IERVOLINO ENTERTAINMENT S.p.A.

IERVOLINO ENTERTAINMENT

Annual Report
as of 31 December 2018

drafted with the adoption of the international accounting standards (IAS/IFRS)

IERVOLINO ENTERTAINMENT S.p.A.

Registered office: Via Barberini n. 29 - 00187 - ROME
Listed in the Register of Companies of: ROME
Tax code and VAT no.: 11636381003
Registered in the ROME R.E.A. (Economic and Administrative Index) no. RM-1318599
Subscribed share capital of €: 1,200,000.00 fully paid up

Report on Operations of Iervolino Entertainment S.p.A. as at 31 December 2018

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1. General operating performance

Dear Shareholders,

The year 2018 was characterised by a number of extremely positive and profitable events for your company. In a macroeconomic context which, over the last part of the year, witnessed a slowdown in the rate of GDP growth with simultaneous repercussions at domestic level, Iervolino Entertainment (hereinafter also IE or the Company), developed both film production activities and R&D, laying the foundations for sustainable long-term growth.

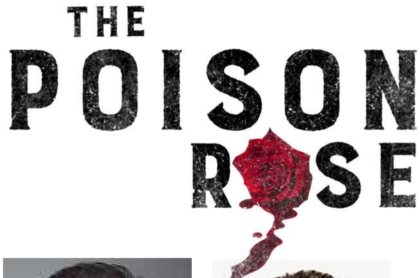
We should point out that IE is a Global Production Company, that works with internationally renowned actors and actresses in order to produce films that are distributed internationally. In fact, it specialises in the production of film and television content including films, TV-shows, web series, short TV shows and much more.

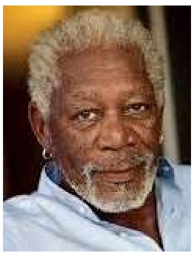
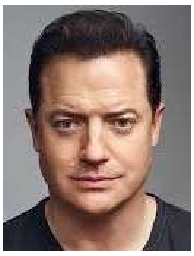
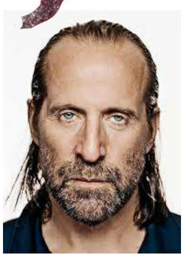
The contents produced by the company are major Hollywood-style productions and for the international market and have involved famous international actors like Johnny Depp, Morgan Freeman, Sarah Jessica Parker, Robert Pattinson, Jessica Chastain, Halle Berry and many others.

Iervolino Entertainment produces film and television content based on a minimum guarantee, therefore transferring the performance risk of the work and registering the initial profits on delivery of the film to international distributors, deferring the back-end and other revenues to future financial years and, however, retaining the intellectual property rights.

Iervolino Entertainment also boasts relations with international partners of prime standing that not only guarantee revenues from the sale of licences for a given period of time, but allow IPs to be exploited in the years after the production of the contents, through rights over remakes, sequels and other derivative products.

The Italian film "The Poison Rose" was produced during the year, an action thriller directed by Francesco Cinquemani, George Gallo, Luca Gilberto and starring John Travolta, Morgan Freeman, Famke Janssen, Peter Stormare and Brendan Fraser. The film was shot in Savannah, in Georgia and in Rome and the surrounding areas.



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

The film is about a private investigator (Travolta) who ends up investigating the shady world of illegal *football betting, controlled by the area boss (Freeman). The situation is complicated when the daughter of the woman he has always loved (Jenssen) becomes involved, who he finds out is his long-lost daughter.*

Through a distribution agreement, Millennium Media acquired the film sale rights for international distribution and which, therefore, financed its production. The film is already present in the sales agency proposals, in the main markets in the industry festivals: Cannes Festival, Berlinale, Toronto Film Festival and American Film Market.

The “economics” of the film reported in the financial statements for the year ended as at 31 December 2018 are as follows:

THE POISON ROSE	€
Revenues	13.9M
Cinema Tax Credit	3.1M
Amortisation	12.3M

In addition, production started on another Italian film which is expected to be completed in the first half of 2019. The film, called “Waiting for the Barbarians”, is based on the novel by Nobel Prize winner J.M. Coetzee, directed by Oscar nominee Ciro Guerra and starring Oscar winner Mark Rylance, Oscar nominee Johnny Depp and star of the Twilight saga, 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

Inspired by the novel *WAITING FOR THE BARBARIANS by J.M. Coetzee, Nobel Prize Winner for Literature in 2003, the film is based on the crisis of the conscience of the “Magistrate” - a loyal servant of the empire working in a tiny frontier 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 carries out a quixotic act of rebellion.*

Through a distribution agreement, AMBI Distribution acquired the film sale rights for international distribution. The film is already present in the sales agency proposals, in the main markets in the industry festivals: Cannes Festival, Berlinale, Toronto Film Festival and American Film Market.

WAITING FOR THE BARBARIANS	**€**
Production budget	14.8M
Initial Financing	4.0M
Minimum guarantee	10.8M
Ancillary and back-end revenues	6.3M
Cinema Tax Credit	4.3M

Lastly, we should point out the process and production innovation project “Arctic Justice”, a web series taken from the animated film of the same name produced by Andrea Iervolino, composed of 5-minute mini episodes voiced by international actors of the calibre of James Franco, Jeremy Renner, Alec Baldwin, Heidi Klum, Anjelica Huston, John Cleese, and leading home-grown Italian actors.

This animated comedy series explores the fantastic adventures of Swifty, the artic fox and his group of friends in the city of Taigasville. Each episode centres on an adventure of the Group which, in between misunderstandings and funny gags, will solve all the unexpected problems and threats they encounter to restore “artic justice” in the city!

The project follows a research and development study targeted at implementing an innovative pipeline which can accelerate the production process, by reducing costs and improving the performances of the software and hardware used. Please refer to paragraph 5 for more information on Research and Development.

ARCTIC JUSTICE (web series)	€
Revenues	12.5M
R&D Tax Credit	3,9M
Amortisation	10,2M

2. Summary data

The summary data illustrated in this report on operations refer to the financial statements as at 31 December 2018, which are the first set drafted in accordance with the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. The decision to adopt the international accounting standards stems from the need to adjust financial reporting into line with the requirements of the parent company.

The report should therefore be read together with the financial statements and the relevant explanatory notes, which make up the financial statements for the period 1 January to 31 December 2018.

The economic performance for 2018 is indicated below:

	2018	2017	Change	%
Revenues	34,625,453	1,088,213	33,537,240	> 100%
Operating costs	262,510	369,237	(106,727)	-29%
Personnel costs	218,481	228,448	(9,967)	-4%
EBITDA	**34,144,462**	**490,528**	**33,653,934**	**> 100%**
Amortisation, depreciation and write-downs	22,493,288	2,488,283	20,005,005	> 100%
EBIT	**11,651,174**	**(1,997,755)**	**13,648,929**	**< 100%**
Net financial charges	(241,661)	(6,902)	(234,759)	> 100%
Pre-tax profit	**11,409,513**	**(2,004,657)**	**13,414,170**	**< 100%**
Income taxes	(1,206,257)	412,531	(1,618,788)	-392%
Net profit for the period	**10,203,256**	**(1,592,126)**	**11,795,382**	**< 100%**

The reclassified balance sheet is shown below:

	2018	2017	Change	%
Assets				
Non-current assets				
Intangible assets:	20,628,386	1,172,553	19,455,833	>100%
Completed productions	12,727,223	-	12,727,223	100%
Productions in progress	5,724,108	-	5,724,108	100%
Other rights and cryptocurrency wallet	2,177,055	1,172,553	1,004,502	86%
Tangible assets	5,292	6,543	(1,251)	-19%
Deferred tax assets	1,623,929	459,931	1,163,998	>100%
Other non-current assets	12,510	-	12,510	100%
Total non-current assets	**22,270,117**	**1,639,027**	**20,631,090**	**>100%**
Current assets				
Trade receivables	14,735,148	165,597	14,569,551	>100%
Tax receivables	9,383,998	61,060	9,322,938	>100%
Other current assets	6,981,210	187,443	6,793,767	>100%
Cash and cash equivalents	151,294	15,447	135,847	>100%
Total current assets	**31,251,650**	**429,547**	**30,822,103**	**>100%**
Total assets	**53,521,767**	**2,068,574**	**51,453,193**	**>100%**
Shareholders' equity				
Share capital	1,120,000	1,120,000	-	0%
Legal reserve	7,186	7,186	-	0%
IFRS transition reserve	-	-	-	0%
Other reserves	1,770,773	972,887	797,886	82%
Profits (losses) carried forward	(2,177,835)	(585,731)	(1,592,104)	>100%
Profit (loss) for the year	10,203,256	(1,592,126)	11,795,382	<100%
Total shareholders' equity	**10,923,380**	**(77,784)**	**11,001,164**	**<100%**
Non-current liabilities				
Employee benefits	19,091	21,427	(2,336)	-11%
Non-current financial liabilities	6,003,980	797,886	5,206,094	>100%
Total non-current liabilities	**6,023,071**	**819,313**	**5,203,758**	**>100%**
Current liabilities				
Trade payables	24,302,130	1,082,966	23,219,164	>100%
Tax payables	2,693,634	4,099	2,689,535	>100%
Other current liabilities	9,579,552	239,980	9,339,572	>100%
Total current liabilities	**36,575,316**	**1,327,045**	**35,248,271**	**>100%**
Total liabilities	**53,521,767**	**2,068,574**	**51,453,193**	**>100%**

The main balance sheet and financial ratios are outlined below:

Main financial indicators	2018	2017	Change	%
Intangible fixed assets	20,628,386	1,172,553	19,455,833	> 100%
Tangible fixed assets	5,292	6,543	(1,251)	-19%
Other fixed assets/liabilities	1,636,439	459,931	1,176,508	256%
Fixed assets	**22,270,117**	**1,639,027**	**20,631,090**	**> 100%**
Receivables due from customers	14,735,148	165,597	14,569,551	> 100%
Payables to suppliers	(24,302,130)	(1,082,966)	(23,219,164)	> 100%
Other current assets/(liabilities)	4,092,022	4,424	4,087,598	> 100%
Net Working Capital (NWC)	**(5,474,960)**	**(912,945)**	**(4,562,015)**	**> 100%**
Employee severance indemnity	(19,091)	(21,427)	2,336	-11%
Net Invested Capital (NIC)	**16,776,066**	**704,655**	**16,071,411**	**> 100%**
Shareholders' equity	10,923,380	(77,784)	11,001,164	< 100%
Cash and cash equivalents	(151,294)	(15,447)	(135,847)	> 100%
Bank payables	6,003,980	797,886	5,206,094	> 100%
Net Financial Position (NFP)	**5,852,686**	**782,439**	**5,070,247**	**> 100%**
Financing sources	**16,776,066**	**704,655**	**16,071,411**	**> 100%**

NFP	**2018**	**2017**
Cash and cash equivalents	(151,294)	(15,447)
Liquidity	**(151,294)**	**(15,447)**
Bank payables	6,003,980	797,886
Financial debt	**6,003,980**	**797,886**
Negative NFP	**5,852,686**	**782,439**
Cryptocurrency wallet at fixed exchange rate coin/USD 0,25	(1,211,447)	-
Adjusted negative NFP	**4,641,239**	**782,439**

Operating performance and income statement and balance sheet results

The year ended as at 31 December 2018 posted a profit of Euro 10,203 thousand, not comparable with that of 2017, which was the year film production activities actually started.

From a management point of view, an EBIT of Euro 11,651 thousand was recorded, which derives from revenues from the sale of film rights less the associated cost of sales, essentially represented by the amount pertaining to the year of the amortisation of intangible fixed assets (film works) amounting to Euro 22,493 thousand, given the incidence of structure costs was modest (Euro 481 thousand).

From a management perspective, EBIT in 2018 accounted for 33.6% of total revenues of Euro 34,625 thousand.

Total revenues include income from the cinema tax credit of Euro 3,066 thousand, and the research & development tax credit of Euro 3,933 thousand recognised on an accrual basis regarding the productions to which they refer.

Film productions and web series productions account for 52% and 48% of revenues respectively.

From an equity-financial point of view, Iervolino Entertainment presents a net invested capital of Euro 16,776 thousand, represented primarily by intangible fixed assets (film works, intellectual property rights and other rights) amounting to Euro 20,628 thousand.

Net working capital was a negative Euro 5,478 thousand.

Net invested capital is financed by the negative net financial position for Euro 5,853 thousand (Euro 4,641 thousand, adjusted with the wallet TTU TAT01 “TTU private stable coin” valued at the fixed exchange rate of US$ 0.25 and, therefore, equal to Euro 1,211 thousand at the year-end exchange rate) and shareholders’ equity of Euro 10,923 thousand.

Working capital includes primarily the cinema tax credits of film productions and research and development tax credits amounting to Euro 3,622 thousand and Euro 5,244 thousand respectively, which will be converted to cash through the use (offsetting) of other taxes or the transfer to authorised intermediaries in 2019 and 2020.

3. Related party transactions

Iervolino Entertainment is a subsidiary of Luxembourg company Media Fund & Partners, which controls not only IE, but the company Ladybug Film S.r.l.. With reference to the provisions of art. 2497 of the Italian Civil Code regarding management and coordination, it should be noted that the Company is not subject to management and coordination by the parent company or other entities.

Iervolino Entertainment’s transactions with related parties concerned:

- Related companies;
- Other related parties.

The performance of transactions with related parties, potentially exposed to the risk of a conflict of interests, is in line with Iervolino Entertainment’s intention to solidify existing synergies in terms of production and sales integration, the efficient use of current skills and the rationalisation of the use of resources. It should be noted that related party transactions do not include any atypical transactions.

All related party transactions, both those relating to the exchange of goods, and to the provision of services, with the exception of non-interest-bearing loans, are regulated according to the normal conditions applied by the market.

The following table provides the amounts of the transactions entered into with related parties in the year:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film S,r,l,	-	1,270	5,722	-	-	4,123
TATATU Enterprises Ltd	350	-	-	-	4,350	-
Andrea Iervolino Services Inc,	-	301	-	-	-	-
Total related party transactions	**350**	**1,571**	**5,722**	**-**	**4,350**	**4,123**
Total of financial statement items	**14,735**	**38,787**	**24,302**	**18,296**	**34,625**	**22,974**
Weight of financial statement items	**2%**	**4%**	**24%**	**0%**	**13%**	**18%**

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

- The provision of the post-production service relating to the web series Artic Justice and the film The Poison Rose carried out by Ladybug Film S.r.l. (company subject to control of the parent company);
- The purchase by TATATU (a company controlled by a shareholder of Iervolino Entertainment) of the Italian streaming rights on the TATATU platform of the film The Poison Rose;
- The provision of services by Andrea Iervolino Service Inc. for the film Waiting for the Barbarians.

It should also be noted that, for the sake of complete information, the Company collected approximately Euro 5 million from Ambi Distribution Corp during the year as part of compensation of the Minimum guarantee relating to production of the film Waiting for the Barbarians.

Lastly, with reference to the financial transactions with related parties, the sole shareholder waived the receivable totalling Euro 798 thousand; the balances relating to financial receivables and payables with related parties as at 31 December 2018 came to zero.

4. Human resources

Iervolino Entertainment has a streamlined structure, with just three permanent employees. However, when it commences production of a film, a considerable number of workers are hired on fixed-term contracts until production is completed. As regards the data relating to personnel and to the average headcount in the year, please refer to the explanatory notes.

The Company will also continue to apply the same business model in the future, which has been successful in terms of both profitability and risk management.

5. Research and development activities

The perimeter of the concept of Research and Development (hereinafter R&D) is defined with the criteria established in the 2015 Frascati Manual of the OECD “Guidelines for Collecting and Reporting Data on Research and Experimental Development”, referenced in point 75 of the Communication of the European Commission “Regulation of State aid in favour of research, development and innovation” (2014/C 198/01), legal source of art. 3 of Decree Law no. 145 of 23 December 2013. In order to be considered R&D, the activities must fall under those listed in the regulation, which reproduces the “Definitions”, contained in paragraph 1.3, point 15, of the aforementioned “Regulation of State aid in favour of research, development and innovation”, relating respectively, to “fundamental research” (letter m), “industrial research” (letter q) and “experimental development” (letter j).

These descriptions are, likewise, in accordance with the definition of R&D set out in the reference accounting standards (IAS/IFRS).

In this regard, and in particular in the so-called “industrial research” domain, i.e. research to be used to fine-tune new or innovative processes, Iervolino Entertainment launched a Research & Development project in 2018. Starting from the idea of innovating the animation production process and finishing with an improved production of short animations in terms of both quality and quantity (production costs), Iervolino Entertainment commissioned a project to an external provider, however under its supervision, for the study, conception and research of new and innovative production processes and methods (pipeline) for the production of short animation content with a duration of 5 minutes, each one intended for use on digital platforms.

The research incorporated the conception, study, design and prototyping of new advanced production methods applicable to short content. This was done because said new products are in line with the social media usage habits of the new generations, who prefer to watch video content via web and social media channels like Instagram, FB etc. but who, at the same time, are looking for high-quality products.

More specifically, in 2018, the aforementioned new production process (called Pipeline 0.1) was conceived and developed, by conducting experimental analyses to define the various phases of processes and to determine the most suitable process parameters for reaching the project objectives, with particular attention to the quality of the products, productivity and product costs. Owing to the unique characteristics of the technical solutions and the technological measures adopted, the project is innovative and original for the Company, but considering the partial and non-definitive results achieved, research and development activities must be continued.

Based on a preliminary analysis, it is estimated that completion of the project will require a study and development of approximately four years, structured into several phases. The contents can be identified as the conception, study, development and design of new processes, new methodologies and production systems, aimed at technological progress and at identifying, studying and defining procedures that facilitate high productivity, to be able to offer the market products which can best optimise the company's production cycle. This will enable prompt action to be taken, if necessary, in the event of an uncertain result, a precise analysis of the reduction of the cycle time and the reduction of production costs while maintaining a unique level of quality in digital production, the main production factor of Iervolino Entertainment which makes it unique at international level in the development of this innovative project.

The main reason for this Research & Development process is the company's constant need to keep up with global technological progress, by enhancing company know-how and technical knowledge and by creating innovative processes capable of making the operating margins competitive and increasing the quality standards of its products.

The objective of the project is to innovate technical and technological solutions in relation to production activities, through the introduction of new process methodologies aimed at identifying, studying and defining automated procedures that enable elevated productivity, reducing production times and the cost per minute and maintaining the high quality standards of the final product, in order to be able to offer the market products capable of meeting consumers' requirements increasingly more effectively.

Reference is made below to the experimental activities conducted, such as:

- analysis, study, design, test and implementation of potential developments of production methodologies;
- study and development of initiatives targeted at improving the production cycle;
- study of the correct work and production times.

Generally, research and development activities involved the internal technical staff of Iervolino Entertainment, the project creator, and an additional expert in the production of animated movies, supervisor and product manager of the project. The external provider of the research commissioned is the Company Al Mashael Movies S.P.C., specialised in planned research and in critical studies targeted at the acquisition of new know-how to be utilised in developing new products and/or in improving them, in existing processes or services or the creation of components in complex systems, necessary for industrial research and the new product development. More specifically, the following points were analysed and developed:

RESEARCH, DEFINITION OF THE CONCEPT AND FEASIBILITY STUDY

- Analysis of the benefit of the new product, taking into consideration the evaluations of the different functions and of production;
- Identification of the documentation in support of creation of the product (procedures, methods, cycles, designs, acceptability criteria);
- Analysis of the requirements of the digital model;
- Implementation, analysis and verification of the studies carried out.

RESEARCH, DEVELOPMENT AND DESIGN ACTIVITIES

- Use of the experience and expertise of external consultants;

- Presentation of the project to the marketing/management department and subsequent proposal of modifications by technicians;
- Planning of experimental activities of the design of short content tests and evaluation of consistency/inconsistency with the objectives;
- Preparation of the first episodes for defining the technical/functional characteristics, taking into account the feasibility in the implementation phase;
- Analysis and research of innovative solutions for the implementation of the subsequent new test episode;
- Performance of the preliminary checks (quality of images, production times, production capacities and cost checks, etc.);
- Final verification and validation of the design.

DEVELOPMENT AND EXPERIMENTATION OF TEST EPISODES

- Planning of activities regarding programming and implementation of production programmes;
- Monitoring of the production phases;
- Evaluation of the aesthetic and functional characteristics of the test sample in order to ensure the required quality in all phases of the process;
- Creation of the first test episodes;
- Checking of the first test episodes by the company department responsible;
- Review and, if necessary, modifications to the first test episodes, with subsequent redesign, revision of the project and creation of new versions;
- Recording and production of the first episode to be proposed to the market.

As stated, the innovative improvements made were partially satisfactory in terms of attainment of the objective given that the organisational structure of the process remains insufficiently flexible with the configuration obtained. The main drawback of the release “PI Pipeline 0.1” was the lack of evolution in terms of the efficiency and improvements attained.

The results obtained in 2018 are, nonetheless, in line with those estimated given that, as stated, the process of process improvement is rather complex and articulated. In the future, we believe that by reducing the revision processes identified, the overall process will improve, normalising production. The change in the original pipeline will be reflected in the next process model (next pipeline release).

The research and development costs incurred in the year came to Euro 10,487 thousand. These costs were subject to analyses and checks from both a technical point of view by LG & Partners, and from an administrative-accounting perspective by Ernst & Young, as far as necessary for the purposes of expressing a judgment on the financial statements, as part of the voluntary audit of the 2018 financial statements. Ernst & Young, following the appointment as the company’s independent auditor for the 2019-2021 three-year period, will issue its report on these costs, as required by the new reference legislation.

6. Information on the main risks and uncertainties

Management of financial risks and of the change in cash flows

Liquidity risk

IE's current operations generated sufficient cash flows to cover the requirements absorbed by both current operations, investments, and the regular payment of suppliers.

Exchange rate risk

The Company is subject to limited exposure to financial risks connected with fluctuations in exchange rates, with reference to the operations carried out with non-Eurozone countries. However, it should be noted that almost all receivables and payables are in the same foreign currency (US Dollar).

With reference to TTU-denominated cryptocurrency transactions, it should be noted that IE is not exposed to the risk of fluctuation in the cryptocurrency, given that payment or collection transactions are performed at a fixed US$/TTU exchange rate of 0.25.

In addition, February 2019 saw the swap, with the ratio at par, between the old TTU RC20 and the new TTU TAT01 at the fixed US$/TTU exchange rate of 0.25. The "TTU private stable coin" value can be obtained from the major international financial sites. The site of the official blockchain is tatatutoken.io, where all transactions relating to the reference active market of TTU TAT01 can be observed in real time.

IE's business model envisages balanced cryptocurrency collections and payments. Subsequently, collections in TTU are only accepted when the associated outflow for the payment of suppliers is expected.

The Company has never entered into transactions to hedge exchange rate risk, which is only significantly reduced through the offsetting of the costs incurred in the same currency as the revenues.

Interest rate risk

The company has never entered into derivative contracts to hedge risks connected to fluctuations in interest rates, given the marginal exposure to this risk.

Market risk, credit risk and price risk

Risks connected to competition and the cyclical nature of the sector

An element that is characterising the entertainment market increasingly more is the growing importance of the contents offered, which are ever more differentiated based on transmission channels.

The Company is constantly searching for new formats and contents to be created independently or through service contracts while always retaining ownership of the reference Intellectual Property. In addition, the productions are always financed on the basis of the so-called "Minimum guarantee", with relationships with international distributors which always meet the needs of the wider public which can then generate additional turnover through the merchandising channel.

Credit risk

The Company does not have a significant concentration of credit risk, and has the appropriate procedures in place, such as verification of debtor solvency through an analysis of their market reliability, in order to minimise credit risk.

7. Significant events after the close of the year

No events or transactions that could impact the financial statements under review were reported after the close of the year.

8. Business Outlook

Company growth will continue on the basis of the production and development guidelines set out in the business plan approved recently by the Board of Directors and with the objective of sustainable long-term growth.

In particular, Iervolino Entertainment will focus on developing new initiatives regarding both "Animation" through the development of two new web series, these also related to important R&D projects, and film production.

At the same time, the film Waiting for the Barbarians, already outlined previously, will be delivered, and a major new film production is expected.

The revenues and overall profit margin of these works are significant. Consequently, management expects significant improvement in revenues and margins, with the associated positive impact on the financial position.

9. Proposed resolution regarding the profit for the year by the Board of Directors

The year 2018 closed with net profit of Euro 10,203,256. The Board of Directors proposes that the shareholders' meeting allocate said profit to retained earnings, after having allocated the amount pertaining to the legal reserve of Euro 510,163.

Rome, 8 March 2019

For the Board of Directors

The Chairman
Andrea Iervolino

IERVOLINO ENTERTAINMENT

Iervolino Entertainment S.p.A.

Financial Statements as at 31 December 2018 and Explanatory Notes

Table of Contents - Financial Statements and Explanatory Notes

Statement of financial position

	Notes	2018	2017 Restated	01/01/2017 FTA
Assets				
Non-current assets				
Intangible assets:	Note 3	20,628,386	1,172,553	2,750,076
Completed productions		12,727,223	-	-
Productions in progress		5,724,108	-	-
Other rights and cryptocurrency wallet		2,177,055	1,172,553	2,750,076
Tangible assets	Note 4	5,292	6,543	9,574
Deferred tax assets	Note 5	1,623,929	459,931	47,400
Other non-current assets	Note 6	12,510	-	-
Total non-current assets		**22,270,117**	**1,639,027**	**2,807,050**
Current assets				
Trade receivables	Note 7	14,735,148	165,597	750,174
Tax receivables	Note 8	9,383,998	61,060	144,830
Other current assets	Note 9	6,981,210	187,443	78
Cash and cash equivalents	Note 10	151,294	15,447	34,672
Total current assets		**31,251,650**	**429,547**	**929,754**
Total assets		**53,521,767**	**2,068,574**	**3,736,804**
Shareholders' equity				
Share capital	Note 11	1,120,000	1,120,000	1,120,000
Legal reserve	Note 11	7,186	7,186	7,186
IFRS transition reserve	Note 11	-	-	-
Other reserves	Note 11	1,770,773	972,887	972,887
FTA reserve	Note 11	-	-	-
Profits (losses) carried forward	Note 11	(2,177,835)	(585,731)	(421,586)
Profit (loss) for the year	Note 11	10,203,256	(1,592,126)	(164,145)
Total shareholders' equity		**10,923,380**	**(77,784)**	**1,514,342**
Non-current liabilities				
Employee benefits	Note 12	19,091	21,427	10,741
Non-current financial liabilities	Note 13	6,003,980	797,886	797,886
Total non-current liabilities		**6,023,071**	**819,313**	**808,627**
Current liabilities				
Trade payables	Note 14	24,302,130	1,082,966	954,970
Tax payables	Note 15	2,693,634	4,099	38,712
Other current liabilities	Note 16	9,579,552	239,980	420,153
Total current liabilities		**36,575,316**	**1,327,045**	**1,413,835**
Total liabilities		**53,521,767**	**2,068,574**	**3,736,804**

Statement of profit/(loss) for the year

	Notes	2018	2017 Restated
Revenues from sales and services	Note 17	26,322,854	-
Other revenues and income	Note 18	1,303,511	1,088,213
Tax credit	Note 19	6,999,088	-
Total operating revenues and income		**34,625,453**	**1,088,213**
Purchases of raw materials, consumables and merchandise	Note 20	22,149	1,410
Costs for services	Note 21	213,898	308,918
Personnel costs	Note 22	218,481	228,448
Other operating costs	Note 23	26,463	58,909
Amortisation, depreciation and write-downs	Note 24	22,493,288	2,488,283
EBIT		**11,651,174**	**(1,997,755)**
Financial income	Note 25	33,944	2,209
Financial charges	Note 25	275,605	9,111
Pre-tax profit		**11,409,513**	**(2,004,657)**
Income taxes	Note 26	(1,206,257)	412,531
Profit for the year		**10,203,256**	**(1,592,126)**

Other components of comprehensive income

	2018	2017 Restated
	€/000	€/000
Profit/(loss) for the year	**10,203**	**(1,592)**
Other components of comprehensive income statement that may subsequently be reclassified in profit/(loss) for the year net of taxes	-	-
Other components of comprehensive income statement that cannot subsequently be reclassified in profit/(loss) for the year net of taxes	-	-
Total comprehensive profit/(loss) net of taxes	**10,203**	**(1,592)**

Statement of changes in shareholders’ equity

	Share Capital	Legal Reserve	Extraordinary Reserve	FTA Reserve	Capital Contributions	Profit/(Losses) carried forward	Profit/(Loss) for the year
Balance as at 1 January 2017	**1,120,000**	**7,186**	**27,575**	**-**	**945,312**	**(585,731)**	**-**
Profit/(Loss) for the year	-	-	-	-	-	-	(285,778)
Other Changes	-	-	-	-	-	-	(1,306,348)
Balance as at 31 January 2017 restated	**1,120,000**	**7,186**	**27,575**	**-**	**945,312**	**(585,731)**	**(1,592,126)**
Balance as at 1 January 2018 restated	**1,120,000**	**7,186**	**27,575**	**-**	**945,312**	**(585,731)**	**(1,592,126)**
Profit/(Loss) for the year	-	-	-	-	-	-	10,203,256
Allocation of 2017 result	-	-	-	-	-	(1,592,126)	1,592,126
Other Changes	-	-	-	-	797,886	-	-
Balance as at 31 January 2018	**1,120,000**	**7,186**	**27,575**	**-**	**1,743,198**	**(2,177,857)**	**10,203,256**

Cash Flow Statement

	2018	2017 Restated
Pre-tax profit for the year	11,409,513	(2,004,778)
Income taxes	(1,206,257)	412,531
Amortisation/depreciation on intangible/tangible fixed assets	22,493,288	2,488,255
Net changes due to exchange rates	41,665	-
Financial income	-	(2,209)
Financial charges	199,996	9,111
Allocations (Uses) of personnel-related provisions	12,153	11,381
Other non-monetary elements	17,736	2,241
Cash flow generated by income management	**32,968,094**	**916,532**
Change in trade receivables	(14,569,551)	470,017
Change in trade payables	23,219,164	265,845
Change in other receivables and other assets	(17,293,213)	(412,531)
Change in other payables and other liabilities	12,029,107	(351,754)
A - Net cash flow generated/(absorbed) by operating activities	**36,353,601**	**888,109**
Investments in intangible/tangible assets	(41,946,129)	(907,334)
B - Net cash flow generated/(absorbed) by investing activities	**(41,946,129)**	**(907,334)**
Loans (repayments)	-	-
Mortgages and loans taken out during the period	5,728,375	-
C - Net cash flow generated/(absorbed) by financing activities	**5,728,375**	**-**
D - Total cash flow generated/(absorbed) during the period (A+B+C)	**135,847**	**(19,225)**
E - Cash and cash equivalents at beginning of period	**15,447**	**34,672**
F - Cash and cash equivalents at end of period (D+E)	**151,294**	**15,447**

1. Corporate information

The Company is a global production company specialised, in 2018, in the production of film and television content including films, TV-shows, web series, short TV shows and much more. The contents produced by the Company are notable Hollywood-style productions and involve famous international actors. The Company's primary objective is to produce for the international market, based on the business model used by the big Hollywood Studios.

The Company is wholly-owned by sole shareholder Media Funds & Partner S.à.r.l..

Information on the Company's relations with other related parties are detailed in Note 27.1.

2. Main accounting standards

2.1 Drafting principles

The financial statements for the year ended as at 31 December 2018 are stated for the first time according to the international accounting standards. Please refer to note 1. "First-time application of EU IFRS" for information relating to the criteria for the adoption of the international accounting standards. The adoption of the international accounting standards for the drafting of the financial statements for the year ended as at 31 December 2018 was required by the sole shareholder for the purposes of making the financial statements data of the company homogeneous, comparable and capable of being consolidated with those of the parent company.

EU-IFRS mean all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), all the interpretations of the International Reporting Interpretations Committee (IFRIC), previously known as the 'Standing Interpretations Committee' (SIC) which, on the date of approval of the consolidated financial statements, were endorsed by the European Union according to the procedure set forth in Regulation (EC) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002. In particular, it should be noted that the EU-IFRS were applied consistently to all periods presented in this document.

The financial statements have been drawn up on the basis of the historical cost principle.

The financial statements are presented in Euro and all amounts are stated in Euro, unless indicated otherwise.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement and the statement of changes in shareholders' equity (all stated in Euro) and these notes to the financial statements.

The main accounting standards and measurement criteria applied in drafting the financial statements are described later. The standards conform to those used to prepare the comparable statements of financial position.

In compliance with the provisions of the reference accounting standards, the Directors made the following choices regarding the financial statement layouts.

- **Statement of profit/(loss) for the year**: it is prepared according to the "by nature" criterion and shows the interim results relating to the EBIT and the pre-tax result, in order to allow the normal operating performance to be measured. EBIT is calculated as the difference between revenues and other income and operating costs (the latter inclusive of non-monetary costs relating to amortisation, depreciation and write-downs of current and non-current assets, net of any write-backs).
- **Statement of other comprehensive income:** the structure of the statement of comprehensive income is based on the presentation, in a single statement, of the components that make up the result for the year and the expenses and income recognised directly in equity for transactions other than those entered into with shareholders.
- **Statement of financial position**: is presented according to a distinction between "current and non-current" assets and liabilities. An asset/liability is classified as current when it satisfies one of the following criteria: it is expected to be realised/extinguished, or it is expected to be sold or used in the Group's normal operating cycle, is held for trading and, therefore, is expected to be realised/extinguished within 12 months of the date of the close of the period. If all three conditions are not met, assets/liabilities are classified as non-current.
- **Cash flow statement**: is prepared according to the "indirect method" on the basis of which the net profit (loss) for the period is normally adjusted for the effects of non-monetary transactions.
- **Statement of changes in shareholders' equity**: illustrates the changes that have occurred in items of shareholders' equity.

2.2. Re-statement of the financial statements for the year ended as at 31 December 2017

These financial statements contain the financial information relating to the year ended as at 31 December 2018, and the financial information related to the year ended as at 31 December 2017, re-stated in order to provide a consistent presentation of the equity, economic and financial data.

In particular, a write-down of the item 'Other Rights' included under Intangible fixed assets was booked, as well as the associated tax effect. This write-down was recognised as an error in 2017 in line with IAS 8; in fact, the information that led to the write-down was already known by management in the previous year.

The effect of the adjustment made to the financial statements for the year ended as at 31 December 2017 is reported in the following tables:

Statement of Financial Position

	2017 Original	IAS 8	2017 Restated
Assets	€/000	€/000	€/000
Non-current assets			
Intangible assets:	2,891	(1,719)	1,172
Completed productions	-	-	-
Productions in progress	-	-	-
Other rights	2,891	(1,719)	1,172
Other intangible assets	-	-	-
Tangible assets	7	-	7
Deferred tax assets	47	413	460
Other non-current assets	-	-	-
Total non-current assets	**2,945**	**(1,306)**	**1,639**
Current assets			
Trade receivables	166	-	166
Tax receivables	61	-	61
Other current assets	187	-	187
Cash and cash equivalents	15	-	15
Total current assets	**430**	**-**	**430**
Total assets	**3,375**	**(1,306)**	**2,069**
Shareholders' equity			
Share capital	1,120	-	1,120
Legal reserve	7	-	7
IFRS transition reserve	-	-	-
Other reserves	973	-	973
Profits (losses) carried forward	(586)	-	(586)
Profit (loss) for the year	(286)	(1,306)	(1,592)
Total shareholders' equity	**1,229**	**(1,306)**	**(77)**
Non-current liabilities			
Employee benefits	21	-	21
Non-current financial liabilities	798	-	798
Total non-current liabilities	**819**	**-**	**819**
Current liabilities			
Trade payables	1,083	-	1,083
Tax payables	4	-	4
Other current liabilities	240	-	240
Total current liabilities	**1,327**	**-**	**1,327**
Total liabilities	**3,375**	**(1,306)**	**2,069**

Income Statement

	2017 Original	IAS 8	2017 Restated
	€/000	€/000	€/000
Revenues from sales and services	-	-	-
Other revenues and income	1.088	-	1.088
Tax credit	-	-	-
Total operating revenues and income	**1.088**	**-**	**1.088**
Purchases of raw materials, consumables and merchandise	1	-	1
Costs for services	309	-	309
Personnel costs	228	-	228
Other operating costs	59	-	59
Amortisation, depreciation and write-downs	769	1.719	2.488
EBIT	**(279)**	**(1.719)**	**(1.998)**
Financial income	2	-	2
Financial charges	9	-	9
Pre-tax profit	**(286)**	**(1.719)**	**(2.005)**
Income taxes	-	413	413
Profit for the year	**(286)**	**(1.306)**	**(1.592)**

2.3 Summary of main accounting standards

a) Intangible assets

Intangible assets acquired separately are initially recognised under assets at purchase cost, including any directly attributable accessory charges, as well as the financial expenses incurred in the period the assets were realised. After initial recognition, intangible assets shall be carried at their cost less any accumulated amortisation and any accumulated impairment loss.

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

Concession/licence agreements for the acquisition of the rights-of-use on films are recognised under intangible assets at the moment of the relevant entitlement established in the contractual agreements. These rights are amortised according to a methodology based on expected revenues, commonly used in the sector and which requires accumulated amortisation at the reporting date to be determined by making reference to the existing ratio between revenues realised and total revenues deriving from the different types of use of the rights, envisaged on the basis of sale plans, given that said methodology reflects, in a more appropriate and correct manner, the time period over which the economic benefits connected with said rights are expected to be used.

In the items "completed productions" and "productions in progress" all costs relating to film productions and incurred during the different phases of pre-production, production and post-production of films are capitalised. The completed productions are amortised using the "film forecast computation method", based on which amortisation at the reporting date is determined over the time horizon in which the intangible asset will generate revenues.

At each reporting date, the tangible and intangible assets with a defined useful life are analysed in order to identify the existence of possible indicators of impairment, drawn from both external and internal sources. In the event that such indicators are identified as being present, the recoverable value of the assets is estimated, and the impairment is recognised in the income statement. The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the sum of the estimated future revenues for said asset.

The item 'intangible assets' also includes the amount of cryptocurrency (TATATU) available within the company's wallet shown at total fair value.

b) Tangible assets

They are recognised at historical cost, net of accumulated depreciation and accumulated impairment. Depreciation rates, which are charged to the income statement, have been calculated according to the economic-technical duration of the assets, using the criterion of residual possibility of use. If, regardless of the depreciation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reasons for the write-down no longer exist in subsequent years, the original value is written back, adjusted solely for amortisation.

c) Financial assets

At the moment of initial recognition, financial assets are classified, depending on the case, on the basis of subsequent measurement methods, i.e. at amortised cost, at fair value through OCI and at fair value through profit and loss.

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

As regards Classification & Measurement, the standard provides new rules for the classification of financial assets into the following categories:

- Amortised cost - "AC";
- Fair Value Through Other Comprehensive Income – "FVOCI";
- Fair Value through Profit and Loss – "FVTPL".
- This classification is carried out on the basis of two discriminating factors:
- The Business Model that the Company has associated to each one of the portfolios identified and
- The characteristics of the contractual cash flows of the financial instrument (SPPI Test – Solely Payments of Principal and Interest).
- As regards Impairment, the main changes concern:
- The change of the scope of application of the financial assets subject to the impairment process;
- The introduction of an impairment model based on expected losses (Expected Credit Loss) with the adoption of a Forward Looking approach;
- The classification of financial instruments into three stages of credit quality and the subsequent need to adopt an appropriate Stage Assignment Framework;

The calculation of the value adjustments depending on the stage of credit quality attributed.

The adoption of the new standard did not involve any effects with respect to the previous recognition criteria.

In consideration of this aspect, it was not necessary to modify the comparative balances nor was there any need for any accumulative adjustment to shareholders' equity at the opening date of the current year.

The classification of financial assets at the moment of initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the business model that the Company uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not carried at fair value through profit and loss. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, are measured at the transaction price determined according to IFRS 15. Please refer to the paragraph of accounting standards 'Revenues'.

The Company's business model for the management of financial assets refers to the way in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will derive from the collection of the contractual cash flows, from the sale of financial assets or from both.

The purchase or sale of a financial asset which requires its delivery within a period of time generally established by a market regulation or conventions (so-called standardised sale or regular way trade) is recognised at the trading date, i.e. the date on which the Company is committed to purchase or sell the asset.

Subsequent measurement

For subsequent measurement purposes, the financial assets are classified into four categories:

- Financial assets measured at amortised cost (debt instruments);
- Financial assets at fair value through OCI with the reclassification of accumulated profits and losses (debt instruments);
- Financial assets at fair value through OCI without the reversal of accumulated profits and losses at the moment of elimination (equity instruments);
- Financial assets at fair value through profit and loss.

Financial assets measured at amortised cost (debt instruments)

This category is the most important for the Company. The Company measures financial assets at amortised cost if both the following requirements are satisfied:

- the financial instrument is held within the framework of a business model whose objective is ownership of the financial asset aimed at collection of the contractual cash flows;
  and
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid.

The financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are booked to the income statement when the asset is eliminated, modified or revalued.

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

Derecognition

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

- the rights to receive the cash flows of the asset are extinguished, or
- the Company has transferred to a third party the right to receive the cash flows from the asset or assumed the contractual obligation to pay them in full and without delay and (a) has transferred substantially all rights and benefits of ownership of the financial asset, or (b) has neither transferred nor retained substantially all risks and benefits of the asset, but has transferred control of it.

In cases in which the company has transferred the rights to receive the cash flows from an asset or has signed an agreement on the basis of which it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it evaluates whether and to what extent it has retained the risks and benefits stemming from ownership. In the event in which it has neither substantially transferred nor retained all the risks and benefits nor has lost control of the asset, it continues to be recognised in the Company's financial statements to the extent of its continuing involvement in said asset. In this case, the Company also recognises an associated liability. The asset transferred and the associated liability are measured to reflect the rights and obligations that remain pertaining to the Company.

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

Impairment of financial assets

The company recognises a write-down for expected losses (expected credit loss, 'ECL') for all financial assets represented by debt instruments not held at fair value through profit or loss. The ECLs are based on the difference between the contractual cash flows due in compliance 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 collaterals or other guarantees on the credit that are an integral part of the contractual conditions.

Expected losses are recognised in two phases. In relation to credit exposures for which there has been no significant increase in credit risk from the initial recognition, credit losses that derive from an estimate of default events that are possible within the next 12 months need to be recognised (12-month ECL). For credit exposures for which there has been a significant increase in credit risk from the initial recognition, the expected losses that refer to the residual duration of the exposure must be recognised in full, regardless of the moment in which the default event is expected to occur (''Lifetime ECL'').

d) Financial liabilities

Initial recognition and measurement

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

All financial liabilities are initially recognised at fair value augmented, in the case of mortgages, loans and payables, by directly attributable transaction costs.

The Company's financial liabilities include trade payables and other payables, mortgages and loans.

Subsequent measurement

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

Loans and receivables

After initial recognition, loans are measured at amortised cost using the effective interest rate method. Gains 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 any discounts or premiums on the acquisition and any fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included among financial charges in the statement of profit/(loss).

Derecognition

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another of the same borrower, under substantially different conditions, or the conditions of an existing liability are greatly modified, this exchange or modification is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences between the book values booked to profit/(loss) for the year.

Offsetting of financial instruments

A financial asset or financial liability can be offset and the net balance reported in the statement of financial position, if there is a current legally enforceable right to set off the recognised amounts and there is an intention to extinguish the net residual balance, or realise the asset and simultaneously extinguish the liability.

e) Cash and cash equivalents and short-term deposits

Cash and cash equivalents and short-term deposits include cash and sight and short-term deposits with maturities not exceeding three months, held to meet short-term cash commitments, instead of for investment or other purposes, and which are not subject to significant risks connected with changes in value.

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

f) Employee severance indemnity

The cost of the benefits envisaged pursuant to Employee severance indemnity is determined by applying the actuarial method derived from an approximation with the payables at the reporting date, in consideration of its irrelevance.

g) Revenues

By means of Regulation no. 2016/1905 issued by the European Commission on September 22, 2016, IFRS 15 "Revenue from Contracts with Customers" (hereinafter IFRS 15) was endorsed, which defines the criteria for the recognition and measurement of revenues deriving from contracts with customers. The standard replaces all current requirements in IFRS regarding revenue recognition and provides a new five-step model which applies to revenues from contracts with customers. Generally speaking, IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity is entitled to, in exchange for the transfer of goods or services to the customer. In particular, IFRS 15 establishes a 5-step model for recognising revenue: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. contractual promises to transfer goods and/or services to a customer); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; and (v) recognition of revenue when the associated performance obligation is satisfied. In addition, IFRS 15 supplements the disclosure to be provided in relation to the nature, amount and timing and uncertainty of the resulting revenues and the related cash flows.

The provisions of IFRS 15 are effective for financial years starting on or after January 1, 2018.

The adoption of the new standard did not involve any effects with respect to the previous recognition criteria.

In consideration of this aspect, it was not necessary to modify the comparative balances nor was there any need for any accumulative adjustment to shareholders' equity at the opening date of the current year.

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

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

Transactions settled in cryptocurrency are accounted for at fair value on the date of the transaction.

h) Subsidies and grants received from government – Tax Credits:

Subsidies and grants received from government – Tax Credits are recorded when there is reasonable certainty that they will be received and that all the conditions referring to them have been satisfied. Grants related to cost components are recorded as revenues, but are systematically allocated to different financial years so that they are commensurate with the recognition of the costs they intend to offset. A grant related to an asset is recognised as revenue on a straight-line basis, over the expected useful life of the reference asset, in accordance with the provisions of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

Grants recognised by the Ministry of Cultural Heritage and Activities and Tourism (MIBACT) applicable to television and film productions fall into this category, 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.

Where the company receives a non-monetary grant, the asset and the associated grant are recognised at fair value in the income statement on a straight-line basis, over the expected useful life of the reference asset.

With specific reference to the film sector, the company currently uses a type of government grant, i.e.: incentives consisting of a tax concession and deriving from tax credits granted to film production companies in relation to the performance of film works pursuant to Law 220/2016 and associated Ministerial Decree 15 March 2018, as regulated by the Producers' "Tax Credit" decree, containing the application methods. In particular, the legislation referred to aims to incentivise Italian film production through the recognition of a tax credit corresponding to a given percentage of the total cost of the film work.

i) Current taxes

Current tax assets and current tax liabilities for the year are measured for the amount that is expected to be recovered from or paid to the tax authorities. The rates and the tax legislation used to calculate the amount are those issued, or essentially in force, at the reporting date in the country in which the Company operates and generates its taxable income.

Current taxes relating to items recognised directly in equity are also charged directly to equity and not to the statement of profit or loss for the year. The position adopted in the tax return in cases in which the tax laws are subject to interpretations is periodically reviewed.

l) Deferred taxes

Deferred taxes are calculated by applying the so-called “liability method” to the temporary differences at the reporting date between the tax values of the assets and liabilities and their corresponding balance sheet values.

The deferred tax assets are recognised in respect of all deductible temporary differences, unused tax credits and tax losses which can be carried forward, to the extent in which it is likely that sufficient future taxable income will be available to enable the use of the deductible temporary differences and tax credits and losses carried forward, except in the case in which the deferred tax asset related to the deductible temporary 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 influence either the balance sheet result or the tax result. The book value of deferred tax assets is reviewed at each reporting date and reduced to the extent in which it is no longer likely that enough taxable income will be available in the future so that this credit can be partially or totally used. Unrecognised deferred tax assets are reviewed annually at every reporting date and are recognised to the extent it is likely that the taxable profit will be sufficient to allow these deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured on the basis of the tax rates that are expected to be applied in the financial year in which said assets are realised or said liabilities are extinguished, considering the rates in force and those already issued, or essentially in force, at the reporting date.

Deferred taxes relating to elements recorded outside of the income statement are also recognised outside the income statement and, therefore in shareholders’ equity or in the statement of comprehensive income, consistent with the element to which they refer.

m) translation of foreign currency balances

The financial statements are presented in Euro, the functional and presentation currency adopted.

n) foreign currency transactions and balances

Transactions in foreign currency are initially recognised in the functional currency, by applying the spot exchange rate on the date of the transaction.

Foreign currency monetary assets and liabilities are translated into the functional currency at the exchange rate at the reporting period.

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

Non-monetary items measured at historical cost in currency are translated at the exchange rates in force on the initial date of the transaction. Non-monetary items accounted for at fair value in foreign currency are translated at the exchange rate at the date the value was determined. Profit or loss emerging from the translation of non-monetary items is treated consistently with the recognition of profits and losses relating to the fair value change in the aforementioned items (i.e. the translation differences on the items whose fair value change is recognised in the statement of comprehensive income or in the income statement are booked, respectively, to the statement of comprehensive income or to the income statement).

In determining the spot exchange rate to be used at the moment of initial recognition of the relevant asset, cost or revenue (or part of it) at the moment of the cancellation of a non-monetary asset or a non-monetary liability relating to advance consideration, the transaction date is the date on which the Company initially recognises the non-monetary asset or non-monetary liability resulting from advance consideration. If there are multiple payments or advances, the Company determines the transaction date for each payment or advance.

o) Cost recognition

The costs are recognised at the time of acquisition of the good or service.

Transactions settled in cryptocurrency are accounted for at fair value on the date of the transaction.

2.4 Discretionary measurements and significant accounting estimates

The preparation of the Company's financial statements requires the directors to draw up discretionary evaluations, estimates and assumptions, which affect the values of revenues, costs, assets and liabilities, and the disclosures related to these, as well as the indication of contingent liabilities. The uncertainty regarding these assumptions and estimates could determine outcomes that require, in the future, a significant adjustment to the book value of said assets and/or liabilities.

The main evaluations that require the use of elements of judgment by the management are as follows:

Amortisation of intangible fixed assets

The most significant evaluation utilised in the drafting of the financial statements relates to the application criterion for determining the future revenues used in the application of the "film forecast computation method" (see paragraph a) Intangible assets), which affects the determination of the amortisation of intangible assets. The application of the "film forecast computation method", based on which amortisation at the reporting date, is determined over the time horizon in which the intangible asset will generate revenues.

Recoverability of deferred tax assets

Another evaluation relates to the accounting of deferred tax assets. Accounting for prepaid taxes takes place on the basis of expectations of taxable income in future years. The valuation of the taxable revenue expected for the purposes of accounting for prepaid taxes depends on factors that may vary over time and significantly affect the recoverability of the receivables from prepaid taxes.

2.5 Standards issued but not yet in force

This section shows the standards and interpretations which had already been issued at the reporting date of the Company's financial statements, but had not yet entered into effect. The Company intends to adopt these standards and interpretations, if applicable, when they enter into force.

IFRS 16 – Leases

The 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 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single accounting model similar to the one used to account for finance leases governed by IAS 17.

The standard includes two exemptions for the recognition for lessees - leases for “low value” assets (e.g. personal computers) and short-term leases (i.e. leases with a rental period of 12 months or less). Upon lease commencement, the lessee shall recognise a liability relating to the lease payments (i.e. a lease liability) and an asset that represents the right-of-use of the underlying asset for the duration of the lease (i.e. the right-of-use). The lessees will be required to recognise the interest expense on the leasing liability and the amortisation on the right-of-use separately.

Lessees will also be required to reconsider the amount of the leasing liability on verification of given events (e.g. a change in the lease term, a change in future fees deriving from a change in an index or rate used to determine said payments). Generally, the lessee shall recognise the difference from remeasurement of the amount of the leasing liability as an adjustment of the right-of-use. The accounting method for the lessor in observance of IFRS 16 essentially remains unchanged with respect to the current accounting policy set out in IAS 17. Lessors will continue to classify all leases using the same classification standard as set out under IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16, which is effective for financial years starting on or after January 1, 2019, requires lessees and lessors to provide a more comprehensive disclosure than IAS 17.

Transition to IFRS 16

An analysis of the impacts of IFRS 16 shows that they were not significant for the Company.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a new comprehensive standard relating to insurance contracts, which covers their recognition, measurement, presentation and disclosure. When IFRS 17 enters into force, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (for example: life, non-life, direct insurance and reinsurance) irrespective of the type of issuing entity, as well as several guarantees and financial instruments with discretionary participation features.

For that purpose, limited exemptions shall apply. The general objective of IFRS 17 is to present an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast with the provisions of IFRS 4, which are largely based on maintaining the previous accounting standards, IFRS 17 provides a comprehensive model for insurance contracts that covers all relevant accounting aspects. The heart of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach, VFA).
- A simplified approach (the premium allocation approach), mainly for short-term contracts.

IFRS 17 will come into force for annual periods beginning on or after 1 January 2021, and will require the presentation of comparative balances. Early application is permitted, in which case the entity

must also have adopted IFRS 9 and IFRS 15 at the date of first-time application of IFRS 17 or previously. This standard does not apply to the Company.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that have an effect on the application of IAS 12 and does not apply to taxes or duties that do not fall under the scope of IAS 12, nor specifically includes requirements relating to interest or penalties attributable to uncertain tax treatments.

The interpretation specifically addresses the following points:

- Whether an entity separately considers uncertain tax treatments
- The entity's assumptions on the analysis of tax treatments by the tax authorities
- How an entity determines taxable profit (or tax loss), the tax base, unused tax losses, unused tax credits and tax rates
- How an entity treats changes in facts and circumstances.

An entity must define whether to consider each tax treatment uncertain separately or together with other (one or more) uncertain tax treatments. The approach must be applied that allows the best prediction of the resolution of the uncertainty. The interpretation is in force for annual periods beginning on or after 1 January 2019, but some concessions for first-time application are available. The Company will apply the interpretation from the date of entry into force.

Amendments to IAS 9: Prepayment Features with Negative Compensation

Pursuant to IFRS 9, a debt instrument can be measured at amortised cost or fair value through comprehensive income, provided that the contractual cash flows are "exclusively payments of principal and interest on the reference amount" (SPPI criterion) and the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract, and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments shall be applied retrospectively and are effective from 1 January 2019; early application is permitted. These amendments do not impact the Company's financial statements.

Amendments to IFRS 10 and to IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary which is sold or transferred to an associate or from a joint venture. The amendments clarify that the profit or loss resulting from the sale or transfer of assets that constitute a business, as defined by IFRS 3, between an investor and one of its associates or joint ventures, must be recognised in full. Any profit or loss resulting from the sale or transfer of assets that do not constitute a business, is only recognised up to the limits of the share held by third-party investors in the associate or joint venture. The IASB postponed the date of application of these amendments indefinitely, but if an entity decides to apply them early they must be applied prospectively. This standard does not apply to the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 ratify the accounting rules in the event in which plan amendment, curtailment or settlement occurs during the reporting period The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity must:

- Determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines all past service costs, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that regard, excluding the amounts already included in net interest, must be recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments or settlements that occur from the first year starting on or after 1 January 2019; early application is permitted.

This standard does not apply to the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).

This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments shall be applied retrospectively and are effective from 1 January 2019; early application is permitted. Given that the Company does not hold investments in associates and joint ventures, the amendments will not impact the financial statements.

2.6 Management of financial risks

Liquidity risk

IE's current operations generated sufficient cash flows to cover the requirements absorbed by both current operations, investments, and the regular payment of suppliers.

Exchange rate risk

The Company is subject to limited exposure to financial risks connected with fluctuations in exchange rates, with reference to the operations carried out with non-Eurozone countries. However, it should be noted that almost all receivables and payables are in the same foreign currency (US Dollar).

With reference to TTU-denominated cryptocurrency transactions, it should be noted that IE is not exposed to the risk of fluctuation in the cryptocurrency, given that payment or collection transactions are performed at a fixed US$/TTU exchange rate of 0.25.

In addition, February 2019 saw the swap, with the ratio at par, between the old TTU RC20 and the new TTU TAT01 at the fixed US$/TTU exchange rate of 0.25. The "TTU private stable coin" value can be obtained from the major international financial sites. The site of the official blockchain is tatatutoken.io, where all transactions relating to the reference active market of TTU TAT01 can be observed in real time.
IE's business model envisages balanced cryptocurrency collections and payments. Subsequently, collections in TTU are only accepted when the associated outflow for the payment of suppliers is expected.

The Company has never entered into transactions to hedge exchange rate risk, which is only significantly reduced through the offsetting of the costs incurred in the same currency as the revenues.

Interest rate risk

The company has never entered into derivative contracts to hedge risks connected to fluctuations in interest rates, given the marginal exposure to this risk.

Market risk, credit risk and price risk

Risks connected to competition and the cyclical nature of the sector

An element that is characterising the entertainment market increasingly more is the growing importance of the contents offered, which are ever more differentiated based on transmission channels.

The Company is constantly on the look-out for new formats and contents to be created independently or through service contracts and always retaining ownership of the reference Intellectual Property. In addition, the productions are always financed on the basis of the so-called “Minimum distribution guarantee”, with relationships with international distributors which always meet the needs of the wider public which can then generate additional turnover through the merchandising channel.

Credit risk

The Company does not have a significant concentration of credit risk, and has the appropriate procedures in place, such as verification of debtor solvency through an analysis of their market reliability, in order to minimise credit risk.

2.7 Financial instruments by categories

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

2018

	Amortised cost			Fair value			Total		
	Loans and receivables	Fin. ass. held to maturity	Fin. liab. at amortised cost	Fin. ass./liab. designated at initial recognition	Fin. ass./liab. held for trading	Fin. ass. held for sale/Other fin. liab.	Total fin. ass./liab. under IFRS	Ass./liab. not under IFRS	Total
	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000
Intangible assets	-	-	-	-	-	-	-	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**
Shareholders’ 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**

2017 Restated

	Amortised cost			Fair value			Total		
	Loans and receivables	Fin. ass. held to maturity	Fin. liab. at amortised cost	Fin. ass./liab. designated at initial recognition	Fin. ass./liab. held for trading	Fin. ass. held for sale/Other fin. liab.	Total fin. ass./liab. under IFRS	Ass./liab. not under IFRS	Total
	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000	€/000
Intangible assets	-	-	-	-	-	-	-	1.173	1.173
Tangible assets	-	-	-	-	-	-	-	7	7
Deferred tax assets	-	-	-	-	-	-	-	460	460
Other non-current assets	-	-	-	-	-	-	-	-	-
Trade receivables	166	-	-	-	-	-	-	-	166
Tax receivables	-	-	-	-	-	-	-	61	61
Other current assets	-	-	-	-	-	-	-	187	187
Cash and cash equivalents	-	-	-	-	-	-	-	15	15
Total	**166**	**-**	**-**	**-**	**-**	**-**	**-**	**1.903**	**2.069**
Shareholders' equity	-	-	-	-	-	-	-	- 77	- 77
Non-current liabilities	-	-	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-	-	21	21
Non-current financial liabilities	-	-	798	-	-	-	-	-	798
Current liabilities	-	-	-	-	-	-	-	-	-
Trade payables	-	-	1.083	-	-	-	-	-	1.083
Tax payables	-	-	-	-	-	-	-	4	4
Other current liabilities	-	-	-	-	-	-	-	240	240
Total	**-**	**-**	**1.881**	**-**	**-**	**-**	**-**	**188**	**2.069**

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

2018		2017 Restated	
€/000	€/000	€/000	€/000
Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
14,735	14,735	166	166
151	151	15	15
14,886	**14,886**	**181**	**181**
6,004	6,004	798	798
24,302	24,302	1,083	1,083
30,306	**30,306**	**1,881**	**1,881**

All assets and liabilities booked at fair value were classified under the three categories below, which are based on the lowest level of significant input for the purposes of determining the fair value as a whole:

Level 1: prices listed (not adjusted) in an active market for identical assets and liabilities;
Level 2: valuation techniques for which the lowest level of significant input for the purposes of determining the fair value is directly or indirectly observable;
Level 3: valuation techniques for which the lowest level of significant input for the purposes of determining the fair value is not observable.
As at December 31, 2018, the Company hold the following assets measured at fair value:

	2018			
	€/000	€/000	€/000	€/000
	Level 1	**Level 2**	**Level 3**	**Total**
Intangible assets (cryptocurrency wallet)			2	2
Total assets	**-**	**-**	**2**	**2**

2.8 First-time application of EU IFRS

The Company drafts its financial statements in compliance with EU IFRS for the first time as at 31 December 2018. The opening financial statements at the date of transition to EU-IFRS (1 January 2017) were drawn up on the basis of the following criteria:

- all assets and liabilities whose recognition is required by EU-IFRS were recorded;
- assets and liabilities whose recognition is not permitted by EU-IFRS were not recorded;
- EU-IFRS were applied in the measurement of all the assets and liabilities recognised.

As shown in the tables below, as a result of the first-time application of EU IFRS, no adjustments to be made were recorded.

Balance Sheet

	ITA GAAP Balance Sheet as at 31 December 2017 restated according to IFRS	IFRS adjustments	IFRS reclassifications	IFRS Balance Sheet as at 31 December 2017
Assets	€/000	€/000	€/000	€/000
Non-current assets				
Intangible assets:	1.172	-	-	1.172
Completed productions	-	-	-	-
Productions in progress	-	-	-	-
Other rights	1.172	-	-	1.172
Other intangible assets	-	-	-	-
Tangible assets	7	-		7
Deferred tax assets	460	-	-	460
Other non-current assets	-	-	-	-
Total non-current assets	**1.639**	**-**	**-**	**1.639**
Current assets				
Trade receivables	166	-	-	166
Tax receivables	61	-	-	61
Other current assets	187	-	-	187
Cash and cash equivalents	15	-	-	15
Total current assets	**430**	**-**	**-**	**430**
Total assets	**2.069**	**-**	**-**	**2.069**
Shareholders' equity				
Share capital	1.120	-	-	1.120
Legal reserve	7	-	-	7
IFRS transition reserve	-	-	-	-
Other reserves	973	-	-	973
Profits (losses) carried forward	(586)	-	-	(586)
Profit (loss) for the year	(1.592)	-	-	(1.592)
Total shareholders' equity	**(77)**	**-**	**-**	**(77)**
Non-current liabilities				
Employee benefits	21	-	-	21
Non-current financial liabilities	798	-	-	798
Total non-current liabilities	**819**	**-**	**-**	**819**
Current liabilities				
Trade payables	1.083	-	-	1.083
Tax payables	4	-	-	4
Other current liabilities	240	-	-	240
Total current liabilities	**1.327**	**-**	**-**	**1.327**
Total liabilities	**2.069**	**-**	**-**	**2.069**

Income Statement

	ITA GAAP Income Statement as at 31 December 2017 restated according to IFRS	IFRS adjustments	IFRS reclassifications	IFRS Income Statement as at 31 December 2017
	€/000	€/000	€/000	€/000
Revenues from sales and services	-	-	-	-
Other revenues and income	1.088	-	-	1.088
Tax credit	-	-	-	-
Total operating revenues and income	**1.088**	**-**	**-**	**1.088**
Purchases of raw materials, consumables and merchandise	1	-	-	1
Costs for services	309	-	-	309
Personnel costs	228	-	-	228
Other operating costs	59	-	-	59
Amortisation, depreciation and write-downs	2.488	-	-	2.488
EBIT	**(1.998)**	**-**	**-**	**(1.998)**
Financial income	2	-	-	2
Financial charges	9	-	-	9
Pre-tax profit	**(2.005)**	**-**	**-**	**(2.005)**
Income taxes	413	-	-	413
Profit for the year	**(1.592)**	**-**	**-**	**(1.592)**

Explanatory Notes

Note 3 Intangible assets

The breakdown of the item Intangible assets as at 31 December 2018, compared with the same values as at 31 December 2017, is shown below:

	2018	2017 Restated
	€/000	€/000
Completed productions	12,727	-
Productions in progress	5,724	-
Other rights and cryptocurrency wallet	2,177	1,173
Total intangible assets	**20,628**	**1,173**

The item ‘completed productions’ includes the capitalisation of completed works in the year; these works refer to the film Poison Rose and the first 15 episodes of the web series Arctic Justice.

The item ‘Productions in progress’ includes the capitalisation of the costs of productions not completed at the close of the year; these productions mainly refer to the film Waiting for the Barbarians.

The item ‘other rights’ includes the capitalisation of the costs incurred for the acquisition of the distribution rights for films in Italy. The films for which the distribution rights in Italy were acquired are represented primarily by Arctic Justice and Lamborghini.

The item ‘cryptocurrency Wallet’ includes the amount of cryptocurrency (TATATU) available within the Company’s wallet shown at the total fair value.

The changes in the intangible assets are shown below.

	At 1 January 2018	Increases	Decreases	Amortisation	At 31 December 2018
	€/000	€/000	€/000	€/000	€/000
Completed Productions	-	35,216	-	(22,490)	12,726
Productions in progress	-	5,725	-	-	5,725
Other rights and cryptocurrency wallet	1,173	1,004	-	-	2,177
Total Intangible Assets	**1,173**	**41,945**	**-**	**(22,490)**	**20,628**

Note 4 Tangible assets

Tangible assets totalled Euro 5 thousand.

Note 5 Deferred tax assets

Deferred tax assets, amounting to Euro 1,624 thousand, are composed of the taxes calculated on the temporary differences between the book values recognised in the financial statements and the corresponding amounts recognised for tax purposes. The breakdown of Deferred tax assets as at 31 December 2018 relates to the following accounting entries:

	2018	2017 Restated
	€/000	€/000
Amortisation of intangible assets	1,172	-
Write-downs of intangible assets	413	413
Other temporary differences	39	47
Total deferred tax assets	**1,624**	**460**

It should be noted that deferred tax assets are recognised to the extent in which adequate future taxable profits are likely to exist which may make the use of the deductible temporary differences and the tax assets and liabilities brought forward applicable.

Note 6 Other non-current assets

The other non-current assets amounted to Euro 12 thousand, relating to security deposits.

Note 7 Trade receivables

Trade receivables came to Euro 14,735 thousand. Details are provided below:

	2018	2017 Restated
	€/000	€/000
Trade receivables due from third-party customers	14,385	111
Receivables due from related parties (Note 27,1)	350	55
Trade receivables	**14,735**	**166**

Receivables due from customers are generated by normal commercial activities and are regularly collected at the maturity dates agreed in the sale contracts.

The geographic breakdown of trade receivables is provided in the table below:

	2018	2017 Restated
	€/000	€/000
Receivables due from domestic customers	249	166
Receivables due from EU customers	-	-
Receivables due from non-EU customers	14,486	-
Total trade receivables	**14,735**	**166**

As at 31 December 2018, no bad debt provision was recorded.

Note 8 Tax receivables

The table below shows the comparison between tax receivables as at 31 December 2018 and 2017.

	2018	2017 Restated
	€/000	€/000
VAT credit	518	61
Cinema production tax credit	3,622	-
Tax credit R&S	5,244	-
Total tax receivables	**9,384**	**61**

As at 31 December 2018, the item was primarily composed of the cinema tax credit and the R&D tax credit.

The item ‘cinema production tax credit’ refers to the tax concession deriving from the tax credits granted to film production companies in relation to the costs incurred for the production of Italian audio-visual works.

The item ‘R&D tax credit’ is connected with the research and development activities carried out in 2018. The research incorporated the conception, study, design and prototyping of new advanced production methods applicable to short content. This was done because said new products are in line with the social media usage habits of the new generations, that prefer to watch video content through web and social media channels like Instagram, FB etc. but who, at the same time, are looking for high-quality products.

More specifically, in 2018, the aforementioned new production process (called Pipeline 0.1) was conceived and developed, conducting experimental analyses to define the various phases of processes and to determine the most suitable process parameters for reaching the project objectives, with particular attention to the quality of the products, productivity and product costs. Owing to the unique characteristics of the technical solutions and the technological measures adopted, the project is innovative and original for the Company, but considering the results achieved, partial and not definitive, research and development activities must be continued.

Note 9 Other current assets

Details of the item Other current assets are summarised in the following table:

	2018	2017 Restated
	€/000	€/000
Advances to suppliers	6,880	168
Other receivables	19	19
Prepaid expenses	82	0
Total other current assets	**6,981**	**187**

Advances to suppliers refer to the payments made to suppliers for which the invoice has not been received. The amount of Euro 6,880 relates primarily to the film Waiting for the Barbarians.

Note 10 Cash and cash equivalents

The breakdown of the item is shown below:

	2018	2017 Restated
	€/000	€/000
Cash and bank deposits on demand	151	15
Short-term bank deposits	-	-
Total cash and cash equivalents	**151**	**15**

There are no restrictions on Cash and cash equivalents at 31 December 2018 and 2017.

For a better understanding of cash movements, reference is made to the cash flow statement analysis.

Note 11 Shareholders’ equity

The breakdown of the item is shown below:

	2018	2017 Restated
	€/000	€/000
Share capital	1,120	1,120
Legal reserve	7	7
Other reserves	1,771	973
FTA reserve	-	-
Profits/(losses) carried forward	(2,178)	(586)
Profit/(loss) for the year	10,203	(1,592)
Total shareholders’ equity	**10,923**	**(78)**

Share capital

As at 31 December 2018 and 2017, the share capital amounts to Euro 1,120,000, fully paid up and is comprised of 120,000 shares with a nominal value of Euro 10 each.

Legal reserve

As at 31 December 2018, the legal reserve amounts to Euro 7,186.

Other reserves

Details of the item “Other reserves” for the years ended 31 December 2018 and 2017 are reported below:

	2018	2017 Restated
	€/000	€/000
Extraordinary reserve	28	28
Capital contributions	1,743	945
Other reserves	**1,771**	**973**

As at 31 December 2018, the item ‘Other reserves’ amounted to Euro 1,771, marking a decrease of Euro 798 thousand compared to 31 December 2017, deriving from the waiving of a receivable by the sole shareholder for a total of Euro 798 thousand.

Note 12 Employee benefits

The item ‘Employee benefits’ amounted to Euro 19 thousand and relates to employee severance indemnity.

Note 13 Financial liabilities

The item includes the variable-rate medium/long-term bank loan. The table below shows the loan entered into by the Company, with details of the amounts falling due within and after 12 months:

€/000

Disbursing institution	Type of loan	Interest rate	Amount disbursed	Origination year	Maturity year	Within 1 year	Between 1 and 5 years
Mediocredito Italiano	Loan	2,80 (until 24/01/2019) - 3M Euribor + 3,1 spread	6,000	2018	2020	0	6,000

Note 14 Trade payables

Trade payables came to Euro 24,302 thousand, as indicated in the following table:

	2018	2017 Restated
	€/000	€/000
Trade payables	18,580	1,083
Payables to related parties (Note 27,1)	5,722	-
Trade payables	**24,302**	**1,083**

Total trade payables represents the Company's debt to suppliers for the purchases of services. The item is composed of invoices to be received (Euro 7,967).

The geographic breakdown of trade payables is provided in the table below:

	2018	2017 Restated
	€/000	€/000
Payables to domestic suppliers	6,912	961
Payables to EU suppliers	466	-
Payables to non-EU suppliers	16,924	122
Total trade payables	**24,302**	**1,083**

Note 15 Tax payables

The item Tax payables includes the payables relating to IRES, IRAP and other current taxes. The details are as follows:

	2018	2017 Restated
	€/000	€/000
Payables for current taxes	2,370	-
Sundry tax payables	323	5
Total tax payables	**2,693**	**5**

As regards, tax payables as at 31 December 2018, the most significant item is direct taxes amounting to Euro 2,370 thousand, more specifically Euro 2,142 for IRES and Euro 227 thousand for IRAP.

Note 16 Other current liabilities

As at 31 December 2018, Other current liabilities totalled Euro 9,580 thousand; details of the comparison with the amounts at 31 December 2017 are shown below:

	2018	2017 Restated
	€/000	€/000
Payables to personnel	14	23
Payables to social security institutions	225	136
Advances from customers	93	67
Deferred income	9,145	5
Other payables	103	8
Total other current liabilities	**9,580**	**239**

The other current liabilities are mainly comprised of deferred income relating to revenues pertaining to future years.

Note 17 Revenues

Revenues totalled Euro 26,323 thousand and refer to the transfers of rights-of-use of Intellectual Property carried out in the year.

	2018	2017 Restated
	€/000	€/000
Poison Rose	13,878	-
Artic Justice Web Series	12,445	-
Total revenues from sales and services	**26,323**	**-**

Revenues are from non-EU customers.

Note 18 Other revenues and income

Other revenues and income refer mainly to the transfer of rights other than rights-of-use of Intellectual Property:

	2018	2017 Restated
	€/000	€/000
Sale of other rights	1,198	-
Other income	106	1,088
Total other revenues and income	**1,304**	**1,088**

Note 19 Tax Credit

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

	2018	2017 Restated
	€/000	€/000
Cinema production tax credit	3,066	-
R&D tax credit	3,933	-
Total subsidies and grants received from government	**6,999**	**-**

The item 'cinema production tax credit' refers to the tax concession deriving from the tax credits granted to film production companies in relation to the costs incurred for the production of Italian audio-visual works.

For information relating to the R&D Tax Credit refer to Note 8 Tax receivables.

Note 20 Purchases of Raw materials, consumables and merchandise

The item Purchase of Raw materials, consumables and merchandise amounted to Euro 22 thousand.

Note 21 Costs for services

The item "Service costs", and the associated comparison with the balances of the previous year, are detailed in the following table:

The item suffered a reduction in the period, mainly connected with the costs incurred in 2017 for the purchase of rights.

	2018	2017 Restated
	€/000	€/000
Travel and lodging	71	32
Tax and administrative consulting	37	24
Bank fees	49	3
Fees to Directors	11	4
Fees to Board of Statutory Auditors	12	12
Other costs for services	34	19
Costs to acquire sundry rights	-	215
Total costs for services	**214**	**309**

Note 22 Personnel costs

The item “Personnel costs”, and the associated comparison with the balances of the previous year, are detailed in the following table:

	2018	2017 Restated
	€/000	€/000
Salary and wages	165	187
Social security charges on salary and wages	41	30
Allocation to employee severance indemnity	12	11
Total personnel costs	**218**	**228**

Note 23 Other operating costs

The item “Other operating costs”, and the associated comparison with the balances of the previous year, are detailed in the following table:

	2018	2017 Restated
	€/000	€/000
Rentals and leases	10	7
Losses	-	10
Contingent liabilities	15	34
Other operating costs	11	8
Total other operating costs	**26**	**59**

Note 24 Amortisation, depreciation and write-downs

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

	2018	2017 Restated
	€/000	€/000
Amortisation of intangible assets	**22,490**	**766**
Amortisation of Poison Rose	*12,302*	*-*
Amortisation of Artic Justice WS	*10,188*	*-*
Amortisation of other rights	*-*	*766*
Amortisation of intangible assets	**3**	**3**
Amortisation	**22,493**	**769**
Write-downs	-	**1,719**
Total amortisation write-downs	**22,493**	**2,488**

Note 25 Financial income and charges

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

	2018	2017 Restated
	€/000	€/000
Interest income on bank deposits	-	2
Gains on exchange rates	34	-
Total financial income	**34**	**2**
Interest expense on loans	34	-
Losses on exchange rates	76	-
Other financial charges	166	9
Total financial charges	**276**	**7**

Note 26 Income taxes

Details for the item 'Taxes' are shown below:

	2018	2017 Restated
	€/000	€/000
IRES	2,143	-
IRAP	227	-
Deferred taxes	(1,164)	(413)
Total income taxes	**1,206**	**(413)**

The difference between the standard tax rate for IRES, equal to 24%, and the actual tax rate of 19%, is mainly attributable to the combined effect of: (i) the increase relating to the amortisation of intangible assets for Euro 4,882 thousand; (ii) the decrease relating to revenues for Government grants amounting to Euro 6,999 thousand.

Note 27 Other information

27.1 Transactions with related parties

Iervolino Entertainment is a subsidiary of Luxembourg company Media Fund & Partners which controls not only Iervolino Entertainment but the company Ladybug Film S.r.l..
Iervolino Entertainment's transactions with related parties concerned:

- Related companies;
- Other related parties.

The performance of transactions with related parties, potentially exposed to the risk of a conflict of interests, is in line with Iervolino Entertainment's intention to solidify existing synergies in terms of production and sales integration, efficient use of current skills and rationalisation of the use of resources. It should be noted that related party transactions do not include any atypical transactions.

All related party transactions, both those relating to the exchange of goods, and to the provision of services, with the exception of non-interest-bearing loans, are regulated according to the normal conditions applied by the market.

The following table provides the amounts of the transactions entered into with related parties in the year:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film S,r,l,	-	1,270	5,722	-	-	4,123
TATATU Enterprises Ltd	350	-	-	-	4,350	-
Andrea Iervolino Services Inc,	-	301	-	-	-	-
Total related party transactions	**350**	**1,571**	**5,722**	**-**	**4,350**	**4,123**
Total of financial statement items	**14,735**	**38,787**	**24,302**	**18,296**	**34,625**	**22,974**
Weight of financial statement items	**2%**	**4%**	**24%**	**0%**	**13%**	**18%**

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

- The provision of the post-production service relating to the web series Artic Justice and the film The Poison Rose carried out by Ladybug Film S.r.l. (company subject to control of the parent company);
- The purchase by TATATU (a company controlled by a shareholder of Iervolino Entertainment) of the Italian streaming rights on the TATATU platform of the film The Poison Rose;
- The provision of services by Andrea Iervolino Services Inc. for the film Waiting for the Barbarians.

In addition, during the year, the Company collected approximately Euro 5 million from Ambi Distribution Corp as part of compensation of the Minimum distribution guarantee relating to production of the film Waiting for the Barbarians.

With reference to the financial transactions with related parties, as indicated in note 11, the sole shareholder waived the receivable totalling Euro 798 thousand; the balances relating to financial receivables and payables with related parties as at 31 December 2018 came to zero.

27.2 Commitments and guarantees given by the company

As part of its commercial and financial activities, the Company did not receive or grant any guarantees.

Iervolino Entertainment S.p.A.

Financial statements as at December 31, 2018

Independent auditor’s report

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

Independent auditor's report
(Translation from the original Italian text)

To the Sole Shareholder 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 December 31,2018, and the statement of profit /(loss) for the year, the statement of other components of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows 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 December 31, 2018, 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.

Other matter

This report is not issued pursuant to the provisions of the Italian law, as the responsibility for the statutory audit pursuant to art. 2409-bis of the Italian Civil Code remains with another audit.
The financial statements report comparative figures related to the previous year prepared in accordance with the international accounting principles deriving from the financial statements as at 31 December 2017, prepared in accordance with the Italian regulations governing the preparation criteria.
The explanatory note 11 illustrates the effects of the transition to the International Financial Reporting Standards adopted by the European Union and includes the information relating to the reconciliation statements required by IFRS 1.

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.

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.

Roma, March 25 2019

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

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