and the first instalment of the 2020 IRAP advance.

33.5 Events after the end of the reporting period

No events or transactions that could impact these financial statements took place after the end of the financial year.

33.6 Transactions deriving from atypical and/or unusual operations

In the period between 31/12/2019 and 31/12/2020, no atypical and/or unusual transactions were carried out.

Iervolino Entertainment S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Iervolino Entertainment S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Group Iervolino Entertainment (the Group), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of the Iervolino Entertainment S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Iervolino Entertainment S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Building a better working world

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Iervolino Entertainment S.p.A. are responsible for the preparation of the Report on Operations of Group Iervolino Entertainment as at December 31, 2020, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Iervolino Entertainment Group as at December 31, 2020 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of Iervolino Entertainment Group as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, April 1, 2021

EY S.p.A.
Signed by: Andrea Eronidi, Auditor

This report has been translated into the English language solely for the convenience of international readers.