

IERVOLINO ENTERTAINMENT

ANNUAL FINANCIAL REPORT

AS AT 31 DECEMBER 2019



IERVOLINO ENTERTAINMENT

Registered Office: Via Barberini 29 - 00187 - ROMA
Registered in the Companies Register of: ROME
TAX ID and VAT number: 11636381003
Registered in the Economic and Administrative Index (REA) of ROME - 1318599
Capital subscribed, €: 1,336,001.00 fully paid

REPORT ON OPERATIONS OF IERVOLINO ENTERTAINMENT S.P.A. FOR THE FINANCIAL STATEMENTS OF THE YEAR ENDED 31 DECEMBER 2019

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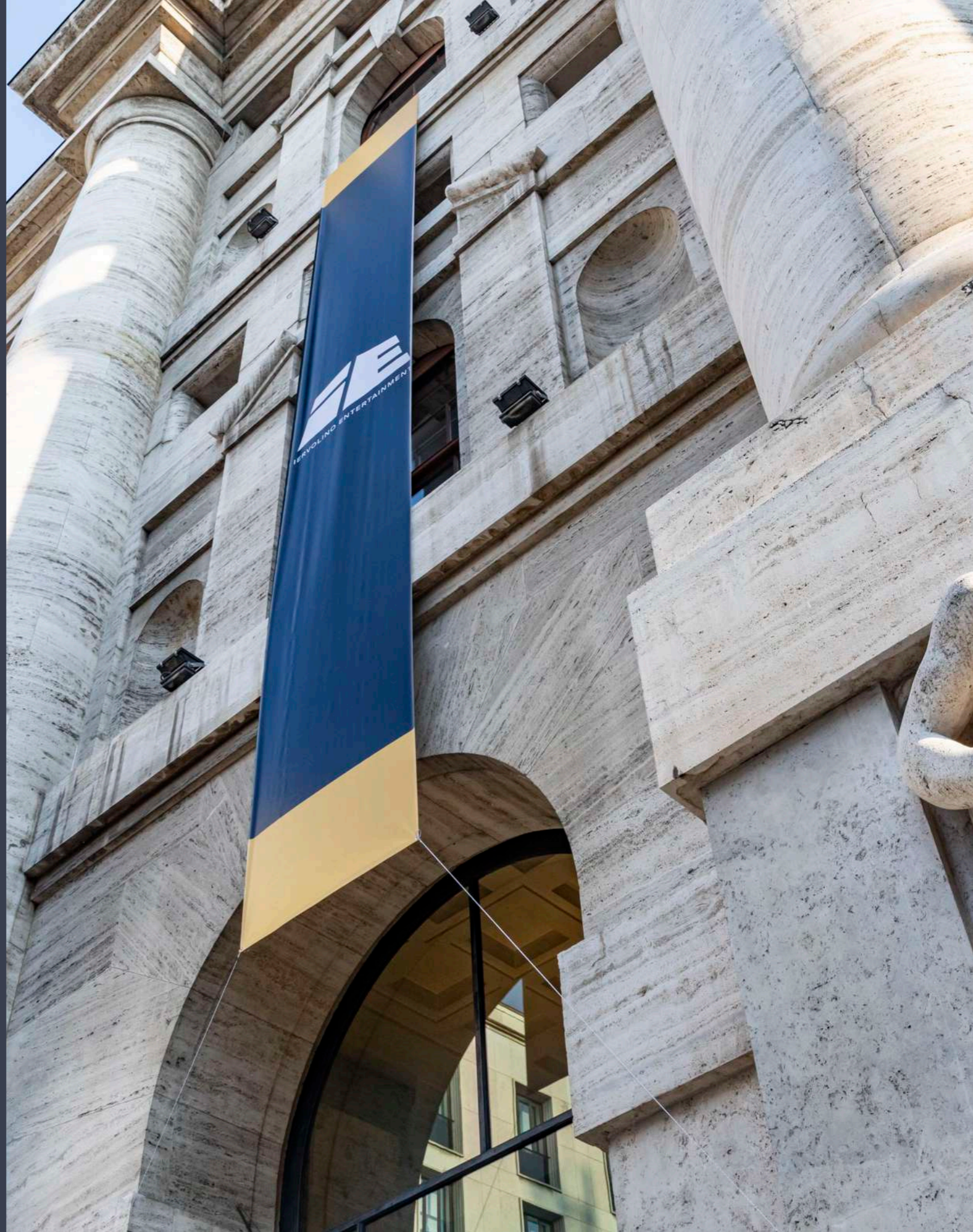
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INDEPENDENT AUDITORS' REPORT EY S.p.A.



1. MANAGEMENT REPORT OF IERVOLINO ENTERTAINMENT S.P.A. FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Profit for 2019

The 2019 financial year featured a series of very positive and profitable events for the Company. In a macroeconomic context that saw the slowdown in the growth rate of the GDP continuing during the last part of the previous year, which also continued in 2019 with simultaneous spillovers, IE continued developing various investment and web production activities, series and films intended essentially for international markets with balanced financial coverage, laying the foundations for sustainable development over time.

The financial year ended 31 December 2019 of Iervolino Entertainment (hereinafter also IE or the Company) closed with total revenues of €80,009,000, with a growth of €45,384,000 over 2018 (+ 131%) and an EBIT of €22,647,000, with a growth of €10,996,000 over 2018 (+ 94%).

EBIT for 2019 was approximately €1 million higher than the expected amount of €22 million indicated in the Admission Document and consistent with the planning of deliveries of the audiovisual works.

Business Model

IE is a Global Production Company 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 for developing audiovisual productions intended for international distribution.

The contents of the Company's audiovisual productions are of Hollywood standing, being designed for the global market and including the participation of internationally renowned actors such as Johnny Depp, Morgan Freeman, Robert Pattinson and Eva Longoria. The works are mainly shot directly in English.

Iervolino Entertainment starts the production of film and television content after entering into contracts for the sale of international distribution rights which provide for the so-called minimum guaranteed payment, thus transferring the performance risk of the work to international distributors.

The Company then remains the owner of the intellectual property rights which can be exploited in the years following the content production through rights of remake, sequels and other derivative products.

Revenues from the sale of the rights of the audiovisual works are accounted for at the time of delivery of the works, while back-end revenues are entered when realised in the years following the delivery of the work or through the related transfer of the rights. Government grant revenues are entered in connection with realised revenues from the sale of international distribution and backend rights.

The sales cost of audiovisual works is essentially represented by the portion pertaining to the amortising year of the audiovisual works calculated according to the international accounting standard illustrated in the notes to the "film forecast computation method" with an amortisation criterion determined in relation to the useful life of the asset and estimated, having regard to the peculiarity of the individual existing productions, over the time horizon of four years.



Activities carried out in 2019

Productions

With reference to the management activity relating to production, we report the following:

The Poison Rose

The back-end rights of the Italian film "The Poison Rose" were sold resulting in revenues entered for a total of €3,055,000 (including the "government grants").

The work is an action thriller directed by Francesco Cinquemani, George Gallo, Luca Gilberto and with John Travolta, Morgan Freeman, Famke Janssen, Peter Stormare and Brendan Fraser. The film was shot in Savannah, Georgia and in Rome and the surrounding area.

The film, as you remember, had been produced the previous year and the sales rights of the film for international distribution had been transferred, also last year, through a distribution agreement, to Millennium Media.



JOHN TRAVOLTA MORGAN FREEMAN FAMKE JANSSEN PETER STORMARE BRENDAN FRAISER ROBERT PATRICK

The film is about a private investigator (Travolta) who finds himself investigating a shady run of illegal betting involving the world of football, controlled by the area boss (Freeman). The situation becomes more complicated when the daughter of the woman he has always loved (Janssen) who will also be his birth daughter becomes involved.



Waiting for the Barbarians

During the year, the production continued of another film of Italian nationality, the delivery of which took place at the end of September 2019 resulting in the entry of revenues for a total of €19,013,000 (including the "government grants").

The film, titled "Waiting for the Barbarians", is based on the novel by Nobel Prize winner 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 was shot in Morocco and in the province of Rome.

WAITING FOR THE BARBARIANS



MARK RYLANCE



JOHNNY DEPP



ROBERT PATTINSON



GANA BAYARSAIKHAN

Inspired by the novel *WAITING FOR THE BARBARIANS* by *J. M. Coetzee*, *Nobel Prize in Literature in 2003*, the film is based on the crisis of conscience of the "Magistrate" - a faithful servant of the Empire who works 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.

Through a distribution agreement, *AMBI Distribution* has acquired the rights to sell the film for international distribution. The film is already among the sales agency's offers, in the main markets within the sector festivals: *Cannes Film Festival*, *Venice Film Festival*, *Berlinale*, *Toronto Film Festival* and *American Film Market*.

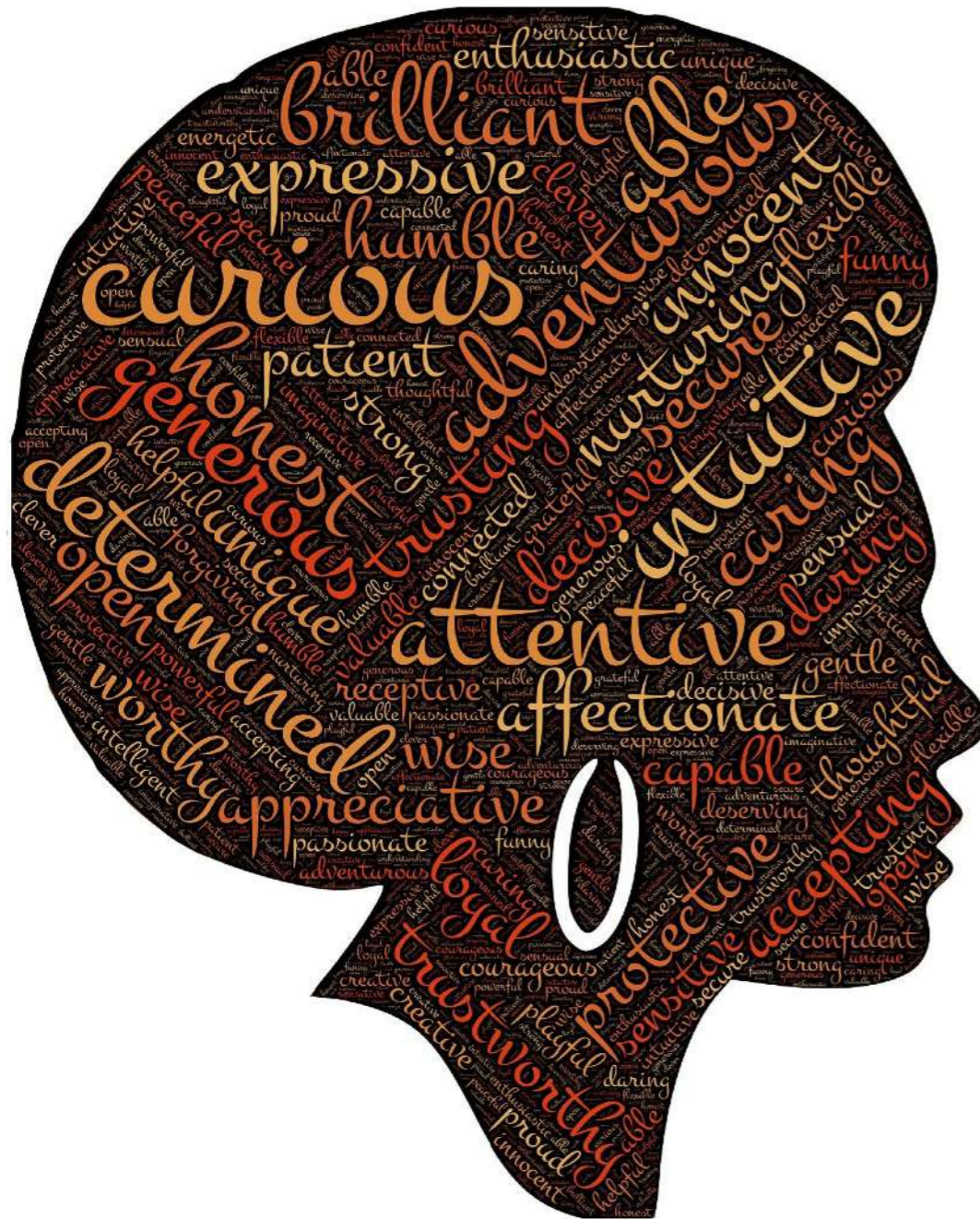
The work was presented in a world preview at the *76th Venice International Film Festival* and the *45th Deauville Film Festival*. The film met with very long applause at the end of the screening in Venice and was acclaimed by critics as a "Mesmerising watch".

"Waiting for the Barbarians" participated also in the *BFI - London Film Festival*, the *Zurich Film Festival* and the *San Sebastian Film Festival*, and the *Festival Internacional de Cine de Morelia*, among the most important events scheduled in the sector, thus obtaining further visibility among the critics and the general public.

Together Now

In August, a new trade contract, with a total value of €9,800,000, was signed in Los Angeles with Hadid Design and Entertainment LLC ("Hadid D&E") for the sale of the distribution rights of the film with the provisional title "Together Now" and extra content.

"Together Now", an all-female project produced by Iervolino Entertainment, is a film made up of 5 short contents lasting 15 minutes each whose main theme is a story based on animation scenes. The contents, directed by 5 female directors from different parts of the world, encompass various genres, ranging from drama to comedy to docudrama and animation, and starring actresses of international fame.



TOGETHER NOW



MARGHERITA BUY



EVA LONGORIA

The agreement provides Iervolino Entertainment with a guaranteed non-revocable minimum, while Hadid D&E is the owner of the rights to sell the film for the distribution of the work worldwide, excluding Italy, San Marino and Vatican City, for a duration of 18 years. The agreement guarantees delivery, not only of the audiovisual product itself, but also of the extra content for a total of 600 minutes.

The contract guaranteed Iervolino Entertainment production and deliveries for both the 2019 and 2020 financial years. In 2019, revenues totaling €4,510,000 were recorded (including the government grants).

**ARCTIC
JUSTICE**
LA SERIE



Arctic Justice

During the year, the "Arctic Justice" project was continued, a web series based on the animated film of the same name produced by Andrea Iervolino, consisting of mini-episodes lasting 5 minutes each with the voices of the characters performed by actors the likes of James Franco, Jeremy Renner, Alec Baldwin, Heidi Klum, Anjelica Huston, John Cleese, from the international scene and by the most important Italian actors for distribution in Italy. For a better global diffusion of the product on the platforms, it was then decided, in agreement with the distributor, to use, as in other successful cases such as Minions and Tom and Jerry, to use a universal language composed of sounds and noises thus avoiding dubbing in various local languages.

During the year, 35 episodes were produced and delivered resulting in the entry of revenues for a total of €37,593,000 (including the "government grants").



This animated comic series explores the fantastic adventures of Swifty, the arctic fox and his group of friends in the city of Taigasville. Each episode focuses on one of the group's adventures, which between misunderstandings and cute gags solves all the unexpected events and threats they face to restore "arctic justice" in the city!

The project stems from a research and development study aimed at creating innovative pipelines that can speed up the production process, reducing costs and improving the performance of the software and hardware used. Please refer to paragraph 5 Research and Development for more information.

PUFFINS

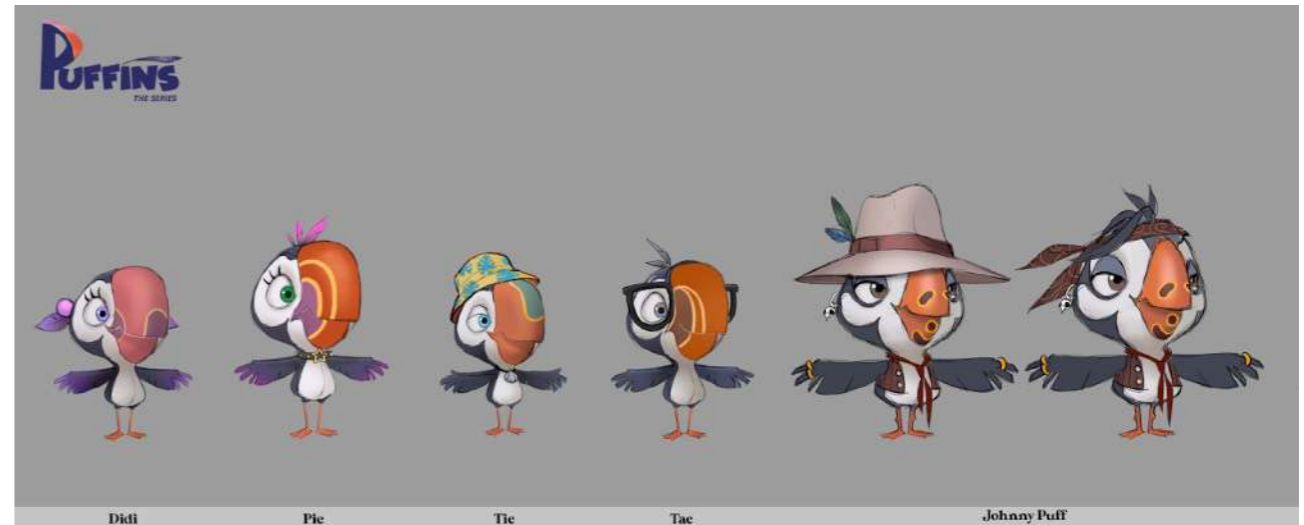
THE SERIES



Puffins

During the year, an agreement was signed with ShortArt Media LLC, a special purpose company in the Paradox studios LLC group, for creating the web series "Puffins", consisting of short content lasting 5 minutes, up to a total of 500 episodes.

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



The agreement for Iervolino Entertainment provides revenues of US \$600,000 per episode (possibly revised on the basis of any updates of production costs) as well as additional revenues based on the economic results of the series and total use in the territories of Italy and the Middle East. ShortArt Media LLC has use of the rights AVOD, TVOD (only one year from the broadcast). These amounts are added to those coming from the recognition of government grants.

The multi-year contract envisaged production and delivery of 20 episodes in the 2019 financial year, resulting in the entry of revenues for a total of €12,156,000 (including the government grants).



Giving Back Generation

"Giving Back Generation" is a vodcast consisting of 12 interviews with successful young artists who have made it their mission to "do good and have a social impact". The artists include also Selena Gomez and Emma Marrone. The customer of the guaranteed minimum contract is TaTaTu Enterprises Ltd, a social-streaming Advertising Video On Demand (AVOD) platform controlled by Andrea Iervolino. The subject of the contract is AVOD's right to perpetual global distribution and exploitation of the documentary. The economic conditions set out in the contract are as follows: Guaranteed Minimum of €1,100,000 and 50% share in the "Net Revenue". The contract was previously examined by the related parties committee which reported to the board of directors without raising any objections.

GIVING BACK GENERATION



From an economic and financial point of view, the Giving Back project is in line with the business model of Iervolino Entertainment. From a commercial point of view, the transaction has several advantages: it allows creating new opportunities in the content vodcast sector, which represents a growing trend, and retains the exploitation rights of the project owned by Iervolino Entertainment, which will have the possibility to sell them separately. The Vodcast was produced and delivered in the year 2019, resulting in the entry of revenues for a total of €1,410,000 (including government grants).

Acquisition of Intellectual Properties

In December 2019, seven Intellectual Properties (IP) were acquired from Short Art Media LLC, spinoffs from the Arctic Justice film, for the production of short content.

In particular, Iervolino Entertainment acquired the IPs of seven different animated characters, each of which can be serialised in made for TV and made into new media all over the world. All rights of merchandising, commercial exploitation, soundtrack and paper publishing rights are included.

The total amount of the acquired rights amounts to US \$12,250,000, plus a commitment to the seller's share in a portion of the profits coming from its exploitation. The one-off purchase solution has also produced significant savings compared to the purchases of individual rights.



Extraordinary finance transactions

Iervolino Entertainment S.p.A. Convertible Bond 5% 2019

On 7 June 2019, the Company issued a convertible bond loan called "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019" for a total nominal amount of €5,000,000, subject to the resolution of the Company's extraordinary shareholders' meeting held on 31 May 2019, and divided into 5,000 bonds with a nominal value of €1,000 each, in non-divisible denomination. The issue price was 98% (€0.98) of the nominal value of each bond. The bond loan with a duration up to 31 December 2019 can be converted into Iervolino Entertainment shares at the unit price equal to the placement price in the IPO of 1.95 euros per compendium share; in the event of failing to exercise the conversion right, it is expected that it will be reimbursed at par, in a single payment, on the due date. The bonds are interest bearing, at a fixed annual rate of 5%.

The bond loan was issued for a total amount of €1,215,000. During the IPO it was converted for €715,000. The remaining €500,000 were repaid on 31 December 2019.

The bondholders who exercised the Bondholder Conversion Right simultaneously signed a lock-up agreement with the Issuer whereby they committed, for a period from the IPO date to the expiry of the eighteenth month following that date, not to undertake transactions for sales, disposals or in any case transactions whose object or effect is the transfer to third parties, for any reason and in any form, of the shares.

IPO

During the 2019 financial year, IE started the process of listing the company's shares on the multilateral trading system AIM Italia organised and managed by Borsa Italiana S.p.A. ("AIM Italia") which ended positively with the start of trading on 5 August. 2019.

The placement price of the new shares issued was €1.95 for each new share resulting from the capital increase to service the placement.

After the placement, at the end of the relevant period, Global Coordinator Intermonte SIM S.p.A. exercised the Greenshoe option - granted by shareholders MB Media and IA Media - for the purchase of 332,000 ordinary shares placed with qualified Italian and foreign institutional investors at the same price as the institutional placement (€1.95 per share).

During the placement phase, Iervolino Entertainment raised €10.7 million, considering the full exercise of the Greenshoe option. The free float at the time of admission was 15.7%.

On 9 August, some subscribers of the "Iervolino Entertainment S.p.A convertible bond 5% 2019" convertible bond converted their respective bonds and therefore subscribed 370,030 ordinary shares at the price of 1.95 per share. According to the bond loan regulation, these shares are subject to a lock-up period of 18 months.

As a result of the conversions shown, the existing "Iervolino Entertainment S.p.A convertible bond 5% 2019" bond is residual at €500,000, while the company's share capital increased by €14,801 in addition to the share premium of €706,756 with an increase, therefore of the net equity of €721,558 euros.

Following the partial exercise of the Greenshoe option, the institutional placement concerned 5,332,000 shares of Iervolino Entertainment, the total amount of deposits came to around €10.4 million.

Following all the foregoing events, collections for the Company were approximately €10.5 million, while the final composition of the share capital of IE was as follows:

Shareholder	Number of shares owned	Voting rights	Share capital (%)	% in ordinary shares
MB Media S.A. (ordinary shares)	16,600,800	29.98%	49.75%	74.21%
IA Media S.A.	11,067,200	59.72%	33.17%	0.30%
of which				
- multiple voting shares	11,000,000	59.60%	32.96%	0.00%
- ordinary shares	67,200	0.12%	0.20%	0.30%
Market (ordinary shares)	5,702,029	10.30%	17.09%	25.49%
- of which Unipol Assicurazioni S.p.A.	1,538,000	2.78%	4.61%	6.88%
- of which Andrea Iervolino	323,586	0.58%	0.97%	1.45%
Total	33,370,029	100.00%	100.00%	100.00%

	Share capital at 31 December 2019		
	Euro	No. Shares	Nom. Val. Unit Price
Total			
of which	1,334,801	33,370,029	0.04
Ordinary shares	894,801	22,370,029	0.04
Multiple voting shares	440,000	11,000,000	0.04

Bond loan "Iervolino Entertainment S.p.A Converting 3% 2019 - 2020"

In December 2019 the Company issued the bond "Iervolino Entertainment S.p.A Converting 3% 2019 - 2020" (ISIN Code: IT0005396236) for a total amount of €7,700,000 (the "Converting"), after the Shareholders' meeting, held in an extraordinary session, approved the issue for a total amount of maximum €8,000,000.

The Shareholders' Meeting also approved the paid share capital increase, separable, except for the exclusion of the option right, in service of the Converting. The Converting has a duration of 12 months from the date of issue, or until December 23, 2020 and pays a fixed interest rate of 3% per annum with deferred semi-annual payment. The bonds will be automatically converted at maturity into ordinary IE shares at the conversion price of €4.8433, corresponding to the arithmetic average of the official ordinary IE share prices in the period 4 - 18 December 2019. The bonds may be listed in an MTF, with deadlines to be defined.

The placement was made exclusively with qualified investors; as part of the placement, IA Media, the controlling shareholder of IE, subscribed bonds for a total of €100,000.

Given the features of the bond loan, automatically convertible into shares at an already established conversion price, in accordance with the IAS/IFRS accounting standards, the same is accounted for in the net equity items of the financial statements.

Acquisition of the stake Artevideo S.r.l.

With the aim of increasing Iervolino Entertainment's capacity and professionalism, especially in the post production sector and expanding Iervolino Entertainment's offer of services in international markets, especially for the post production phase relating to delivery, during the year 51% of Artevideo S.r.l. was acquired, subsequently completing the remaining 49% on 15 January 2020.

The acquisition of 100% of Arte Video took place by signing the investment contract which provides for the concluding the transaction in two distinct phases:

- The first related to the acquisition of a nominal share of €5,100, representing 51% of the share capital of Arte Video, acquired in November 2019 for a cash consideration of €153,000;
- The second related to the nominal share of €4,900, representing 49% of the share capital of Arte Video, acquired on 15 January 2020 by a capital increase reserved for Arte Video shareholders of the 30,000 shares they had subscribed, transferring the remaining 49% of the share capital of Arte Video. The shares were issued at a unit price of €4.9 for a total value of €147,000 and subject to a 36-month lock-up.

The administrators of Arte Video remained in the company to continue the operational activity of development and implementation of projects in the sector of production and post production of cinema and video, authoring for DVD and Bluray, encoding for VOD platforms, animation and multimedia, using the most advanced technologies available on the market. It offers small and large production companies DCP coding services for digital cinema, distribution, encryption key management for cinemas, creation of VOD/TV masters, graphic animation and digital delivery.





Arte Video is associated with UNIVIDEO, the Italian Union of Audiovisual Publishing and has as its main objective the care and attention in production of projects combining quality, competence and versatility. The potential of the technical facilities, combined with the experience of the staff, highlight the commitment made to offer customers a global product at the highest level. Artevideo is the "Authorised Encoding House" of Apple iTunes, GooglePlay, Sony Entertainment, Amazon, Microsoft, TaTaTu and Rakuten, has direct connection with the related servers at a speed of 1000/1000 Mbits in fibre and assists several national and international aggregators, such as Under The Milkyway, WarnerBros, Pathe', RaiCom, Minerva, CG ENT, AMBI, Sweet Chili Ent for the complete encoding service for Video On Demand and 4K Post. At 31 December 2019, Arte Video had a turnover of over €900,000, an EBIT of around 65,000, a net profit of around 20,000 and a NFP in substantial balance. The total assets are approximately €390,000 and shareholders' equity €95,000. Arte Video today has 8 employees, in addition to the two directors. For the 2019 financial year, since the acquisition took place at the end of the year, the consolidated financial statements were not prepared as they are not material.

Other activities

The Company also launched a new complementary activity during 2019 relating to the artistic management of celebrities, which, by leveraging contacts with internationally renowned actors by the management and, in particular, by Andrea Iervolino, offers management of the image and marketing of celebrities in Italy, in particular by concluding contracts with television broadcasters for international actors to participate in television programmes (for example, it handled John Travolta's participation in the television programme "Amici di Maria De Filippi" and Johnny Depp and Antonio Banderas in the broadcast "You've got mail").

2. Summary data

The summary data illustrated in this management report refer to the financial statements at 31 December 2019 drawn up in accordance with the IAS/IFRS international accounting standards (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 Accounting Statements of the financial statements and related explanatory notes for 2019.

The economic performance of management for the year 2019 is shown below:

	2019	2018	Change	% Change
Revenues	80,009,296	34,625,453	45,383,843	>(100%)
Operating costs	4,221,091	262,510	3,958,581	>(100%)
Cost of personnel	393,012	218,481	174,531	80%
EBITDA	75,395,194	34,144,462	41,250,732	>(100%)
Amortisation, write-downs and provisions	52,747,880	22,493,288	30,254,592	>(100%)
EBIT	22,647,314	11,651,174	10,996,140	94%
Net financial charges	(267,756)	(241,661)	(26,095)	11%
Pre-tax profit	22,379,559	11,409,513	10,970,046	96%
Taxes	(2,130,430)	(1,206,257)	(924,173)	77%
Net profit for the period	20,249,129	10,203,256	10,045,873	98%

The reclassified balance sheet is illustrated below:

	2019	2018	Change	% Change
Assets				
Non-current assets				
Intangible Assets	49,218,968	20,628,386	28,590,582	>(100%)
Finished productions	31,460,632	12,727,223	18,733,409	>(100%)
Productions in progress	4,941,559	5,724,108	(782,549)	-14%
Other rights	12,816,777	2,177,055	10,639,722	>(100%)
Tangible Assets	5,791	5,292	499	9%
Deferred tax assets	3,778,177	1,623,929	2,154,248	>(100%)
Other non-current assets	170,482	12,510	157,972	>(100%)
Total non-current assets	53,173,418	22,270,117	30,903,301	>(100%)
Current assets				
Trade receivables	20,200,223	14,735,148	5,465,075	37%
Tax receivables	21,608,272	9,383,998	12,224,274	>(100%)
Other current assets	150,775	6,981,210	(6,830,435)	-98%
Cash and cash equivalents	7,951,856	151,294	7,800,562	>(100%)
Total current assets	49,911,126	31,251,650	18,659,476	60%
Total Assets	103,084,544	53,521,767	49,562,777	93%
Net Equity				
Share Capital	1,334,801	1,120,000	214,801	19%
Legal reserve	496,996	7,186	489,810	>(100%)
Other reserves	16,262,561	1,770,773	14,491,788	>(100%)
Profits (losses) carried forward	9,306,384	(2,177,835)	11,484,219	<100
Profit (loss) for the year	20,249,129	10,203,256	10,045,873	98%
Total Net equity	47,649,872	10,923,380	36,726,492	>(100%)
Non-current liabilities				
Employee Benefits	36,318	19,091	17,227	90%
Provisions for risks and charges	300,000	-	300,000	100%
Non-current financial liabilities	1,048,104	6,003,980	(4,955,876)	-83%
Total non-current liabilities	1,384,423	6,023,071	(4,638,648)	-77%
Current liabilities				
Current financial liabilities	7,452,675	-	7,452,675	100%
Trade payables	26,432,482	24,302,130	2,130,352	9%
Tax payables	2,246,186	2,693,634	(447,448)	-17%
Other current liabilities	17,918,906	9,579,552	8,339,354	87%
Total current liabilities	54,050,249	36,575,316	17,474,933	48%
Total Liabilities	103,084,545	53,521,767	49,562,778	93%

The main equity and financial indicators are illustrated below

Main equity indicators	2019	2018	Change	% Change
Intangible assets	49,218,968	20,628,386	28,590,582	>(100%)
Tangible Fixed Assets	5,791	5,292	499	9%
Other non-current assets	3,948,659	1,636,439	2,312,220	>(100%)
Fixed assets	53,173,418	22,270,117	30,903,301	>(100%)
Receivables from customers	20,200,223	14,735,148	5,465,075	37%
Payables to suppliers	(26,432,482)	(24,302,130)	(2,130,352)	9%
Other current assets/(liabilities)	1,593,955	4,092,022	(2,498,067)	-61%
NWC	(4,638,304)	(5,474,960)	836,656	-15%
Employee severance indemnity	(36,318)	(19,091)	(17,227)	90%
Other non-current liabilities	(300,000)	-	(300,000)	100%
NCI	48,198,795	16,776,066	31,422,729	>(100%)
Net Equity	47,649,872	10,923,380	36,726,492	>(100%)
Cash and cash equivalents	(7,951,856)	(151,294)	(7,800,562)	>(100%)
Financial liabilities	8,500,780	6,003,980	2,496,800	42%
NFP	548,924	5,852,686	(5,303,762)	-91%
SOURCES OF FINANCING	48,198,795	16,776,066	31,422,729	>(100%)

The main indicators of the cash flow statement are illustrated below:

	2019	2018
A - Net flow generated/(used) from operating activities	46,282,062	14,612,656
B - Net flow generated/(used) by investment activities	(57,240,862)	(20,205,184)
C - Net flow generated/(used) from financing activities	18,759,361	5,728,375
D - Total cash flow generated/(used) in the period (A + B + C)	7,800,562	135,847
E - Cash and cash equivalents at the beginning of the period	151,294	15,447
F - Cash and cash equivalents at the end of the period (D + E)	7,951,856	151,294

Net financial position	2019	2018
Cash equivalents	(7,951,856)	(151,294)
Liquidity	(7,951,856)	(151,294)
Bank payables	8,269,780	6,003,980
Financial debt bond loan	231,000	-
Financial debt	8,500,780	6,003,980
Negative NFP	548,924	5,852,686



Management performance and economic and financial results

The financial year ended 31 December 2019 shows a net profit of €20.249.000 demonstrating an increase of 98% over 2018 of €10.204.000 when the company was still in the start-up phase.

From a management point of view, the year ended with an EBIT of €22.647.000 which shows an increase of 94% over 2018 of €11.651.000. The result derives from revenues from the sale of the rights of the film works minus the related sales cost, essentially represented by the share of the amortisation of intangible assets (film works) equalling €52.337.000, with modest incidence of overhead costs, equalling €4.614.000, and write-downs and other provisions, equalling €411.000.

From a management point of view, the EBIT 2019 represents 28% of total revenues equal to €80.009.000.

Revenues from the sale of rights and government grants recognised on an accrual basis with regard to the productions to which they refer relate to Waiting ForThe Barbarians (€19.013.000), Arctic Justice (€37.593.000), Puffins (€12.156.000), Together Now (€4.510.000) Poison Rose (€3.055.000) and Giving Back (€1.410.000).

Film and web series productions represent 36% and 64% of the revenues respectively.

From a financial point of view, Iervolino Entertainment presents a net invested capital represented mainly by intangible assets (film works, intellectual properties and other rights) equalling €49.219.000; the other fixed assets amount to €3.954.000 while the net working capital is negative by €4.638.000.

The resulting net invested capital is €48.199.000, increased by €31.423.000 over the balance of the previous year of €16.776.000 and is financed by the negative net financial position of €549.000 and net equity of €47.650.000.

Net working capital was negative for €4.638.000, slightly reduced from the previous year's balance of €5.475.000.

The working capital includes the cinema tax credit for film and research & development productions whose monetisation, through the use of other taxes as offset or sale to authorised intermediaries, will take place starting from the following year.

The transactions that led to the increase in net equity are illustrated in the paragraph "extraordinary finance transactions" of the previous section 1 of the Report.

The improvement in the NFP of €5.304.000 compared to the negative balance of 31 December 2018 derives from the following main financial transactions:

- i. In approximately August, at the end of the phases of the capital increase connected to the process of listing the company's shares on the multilateral trading system AIM Italia, IE raised approximately €10.5 million of which €0.7 million came from the conversion of the convertible bond loan issued to service the IPO transaction. The IPO costs incurred, net of the related tax effect, amounted to €1.3 million; consequently the net equity increased by €9.2 million.



- i. The issue in December of the bond loan "Iervolino Entertainment S.p.A Converting 3% 2019 - 2020" for a total amount of €7.7 million accounted for in net equity net of the related costs of €0.15 million and the portion of financial debt relating to the interest to be paid in 2020 equalling €0.23 million, therefore, for a total amount of €7.3 million;
- ii. the activation during the year of three medium-term loans equal to residuals of €1.4 million;
- iii. advances on credit financing transactions with the customer for producing audiovisual works, or the related cinema tax credit, some of which were made and closed during the year.

The collections of the increases in capital and equity, net of the related costs, were all used to support investments in audiovisual works. In particular, the additional financial resources of €7.700.000 deriving from the issue of the Converting were intended for further investments in intellectual properties in the "animation" sector to support the development of the company mainly in the "short-content" market.

As a result of the foregoing, the net financial position at 31 December 2019 shows a balance substantially balanced of €549.000.

From the point of view of financial flows, the cash and cash equivalents at 31 December 2019 show a balance of €7.952.000, an increase of €7.801.000, essentially consisting of the residual flows deriving from financing activities equalling €18.759.000 after covering the imbalance of the flows used by investment activities of €57.241.000, higher than the flows generated by operating activities of €46.282.000.

3. Transactions with related parties

The equity and economic operations of the Company with related parties are shown below:

	Trade receivables	Other Assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film Srl *	-	-	-	-	-	502
TATATU Enterprises Ltd	642	-	-	-	2,143	375
Ambi Distribution Ltd	31	-	-	-	14,830	-
Arte Video Srl	70	-	110	-	70	110
AIC Studios Inc.	-	-	22	-	-	27
Transactions with related parties	743	-	132	-	17,043	1,014
Total balance sheet items	20,200	82,884	26,432	76,652	80,009	57,362
Weight on balance sheet items	4%	0%	0%	0%	21%	2%

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

The operations carried out by the Company with related parties at market conditions 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 starting June 2019);
- The purchase by TATATU of the world rights for streaming on the TATATU platform of the Vod Cast Giving Back (€1.100.000) and of the film and extra content of Waiting for the Barbarians (€1.043.000);
- The fee to TATATU for advertising revenue accrued and collected in the period by Iervolino Entertainment for the advertising agency (€375.000);
- The purchase by Ambi Distribution Ltd of the world rights to the film Waiting for the Barbarians (€14.830.000);
- The performance of post production service relating to the Puffins Web Series carried out by Arte Video S.r.l. (subsidiary)



4. Transactions with subsidiaries and affiliates

In accordance with Art. 2497-bis of the civil code, the assets and economic operations of the Company with subsidiaries are shown below, while there are no affiliates:

	Trade Receivables €/000	Other Assets €/000	Trade Payables €/000	Other liabilities €/000	Revenues €/000	Costs €/000
Arte Video Srl	70	-	110	-	70	110
Total transactions with related	70	-	110	-	70	110
Total balance sheet items	20,200	82,884	26,432	76,652	80,009	57,362
Weight on balance sheet items	0%	0%	0%	0%	0%	0%

The operations carried out by the Company with the subsidiary subject to management and coordination concern:

- The performance of post production service relating to the Puffins Web Series carried out by Arte Video S.r.l.;
- The provision of service services provided by the Company to Arte Video S.r.l..

All the above transactions were done at market values.

With reference to the other subsidiary IEXCHANGE S.r.l. established in December 2019, which is not yet operational, there are no transactions.

5. Human resources

Iervolino Entertainment has a streamlined structure with only six permanent employees in addition to nine contractors. However, when the production of an audiovisual work begins, a considerable number of temporary workers are hired until the related conclusion.

In the future, the Company will also continue this winning business model both for profitability and risk management.

6. Research and development

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

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



In this context, and specifically in the so-called "Industrial research", i.e., research aimed at creation or improvement of processes and products, starting from the 2018 financial year, Iervolino Entertainment 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 FB etc., but which at the same time require high quality products. The research activity carried out during 2019 involved over 300 people and started from the not excessively satisfactory results obtained in 2018.

The completion of the overall project is estimated to require, approximately, a study and development of another year divided into several phases. The contents are identifiable in the conception, study, development and design of new processes, new 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 company 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 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.

Here below are the references to the experimental activities planned and conducted within the overall project, including:

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



In general, the research and development activities use the technical staff inside the Iervolino Entertainment the creator of the project and a further expert figure in the production of animation movies, supervisor and product manager of the project. The external supplier of the commissioned research is the Company Al Masha'el 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 phases:

RESEARCH, CONCEPT DEFINITION AND FEASIBILITY STUDY

- Analysis of the cost-effectiveness of the new project (pipeline) taking into consideration the assessments of the various functions and production;
- Identifying supporting documentation for 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 phase;
- 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, after having conceived and developed the production process called Pipeline 0.1 during 2018, by performing experimental analyses to define the various process phases and determine the most suitable process parameters to achieve the project objectives, Pipeline 0.2 was developed during 2019.



This process features the implementation of new software, ATOM (Animation Tracking Operations and Management). This software allowed automating and optimising various tasks between the various production stages. Using ATOM has achieved greater process automation making it possible to (i) improve interaction by making the movements between the various departments smoother, (ii) increase the automation and dynamism of the departments, allowing the possibility for artists and technicians to work in parallel in the different processing phases, and (iii) giving the render manager the opportunity to monitor and exploit all rendering resources more adequately.

More specifically, the results obtained to date, and which are the basis for subsequent research developments for the following year, are these:

- **Interaction**
The innovative research activity is solving numerous problems within the pipeline. In fact, it is providing a solution to expensive department latencies in the interaction of both resource artists and hardware, as well as the rendering of time truncations.

For example, the layout department does not require the use of high resolution resources. This escapes the expense of having to make it work with files so computationally heavy, by using the modest hardware specifications common to the department. By having the pipeline determine which resolution is needed for each phase before starting the file, artists can start working faster and with better interaction during the process.

The technical results obtained in this area through process innovations are as follows:

- 50% reduction in rendering time;
- 80% reduction in scene loading times;
- 30% reduction in hardware costs;

- **Automation and dynamism in the departments**
The innovation process focused on dynamic version automation providing the use of the parallel pipeline method across departments. The resource department can quickly prototype the resources and pass their files to subsequent departments to start working immediately. As resources are refined, versioning control will also extend to files that used the original versions of the model.

The technical results obtained to date in this area are as follows:

- significant reduction of human error
- use of the parallel pipeline
- reduction of waste of rendering

- **Optimised automated rendering management**
Rendering is an area where a constant state of innovation is needed due to the high dependence on calculations and the long times required. Added to this are ever-increasing requirements for increasingly high-resolution exports for the various formats. As each resolution standard increases exponentially, rendering times and hardware infrastructure requirements also increase. It is also an area where waste and mismanagement significantly affect times and costs.
The research was carried out to create rendering management more effective and economic compared to the previous manual management method.



The technical results obtained in this area are as follows:

- improvement in the use of broadband;
- 70% reduction in technical staff hours;
- 40% reduction in rendering costs;

The research activities carried out in the year 2019 have made it possible to achieve some of the objectives set, although the process identified has not yet reached an optimal level of scalability for the process phases. In following up, research and development will continue with the aim of further improving the pipeline. Indeed, the results achieved to date represent the basis for subsequent research and development activities for the following year.

The research and development costs incurred are subject to analysis and verification both from a technical and an administrative/accounting point of view. At the end of the year, the specialised engineering company LG & Partners and the independent auditor Ernst & Young will issue their own reports.

7. Information on the main risks and uncertainties

Financial risk management and the change in cash flows

Liquidity risk

The current operational management of IE has generated cash flows intended for its needs and used by the current management for the regular payment of suppliers. Additional financial resources for investments are obtained either through financial transactions or in capital. Having put in place an effective economic and financial planning system, IE constantly monitors management flows in order to finance working capital and monitor the monetisation of the EBIT that takes place starting a few months after the delivery of the audiovisual work and appropriately financed and guaranteed by the banking system.

Foreign exchange risks

The Company is only partially exposed to the financial risks associated with fluctuations in exchange rates, with reference to operations carried out with countries not belonging to the "Euro Area". It should also be noted that almost all the receivables and payables are in the same foreign currency (US dollar).

The Company 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 company 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 competitiveness and cyclicity of the sector

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

The Company is constantly looking for new formats and content to be created independently or through service contracts while still remaining the owner of the Intellectual Property involved. Furthermore, the productions are always financed on the basis of the so-called "Guaranteed minimum" in relationships with international distributors and always responding to the requirements of the general public who can then generate additional business volumes also in the merchandising channel.

Credit risk

The Company does not have a significant concentration of credit risk, and has appropriate procedures, such as verifying the solvency of debtors through the analysis of their reliability on the market, to minimise credit risk

8. Significant events occurring after the financial year end date

Subsequent to the end date of the financial year, no events or transactions took place that could have reflected on the financial statements in question.

It should be noted that on 15 January 2020, the nominal share of €4,900, representing 49% of the share capital of Arte Video, was acquired through a capital increase reserved for Arte Video shareholders of 30,000 shares they subscribed, conferring the remaining 49% of the share capital of Arte Video.

Therefore, the new composition of the share capital is as follows:

	Current share capital		
	Euro	No. Shares	Nom. Val. Unit Price
Total			
of which:	1,336,001	33,400,029	0.04
<i>Ordinary shares</i>	<i>896,001</i>	<i>22,400,029</i>	<i>0.04</i>
<i>Multiple voting shares</i>	<i>440,000</i>	<i>11,000,000</i>	<i>0.04</i>

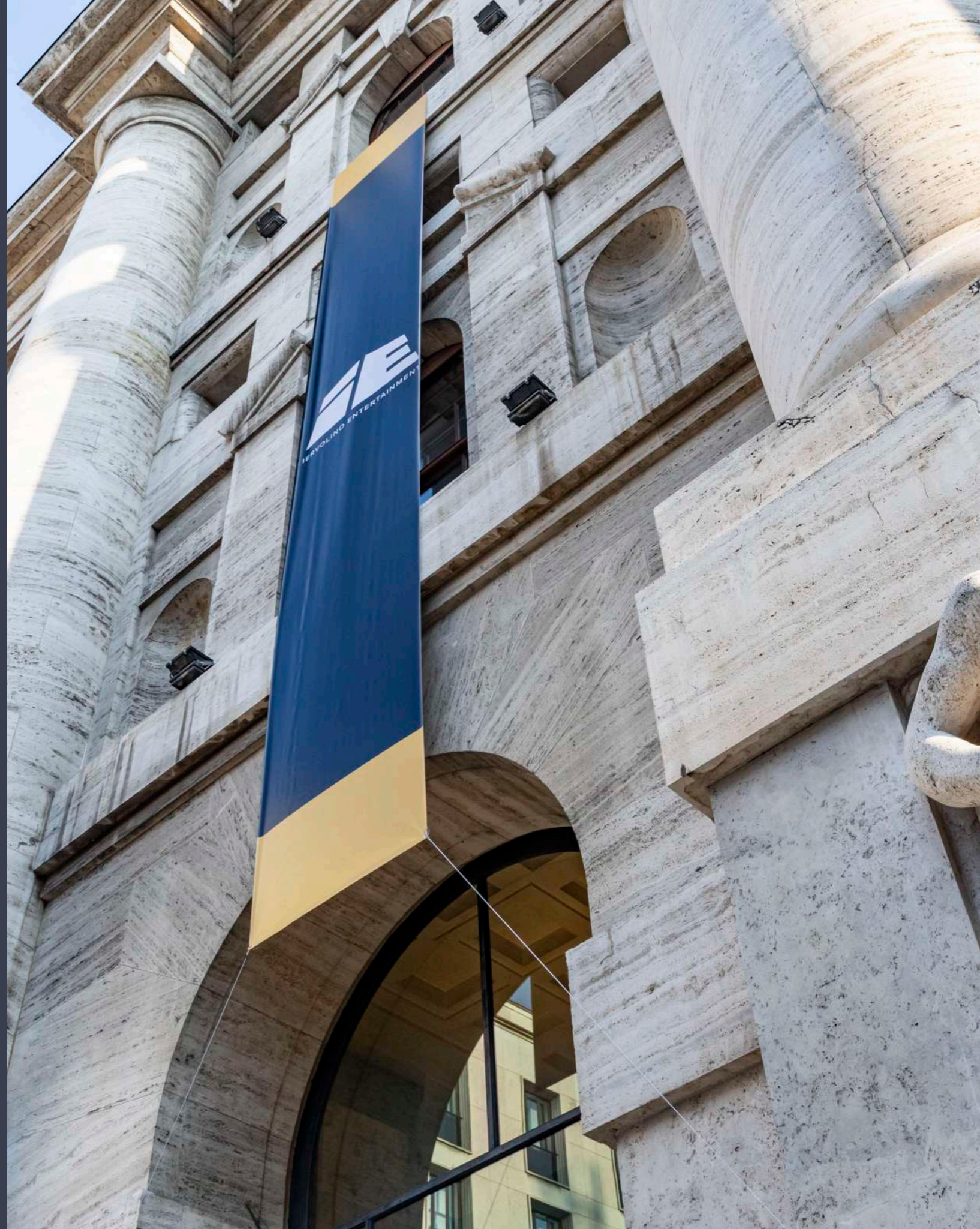
With reference to recent international and national events related to the spread of "coronavirus" infections, it should be noted that IE productions, being intended for the international market and mainly streaming platforms, is not disadvantaged by the negative effects on the economy of the "free time" resulting from the spread of the virus. Any restrictions stemming from measures taken by the Authorities could lead to deferred "scheduling" of filming the film works as well as some activities of the national workshops, which are however marginal in the overall production.

9. Foreseeable operating development

The business development will continue on the basis of the production and development guidelines provided in the industrial plan.

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Statement of financial position
At 31 December 2019 - values in euros

	Notes	2019	2018
Assets			
Non-current assets			
Intangible Assets	Note 4	49,218,968	20,628,386
Finished productions		31,460,632	12,727,223
Productions in progress		4,941,559	5,724,108
Other rights		12,816,777	2,177,055
Tangible Assets	Note 5	5,791	5,292
Deferred tax assets	Note 6	3,778,177	1,623,929
Other non-current assets	Note 7	170,482	12,510
Total non-current assets		53,173,418	22,270,117
Current assets			
Trade receivables	Note 8	20,200,223	14,735,148
Tax receivables	Note 9	21,608,272	9,383,998
Other current assets	Note 10	150,775	6,981,210
Cash and cash equivalents	Note 11	7,951,856	151,294
Total current assets		49,911,126	31,251,650
Total Assets		103,084,544	53,521,767
Net Equity			
Share Capital	Note 12	1,334,801	1,120,000
Legal reserve	Note 12	496,996	7,186
Other reserves	Note 12	16,262,561	1,770,773
Profits (losses) carried forward	Note 12	9,306,384	(2,177,835)
Profit (loss) for the year	Note 12	20,249,129	10,203,256
Total Net equity		47,649,872	10,923,380
Non-current liabilities			
Employee Benefits	Note 13	36,318	19,091
Provisions for risks and charges	Note 14	300,000	-
Non-current financial liabilities	Note 15	1,048,104	6,003,980
Total non-current liabilities		1,384,423	6,023,071
Current liabilities			
Current financial liabilities	Note 16	7,452,675	-
Trade payables	Note 17	26,432,482	24,302,130
Tax payables	Note 18	2,246,186	2,693,634
Contractual liabilities	Note 19	10,558,438	7,011,000
Other current liabilities	Note 20	7,360,468	2,568,552
Total current liabilities		54,050,249	36,575,316
Total Liabilities		103,084,544	53,521,767

Statement of comprehensive profit/(loss) for the year
as at 31 December 2019 - values in euro

	Notes	2019	2018
Revenues	Note 21	66,271,549	26,322,854
Other Revenues and Income	Note 22	89,345	1,303,511
Tax Credits	Note 23	13,648,402	6,999,088
Total Revenues and other income		80,009,296	34,625,453
Purchases of raw materials, supplies, and goods	Note 24	40,121	22,149
Service costs	Note 25	3,896,493	223,507
Personnel expenses	Note 26	393,012	218,481
Other operating costs	Note 27	284,476	16,854
Amortisation	Note 28	52,337,201	22,493,288
Write-downs and provisions	Note 28	410,679	-
Operating Profit		22,647,314	11,651,174
Financial Income	Note 29	485,123	33,944
Financial Charges	Note 29	752,879	275,605
Profits before tax		22,379,559	11,409,513
Income taxes	Note 30	(2,130,430)	(1,206,257)
Profit/(loss) for the year		20,249,129	10,203,256
Other components of the comprehensive income statement that may be subsequently reclassified in the profit/(loss) for the year net of taxes		-	-
Total other components of comprehensive income that cannot subsequently be reclassified in profit/(loss) for the year net of tax		-	-
Total comprehensive income/(loss) net of taxes		20,249,129	10,203,256
Basic earnings per share (ordinary shares)	Note 31	1.84	9.11
Diluted earnings per share (ordinary shares)	Note 31	1.61	9.11

Statement of changes in shareholders' equity

At 31 December 2019 - values in euros

	Notes	Share capital	Legal reserve	Special reserve	Share premium reserve	Capital contributions	Retained earnings/(losses) carried forward	Profit/(Loss) for the year
Balance as of 1 January		1,120,000	7,186	27,575	-	945,312	(585,731)	(1,592,105)
Profit/(Loss) for the year		-	-	-	-	-	-	10,203,256
Allocation of the operating result for the year		-	-	-	-	-	(1,592,105)	1,592,105
Other changes		-	-	-	-	797,886	-	-
Balance as at 31 January 2018		1,120,000	7,186	27,575		1,743,198	(2,177,836)	10,203,256
Balance as at 1 January 2018		1,120,000	7,186	27,575	-	1,743,198	(2,177,836)	10,203,256
Profit/(Loss) for the year	Note 12	-	-	-	-	-	-	20,249,129
Allocation of the operating result for the year	Note 12	-	489,810	-	-	-	9,713,446	10,203,256
Loss coverage	Note 12	-	-	(27,575)	-	(1,743,198)	1,770,773	-
IPO	Note 12	200,000	-	-	8,240,804	-	-	-
Automatically convertible bond loan "Iervolino Entertainment S.p.A. Converting 3% 2019"	Note 12	-	-	-	7,315,000	-	-	-
Convertible Bond "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019"	Note 12	14,801	-	-	706,757	-	-	-
Balance as at 31 January 2019		1,334,801	496,996	-	16,262,561	-	9,306,383	20,249,129

The first application of the new IFRS 15, IFRS 9 and IFRS 16 standards has not had any effect on shareholders' equity. In any case, for the effects stemming from the application of IFRS 16 at 01 January 2019, please refer to Note 2.4 "IFRS 16 - Leases".

	Notes	2019	2018
Profit for the year before taxes	Note 12	22,379,559	11,409,513
Income taxes	Note 31	(2,130,430)	(1,206,257)
Amortisation of Intangible and Tangible fixed assets	Note 28	52,337,201	22,493,288
Write-downs and provisions	Note 28	410,679	-
Net exchange changes		91,468	41,665
Financial income		-	-
Financial charges		176,286	199,996
Provisions (Uses) for personnel funds		17,227	12,153
Other non-monetary items		(154,821)	17,736
Monetary flow generated by income management		73,127,169	32,968,094
Change in trade receivables	Rendiconto finanziario	(5,465,075)	(14,569,551)
Change in trade payables		(21,723,852)	1,478,219
Change in other receivables and other assets		(7,548,087)	(17,293,213)
Change in other payables and other liabilities		12,573,115	12,029,107
Interest Paid		(78,045)	-
Income tax paid		(4,603,163)	-
A - Net flow generated/(used) from operating activities		46,282,062	14,612,656
Investments in intangible and tangible assets		(57,070,380)	(20,205,184)
Investments in financial assets (shares)		(170,482)	-
B - Net flow generated/(used) by investment activities		(57,240,862)	(20,205,184)
Share capital increase/share premium reserve	Note 12	16,262,561	-
Mortgages and loans taken on during the period (repaid)		2,496,800	5,728,375
C - Net flow generated/(used) from financing activities		18,759,361	5,728,375
D - Total cash flow generated/(used) in the period (A + B + C)		7,800,562	135,847
E - Cash and cash equivalents at the beginning of the period		151,294	15,447
F - Cash and cash equivalents at the end of the period (D + E)		7,951,856	151,294

Notes to the financial statements

1. Corporate information

The publication of the financial statements of Iervolino Entertainment S.P.A. for the period ended 31 December 2019 was authorised by the Board of Directors on 6 March 2020. 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 Company is a global production company that in 2018 specialised in the production of cinema and television content, including films, TV-shows, web-series, short TV shows and much more. The contents produced by the Company are considered standing productions in Hollywood style and involve the participation of internationally renowned actors. The Company's main objective is to produce for the international market, based on the business model used by the main Hollywood Majors.

Information on the Company's relations with related parties is presented in Note 32.1.

2. Main accounting standards

2.1 Drafting principles

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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

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

The financial statements are made up of the profit/(loss) statement for the year, the statement of other components of the comprehensive income statement, the statement of financial position, the cash flow statement and the statement of changes in equity (all expressed in) and these notes to the financial statements.

The main accounting standards and valuation criteria applied in preparing the financial statements are described below. The standards comply with those used for preparing the comparative balance sheet and income statement.

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

- **statement of comprehensive income/(loss) for the year:** this was prepared according to the "by nature" format and shows the intermediate results relating to the Operating Profit and the profit before taxes so as to allow the measurability of the normal operating management trend. The operating profit is determined as the difference between revenues and other income and operating costs (the latter including non-monetary costs relating to amortisation and write-downs of current and non-current assets, net of any write-backs).

- **statement of financial position:** this is presented according to the criterion distinguishing "current - 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/extinguished, or is expected to be sold or used in the normal operating cycle, it's held for trading and is therefore expected to be realised/extinguished within 12 months from the end of the period. Without all three of these conditions, the assets/liabilities are classified as non-current.

- **Financial statement:** this is prepared using the "indirect method" whereby the net profit for the period is normally adjusted by the effects of non-monetary transactions.

- **Statement of changes in Net Equity:** illustrates the changes that occurred in the Net Equity items.

2.2 Summary of the main accounting standards

a. Intangible assets

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

Intangible assets produced internally, with the exception of internal production costs for cinematographic works, are not capitalised and are shown in the semi-annual profit/(loss) statement when they were incurred. The following types of costs relating to the rights acquired on cinematographic works are distinguished in the item "Intangible assets": (i) costs incurred for film productions; (ii) costs for rights acquired with limited time duration such as concessions/licences acquired at a fixed price or with a guaranteed minimum.

The agency/license contracts for acquisition of film use rights are recorded among the intangible assets at the time of the transfer of control 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 that provides for the accumulated depreciation at the balance sheet 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 Company 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 completed productions are amortised using the "film forecast computation method", on the basis of which the amortisation at the balance sheet date is determined along the time horizon in which the intangible asset will produce revenues. The amortisation period, based on the peculiarity of the individual existing productions, is estimated over the time horizon of four years.

At each reporting date, in addition to reviewing useful life, intangible assets with a defined useful life are analysed so as to identify whether there are any indicators, deriving from both external and internal sources, of impairment of the same. In the circumstances when such indicators are identified, the recoverable value of the aforementioned assets is estimated, recording any write-down in the income statement. The recoverable value of an asset is the greater of its fair value reduced by the sales costs 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 recorded if, and only if, there is demonstration of:

- a) Technical feasibility for completing the intangible asset so that it will be available for use or sale;
- b) Intention to complete the intangible asset and 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 verification of any impairment test.

b) Tangible assets

These are recognised at historical cost, net of the related depreciation reserve and accumulated impairment losses. The depreciation allowances, recorded in the income statement, were calculated according to the economic/technical duration of the assets based on the criterion of residual possible use. Regardless of previously recorded depreciation, if there is a permanent impairment of value, the asset is written down. If in subsequent years the reasons for the write-down no longer exist, the original value net of the accumulated depreciation is restored.

c) Investments in subsidiaries

Equity investments in subsidiaries are valued at purchase cost. In the presence of objective evidence of impairment, recoverability is verified by comparing the investment's carrying value to the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value of use. The value of use is generally determined within the limits of the corresponding fraction of the equity of the investee company taken from the financial statements, discounting the expected cash flows of the investment and, if significant and reasonably determinable, from its sale, net of the charges for disposal. The expected cash flows are determined on the basis of reasonable and demonstrable assumptions representative of the best estimate of future economic conditions, giving greater relevance to indications from outside. Discounting is carried out at a rate reflecting the current market valuations of the time value of money and the specific risks of the asset not reflected in the estimates of the cash flows.

The Company did prepare consolidated financial statements due to their negligibility.

d) Financial assets

At the time of the initial recognition, the financial assets are classified, depending on the case, according to the subsequent measurement methods, i.e., the amortised cost, the fair value shown in the comprehensive income statement OCI and the fair value recognised in the income statement.

The final version of the new Standard IFRS 9, divided into three pillars, determined the need to revisit financial instruments management processes and criteria in terms of "Classification and Measurement", "Impairment" and "Hedge Accounting".

In the context of Classification and Measurement, the Standard provides new rules for classifying financial assets in the following categories:

- Amortised cost - "CA";
- Fair value with changes in net equity (Fair Value Other Comprehensive Income) - "FVOCI";
- Fair value with changes in the income statement (Fair Value through Profit and Loss) - "FVTPL".

This classification is made according to two discriminants:

- The Business Model that the Company has associated with each of the identified portfolios and
- The characteristics of the contractual cash flows of the financial instrument (SPPI Test - Solely Payments of Principal and Interest).



- In the context of impairments, the main changes concern:
 - Change in the scope of application of the financial assets subject to the write-down process;
 - Introduction of a write-down model based on expected losses (Expected Credit Loss) by adopting a Forward Looking approach;
 - Classification of financial instruments in three stages of credit quality and the consequent need to have a special Stage Assignment Framework;
 - Value adjustments are calculated according to the level of credit quality attributed. The classification of financial assets at the time of initial recording depends on the features of the contractual cash flows in financial assets and also the business model that the Company uses for its management. The Company's business model for managing financial assets refers to the way that it manages its financial assets in order to generate financial 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. The purchase or sale of a financial asset that requires delivery within a deadline generally established by regulation or market conventions (so-called standardised sale or regular way trade) is recognised on the trade date, i.e., the date the Company 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 shown in the comprehensive income statement with reclassification of accumulated profits and losses (debt instruments);
 - Financial assets at the fair value shown in the comprehensive income statement without reversing accumulated profits and losses at the time of elimination (equity instruments);
 - Financial assets at the fair value shown in the income statement
 - *Financial assets at amortised cost (debt instruments)*

This category is the most relevant for the Company. The Company evaluates 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 whose objective is possessing

financial assets aimed at collecting contractual cash flows;

and

- the contractual terms of the financial asset provide for certain date 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 criterion and are subject to impairment as indicated below. Profits and losses are recognised in the income statement when the asset is eliminated, modified or revalued.

Financial assets at Company amortised cost include trade receivables.



Cancellation

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

the rights to receive cash flows from the asset are extinguished, or

the Company 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 Company 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 activity continues to be recorded in the Company's financial statements to the extent of its residual involvement in the same activity. In this case, the Company also recognises an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that remain that pertain to the Company.

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 fee received that the entity may have to repay.

Value adjustments in financial assets

The Company 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 in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of 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.

With regard to credit exposures that have not had a significant increase in credit risk from their initial recognition, credit losses must be recognised that derive from the estimate of default events that are possible within the following 12 months (12-month ECL). For the credit exposures which have had a significant increase in credit risk since their initial recognition, the expected losses that relate to the residual duration of the exposure must be recognised in full, regardless of when the default event is expected to occur ("Lifetime ECL").

e) Financial liabilities

Initial recognition and evaluation

Financial liabilities are classified, at the time of initial recognition, among 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, to the transaction costs directly attributable to them.

The Company's financial liabilities include trade payables and other payables, mortgages and loans. 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 Company. After initial recognition, the loans are valued with the amortised cost criterion 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 profit/(loss) statement.

Cancellation

A financial liability is canceled 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 the record of any differences between the carrying amounts entered in the semi-annual profit/(loss) statement.

Offset 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, or realise the assets and simultaneously extinguish the liability.

Implicit derivatives

The implicit derivatives incorporated in financial assets are not subject to accounting separation; in these cases, the entire hybrid instrument is classified according to the general criteria for classifying financial assets (see section "Financial assets"). Otherwise, the implicit derivatives incorporated into financial liabilities and/or non-financial assets, are separated if: (i) the economic characteristics and risks of the implicit derivative are not strictly linked to the economic characteristics and risks of the main contract; (ii) the implicit instrument subject to separation meets the definition of derivative; (iii) the hybrid instrument as a whole is not measured at fair value with impacts on the income statement (FVTPL). The verification of the existence of implicit derivatives to be separated and valued separately is carried out at the moment in which the company becomes part of the contract and, subsequently, in the presence of changes in the conditions of the contract which determine significant changes in the cash flows generated by the same.



f) 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 Company's liquidity management.

g) Convertible Bonds

Convertible bonds are divided on the basis of the contract terms into liabilities and equity components. At the time of issue, the convertible bonds are classified under current or non-current payables on the basis of the related timing, and are accounted for using the amortised cost method (net of transaction costs) until extinguished by conversion or redemption. The residual part of the proceeds from the issue is attributed to the conversion option, recognised in net equity less the transaction costs. Transaction costs are deducted from equity, net of related income taxes. The carrying amount of the conversion option does not change in subsequent years. Transaction costs associated with the issue of a compound financial instrument are charged to the liability and equity components of the instrument in proportion to the value of each component recognised at the time of the first entry.

h) Pension funds and other post-employment benefits

The Company has activated a defined benefit pension plan. The cost of the benefits provided under the defined benefit plan is not determined by applying the actuarial method since the effect of its application would be insignificant.

The Company has no other defined benefit pension plans.

i) Provisions for risks and charges

The Provisions for risks and charges are made when the Company 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 Company 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 presented in the profit/(loss) statement for the year net of the amount recognised for the offset. If the effect on 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 liability is discounted, the increase in the provision due to the passage of time is recognised as a financial charge.

l) Contractual liabilities

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



m) Revenues

Revenues relating to the disposal of the intellectual property (IP) rights are shown if both of the following conditions are met: (i) the company has delivered the product to the customer who has significant independent functionality and (ii) the customer, who has received the product, is able to use it and benefit from the right to use it.

Revenues from royalties based on the use and sales of an IP license are recognised if both of the following conditions are met: (i) the sale or use has occurred and (ii) the performance obligations, on the basis which of some or all of the royalties that depend on the use and sales of an IP license have been allocated, have been met.

Revenues relating to Advertising and Celebrity Management are recognised when the service is rendered.

In reference to the Celebrity Management activity, the company acts as Principal in that (i) the company is responsible for the fulfilment of the service to be rendered, and (ii) the company is able to set the price of the service.

n) Public grants - Tax Credits:

Public grants - tax credits are recognised when there is reasonable certainty that they will be received and that all the conditions relating to them have been met. Contributions related to the cost components are recognised as revenues, and are systematically distributed between the years in order to be commensurate with the recognition of the costs they intend to offset. The contribution related to an asset is recognised as revenue in shares equal to those applied for the amortisation of the related intangible asset, in accordance with the provisions of IAS 20 "Accounting for public contributions and information on public assistance".

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

With specific reference to the film sector, the company currently benefits from a type of public grants, or incentives, consisting of a tax advantage and deriving from the tax credits granted to film production companies in relation to the creation of cinematographic works referred to in Law 244/2007, as regulated by the "Tax Credit" Producers Decree, containing the application methods. Specifically, the aforementioned legislation intends to incentivise Italian film production by recognising a tax credit corresponding to a certain percentage of the total cost of the film work.

o) Current taxes

Current tax assets and liabilities for the year are valued for the amount expected to be recovered or paid to the tax authorities. The rates and tax legislation used to calculate the amount are those issued, or substantially in force, at the date of the balance sheet in the country where the Company operates and generates its taxable income.

Current taxes relating to items recognised directly in equity are also entered in equity and not in the profit/(loss) statement for the year. The Management periodically evaluates the position taken in the tax return in cases where the tax rules are subject to interpretation and, where appropriate, provides for allocations.

p) Deferred taxes

Deferred taxes are calculated by applying the so-called "liability method" to the temporary differences at the balance sheet date between the tax values of the assets and liabilities and the corresponding balance sheet 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 probable that sufficient future taxable income will be available that could allow using the temporary deductible differences and tax credits and losses carried forward, except in the case in which 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 itself, does not affect the financial statement result or the fiscal result. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future to allow using this credit in whole or in part. Deferred tax assets not recognised are reviewed at each balance sheet date and are recorded to the extent that it becomes probable that the taxable income will be sufficient to allow recovery of these deferred tax assets.

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

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

q) Conversion for foreign currency items

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

r) Transactions and balances in foreign currency

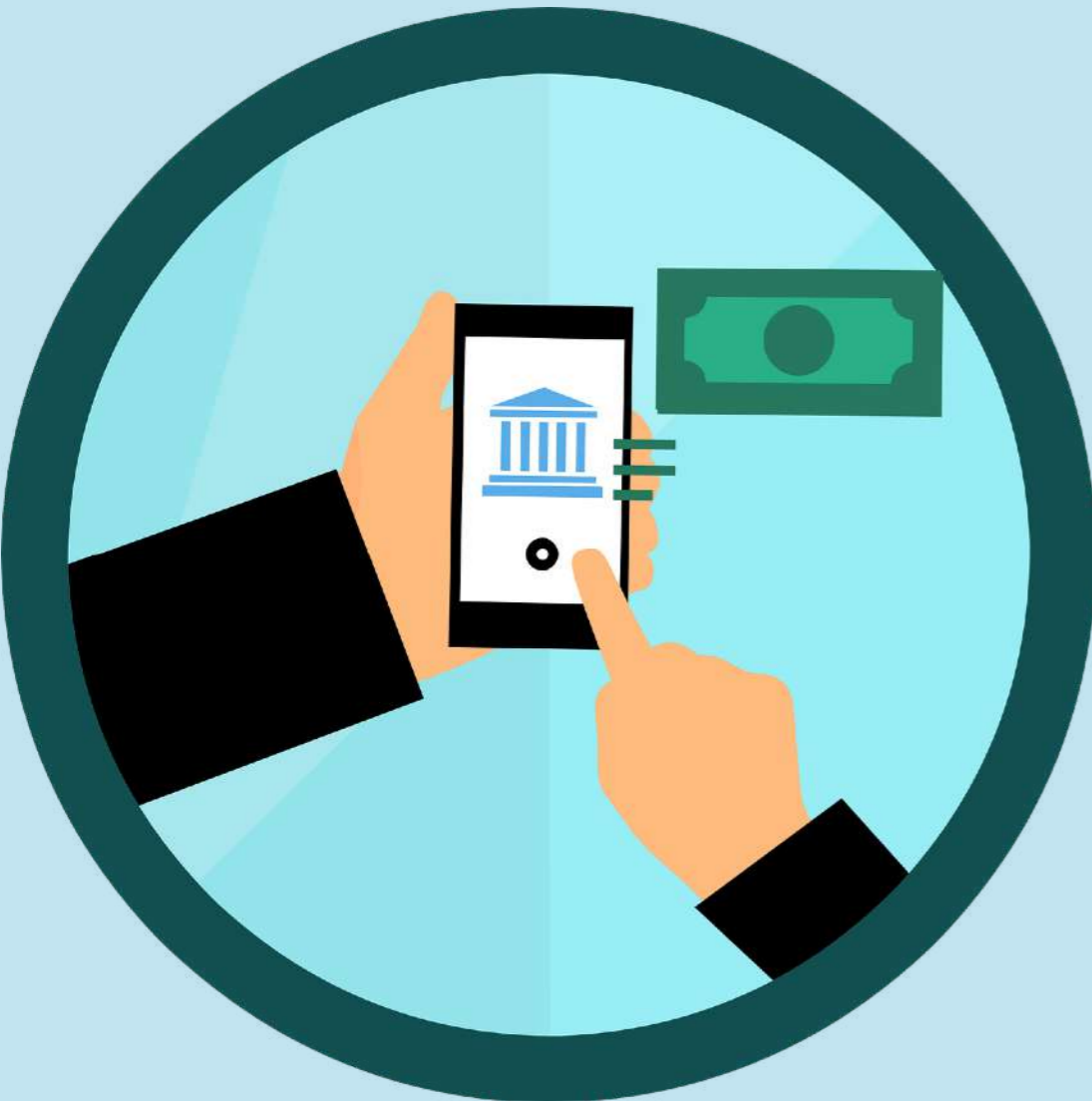
Foreign currency transactions are initially recognised in the functional currency, applying the spot exchange rate for the transaction date.

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

The exchange differences realised or those deriving from the conversion 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 comprehensive income statement 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 determined 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 of initial recording of the transaction. Non-monetary items recognised at fair value in foreign currency are converted at the exchange rate on the date of determining this value. The profit or loss that emerges from the conversion of non-monetary items is treated consistently with the recognition of the profits and losses relating to the change in the fair value of the aforementioned items (i.e., the conversion differences on the items whose change in fair value 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 Company initially recognises the non-monetary asset or non-monetary liability resulting from the advance payment. If there are multiple payments or advances, the Company determines the transaction date for each payment or advance.

s) Recognition of costs

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

2.3. Discretionary assessments and significant accounting estimates

The preparation of the Company'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:

Amortisation of Intangible Assets

The most significant assessment used in the preparation of the profit/(loss) statement relates to the application criterion for determining future revenues used in applying the "film forecast computation method" (see paragraph a) Intangible assets), which it affects the determination of the amortisation of intangible assets. The application of the "film forecast computation method", on the basis of which the amortisation at the balance sheet date is determined based on the time horizon referring to the relationship between the revenues realised and the total revenues to be received throughout the life cycle of the film, requires the application of an estimation criterion to determine the future revenues in which the intangible asset will generate revenues.

Recovery of Deferred tax assets

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

Application of IFRS 15

At the beginning of each contract signed with customers, management assesses the appropriate method for measuring the fulfillment of the obligation to perform contained in the same contract. For most of the existing contracts, the obligation is outlined in detail in accordance with paragraph 38 of IFRS 15. The management, in its opinion, believes this is identifiable at the moment when confirmation is obtained about the good technical correspondence of the production delivered.

Recognition of the cinema Tax Credit

With regard to recognising the "Cinema" tax credit, the management believes that this is considered reasonably certain when the related recognition procedure has been respected. The related revenue accounting is correlated to the production being delivered and the rights realised.

Lease term IFRS 16

The lease term of the existing contracts is considered by the management as always less than 12 months and therefore included in the exemptions provided by Standard IFRS 16. As far as the company headquarters are concerned, though in the presence of a 12-month contract, the management has considered that the supplier retains the power to allocate the spaces to the company and therefore - by virtue of this condition - it is considered to be outside the scope of IFRS 16.

2.4 Standards that entered into force in 2019

The standards and interpretations that entered into force in 2019 are illustrated below

IFRS 16 – Leases

Standard IFRS 16 was issued in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 establishes the principles for the recognition, measurement, presentation and regulation of leasing contracts and requires tenants to account for all leasing contracts by following a single accounting model in the financial statements similar to the accounting for financial leases that were regulated by IAS 17.

The standard includes two exceptions from recognition for the tenants - leasing of "low value" assets (e.g., personal computers) and short-term leasing contracts (i.e., leasing contracts with a rental period of less than or equal to 12 months). On the start date of a lease, the tenant will record a liability relating to the rent (i.e., the lease liability) and an asset that represents the right to use the underlying asset during the lease term (i.e., the right of use). Tenants will be required to separately record interest expenses in the leasing liability and depreciation on the usage right.

Tenants will also be required to reconsider the amount of the leasing liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future rents resulting from a change in an index or rate used to determine these payments). The tenant will generally recognise the difference from remeasuring the amount of the leasing liability as an adjustment in the right of use. The accounting method for the lessor in compliance with IFRS 16 remains substantially unchanged with respect to the current accounting policy according to IAS 17. The lessors will continue to classify all leases using the same classification principle as in IAS 17 and will distinguish two types of leases: operating and financial leasing.

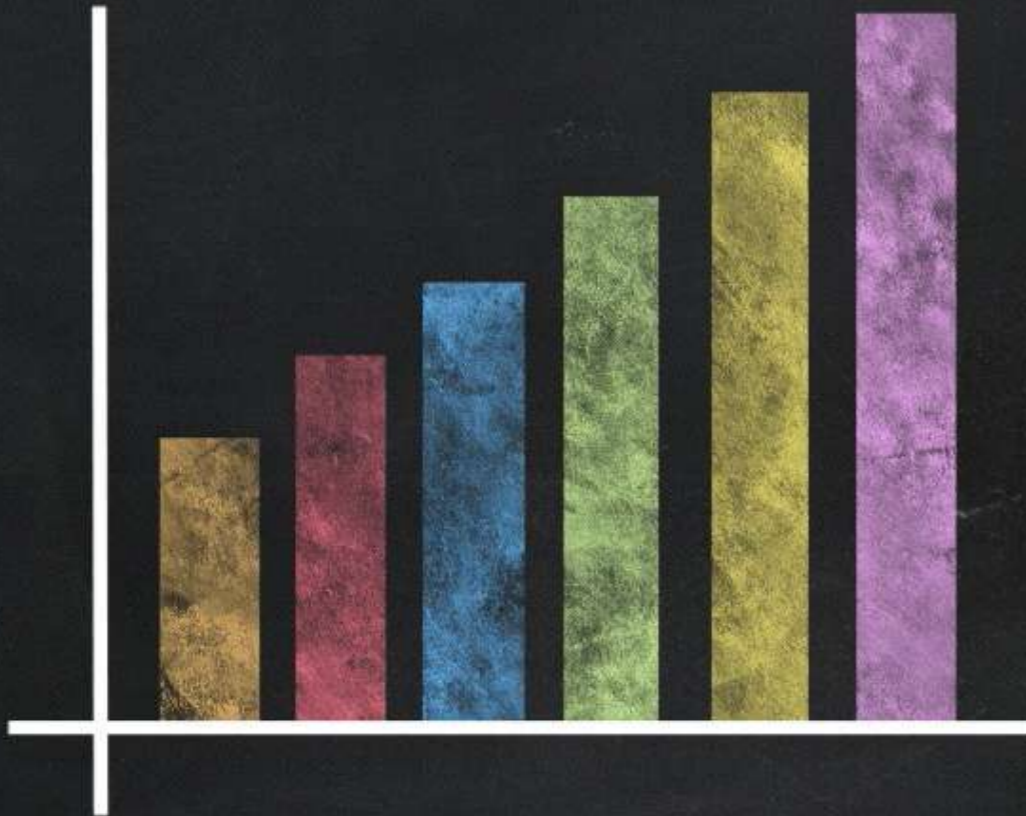
IFRS 16, which is effective for the financial years beginning on 1 January 2019, requires that tenants and lessors provide the fullest disclosure with respect to IAS 17.

Transition to IFRS 16

On 1st January 2019, the date of first application, the company used the exemptions provided by IFRS 16, excluding short-term leasing contracts and leasing contracts for goods with a modest unit value from the scope of application of the standard. Therefore, there are no accounting effects deriving from the application of the principle on the financial statements as at 31 December 2019.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that affect the application of IAS 12 and does not apply to taxes or fees that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interests or penalties attributable to uncertain tax treatments.





Annual improvements 2015-2017 Cycle

IFRS 3 Business Combination

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination that has occurred in several stages, including the re-measurement of the equity investment at the fair value previously held in the assets and liabilities of the joint operation. In doing so, the buyer re-evaluates the interest previously held in the joint operation.

The entity applies these changes to business combinations for which the acquisition date coincides or is later than the first financial year starting from 1 January 2019, with allowed early application.

This change did not have any impact on the Company's financial statements as no business combination occurred in which joint control was obtained.

FRS 11 Joint Arrangements

An entity that participates in a joint operation, without having joint control might obtain joint control of the joint operation in the event that its activity constitutes a business as defined in IFRS 3.

The amendments clarify that the shares previously held in this joint operation are not re-measured. An entity applies these changes to transactions where it holds joint control from the beginning of the financial year starting from 1 January 2019 or later, with allowed early application.

This change did not have any impact on the Company's financial statements as no business combination occurred in which joint control was obtained.

IAS 12 Income Taxes

The amendments clarify that the effects of dividend taxes are related to past transactions or events that have generated distributable profits rather than distributions to shareholders. Therefore, an entity recognises the effects of income taxes deriving from dividends in the semi-annual profit/(loss) statement, in the other components of the comprehensive income statement or in the equity in line with the way the entity previously recorded these past operations or events.

The entity applies these changes for periods beginning 1st January. When an entity applies these changes for the first time, it applies them to the effects of taxation on dividends recognised from the beginning of the first year.

This change had no impact on the Company's financial statements as no dividends were distributed.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as non-specific loans any loan made that from the outset was intended to develop an activity, in the event that all the actions necessary to prepare this activity for use or sale are completed. An entity applies these changes to the financial charges incurred from the beginning of the period when the entity applies those changes for the first time. An entity applies these changes for periods beginning on or after 1 January 2019, and early application is permitted. This change had no impact on the Company's financial statements

2.5 Management of financial risks

Liquidity risk

The Company monitors the risk of liquidity shortage by using a liquidity planning tool.

Although the company is in the development phase, and is investing in the acquisition of new Intellectual Property, there are no difficulties in obtaining the funds necessary to meet the commitments undertaken.

The Company's exposure to the banking system amounts to €8.2 million at 31 December 2019; in the first days of 2020 the company paid off the loan disbursed in 2018 by Mediocredito Italiano for the amount of €6.2 million. The company also uses the instrument of offset between customers and suppliers which, although shown "gross" within the statement, do not generate operating cash flows.

Foreign exchange risks

The Company pays part of its costs in United States Dollars and receives part of its revenues in United States Dollars. The Company is therefore exposed to the risk of devaluation of the Euro against the United States Dollar, for which, however, it did not consider it appropriate to prepare hedging instruments, since this risk 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 the relative compensation, it is noted that the 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 €76,000 in 2018 (net exchange loss), and €92,000 in 2019 (net exchange loss).

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

Interest rate risk

The Company is exposed to the marginal risks associated with the volatility of interest rates linked to loans. In fact, the percentage of fixed rate loans at 31 December 2019 is equal to 84% of the total loans (100% in 2018).

These loans are all indexed to the 3m Euribor, whose performance is the least distorted.

Market risk, credit risk and price risk

Risks related to the competitiveness and cyclical nature of the sector

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

The Company is constantly looking for new formats and content to be created independently or through service contracts and always remaining owners of the reference Intellectual Property. 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 requests of the general public which can then generate additional business volume also in the merchandising channel.

Credit risk

The Company's commercial activities are believed to have good credit quality. The risk that a counterparty will not fulfill the obligations outstanding at 31 December 2019 is limited, even though significant credit concentrations exist. These concentrations concern that part of the clientele with which the company carries out recurring transactions.

The Company maintains a high level of attention, through monthly checks, on the exposures to its customers to identify the most critical positions. Where necessary, the provision for bad debts is supplemented through a specific assessment of the individual positions to align trade receivables with their presumed realisation value.

It should be noted that 95% of the trade receivables at 31 December 2019 were collected in the early months of 2020.

Financial instruments by categories

As required by the international accounting standard IFRS 7 paragraph 8, financial instruments are identified by category of membership in the company's assets and liabilities with respect to the classification presented in the statement of equity-financial position.



2019

	Loans and receivables	AF held to maturity	PF at amortised cost	AF/PF designated at initial recording	AF/PF for negotiation	AF available for sale/other PF	Total AF/PF covered in IFRS	A/P not covered in 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
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

2018

	Amortised cost			Fair Value			Total		Total
	Loans and receivables	AF held to maturity	PF at amortised cost	AF/PF designated at initial recording	AF/PF for negotiation	AF available for sale/other PF	Total AF/PF covered in IFRS	A/P not covered in IFRS	
	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000
Intangible Assets	-	-	-	-	-	-	-	20,628	20,628
Tangible Assets	-	-	-	-	-	-	-	5	5
Deferred tax assets	-	-	-	-	-	-	-	1,624	1,624
Other non-current assets	-	-	-	-	-	-	-	13	13
Trade receivables	14,735	-	-	-	-	-	-	-	14,735
Tax receivables	-	-	-	-	-	-	-	9,384	9,384
Other current assets	-	-	-	-	-	-	-	6,981	6,981
Cash and cash equivalents	151	-	-	-	-	-	-	-	151
Total	14,886	-	-	-	-	-	-	38,635	53,522
Net Equity	-	-	-	-	-	-	-	10,923	10,923
Non-current liabilities	-	-	-	-	-	-	-	-	-
Employee Benefits	-	-	-	-	-	-	-	19	19
Non-current financial liabilities	-	-	6,004	-	-	-	-	-	6,004
Trade payables	-	-	24,302	-	-	-	-	-	24,302
Tax payables	-	-	-	-	-	-	-	2,694	2,694
Other current liabilities	-	-	-	-	-	-	-	9,580	9,580
Total	-	-	30,306	-	-	-	-	23,216	53,522



The comparison between the book value in the financial statements and the fair value, by category of all the financial instruments entered in the financial statements, is as follows:

	2019		2018	
	€/000	€/000	€/000	€/000
Financial assets	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Trade receivables	20,200	20,200	14,735	14,735
Cash and cash equivalents	7,952	7,952	151	151
Total	28,152	28,152	14,886	14,886
Financial liabilities				
Non-current financial liabilities	1,048	1,048	6,004	6,004
Current financial liabilities	7,453	7,453	-	-
Trade payables	26,432	26,432	24,302	24,302
Total	34,933	34,933	30,306	30,306

At 31 December 2019, the Company does not hold assets measured at fair value.

3 Operating sectors: Information

For the purposes of IFRS 8 - Operating sectors, the activity carried out by the company can be identified in three operating segments:

- Film Productions;
- Advertising;
- Celebrity Management.

The film production segment constitutes the core business of the company which is a global production company specialising in the production of Hollywood-style film and television content for the international market; for these characteristics, the customers of this operating segment are international sales agents or distributors located outside Italy.

The Advertising segment is connected with the advertising agency business that the company carries out for the TATATU platform. At 31 December 2019 the customer is the only one and located on the Italian territory.

The Celebrity Management segment relates to developing an internal celebrity management agency. At 31 December 2019 the customer is the only one and located on the Italian territory.

The advertising and celebrity management segments are residual with respect to film productions. In 2019, the weight of the revenues of the Advertising and Celebrity Management segments compared to the total revenues is equal to 2% for Celebrity Management and 1% for Advertising. For this reason, the significant items of costs and revenues are not reported.

The directors monitor the results achieved by the business units separately for the purpose of making decisions about resource allocation and performance verification. Segment performance is evaluated on the basis of the result. In addition, the Company's financial management and income taxes are managed at the Company level and are not allocated to operating segments.

Note 4. Intangible assets

The composition of the Intangible Assets item as at 31 December 2019, compared with the same values as at 31 December 2018, is shown below:



€/000	31-dic-19	31-dic-18	Changes
Finished productions	31,460	12,727	18,732
Productions in progress	4,942	5,724	(783)
Other rights	12,817	2,177	10,640
Total intangible assets	49,219	20,628	28,590

The item Completed Productions includes the capitalisation of the completed works produced; these works refer (i) to the film Poison Rose delivered in 2018 (€1,447,000); (ii) 50 episodes of the Arctic Justice web series (15 episodes were delivered in 2018 and 35 in 2019) (€16,134,000); (iii) Waiting for the Barbarians, film delivered in 2019 (€3,661,000); (iv) 20 episodes of the Puffins web series delivered in 2019 (€9,310); (v) the part of the film Together Now delivered in 2019 (€908,000).

The item Production in progress includes capitalisation of the part relating to the film Together Now, not completed as at the closing date of the year.

The item other rights includes capitalisation of the costs incurred for the acquisition of the distribution rights for the films in Italy and the rights relating to Intellectual Properties. The increase in the item compared to the previous period is mainly connected with the acquisition of 7 Intellectual Properties for the production of short content.

During the period, no indications emerged of a possible loss in value with reference to Intangible assets.

The movements of intangible assets are shown below:

	At 1 January 2018	Increases	Reclassifications	Amortisation	At 31 December 2019
	€/000	€/000	€/000	€/000	€/000
Finished productions	12,726	65,347	5,682	(52,295)	31,460
Productions in progress	5,725	4,942	(5,725)	-	4,942
Other rights	2,177	10,636	43	(39)	12,817
Total intangible assets	20,628	80,925	-	(52,334)	49,219

Note 5. Tangible assets

Tangible assets amount to €6,000 (€5,000 at 31 December 2018). During the year there were no acquisitions or significant disposals.

Note 6. Deferred tax assets

Deferred tax assets, amounting to €3,778,000 consist of taxes calculated on the temporary deductible differences deriving from a misalignment between the book values recorded in the financial statements and the

corresponding values recognised for tax purposes. The composition of the deferred tax assets at 31 December 2019, compared to the same at 31 December 2018, is shown below:

€/000	31-dic-19	31-dic-18	Changes
Amortisation of Intangible Fixed Assets	3,261	1,172	2,089
Write-down of intangible fixed assets	413	413	-
Other temporary differences	104	39	65
Deferred tax assets	3,778	1,624	2,154

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 2019-2021 business plan.

Note 7. Other non-current assets

The other non-current assets amount to €170,000.

During the year, the Company signed a contract for the acquisition of 100% of Arte Video S.r.l., a company active in the production of video, cinematographic, animation and multimedia productions and post-production.

At 31 December 2019, the first stage of the investment contract was concluded, which provided for the acquisition of a nominal share of €5,100, representing 51% of the share capital of Arte Video S.r.l., with cash fee equalling €153,000.

Note 8. Trade receivables

Trade receivables amount to €20,200,000. The detail is shown below:

€/000	31-dic-19	31-dic-18	Changes
Gross trade receivables	20,311	14,735	5,576
Allowance for doubtful debts	(111)	-	(111)
Total Trade receivables	20,200	14,735	5,465

Receivables from customers are generated by normal commercial activity and are regularly collected at the deadlines agreed in the sales contracts.

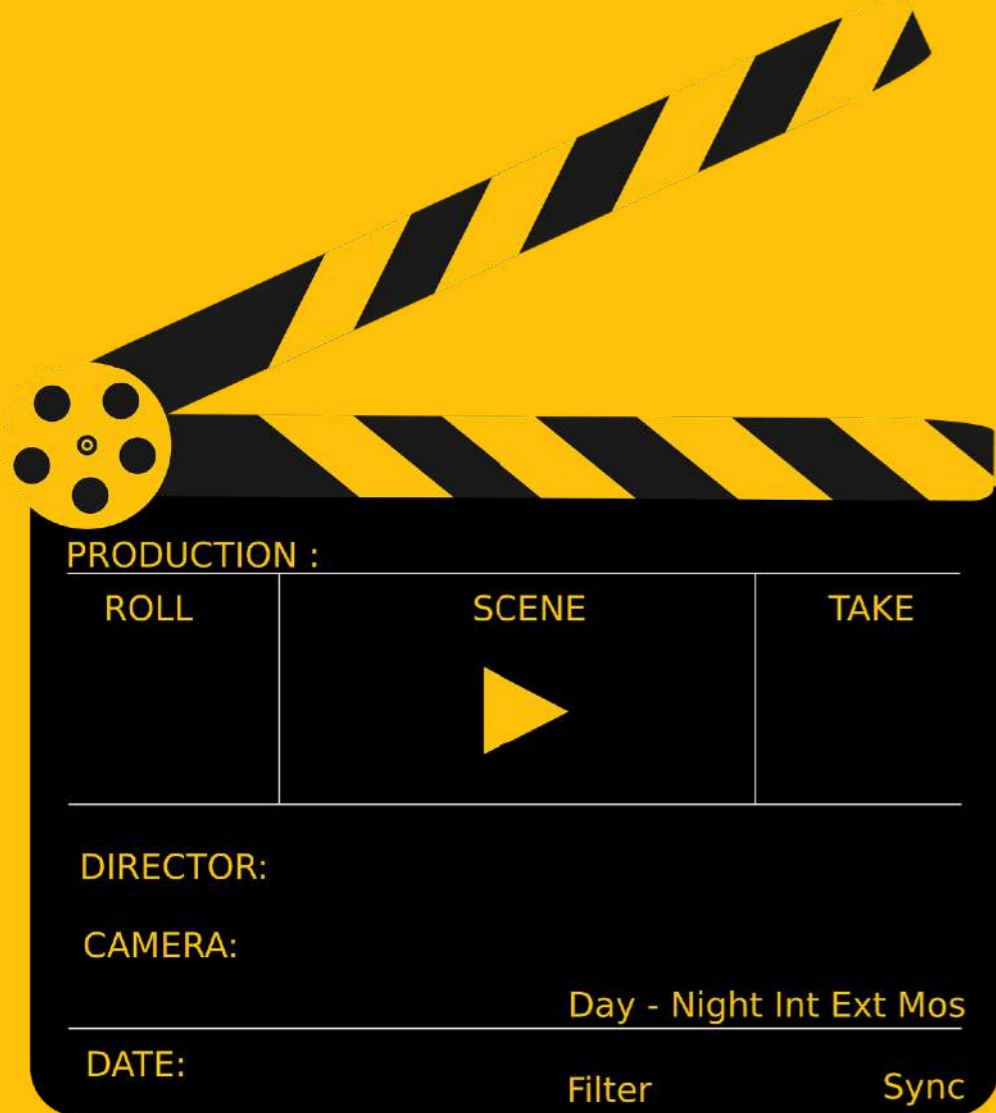
The following table shows the geographical composition of Trade receivables:

€/000	31-dic-19	31-dic-18	Changes
Receivables from domestic customers	172	249	(77)
Receivables from EU customers	-	-	-
Receivables from non-EU customers	20,028	14,486	5,542
Total Trade receivables	20,200	14,735	5,465

The company carries out a specific assessment of the risk of doubtful debt for each customer. At 31 December 2019, doubtful debts amounting to €111,000 emerged from this analysis.

€/000	31-dic-19	31-dic-18	Changes
Gross trade receivables	20,311	14,735	5,576
Allowance for doubtful debts	(111)	-	(111)
Total Trade receivables	20,200	14,735	5,465





Note n.9 Tax credits

The following table presents the composition of the tax credits at 31 December 2019 and 31 December 2018:

€/000	31-dic-19	31-dic-18	Changes
VAT credit	1,586	518	1,068
Tax credit for cinema production	13,059	3,622	9,437
R&D tax credit	6,463	5,244	1,219
Tax Credit	500	-	500
Total tax receivables	21,608	9,384	12,224

The tax credit for cinema production 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. The R&D tax credit item is connected with the research and development activity which, starting in 2018, was substantiated in 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 FB etc., but which at the same time require high quality products.

After having conceived and developed the production process called Pipeline 0.1 during 2018, by performing experimental analyses to define the various process phases and determine the most suitable process parameters to achieve the project objectives, Pipeline 0.2 was developed in 2019.

Note 10. Other current assets

The detail of the item Other current assets is summarised in the following table:

€/000	31-dic-19	31-dic-18	Changes
Advances to suppliers	128	6,880	(6,752)
Other receivables	19	19	-
Prepaid expenses	4	82	(78)
Other current assets	151	6,981	(6,830)

Advances to suppliers refer to payments made to suppliers for which no invoice had been received. The reduction in advances to suppliers is related to the closure of invoices received with the related payments made in 2018.

Note 11. Cash and cashe quivalents

Below is the composition of the item:

€/000	31-dic-19	31-dic-18	Changes
Cash and bank deposits on sight	7,952	151	7,801
Cash and cash equivalents	7,952	151	7,801



Note 12. Net Equity

Below is the composition of the item:

€/000	31-dic-19	31-dic-18	Changes
Share capital	1,335	1,120	215
Legal reserve	497	7	490
Share Premium Reserve	16,263	-	16,263
Other Reserves	-	1,771	(1,771)
Retained earnings/(losses) carried forward	9,306	(2,178)	11,484
Profit/(Loss) for the year	20,249	10,203	10,046
Total Net Equity	47,650	10,923	36,727

Share Capital

At 31 December 2019 the share capital amounted to €11,334.801, fully paid, and consisting of 33,370,029 shares. The increase in share capital over the previous period is connected with: (i) the listing operation of shares on the AIM Italia multilateral trading system organised and managed by Borsa Italiana S.P.A. ("AIM Italia") which was concluded at the start of trading on 5 August 2019 (€200,000), (ii) with the conversion of the bonds deriving from the convertible bond loan "Iervolino Entertainment S.P.A. Convertible Bond 5% 2019" (€15,000).

IPO

During the 2019 financial year, IE started the process of listing the company's shares on the multilateral trading system AIM Italia organised and managed by Borsa Italiana S.P.A. ("AIM Italia") which ended positively with the start of trading on 5 August. 2019.

The placement price of the new shares issued was €1.95 for each new share resulting from the capital increase to service the placement.

After the placement, at the end of the relevant period, Global Coordinator Intermonte SIM S.P.A. exercised the Greenshoe option - granted by shareholders MB Media and IA Media - for the purchase of 332,000 ordinary shares placed with qualified Italian and foreign institutional investors at the same price as the institutional placement (€1.95 per share).

During the placement phase, Iervolino Entertainment raised €10.7 million, considering the full exercise of the Greenshoe option. The free float at the time of admission was 15.7%.

Following the partial exercise of the Greenshoe option, the institutional placement concerned 5,332,000 shares of Iervolino Entertainment and the total amount of deposits came to around €10.4 million.

Convertible bond loan "Iervolino Entertainment S.P.A. Convertible Bond 5% 2019"

On 7 June 2019, the Company issued a convertible bond loan called "Iervolino Entertainment S.P.A. Convertible Bond 5% 2019" for a total nominal amount of €5,000,000, subject to the resolution of the Company's extraordinary shareholders' meeting held on 31 May 2019, and divided into 5,000 bonds with a nominal value of €1,000 each, in non-divisible denomination. The issue price was 98% (€0.98) of the nominal value of each bond. The bond loan with a duration up to 31 December 2019 can be converted into Iervolino Entertainment shares at the unit price equal to the placement price in the IPO of 1.95 euros per compendium share.

The bond loan was issued for a total amount of €1,215,000. During the IPO it was converted for €715,000. The remaining €500,000 were repaid on 31 December 2019.



Legal reserve

At 31 December 2019 the legal reserve amounted to €497,000.

Share premium account

At 31 December 2019 the share premium reserve consists of:

- Listing operation of the shares on the AIM Italia multilateral trading system organised and managed by Borsa Italiana S.P.A. ("AIM Italia") which was conclude with the start of trading on 5 August 2019 (€8,240,000);
- conversion of the bonds deriving from the "Iervolino Entertainment S.P.A. Convertible Bond 5% 2019" convertible bond loan (€707,000);
- issue of the automatically convertible bond loan "Iervolino Entertainment S.P.A. Converting 3% 2019" (€7,315,000).

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

In December 2019 the Company issued the bond "Iervolino Entertainment S.P.A. Converting 3% 2019 - 2020" for a total amount of €7,700,000, after the Shareholders' Meeting, held in an extraordinary session, approved the issue. The Shareholders' Meeting also approved the paid share capital increase, separable, except for the exclusion of the option right, in service of the Converting. The Converting has a duration of 12 months from the date of issue, or until December 23, 2020 and pays a fixed interest rate of 3% per annum with deferred semi-annual payment. The bonds will be automatically converted at maturity into ordinary IE shares at the conversion price of €4.8433, corresponding to the arithmetic average of the official ordinary IE share prices in the period 4 - 18 December 2019. The bonds may be listed in an MTF, with deadlines to be defined.

The part related to the Company's obligation to remunerate at an interest rate of 3% was recorded as a current financial liability in line with IAS 32.

Other reserves

Below is a detail of the item Other reserves as at 31 December 2019 and 2018:

€/000	31-dic-19	31-dic-18	Changes
Special reserve	-	28	(28)
Capital contributions	-	1,743	(1,743)
Other reserves	-	1,771	(1,771)

The other reserves were used to cover the net balance between losses and profits of previous years.

Note 13. Employee Benefits

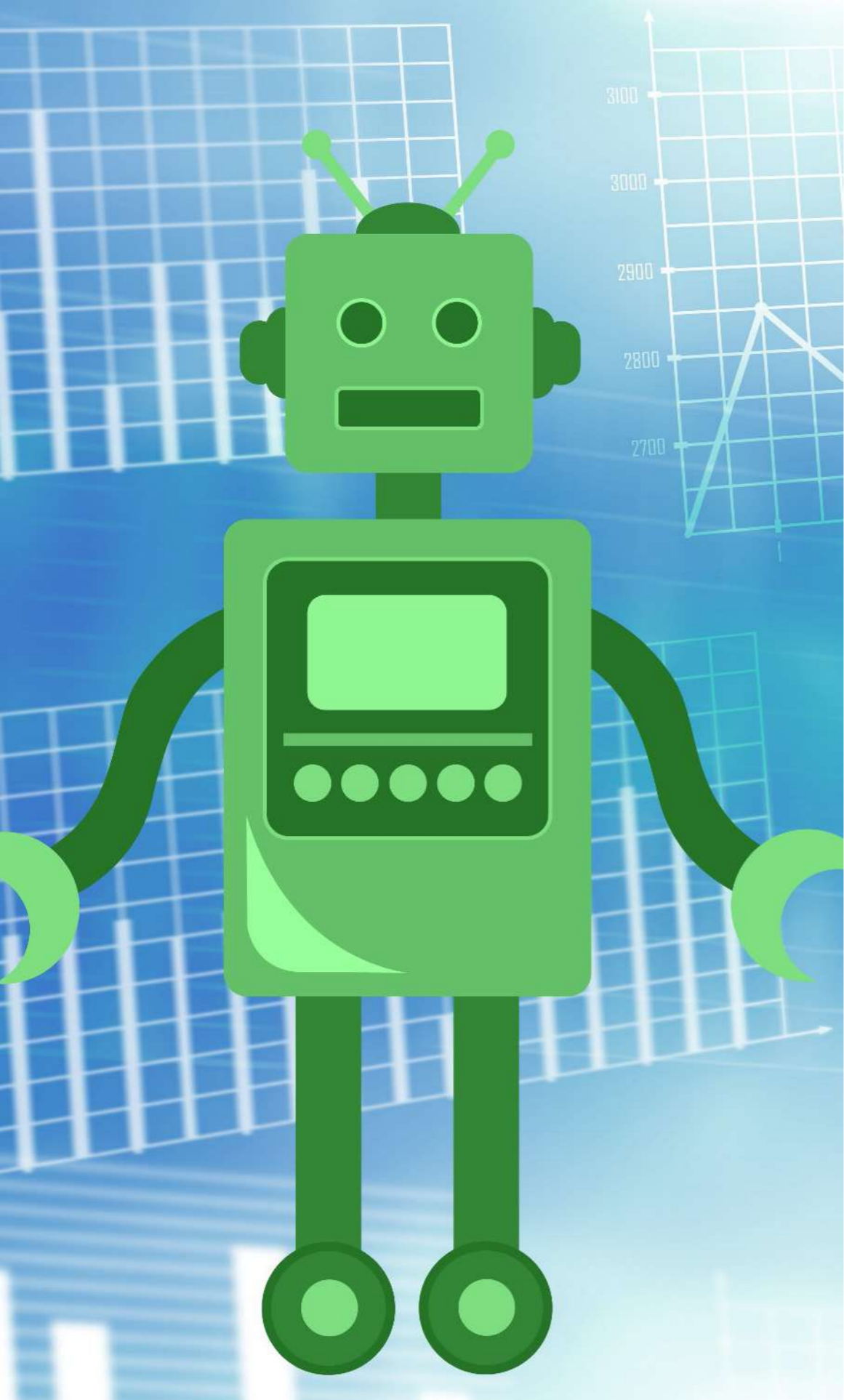
The Employee benefits item amounts to €36,000 and refers to the severance indemnity.

Note 14. Provisions for risks and charges

The item Provisions for risks and charges amounts to €300,000 and refers to an implicit current obligation resulting from a past event.

Note 15. Non-current financial liabilities

Below is a detail of the item Non-current financial liabilities as at 31 December 2019 and 2018:



€/000	31-dic-19	31-dic-18	Changes
Loans	1,048	6,004	(4,956)
Non-current financial liabilities	1,048	6,004	(4,956)

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

€/000							
Issuing institution	Type of loan:	Interest rate	Amount disbursed	Initiation year	Expiry year	Within 1 year	Between 1 and 5 years
Banca Progetto	Loan	Euribor 1M + 5% spread	500	2019	2024	92	371
Banca Progetto	Loan	Euribor 1M + 5% spread	500	2019	2024	91	379
Banca Progetto	Loan	Euribor 1M + 5% spread	500	2019	2023	116	384

The decrease in the item from 31 December 2018 is connected to the reclassification of the loan disbursed in 2018 from Mediocredito Italiano into current financial liabilities for the amount of €6 million. There are no covenants or negative pledges on this loan.

Note 16. Current financial liabilities

Current financial liabilities as at 31 December 2019 amount to €7,146,000 and are made up as follows:

€/000	31-dic-19	31-dic-18	Changes
Financing	6,193	-	6,193
Short-term portion of non-current financial payables	307	-	307
Financial Debt Interest Bonds	231	-	231
Current account discovered	722	-	722
Current financial liabilities	7,453	-	7,453

The details of the bank loan are shown below.

€/000							
Issuing institution	Type of loan:	Interest rate	Amount disbursed	Initiation year	Expiry year	Within 1 year	Between 1 and 5 years
Mediocredito Italiano Spa	Loan	2.80 (until 24/01/2019) - Euribor 3M + spread 3.1	6,000	2018	2020	6,000	-

The bank loan with Mediocredito Italiano for the amount of €6 million was extinguished on 2 January 2020. The financial interest payables for the Bond refer to the convertible bond loan issued on 23 December 2019: the part relating to the obligation to remunerate at an interest rate of 3% was recorded as a current financial liability in line with IAS 32.

Note 17. Trade payables

Trade payables amount to €26,432,000, as indicated in the following table:

€/000	31-dic-19	31-dic-18	Changes
Trade Payables	26,300	18,580	7,720
Payables to related parties (Note 32.1)	132	5,722	(5,590)
Total Trade payables	26,432	24,302	2,130

The total of trade payables represents the Company's debt to suppliers for purchasing services. The item consists of €23,917,000 in invoices to be received.

The following table shows the geographical composition of Trade payables:

€/000	31-dic-19	31-dic-18	Changes
Payables to domestic Suppliers	1,868	6,912	(5,044)
Payables to EU Suppliers	219	466	(247)
Payables to non-EU suppliers	24,345	16,924	7,421
Total Trade payables	26,432	24,302	2,130

Note 18. Tax liabilities

The item Tax liabilities includes payables relating to IRES, IRAP and other current taxes. Details are shown below:

€/000	31-dic-19	31-dic-18	Changes
Current tax payables	2,052	2,370	(318)
Other tax payables	194	323	(129)
Total tax liabilities	2,246	2,693	(447)

Among the tax payables at 31 December 2019, the most significant item is for €2,476,000 relating to direct taxes, more precisely: €2,200,000 for IRES (€4,272,000 net of advances paid in 2019 equal to €2,071,000) and €276,000 for IRAP (€508,000 net of advances paid in 2019 equalling €232,000).

Note 19. Contractual liabilities

At 31 December 2019 contractual liabilities were recorded at an amount of €10,558,000; the details compared to the amounts as at 31 December 2018 are shown below

€/000	31-dic-19	31-dic-18	Changes
Contractual liabilities	10,558	7,011	3,547
Total Contractual Liabilities	10,558	7,011	3,547

Contractual liabilities derive from the advance payment of revenues pertaining to 2020.

Note 20. Other current liabilities

At 31 December 2019, other current liabilities were recorded for an amount of €17,917,000; below are the details compared to the amounts at 31 December 2018:



€/000	31-dic-19	31-dic-18	Changes
Payables to employees	86	14	72
Payables to social welfare institutions	88	225	(137)
Deferred income	7,186	2,227	4,959
Other payables	-	103	(103)
Other current liabilities	7,360	2,569	4,791

The other current liabilities are mainly made up of Deferred income relating to the share of public grants - tax credits that on the basis of IAS 20 must be systematically distributed among the years in order to be commensurate with recognition of the costs they are intended to offset (€7.2 million).

Note 21. Revenues

Revenues amount to a total of €66,271,000 and refer to the three operating segments:

€/000	31-dic-19	31-dic-18	Change
Film production revenues	64,208	26,323	37,885
ADV Revenues	752	-	752
Celebrity Management Revenue	1,311	-	1,311
Total Revenue	66,271	26,323	39,948

Revenues from film production relate to granting Intellectual Property usage rights during the year (€64,208,000). Revenues were recorded following the delivery of the cinematographic work to the customer. Revenues are recognised at a point in time and connected to services actually contracted and provided in the period.

Estimated revenues are not recognised in the financial statements.

€/000	31-dic-19	31-dic-18	Change
Poison Rose	2,500	13,878	(11,378)
Artic Justice Web Series	30,188	12,445	17,743
Puffins Web Series	10,725	-	10,725
Together Now	3,750	-	3,750
Waiting for the barbarians	15,873	-	15,873
Giving Back	1,100	-	1,100
Other revenue	72	-	72
Total Revenues Film production	64,208	26,323	37,885

Revenues are from non-EU customers, except for other revenues (€72,000) which are from Italian customers.

The company's performance is not overall significantly influenced by seasonal phenomena connected with certain periods of the year.

At 31 December 2019 the amount for the projects in the portfolio to be produced in the coming years equals €217 million.

Estimated revenues are not recognised in the financial statements with reference to ADV and Celebrity Management Revenues. ADV and Celebrity Management revenues are all for Italian customers

Note 22. Other revenues and income

The detail of the Other Revenues and Income is as follows:



€/000	31-dic-19	31-dic-18	Change
Transfer of other rights	-	1,198	(1,198)
Other income	89	106	(17)
Total other revenues and income	89	1,304	-

Note 23. Tax Credits

The item is composed of the cinema tax credit and the R&D tax credit.

€/000	31-dic-19	31-dic-18	Changes
Tax credit for cinema production	8,953	3,066	5,887
R&D tax credit	4,695	3,933	762
Total public contributions	13,648	6,999	6,649

The tax credit for cinema production 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. The R&D tax credit item is connected with the research and development activity which, starting in 2018, was substantiated in 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 FB etc., but which at the same time require high quality products

Note 24. Purchases of raw materials, consumables and goods

The item Purchase of raw materials, supplies and goods amounts to €40,000, compared to a value of €22,000 as at 31 December 2018.

Note 25. Service costs

The item Costs for services and its comparison to the balances of the previous year are detailed in the following table:

€/000	31-dic-19	31-dic-18	Changes
ADV costs	859	-	859
Celebrity Management costs	1,248	-	1,248
Travel and transfers	212	71	141
Miscellaneous administrative expenses	310	37	273
Bank fees	28	49	(21)
Technical consultancy	325	-	325
Marketing costs	79	-	79
Insurance costs	22	-	22
IPO Costs	163	-	163
Directors' Fees	541	11	530
Rentals and leases	45	10	35
Board of Auditors' Fees	30	12	18
Other costs for services	34	34	-
Total Costs for services	3,896	224	3,672

The increase in the item compared to the previous period is mainly connected with the costs incurred for the Advertising and Celebrity Management operating segments.

Note 26. Personnel expenses

Personnel costs and their comparison with the balances of the previous year are detailed in the following table:

€/000	31-dic-19	31-dic-18	Changes
Wages and salaries	287	165	122
Social charges on wages and salaries	82	41	41
Provision for severance pay fund	25	12	13
Total personnel costs	394	218	176

Note 27. Other operating costs

The item Other operating costs and its comparison with the balances of the previous year are detailed in the following table:

€/000	31-dic-19	31-dic-18	Changes
Contingent liabilities	76	17	59
Other operating costs	208	-	208
Other operating costs	284	17	267

Note 28. Amortisation, Write-downs and provisions

The item Amortisation, write-downs and provisions and its comparison with the balances of the previous year are detailed in the following table:

€/000	31-dic-19	31-dic-18	Changes
Amortisation of intangible fixed assets	52,333	22,490	29,843
<i>Depreciation Poison Rose</i>	2,228	12,302	(10,074)
<i>Depreciation Artic Justice WS</i>	24,640	10,188	14,452
<i>Puffins WS depreciation</i>	10,534	-	10,534
<i>Depreciation Waiting for the Barbarians</i>	10,984	-	10,984
<i>Depreciation Together Now</i>	2,842	-	2,842
<i>Depreciation Giving Back</i>	1,068	-	1,068
<i>Depreciation of other rights</i>	37	-	37
Depreciation of tangible fixed assets	4	3	1
Depreciations	52,337	22,493	29,844
Write-downs and provisions	410	-	410
Total Amortisations, write-downs and provisions	52,747	22,493	30,254

Note 29. Financial income and expenses

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





€/000	31-dic-19	31-dic-18	Changes
Exchange gains	319	-	319
Other financial income	166	34	132
Total financial income	485	34	451
Interest payable on loans	279	34	245
Interest expense on bonds	44	-	44
Losses on currency exchange	411	76	335
Other financial charges	19	166	(147)
Total financial expenses	753	276	477

Note 30. Income taxes

The detail of the item Income taxes is as follows:

€/000	31-dic-19	31-dic-18	Changes
IRES	3,848	2,143	1,705
IRAP	507	227	280
Previous years' taxes	(71)	-	(71)
Deferred taxes	(2,154)	(1,164)	(990)
Total income taxes	2,130	1,206	924

The difference between the standard tax rate for IRES, of 24%, and the effective tax rate, of 17%, is mainly attributable to the combined effect produced by: (i) an increase relating to the amortisation of intangible assets for €13.5 million; (ii) decrease of €13.6,000 in revenues from public grants; (iii) decrease relating to the amortisation charge on intangible assets recovered for taxation in 2019 for €4.8 million.

Note 31. Earnings per share

Basic earnings per share is calculated by dividing the annual profit to be attributed to the Company'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 Company'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-19	31-dic-18
Weighted average number of ordinary shares for basic earnings per share purposes	10,977,594	1,120,000
Profit/(loss) for the year	20,249,129	10,203,256
Basic earnings per share (ordinary shares)	1.8	9.1
Bonds convertible into ordinary shares	1,574,642	-
Diluted earnings per share (ordinary shares)	1.6	9.1

Note 32. Other information

32.1 TRANSACTIONS WITH RELATED PARTIES

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

	Trade receivables	Other Assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film Srl *	-	-	-	-	-	502
TATATU Enterprises Ltd	642	-	-	-	2,143	375
Ambi Distribution Ltd	31	-	-	-	14,830	-
Arte Video Srl	70	-	110	-	70	110
AIC Studios Inc.	-	-	22	-	-	27
Transactions with related parties	743	-	132	-	17,043	1,014
Total balance sheet items	20,200	82,884	26,432	76,652	80,009	57,362
Weight on balance sheet items	4%	0%	0%	0%	21%	2%

The operations carried out by the 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 starting June 2019);
- TATATU purchasing the world rights for streaming of the Vod Cast Giving Back on the TATATU platform (€1,100,000) and the film and extra content of Waiting for the Barbarians (€1,043,000);
- The fee to TATATU for advertising revenue accrued and collected in the period by Iervolino Entertainment for the advertising agency business (€375,000);
- The purchase by Ambi Distribution Ltd of the world rights to the film Waiting for the Barbarians (€14,830,000);
- The performance of post production service relating to the Puffins Web Series carried out by Arte Video S.r.l.

32.2 Commitments and guarantees provided by the company

As part of its commercial and financial activities, the Company has not received or provided guarantees.

32.3 Events after the reporting period

Subsequent to the end date of the financial year, no events or transactions took place that could have reflected on the financial statements in question.

It should be noted that on 15 January 2020, the nominal share of €4,900, representing 49% of the share capital of Arte Video, was acquired through a capital increase reserved for Arte Video shareholders of 30,000 shares they subscribed, conferring the remaining 49% of the share capital of Arte Video.

Therefore, the new composition of the share capital is as follows

	Current share capital		
	Euro	No. Shares	Nom. val. Unit Price
Total			
of which:	1.336.001	33.400.029	0,040
Ordinary shares	896.001	22.400.029	0,040
Multiple voting shares	440.000	11.000.000	0,040

With reference to recent international and national events related to the spread of "coronavirus" infections, it should be noted that IE productions, being intended for the international market and mainly streaming platforms, is not disadvantaged by the negative effects on the economy of the "free time" resulting from the spread of the virus.

32.4 Transactions deriving from atypical and/or unusual operations

In the period between 31/12/2018 and 31/12/2019 no atypical and/or unusual transactions were carried out.

INDIPENDENT AUDITOR'S REPORT

(pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2020)

IERVOLINO ENTERTAINMENT S.p.A.
Financial statements as at December 31, 2019



Building a better
working world

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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 Financial Statements

Opinion

We have audited the financial statements of Iervolino Entertainment S.p.A. (the Company), which comprise the statement of financial position as at 31st December 2019, and the statement of comprehensive profit/(loss) for the year, statement of changes in shareholders' equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st December 2019, 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 Financial Statements* section of our report.

We are independent of the Company 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 Financial Statements

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

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Capitale Sociale Euro 2.525.000,00 I.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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RELAZIONE DELLA SOCIETA' DI REVISIONE INDIPENDENTE

(ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n.39)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

RELAZIONE DELLA SOCIETA' DI REVISIONE INDIPENDENTE

(ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n.39)

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 Iervolino Entertainment S.p.A. as at 31st December 2019, including its consistency with the related 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 financial statements of Iervolino Entertainment S.p.A. as at 31st December 2019 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 financial statements of Iervolino Entertainment S.p.A. as at 31st December 2019 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, 12th March 2020

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.



IERVOLINO ENTERTAINMENT

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