



# **Annual Financial Report of Iervolino & Lady Bacardi Entertainment as at 31 December 2022**

IERVOLINO & LADY BACARDI ENTERTAINMENT S.P.A.

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# REPORT ON OPERATIONS OF IERVOLINO & LADY BACARDI ENTERTAINMENT S.P.A. FOR THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2022

## 1. Introduction

The financial statements as at 31 December 2022 of Iervolino & Lady Bacardi Entertainment (hereinafter also ILBE or Company) closed with total revenues of €128,293 thousand (147,578 thousand last year) and an EBIT, before certain recurring for €7,730 thousand, of €13,560 thousand (€26,810 thousand last year). The EBIT margin was 11% (18% last year).

At the same time, the net financial position (net of the net effect of €1,260 thousand created in 2022 of IFRS 16 relating to the new lease contracts) improved to €21,814 thousand compared with €29,816 thousand as at 31 December 2021.

The results obtained are coherent and consistent with the backlog and the projects under development and the guideline of the foreseeable evolution of the management represented in the Consolidated Report on operations of the previous year.

These results are, moreover, in line with the strategic choices of:

- (i) Investing in quality Intellectual Properties;
- (ii) essentially international market choice and, predominantly, aimed at a streaming audience;
- (iii) Diversification with high added value service activities (executive productions and provision of quality services)
- (iv) Prioritise growth and value creation over time over short-term profitability;
- (v) Investment and growth in the context of financial balance.

In this regard, the successes of international and national audiences on SKY-cinema, Apple TV, SKY-Dea Kids and Amazon Prime Video of the collections of "Arctic Friends", "Puffins", Lamborghini, Dakota, Eddie & Sunny, The Poison Rose, State of Consciousness, MUTI, Waiting for the Barbarians, In Dubious Battle - Il Coraggio degli Ultimi, The Bleeder, The Humbling, Shiraz - La Città delle Rose, Beyond the Edge, and others, confirm the goodness of the choices made.

The song Applause, a hymn to women all over the world taken from the film Tell it like a woman, composed by Diane Warren and performed by Sofia Carson, was one of the 5 candidates for "Best Original Song" at the Academy Awards held on 13 March 2023.

The film Tell it like a Woman film, for which "Applause" was composed, is produced by ILBE and We Do It Together is an all-female anthology which, through seven short films made by eight female directors, highlights women's stories of courage and determination.

## 2. The macroeconomic context and the 'Media & Entertainment' reference industry

The global entertainment and media (M&E) industry experienced a significant increase last year, strongly outpacing overall global economic growth. Following a pandemic-related decline of 2,3% in 2020, M&E revenues increased 10,4% in 2021, from \$2,12 trillion to \$2,34 trillion.

The sector is becoming more digital, more mobile and more youth-oriented. Virtual reality (VR)

and gaming are powerful growth drivers, while digital advertising permeates the entire industry.

The Outlook results expected from a sector study by a major international consultancy firm include:

- ✓ Global video game and esports production totalled \$215,6 billion in 2021 and is projected to grow at a CAGR of 8,5% to \$323,5 billion in 2026. Asia Pacific generated the lion's share of revenues in 2021 at \$109,4 billion, nearly double that of North America, the second-highest region. Gaming is now the third largest data-consuming M&E content category, behind video and communications.
- ✓ VR continues to be the fastest growing M&E segment, albeit from a relatively small base. Global spending on virtual reality increased 36% year-over-year in 2021 to \$2,6 billion, following growth of 39% in 2020. Growth between 2021 and 2026 is forecast at 24% CAGR, bringing the segment to \$7,6 billion. Gaming content is the top contributor to VR revenue, grossing \$1,9 billion in 2021. This is expected to increase to \$6,5 billion in 2026, 85% of total VR revenue.
- ✓ The spread of advertising across the digital world has made it a dominant industry category. After a nearly 7% decline in 2020, advertising grew an impressive 22,6% in 2021 to \$747,2 billion. Driven almost entirely by digital, advertising is projected to grow at a CAGR of 6,6% through 2026. Internet advertising revenue is seen growing even faster, expanding at 9,1% CAGR. In 2026, advertising is projected to be a \$1 trillion market and the largest M&E revenue stream, having overtaken consumer spending and internet access.
- ✓ After growing 35,4% in 2020, over-the-top (OTT) video grew another 22,8% in 2021, driving revenue to \$79,1 billion. OTT revenue growth pace to moderate slightly; it is expected to grow at a CAGR of 7,6% through 2026, pushing revenues to \$114,1 billion.
- ✓ Traditional TV, beset by competition from OTT streaming services, still generates sizable revenues, but its inexorable decline will continue, with global revenues expected to shrink at a -0,8% CAGR from \$231bn in 2021 to \$222,1 billion in 2026.
- ✓ Global movie revenues are rebounding, reversing losses caused by the pandemic, and are forecast to hit a new high of \$46,4 billion in 2023. Box office revenue is projected to reach \$49,4 billion in 2026 from \$20,8 billion in 2021, a CAGR of 18,9%. China overtook the United States to become the world's largest film market in 2020 and is expected to maintain this leadership through 2026.
- ✓ Live music revenue is expected to surpass pre-pandemic levels in 2024. Digital music streaming subscriptions are driving growth in the recorded music industry, where revenues are projected to grow from \$36,1 billion in 2021 to \$45,8 billion in 2026.
- ✓ Growth in content is fuelling massive data consumption: 2,6 million petabytes (PB) of data was consumed in 2021 and is projected to grow at a CAGR of 26% to reach 8,1 million PB by 2026.
- ✓ Gaming will be the fastest growing data consumer over the forecast period, with a projected CAGR of 29,6%. Mobile phones will be the fastest growing device category between 2021 and 2026, with a CAGR of 28,8%, and is expected to push mobile data consumption from 1,1 million PB to 3,8 million PB extension.

In essence, what emerges as an M&E market trend is that the choices billions of consumers make about where they will invest their time are fuelling industry transformation and driving trends. Essentially, we are seeing the emergence of a global M&E consumer base over the next few years that is younger, more digital, and more into streaming and gaming than the current consumer population. This is shaping the future of the industry.

## **North America dominates per capita M&E, but the fastest growth lies elsewhere**

Regionally, North America has by far the highest M&E spending per capita, at \$2,229, nearly double Western Europe's \$1,158. In contrast, Asia Pacific, which was the largest M&E region by revenue in 2021 at \$844,7 billion, has per capita spending of \$224. The Middle East and Africa have the lowest per capita M&E spending of any region globally, at \$82.

The top ten growth markets by CAGR, meanwhile, are focused on Latin America, the Middle East, Africa and Asia, with video and OTT gaming providing the bulk of the revenue growth, and esports and cinema also seeing rapid growth. Turkey (estimated CAGR 14,2%), Argentina (10,4%), India (9,1%) and Nigeria (8,8%) lead the way in consumer M&E spending growth prospects over the period five-year forecast.

## **The Italian market**

In 2022, the Italian Entertainment & Media market is expected to be worth €36,6 billion and €40,8 billion for 2026 (CAGR '21-'26: +3,5%), despite the uncertainty dictated by the recent geopolitical instability.

The Italian M&E market grew to €34,3 billion in 2021, surpassing the pre-pandemic value of €33,9 billion in 2019). Consumer spending will grow with a CAGR '21-'26 of +3,3% from 24,6 billion in 2021. The Advertising market will grow with a CAGR '21-'26 of +4,1% from 9,7 billion in 2021. They grow in absolute value and in relative terms: OTT video (+€436 million; +36,2%), Cinema (+€256 million; +146,1%) and Music & podcasts (+€239 million; +32,7%). The most significant growth is in the Video games & esports market (+41,3%) driven by virtual reality. These are the main results of the study in an important Italian consultancy firm for the M&E outlook in 2022-2026.

The study outlines the forecasts of the M&E market to 2026 based on the performance of the 17 main segments: books, Business-to-Business, cinema, Internet data consumption, 5G technology, Internet access, online advertising, music-radio-podcasts, magazines, newspapers and periodicals, Out-Of-Home advertising, traditional TV and home video, Over-The-Top video streaming, TV advertising, videogames & esports, virtual reality and - starting this year - metaverse & NFT.

Against an overall GDP growth of +6,6%, the revenues of the M&E sector recorded a considerable growth of +9,6%, reaching over €34,3 billion in 2021; if we consider that this figure can be projected to exceed €40,8 billion in 2026, the sector's role as a solid contribution to the national economy is confirmed. The GDP trend can traditionally influence some of the most important indicators of the M&E sector such as general consumer spending and advertising-related spending, which in 2022 will grow respectively by +5,4% and +10,5% (trend that will be maintained in the forecast period). There is an overall increase in investments in infrastructure and assets, both public and private. The benefits obtained, although of various nature, are more influential in terms of reduction of the so-called "Digital Divide" (i.e. the progressive reduction of the gap between those who have access to information technologies and those who are excluded from it) and in terms of availability of increasingly advanced and immersive M&E content. The new consumption habits - largely due to the legacy of the pandemic - have further accelerated the digitisation trend already established in previous years. Unlike others, the M&E sector is not currently among those impacted in the most disruptive way by the recent evolutions of the geopolitical context (although some negative effects are already evident, especially as regards procurement and production costs), but this does not mean that it will be

immune to a general wave of uncertainty. If the current negative estimates in terms of inflation are added to this context, it is reasonable to expect effects inherent both in the Consumer world (with end users who will see their ability/propensity to spend reduced, prioritising goods considered "primary") and in the Business (with some sector players who will intensify their communication activities to strengthen their competitive advantage and others who will have to reinvent current advertising strategies, aiming at new mixes for their target audiences to obtain savings in terms of cost).

## **NFT opportunities**

NFTs (Non Fungible Tokens) are digital certificates of authenticity. NFTs demonstrate ownership of a unique digital asset such as a work of art, a song, a collector's item, a film or video or anything else with blockchain technology.

Thus, if you buy a physical painting, you know it is real because you see the artist's signature on the canvas. Someone can photocopy the painting, but they don't own it. You do. Before NFTs, digital assets were like photocopies: you can see who has published something, but you cannot see who owns an Instagram post, a Pinterest Pin or a Reddit meme.

NFTs are like a signature for digital objects: they authenticate the ownership of digital assets. Just like physical certificates, they document: (i) who created it; (ii) when it was created; (iii) who bought it (and when); (iv) the price at which it was sold; (v) who owns it now.

This is public via a blockchain, so anyone can track your NFTs from the original creator to your wallet and verify their authenticity (even friends calling you crazy for buying a profile picture).

But owning digital resources is more than 'nice to have'. It is a fun hobby. Some NFTs unlock digital (or physical) experiences, grant access to exclusive communities, allow you to contribute to projects, and grant premium access to software products.

NFTs are increasingly gaining ground in the art, entertainment and business worlds, changing paradigms through a very specific dynamic: guaranteeing fans the true and certified unique ownership of work by their favourite artist. Having landed in Italy over the past few months, the NFTs have arrived at the cinema. There are many NFTs made with films. The opportunities are only beginning, but there is no doubt that this is a new possibility for exploiting works.

## **The metaverse**

In the not too distant future, the metaverse could become an incredibly realistic world where people access immersive virtual experiences, through a VR headset or other connected device. Since the metaverse is an evolution that can profoundly change the way businesses and consumers interact with products, services and each other, its potential financial and economic value goes far beyond VR. Over time, much of the production associated with video games, musical performances, advertising, and even e-commerce could migrate to the metaverse.

How big is the M&E opportunity in the metaverse? The rapidly growing market for VR is a

starting point to consider. It is currently one of the smallest segments monitored, but the 36% increase in global production over the past year is a hint of its long-term potential. The global installed base of standalone and tethered VR headsets is projected to grow from 21,6 million in 2021 to 65,9 million in 2026.

With the impressive growth and potential of the M&E sector also comes enormous volatility in the markets and what can only be described as fault lines opening between companies, within sectors and across geographies and generations.

The challenge and goal will be to understand the consumer and end up on the right side of the disruption.

### **3. The ILBE business model**

ILBE is a Global Production Group specialising in producing film and television content, including web series, films, TV shows and short TV shows. It has relationships with leading international partners and interacts with internationally renowned actors and actresses to develop audiovisual productions for international distribution.

The Company's activities from which the related revenues arise are:

- ✓ Film and audiovisual content production activities;
  - ✓ The exploitation of rights and IP in the portfolio. In particular, in the area of 'animation' products, the licensing of characters and pipelines (processes and working methods for the production of animated content), plus the exploitation of distribution rights;
  - ✓ 'Service' activities, i.e. executive production carried out for other producers;

The contents of the audiovisual productions are designed for the global market with the participation of internationally renowned actors. The works are mainly shot directly in English.

The Company starts the production of cinematographic and audiovisual contents after having stipulated contracts for the concession of the right to use its own intellectual properties that provide for the payment of the so-called guaranteed minimum, thus transferring the performance risk of the work to international distributors.

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

Revenues and income from the production or distribution of film and audiovisual works (TV series) are divided into four broad categories:

- ✓ Revenues deriving from granting the right to exploit Intellectual Properties through the so-called guaranteed minimum right (MG) to the sales agent or distributor, which represent the majority of the work revenues; these revenues are realised at the time of its delivery to the customer. The actual production period can last from four to seven months for web series to ten to eighteen months for films, the duration of which varies according to the intrinsic characteristics of the individual works;

The collection of the MG generally takes place on average between five to six months after



delivery to the customer, but also over a year. In this case, the greater share in the film's income compensates for the greater financial exposure;

- ✓ Income from Government Grants (tax credits or other contributions to the cost of production) is accounted for in connection with the realisation of revenue from granting international distribution rights and the realisation of back-end revenue regarding the reasonable certainty of receipt.

The collection takes place, on average, eighteen months after commercial delivery of the work.

- ✓ Revenues from the distributor's share of the income after the MG (so-called backend, of which the distributor is obviously responsible for the majority). In this case, these revenues are recognised when they are realised, i.e. when they are collected, which generally takes place over a long period of time, or, in the case of sales to third parties when the relevant rights are transferred.

The collection of backend revenues occurs at the time of realisation, which normally takes place within a long-term time horizon;

The backend of the web series also includes the licensing of characters and pipelines both in Italy and abroad, which, in this type of work, realise the dominant share of revenues after the guaranteed minimum of distribution. These investments also have the indirect benefit of enhancing the value and commercialisation of the IP owned and, therefore, the possibility of creating new lines of business through the commercial exploitation of the same, such as merchandising or video games.

It should also be noted that the latter transactions are generally part of overall agreements with producers that also provide for significant investments by the Company in distribution rights for the works to be produced. While this quantitatively and qualitatively increases the Company's library of distribution rights, which will have a financial manifestation in terms of receipts in future years, it also has a significant financial absorption that reduces the net receipts from 'service' activities that also involve the sale of pipeline rights, i.e. other rights.

- ✓ Income from distribution rights or the sale thereof.

The cost of sales of cinematographic and audiovisual works, recorded in the types of revenue mentioned, is represented by the share of the financial year of the amortisation of the works or rights whose costs, during the realisation phase, are recorded in the intangible assets. These investment costs are paid very quickly.

Amortisation is calculated following the international accounting standard illustrated in the notes to the financial statements of the 'film forecast computation method', which is determined over the time horizon in which the intangible asset will generate revenues. Based on the peculiarity and visibility of the individual productions or distribution rights forecasts, the amortisation period is estimated to be a maximum of four financial years. Accordingly, at the end of the fourth financial year, the work, or the related rights, will have a net carrying amount of nil even though it will not have completed its ability to generate cash through possible exploitation in the years after the fourth financial year.

## 4. Activities carried out in 2022

### ILBE productions

Regarding management activities, we highlight the main activities of the parent company ILBE relating to productions:

#### *Puffins*

'Puffins the series' is an animated web series, a spin-off of the animated family film 'Arctic Friends'. The episodes, each about five minutes long, will have as their main subjects the 'sea puffins', literally 'sea puffins', the cute and mischievous creatures of 'Arctic-Friends'.

We recall that hire Johnny Depp lent his voice to the character Johnny Puff in 'Puffins', for 250 of the 5-minute episodes of the web series. As part of the agreement, Johnny Depp will be available to participate in the promotion, advertising, interviews and press junkets.

The Company will also be able to create merchandising activities around the Johnny Puff character, which will retain the actor's distinctive features and introduce them to the market at an international level.

The success on the Apple TV, Amazon prime and SKY – DEA kids platforms was also significant for the Puffins, where the first season ranked first in Italy in the ranking for families.

In 2022, 61 animation episodes were produced and delivered to the customer, resulting in recognition of revenues for a total of €20,611 thousand (including government grants).

The IP Puffins enhancement strategy also continued: the DeAgostini group was identified as the ideal partner for the development of a project aimed at positioning and increasing brand awareness, as well as enhancing the IP.

The project, made up of several phases aimed at achieving strategic objectives with different and complementary touchpoints, involved the granting of the programming rights for 60 episodes of the animated series Puffins, for the first time in Italy on the DeAKids -601 channel of Sky - and on the on-demand platform. The airing of the series achieved exceptional ratings (+246% compared to the channel average). This data allows us to better sell the series and all the spin-offs in preparation: Puffins Impossible, Baby Puffins & Bunny.

Furthermore, a strategic enhancement of the product has begun with the creation of an original production of short clips with two exceptional talents, Matt and Bise, two faces recognised as real authorities among Italian youtubers.

To maximise the results obtained and therefore the brand positioning within the kids & family target, a multimedia marketing strategy was studied in parallel (digital, print, adv). In addition, the initials and other extra contents were created from scratch: "What you don't know about the Puffins", "A day at the Puffins" and "Meet the Puffins" always aired on DeAKids channel 601 of sky. The aforementioned programmes achieved a +71% of the channel's average.

The Puffins product has been present in important BTB fairs and festivals such as the "Toys" in Milan and the "Cartoons On the Bay" in Pescara. At the "Cartoons on the Bay", an event sponsored by Rai and organised by Rai Com, the product received a Special Award for best cross-media

product.

In June the Puffins were present at the Annecy Animation Festival, an important event dedicated to animated films.

On 15 September, the Puffins were present at the Milano Licensing Day, the reference event for the licensing market.

The strategy is to launch the YouTube channel, licensing and merchandising in an important way in 2023.

Amongst the developing ideas is to make our animations INCLUSIVE and suitable for all children including autistic children.

### *Baby Puffins & Bunny*

In 2022, the Company began production on a new sequel to the Puffins animation, entitled *Baby Puffins & Bunny*, which will consist of a maximum of 405 episodes of 5 minutes each.

*Baby Puffins & Bunny* is an animated series for preschool children (3-5 years), set in the cold heart of the Arctic. The protagonist is the young bunny Jipo, who spends his days with his four puffins brothers: Didi, Pie, Tic e Tac, and with the PB bear. Together they make up a happy, affectionate and special family. The "*Baby Puffins & Bunny*" family is in fact a modern family, in which the concepts of diversity and integration coexist, an example above all is the bunny Jipo: which belongs to another animal species and has different characteristics compared to little brothers puffin (can't fly, but is very fast).

The series tells the daily adventures of our little protagonists, where the stories are joyful and devoid of real worries, and the situations, often comical, develop until they always find a happy ending. The dynamics are based on a profound harmony between the adult world and the world of children whose roles are always clear and distinct. The role of the adult, played by the PB bear, is responsible, forward-looking and reassuring: a real point of reference for his little ones. Sometimes the charismatic Johnny Puff, an expert in music and sports, and the eccentric Aunt Iris, imaginative and creative, will come to help him in his role. The stories are commented by a narrator who tells the main passages of the episodes and, sometimes, participates emotionally in the situations by managing their times.

In 2022, 135 episodes in the in the animation version were produced and delivered to the customer, resulting in recognition of revenues for a total of €29,512 thousand (including government grants).

### *TIK TOK (Short Animation)*

In 2022, the Company started the production of the animated series in the new cutting-edge "short" format for the Tik Tok generations, consisting of 3 series (*Mini Puffins Wonder*, *Swifty*, *Super Impossible*) of 100 episodes lasting 60 seconds each.

#### *TIK TOK - Swifty*

The adventures of Swifty and her friends return in a new and unedited key, on Tiktok. Swifty is a white fox who has finally landed his dream job: together with the seraphic and relaxed polar bear PB, he is a courier at the Atomic Blast Delivery Service

(Arctic delivery service). Swifty and PB are often joined by their friend Jade, a charming and ingenious vixen who shares challenges, games and misadventures with them; and together they form a dynamic and close-knit trio. Running through the ice to make deliveries hides many pitfalls but one thing is certain: it takes a great team of heroes to do their job well, and luckily for us, Swifty, PB and Jade are ready to rise to the challenge!

In the fascinating and exotic Arctic lands, the adventures of Swifty and his two best friends come to life: seraphic bear PB and cunning fox Jade. The three, who spend their days between unlikely encounters, deliveries and bizarre inventions, find themselves the protagonists of a series of exciting and hilarious stories. The Swifty series aims to entertain and excite through lightness and comedy, without forgetting fundamental issues such as solidarity, friendship and respect for the environment. Their antagonist is the walrus Otto Von Walrus, as brilliant as he is childish, always followed by his very mischievous but faithful Puffins Pif, Puf and Paf. Otto will help make the days of the protagonists even more eventful, between comical, paradoxical and bizarre situations. Fishing competitions, mysterious customers, folk festivals, magic parcels, flying sledges... all this and much more, now also on Tiktok!

### *TIK TOK – Mini Puffins*

The Arctic is an exotic and fascinating place and, unlike what you might think, it is full of life and fun. This is also thanks to the Puffins: Didi, Pie, Tic, Tac and their friend Johnny Puff, who every day invent new ways to have fun and play together. Amongst the colourful and carefree characters of Mini Puffins we have several goats and the funny otters Bertha and Leopold, who between adventures, couple skirmishes and small jealousies always offer hints of comedy and intrigue. Instead, the ingenious and selfish walrus Otto takes care of the spoilsport, who builds bizarre inventions sometimes out of envy and sometimes out of the need to receive attention. The stories offer both educational and entertainment content, for the joy and amusement of the small and the general public.

Tic, Tac, Didi and Pie return to experience amazing adventures, full of fun, in a new format suitable for modern platforms such as "TikTok".

The lovely Arctic birds spend their days amongst the ice, the woods of the Tundra and their special home: the Clubhouse. For this hilarious quartet everything is a discovery and every day can be incredibly exciting!

The Puffins have faithful and very original friends by their side: the legendary Johnny Puff, a former rock star who loves nature and practices yoga and meditation, and the couple Leopold and Bertha: two nice paranoid and conspiratorial otters. But they also have opponents, more funny than evil: Otto, the diabolical and ingenious walrus and his spiteful collaborators: Piff, Puff and Paff.

The Puffins, over the course of the episodes will learn that one should not judge by appearances and that it is important to reflect on the consequences of one's actions. They will understand that unity is always strength, especially when you have to deal with your fears and find courage. Particular attention is always given to topics such as sharing, charity and respect for the environment. Our protagonists will face exciting situations: unmask Otto's plan who prepares biscuits that once eaten transform into Werewolves, come to terms with friend Didi's selfie mania, oppose Otto and his very dangerous remote control stops – time, deal with the craze of playing video games that gets out of hand a Tac... this and much more, also on TikTok!

### *TIK TOK – Super Impossible*

Super Impossible follows the adventures of four superhero Puffins: Tic, Tac, Didi and Pie. Tic, Tac, Didi and Pie. Aided by their mentor Johnny Puff, the Puffins protect Taigasville from trouble caused by the evil engineer walrus: Otto von Walrus.

When the Puffins rashly touch the surface of a mysterious meteorite, their joyous lives in Taigasville changes forever. The four friends find themselves, in fact, possessing exceptional powers: the determined Didi, always enterprising and a little capricious, transforms into Didi Damage, endowed with the power of super speed, which even allows her to spy on the future; the feisty Pie, strong and a little clumsy, transforms into Megapie, endowed with an inexhaustible energy, which allows her to run, swim and fly without stopping; the bespectacled Tac, judicious and intelligent, transforms into Tactik, capable of performing very difficult calculations and controlling every technological tool; the ditzy Tic, sensitive and candid, transforms into Mystic, capable of communicating with nature, sensing every danger thanks to her extraordinary empathy.

The team of superheroes is led by the wacky Johnny Puff, who assumes the identity of Silent Sparrow, a ninja, who acts as a mentor to the group, with a mystical musical sensibility.

The hilarious quintet is faced with the diabolical plans of Dr. Otto von Walrus, the evil walrus engineer who, in his secret lair of the Fortress, is always busy developing the most bizarre inventions, which often end up turning against him.

Didi, Pie, Tic and Tac are back to experience new, exciting adventures, this time in the name of the wildest and most exhilarating action, in a new format, designed especially for the youngest of TikTok users.

Following the amazing adventures of the Super Puffins, the episodes highlight the underlying topics

of the series, which aims to stimulate the young audience, through an always light and sparkling visual language, to reflect on highly topical topics: friendship, solidarity and inclusion, but above all the protection of the environment and the landscape.

The Puffins, who dream of making it big in the music world with their Johnny-Puff inspired band,

show the importance of teamwork, of collaboration that overcomes differences and divergences. The four friends, although so different from each other, are always ready to put aside

disagreements and rivalries to support each other (such as when, for example, Tac investigates the disappearance of Albert Goat or when the Puffins organise a treasure hunt to cheer Tic up), to counter Otto's absurd finds (the magic flute, who hypnotises with his music, the anti-gravity gun, the invisibility ray, the giant Puffin) or to decipher mysterious objects, endowed with arcane powers, such as the magical locket, capable of transforming the appearance of the people who wear it possess, but also to send messages into space, perhaps to an alien civilisation...

Thanks to their powers, the Super Puffins always manage to screw up the clumsy plots of Otto, who deceives the inhabitants of Taigasville, inviting them to a big party at the Fortress, in order to

capture them, he either holds Leopold and Bertha hostage, or even goes as far as kidnapping Johnny Puff, only to have his deafening music silence him!

But above all they manage, thanks to generosity and altruism, to bring the Walrus to his senses megalomaniac, showing him how it is possible to make the best use of intelligence and technology.

Otto, in fact, like a true mad scientist, constantly boasts of his wicked successes, but he always finds himself alone, always looking for his soul mate (who is the mysterious woman with whom he speaks through a red telephone?). He is obsessed with the crazy plan to create an army of faithful Puffins and to enlarge his Fortress: after unsuccessfully trying to steal electricity from the inhabitants of Taigasville and to blackmail them with their most embarrassing photos, the Walrus drills the lake frozen to dump waste from his secret lair, he pours oil into the bay and commands his Puffins to cut down trees in the surrounding forests.

In this context, the superpowers with which the Puffins are endowed allude to the special

qualities of the individual, to its uniqueness and originality, to the contribution that each individual can offer to the resolution of the most tangled situations, to protect friends and defend the environment.

In 2022, 300 episodes in the animation version were produced and delivered to the customer, resulting in recognition of revenues for a total of €13,488 thousand (including government grants).

#### *Animation Movie*

In 2022, the Company started the production of three Animation Films, based respectively on the characters of the animated series Puffins (A Stellar Adventure), Arctic Friends (In Search of the Arctic Idol) and Puffins Impossible (The Walrus Who Wanted too Much ), lasting 85 minutes each.

#### *Animation Movie – A Stellar Adventure*

The Puffins' hilarious adventures come to life in an animated feature film full of action, comedy and positive messages such as ecological sensitivity and diversity. Johnny Puff, Didi, Pie, Tic, and Tac return, busier than ever to rescue wacky aliens Oxy and Toxy from the clutches of evil inventor Otto, who plans to harness their flying saucer technology for his own bizarre and selfish purposes.

Protagonists of our story, the Puffins live in harmony in their clubhouse, having fun playing together every day. Despite their distinct distinctive characters, the four Puffins always get along: diversity is their strong point because each has a special talent, useful for tackling and resolving any situation in the right way. Diversity will also be represented by Oxy and Toxy, the two alien Puffins who will become the Puffins' trusted friends.

The Puffins Didi, Pie, Tic and Tac live carefree in their clubhouse nestled in the heart of the Arctic. Their life flows pleasantly and peacefully together with their friend Johnny Puff, while the walrus Otto (with the help of his puffins Piff, Puff and Paff) builds a mega antenna on the roof of his fortress to watch his favourite soap opera. The signal from Otto's antenna creates interference with Oxy's flying saucer which is forced to make an emergency landing: before the crash, Oxy ejects from the vehicle ending up in the middle of the tundra, while the flying saucer ends up near the fortress of Otto, who takes it to upgrade his antenna. With no vehicle left and only with his alien cube (a sort of musical instrument with which he drove the flying saucer), Oxy wanders in the tundra until he meets Johnny Puff, Didi, Pie, Tic and Tac. After a first not easy encounter with the alien, our people make friends managing to communicate with him and realising that he can't go home. Subsequently, Toxy arrives on Earth, Oxy's brother, who has picked up an SOS signal sent by mistake by Tic while playing with his alien cube. Despite an incursion by conspiracy theorists Bertha and Leopold, fascinated and suspicious of Toxy's flying saucer, the Puffins manage to bring the two aliens together. Toxy is happy to see his brother again, but Oxy can't go back with him because he has to retrieve his flying saucer which is in the walrus fortress. The Puffins thus decide to help their new friends get the flying saucer back: our heroes will succeed in the epic feat of helping Oxy and Toxy get home, while the two cute aliens will, in turn, help the Puffins to save the entire tundra from a climatic catastrophe caused by Otto's dangerous projects.

#### *Animation Movie – In Search of the Arctic Idol*

In search of the Arctic idol is a film of about 80 minutes, inspired by the already known

vicissitudes of

Swiftly, Jade and PB, the very nice protagonists of the web series Arctic Friends. Thanks to a slapstick humour, capable of entertaining children and making adults smile, the film tells an unprecedented and hilarious adventure, introducing the mysterious and unpredictable explorer

Adventure goat.

The life of Swiftly and PB, couriers of the Arctic delivery service, and Jade, brilliant and clumsy mechanic, proceeds placidly amidst small daily unexpected events, but something is about to change. The Puffins of the walrus Otto find the ancient statuette of an idol and inadvertently, breaking it, activate its arcane and dark power. Meanwhile, a mysterious and eccentric stranger arrives in the city: it is the archaeologist-adventurer Adventure Goat, who, meanwhile, is looking for the statuette. Adventure Goat enters the lives of our heroes, putting himself in conflict with Swiftly, who, jealous of the attentions that Jade reserves for the newcomer, tries to equal him and to compete with him in every way. Meanwhile, the pieces of the idol travel among the inhabitants of Taigasville passing from hand to hand and release their positive or negative magic creating unpredictable effects and implications. With the help of the shaman Anuk, to prevent the figurine from falling into the wrong hands, Swiftly, Jade and PB decide to join forces with Adventure Goat with the aim of recovering the pieces and re-sealing the idol's power. What they don't know is that Otto, who discovered the secret, also intends to take possession of the enormous power and will do anything to find the statuette.

#### *Animation Movie – The Walrus Who Wanted too Much*

The hilarious adventures of Puffins Impossible come to life in an animated feature film of about 80 minutes, set in the evocative Arctic lands.

Four very special puffins: Tic, Tac, Didi and Pie, protect the town of Taigasville from evil walrus engineer: Otto von Walrus. When the Puffins rashly touch the surface of a mysterious meteorite, their joyful life in Taigasville changes forever. In fact, the four friends find themselves possessing exceptional powers and becoming superheroes.

Subject The diabolical mind of the walrus Otto Von Walrus takes very little to ignite, so when he throws a used toothpick into the boiler, he realises that his mammoth fortress could be much more powerful thanks to combustion. This thought will be fatal: Otto will stop at nothing to power up his mighty mobile fortress, even if it means cutting down all the trees in Taigasville.

The unsuspecting inhabitants of the placid Arctic town know nothing of his ominous actions, except Tic, the ditzy member of the Puffins Impossible team. Being connected with nature, Tic grows weaker every time a tree is cut down, until he is

completely stripped of his powers. But his very strong feathered companions Didi Damage, Tactik and Mega Pie, led by their mentor Johnny Puff, will help him regain his strength.

Our Puffins Impossible team has many problems with Otto, every day.

From a brutal game of paintball to the invention of a camera that petrifies the photographed subjects and even a mind control device! in addition to many other inventions that distract our heroes from discovering the plans of the unrepentant walrus.

Luckily, Didi Damage, Tactik, Megapie and, of course, Silent Sparrow will not only help Tic regain his strength, but they will discover the plans of the evil walrus and finally manage to contain it with a solution that will satisfy everyone, even Otto himself... before the last tree falls forever.

In 2022, 3 films in the animation version were produced and delivered to the customer, resulting in recognition of revenues for a total of €18,088 thousand (including government grants).

### *State of Consciousness*

'State of Consciousness' is a film by director Marcus Stokes and tells the story of Stephen (Emile Hirsch, known for his role in *Into the Wild*), an ordinary boy who finds himself having to deal with a mental short circuit that detaches him from reality, finding himself forced to take medication for a psychological disorder he doesn't have. To regain his sanity and return to his normal life, his only chance will be to escape the sinister plans of Dr Laura Fielder.

'State of Consciousness', like every film covered by the agreement with Paradox, qualifies as an Italian film and is therefore subject to a government grant and European quota rules.

For the financial year 2022, revenues related to the delivery of the film were recorded for a total of €3,867 thousand (including government grants).

### *MUTI*

August 2021 saw the start of the production of 'MUTI', starring Oscar winner Morgan Freeman. The cast is completed by: Cole Hauser, Vernon Davis, Peter Stormare and Giuseppe Zeno. The film is directed by George Gallo, Francesco Cinquemani and Luca Giliberto. Synopsis: Unable to process the grief over his daughter's death, Detective Lukas, a few days from retirement, launches into a dramatic hunt for a mysterious serial killer who kills according to a brutal tribal ritual: the Muti. The only one who can help Lukas is Professor Mackles, an anthropologist of African origin who hides an unmentionable secret.

Filming began in Mississippi (USA) and continued later in Italy. ILBE has signed agreements with RedBox Entertainment for distribution in the US and Canada and WWPS for worldwide distribution (excluding Italy, US and Canada).

This project involves authors of Italian nationality for an Italian film intended for the global market. Also important is the agreement with RedBox, a top American company in the sector.

For the financial year 2022, revenues related to the delivery of the film were recorded for a total of €17,118 thousand (including government grants).

### *GIVING BACK GENERATION 2 and 3*

The 25-episode series (12 for GBG 2 and 13 for GBG 3) features groups of celebrity guests opening up and discussing important issues and life lessons facing today's teens and young people such as friendship, empowerment, inclusion, kindness and positivity with a single goal: "Give back", make a difference and positively influence the listener. Season two guests are: Taylor Thompson, Tanya Rad, Leonor Varela, Emil Nava, Selena Gomez, Ashley Cook, Serena Poon, Gabe Kennedy, Elisa Sednaoui Dellal, Leo Gassman, Giulia De Lellis, Miguel Gobbo Diazl, Giulia Stabile. The season three guests are: Sarah Dobbeldam, Imani Mcgee-Stafford, Jay Shetty, Radhi Shetty, Leah Haywood, Chari Hawkins, Charles Lew, Genevieve Medow-Jenkins, Natalie Manuel, Arianne Phillips, Irma Testa, Gabriel Garko, Guillermo Mariotto and Alessio Sakara.

For financial year 2022, total of €3,504 thousand (including government grants) was recorded.

### *The main current productions*



### *Ferrari*

In 2022, through the associated company "Welcome to Italy", the executive production of the highly anticipated film "Ferrari" was carried out. The film is written, directed and produced by four-time Academy Award nominee Michael Mann and stars Academy Award nominee Adam Driver as Enzo Ferrari, Academy Award winner Penélope Cruz as Laura Ferrari, Shailene Woodley as Lina Lardi, by Patrick Dempsey in the role of the racing car driver Piero Taruffi, by Jack O'Connell in the role of the driver Peter Collins, by Sarah Gadon in the role of Linda Christian and by Gabriel Leone in the role of the charismatic Fon De Portago.

### *Verona*

ILBE followed in 2022 the executive production of Verona, a feature film with main cinematic exploitation, produced by Verona Production Partners LLC.

The film of US nationality is directed by director Timothy Scott Bogart, with the presence in the cast of Rupert Everett, Rebel Wilson, Jason Isaacs, Clara Rugaard, Jamie Ward. This is a costume musical of the well-known tragedy of Romeo and Juliet by W. Shakespeare revisited with some dramaturgical twists. Filming was followed in Emilia Romagna and Veneto, with the presence of department heads including, the winner of the three Academy Awards set designer Dante Ferretti, the Goya-nominated costume designer Luciano Capozzi and music by Evan Bogart, former owner of the Casablanca record. After the end of shooting which took place between November 2022 and February 2023, the film is in post-production and theatrical exploitation is expected in 2024.

### *In the Fire*

In 2022, the production of the film In the Fire began. The direction was entrusted to Conor Allyn, director, screenwriter and producer of Texan origins, who has already directed "No Man's Land" in 2021 contemporary western set between the Mexico and United States border. Previously, he directed "Walk Ride Rodeo," "Java Heat," as well as various international productions.

The film is expected to be delivered in the first half of 2023.

### *Paradox Effect*

In December 2023, ILBE signed an agreement with Wonder Capital LLC, a film production and distribution company, and one with WWPS, an international film production company, for the assignment of the distribution rights of the film "Paradox Effect", a film from action directed by Scott Weintrob ("Home", "Savage x Fenty") and written by Samuel Bartlett, Ferdinando Dell'Omo and Andrea Iervolino. The agreement provides for the transfer of the rights respectively for the territories of the United States and Canada with Wonder Capital and China with WWPS. With the latter, ILBE has also signed agreements for the concession to exploit the image rights for the creation of NFT's (Non-Fungible Tokens) of the work and for the participation in the sales profits in the rest of the world. The agreements guarantee ILBE a guaranteed, non-revocable minimum amount of approximately €4 million pertaining to financial year 2023. Filming began in January.

The film is expected to be delivered in the first half of 2023.

## 5. Backlog and projects in development

### *Backlog*

At the date of approval of the financial statements as at 31 December 2022, the contracted production portfolio (revenues from the guaranteed minimum still to be produced), totalling €110.6 million:

- New sequel to the animated series Arctic Friends and Puffins, entitled Baby Puffins & Bunny consisting of 405 episodes lasting 5 minutes each, of which 135 animatics episodes made in 2022. The backlog is equal to €91,9 million with a production plan spread over 2023 and 2024.
- Animated series Puffins, Arctic Friends and Puffins Impossible, in the new cutting-edge "short" format for the Tik Tok generations, consisting of 3 series (Mini Puffins Wonder, Swifty, Super Impossible) of 100 episodes lasting 60 seconds each. The backlog of the new animated production is equal to €5,3 million expected in the first half of 2023.
- Production of the film In the Fire for €4,5 million, scheduled for delivery in the first half of 2023.
- Production of three animated films, based respectively on the characters of the animated series Puffins (A Stellar Adventure), Arctic Friends (In Search of the Arctic Idol) and Puffins Impossible (The Walrus Who Wanted too Much), lasting 85 minutes each. The backlog of new production is equal to €4,9 expected in the first half of 2023.
- Production of the film Paradox Effect for €4 million, scheduled for delivery in the first half of 2023.

### *Projects under development*

The projects under development relate to the following future activities that the Company will reasonably develop and contract in the next three-year period '23-'25, amounting, at the date of approval of this document, to a rough estimate of assets of €233,7 million.

In particular, the activities of the projects under development are as follows:

#### Production activities

The activities of ILBE as a producer over the next three-year period '23-'25 are currently estimated at a total of €233,7 million, broken down as follows:

- ✓ Web series, Tik Tok animations and Animation Movies under development in which the Company has decided to invest starting from the current year. To date, some 19 projects are in the development phase with an estimated budget of EUR 114,9 million to be developed over the next three years.
- ✓ Audiovisual projects in development in which the Company has decided to invest since the current financial year. To date, some 9 projects are in the development phase with an estimated budget of EUR 22,6 million to be developed over the next three years.
- ✓ Feature film projects. To date, some 12 projects are in the development phase with an estimated budget of EUR 74,7 million to be developed over the next three years.
- ✓ 'Unscripted' projects. To date, some 16 projects are in the development phase with an estimated budget of EUR 21,5 million to be developed over the next three years.

### Executive production activities

Starting from the end of 2021 ILBE is specialising in executive productions of international import films. After "Lamborghini" in 2021, the executive productions of Ferrari (through the associated company "Welcome to Italy") and Verona began in 2022. In this type of activity, the Company only records the net operating margin (thus netting out revenues and costs according to the reference accounting principles in similar activities). Considering two or three important executive productions per year, the contribution to EBIT and margins will be very interesting. This contribution will come from executive productions which we estimate will generate a turnover of approximately €80 million over the three-year period '23-'25.

## **6. Summary data and alternative performance indicators (APIs)**

The summary data illustrated in this report on operations refer to ILBE's financial statements as at 31 December 2022, prepared following the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and approved by the European Union.

Therefore, the report should be read in conjunction with the financial statements and related notes to the financial statements for the year ended 31 December 2022.

In addition, to facilitate understanding of the Company's economic and financial performance, several alternative performance indicators (the 'Alternative Performance Indicators' or 'APIs') illustrating the operating performance achieved have also been represented.

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

- ✓ these indicators are constructed solely from historical data of the Company and are not indicative of the Company's future performance;
- ✓ IFRS does not require IAPs and, although derived from the Company's financial statements, are not audited;
- ✓ IAPs should not be considered as a substitute for the indicators required by the relevant accounting standards (IFRS);
- ✓ these IAPs must be read in conjunction with the Company's financial information taken from the Company's comparative financial statements;
- ✓ the definitions of the indicators used by the Company, since they are not derived from IFRS, may not be homogeneous with those adopted by other companies and therefore comparable with them;
- ✓ the IAPs used by the Company are prepared with continuity and uniformity of definition and representation for the financial periods considered. As amortisation of audiovisual works constitutes the majority of the Company's cost of sales, EBIT (before non-recurring costs) is the economic indicator of operations.
- ✓ EBIT: is defined as the operating result attributable only to recurring characteristic management.
- ✓ Non-recurring charges: non-recurring charges are costs classified by accounting nature in the financial statements, and reclassified by destination to appropriately comment on the operating performance for the year. These costs, in fact, relate to events or operations - both of ordinary management and not representative of normal business activity - the

occurrence of which is non-recurring or which are not frequently repeated in the normal course of business of the company.

- ✓ Adjusted NFP: is defined as the difference between financial receivables and payables excluding from the latter financial payables arising from the application of IFRS 16 (leases) essentially referring to property leases.

The economic performance of operations for the period is shown below:

<b>Euro thousands</b>	<b>31/12/2022</b>	<b>31/12/2021</b>	<b>Changes</b>	<b>Change %</b>
Revenues	128,292,764	147,757,608	(19,464,844)	-13%
Operating costs	4,490,326	4,001,763	488,563	12%
Staff costs	1,151,974	945,052	206,922	22%
Amortisation, write-downs, and provisions	109,090,366	116,000,585	(6,910,219)	-6%
<b>EBIT</b>	<b>13,560,098</b>	<b>26,810,208</b>	<b>(13,250,110)</b>	<b>-49%</b>
<b>EBIT margin %</b>	<b>11%</b>	<b>18%</b>	<b>-8%</b>	<b>n.a.</b>
Non-recurring charges (classified in the balance sheet under amortisation and costs for services)	7,730,000	941,000	6,789,000	721%
<b>EBIT net of non-recurring costs</b>	<b>5,830,098</b>	<b>25,869,208</b>	<b>(20,039,110)</b>	<b>-77%</b>
Net financial expenses	(4,986,032)	(3,029,711)	(1,956,321)	65%
<b>Pre-tax result</b>	<b>844,066</b>	<b>22,839,497</b>	<b>(21,995,431)</b>	<b>-96%</b>
Taxes	357,245	(2,092,484)	2,449,729	-117%
<b>Net profit for the period</b>	<b>1,201,311</b>	<b>20,747,013</b>	<b>(19,545,702)</b>	<b>-94%</b>

The reclassified balance sheet is shown below:

Euro thousands	31/12/2022	31/12/2021
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	70,337,354	95,524,763
Tangible assets and rights-of-use assets	1,860,609	119,467
Deferred tax assets	7,747,788	7,928,690
Investments accounted for using the equity method	8,034,412	6,776,412
Other non-current assets	2,803,024	1,774,103
<b>Total non-current assets</b>	<b>90,783,187</b>	<b>112,123,435</b>
<b>Current assets</b>		
Trade receivables	36,216,174	17,223,597
Tax receivables	2,057,408	
Current financial assets	22,792,292	12,070,002
Other current assets	17,155,672	34,458,997
Cash and other liquid assets	10,877,447	2,545,166
<b>Total current assets</b>	<b>89,098,993</b>	<b>66,297,762</b>
<b>Total Assets</b>	<b>179,882,180</b>	<b>178,421,197</b>
<b>Shareholders' equity</b>		
<b>Non-current liabilities</b>		
Employee benefits	161,755	158,890
Other non-current liabilities	9,958	300,000
Non-current financial liabilities	25,000,660	32,831,086
<b>Total non-current liabilities</b>	<b>25,172,373</b>	<b>33,289,976</b>
<b>Current liabilities</b>		
Current financial liabilities	27,098,523	11,599,988
Trade payables	9,963,161	19,190,134
Tax payables	-	520,069
Contractual Liabilities	10,200,494	18,079,241
Other current liabilities	18,493,797	8,255,332
<b>Total current liabilities</b>	<b>65,755,975</b>	<b>57,644,764</b>
<b>Total liabilities</b>	<b>179,882,180</b>	<b>178,421,197</b>

The main balance sheet and financial indicators are shown below:

Main balance sheet and financial indicators - Euro thousands	31/12/2022	31/12/2021
Intangible fixed assets (including Trade Mark and Goodwill)	70,337,354	95,524,763
Tangible fixed assets and rights-of-use assets	1,860,609	119,467
Other non-current assets	18,585,224	16,479,205
<b>Fixed assets</b>	<b>90,783,187</b>	<b>112,123,435</b>
Receivables from clients	36,216,174	17,223,597
Payables to clients	(9,963,161)	(19,190,133)
Other current assets/(liabilities)	(9,481,211)	7,604,354
<b>Working Capital</b>	<b>16,771,802</b>	<b>5,637,818</b>
Severance Indemnity	(161,755)	(158,890)
Other non-current liabilities	(9,958)	(300,000)
<b>NIC</b>	<b>107,383,276</b>	<b>117,302,363</b>
Shareholders' Equity	88,953,832	87,486,457
Cash and cash equivalents	(10,877,447)	(2,545,166)
Financing assets	(22,792,292)	(12,070,002)
Financial liabilities	52,099,183	44,431,074
<b>NFP debt</b>	<b>18,429,444</b>	<b>29,815,906</b>
<b>Sources of Finance</b>	<b>107,383,276</b>	<b>117,302,363</b>

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

Euro thousands	31/12/2022	31/12/2021
A - Net cash flow provided by/(used in) operating activities	89,666,150	105,822,317
B - Net cash flow provided by/(used in) investing activities	(86,896,859)	(126,707,362)
C - Net cash flow generated/(absorbed) by financing activities	5,562,991	20,570,061
<b>D - Total cash flow generated/(absorbed) in the period (A+B+C)</b>	<b>8,332,281</b>	<b>(314,984)</b>
E - Cash and cash equivalents at the beginning of the period	2,545,166	2,860,150
<b>F - Cash and cash equivalents at the end of the period (D+E)</b>	<b>10,877,447</b>	<b>2,545,166</b>

Details of the NFP are shown below:

Net financial position - Euro thousands	31/12/2022	31/12/2021
Cash and cash equivalents	(10,877,447)	(2,545,166)
Current financial assets	(18,148,256)	(12,070,002)
Intercompany financial assets	(4,644,036)	
<b>Liquidity</b>	<b>(33,669,739)</b>	<b>(14,615,168)</b>
Current portion of non-current financial liabilities	9,507,372	1,696,013
Liabilities for current leases	12,294,104	4,952,975
Other current financial liabilities	223,645	-
Other current financial liabilities intercompany	5,073,402	4,951,000
<b>Current financial debt</b>	<b>27,098,523</b>	<b>11,599,988</b>
<b>Net current financial debt</b>	<b>(6,571,216)</b>	<b>(3,015,180)</b>
Non-current financial liabilities	23,964,678	32,831,086
Liabilities for non-current leases	1,035,981	-
Non-current trade payables	-	-
<b>Non-current financial debt</b>	<b>25,000,659</b>	<b>32,831,086</b>
<b>NFP debt</b>	<b>18,429,443</b>	<b>29,815,906</b>
<i>of which IFRS 16 (leasing)</i>	<b>(1,259,626)</b>	-
<b>Adjusted NFP debt</b>	<b>17,169,817</b>	<b>29,815,906</b>

### Operating performance and financial results

Revenues and income for the year, analysed for management purposes as a whole, amounting to €128,293 thousand (€147,757 thousand in 2021), relate to the granting of rights to film and audiovisual works and government grants, service activities including licenses to exploit Intellectual Properties. Specifically:

- Revenue from the granting of rights to film and audiovisual works and proceeds from government grants amount to €106,903 thousand (€96,254 thousand in 2021). These revenues and income mainly relate to the productions of Puffins (€20,611 thousand), Baby Puffins & Bunny (€29,512 thousand), MUTI (€17,118 thousand) and Animation Movie (€18,088 thousand).
- Revenues from service activities including licenses for the use of Intellectual Properties amount to €17,944 thousand (€50,976 thousand in 2021).
- Revenues resulting from the exploitation of distribution rights amount to €3,432 thousand (€0 thousand in 2021).

2022 closed with a net profit of €1,201 thousand, which shows a decrease of €19,546 thousand compared to 2021, equal to €20,747 thousand. This change essentially refers to i) the recognition of non-recurring charges of €7,730 thousand; ii) the increase in net financial expenses mainly associated with the recognition of an unrealised loss on financial investments of €993 thousand and with the increase in exchange losses of €120 thousand; and iii) a more prudent amortisation policy for new animated productions compared to the previous year.

From a management perspective, the year recorded an EBIT of €13,560 thousand, which shows a decrease of 49% compared to the same period of 2021 of €26,810 thousand. This decrease essentially refers to a more prudent amortisation policy for new animated productions.

In the context of costs, we point out as a relevant aspect connected to the Russian-Ukrainian conflict and the increase in energy costs which had a significant impact on the increase in film production costs due to the increase and shortage of energy especially in the first 9 months of the year. The film cost reports reveal an increase of 400% in the cost of energy and 80% in the cost of transport respectively used for the productions. the (partial) recovery of margins was achieved through savings and reduction of other costs and internal efficiency improvements.

The effects of the Russo-Ukrainian conflict also had an indirect effect on sales which excluded the Russian market.

Non-recurring charges amount to €7,730 thousand and are consequent to the following cases:  
- €7,146 thousand relating to the change of strategy in the sale of the distribution rights of the so-called "family movies" to favour commercial agreements for the long-term exploitation of works in order to maximise their economic return.

This resulted in the recognition of depreciation based on the relationship existing between the economic benefits deriving from the exploitation of the rights in the current year and the overall economic benefits that will be generated on the basis of the sales plans considering the usual visibility in the short-medium term.

For this reason, significant depreciation was recorded in the year against modest revenues. This event, which is undoubtedly infrequent in nature, is the result of compliance with the continuity of application of the accounting principles.

- €584 thousand relating to portions of smart-working costs and write-downs following the disposal of assets.

From a financial point of view, ILBE's net invested capital is mainly represented by intangible assets (film works, intellectual properties and others) of €70,337 thousand (€95,525 thousand the previous year); other fixed assets amount to €20,446 thousand (€16,599 thousand the previous year) while net working capital is positive at €16,772 thousand (€5,638 thousand the previous year). Other non-current liabilities and severance pay amounted to €172 thousand (€459 thousand in the previous year).

The resulting net invested capital amounts to €107,383 thousand, decreased by €9,919 thousand compared to the balance at 31 December 2021 of €117,302 thousand and is financed by the net financial position of €18,429 thousand (€29,816 thousand at 31 December 2021) and by the shareholder's equity of €88,954 thousand (€87,486 thousand at 31 December 2021).

Working capital mainly includes 'government grants' from film productions, which will be monetised by offsetting other taxes or sold to authorised intermediaries, starting from the following financial year.

From a financial point of view, cash and cash equivalents at 31 December 2022 showed a balance of €10,877 thousand, up by €8,332 thousand compared to the balance at the beginning of the period of €2,545 thousand.

Adding the net difference between financial assets and liabilities to the cash and cash equivalents balance, the net financial position at 31 December 2022 presents a debit balance of €18,429 thousand, a decrease of €11,386 thousand compared to that of the balance at 31



December 2021 of €29,816 thousand. Considering that the net financial position as at 31 December 2022 is impacted for €1,260 thousand by the accounting of the new lease contracts on the basis of IFRS 16, the decrease compared to the balance as at 31 December 2021 is equal to €12,646 thousand. In fact, the adjusted net financial position for the aforementioned effects deriving from the application of IFRS 16 is equal to €17,170 thousand compared to that of 31 December 2021 equal to €29,816 thousand; this reduction is substantially connected to the optimisation of the cash flow of investments compared to the previous year which, among other things, led to the recognition of interest-bearing financial receivables from producers for €6,500 thousand intended for the payment of tax payables arising from executive production. These credits will be reimbursed upon collection of the relevant tax credit by the producer customer.

The main investment and financial dynamics of the year underlying these balances relate to the following:

The positive change in cash and cash equivalents of €8,332 thousand consists of flows generated by operating activities and financing activities amounting to €89,666 thousand and €5,563 thousand respectively, and those absorbed by investment activities in audiovisual works amounting to €86,897 thousand.

In addition, we note the following main financial transactions during the period:

- ✓ The taking out of four medium-term loans of €8,4 million to support existing production;
- ✓ The increase in credit facilities for €7,6 million;
- ✓ A factoring transaction with recourse equal to €2,0 million;
- ✓ The increase of €1,3 million relating to the recognition of new trade payables for leases of offices and factories, but recognised as financial as envisaged by the accounting standard IFRS 16;
- ✓ The repayment of loans for approximately €10 million.

The next financial year will be characterised by loan repayments, again for approximately €10 million, to which must be added charges for financial interest which have risen by over one million due to the increase in interest rates, however partially offset by financial income deriving from financial receivables taken out on executive productions.

## 7. Transactions with related parties

The Company's financial and economic transactions with related parties from 1 January 2022 to 31 December 2022 are set out below:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Expenses
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,701	-	-	-	-
Welcome to Italy S.r.l.	386	-	-	-	424	-
AMBI Distribution	-	-	-	-	154	-
Arte Video S.r.l.	2,217	1,782	3,021	4,673	3,793	-
R.E.D Carpet S.r.l.	399	38	-	400	179	-
Wepost S.r.l.	-	86	60	-	-	-
Iervolino & Lady Bacardi Entertainment Studios d.o.o. (Iervolino Studios d.o.o.)	9,777	4,558	-	4,381	10,146	-
<b>Total related party transaction</b>	<b>12,778</b>	<b>8,165</b>	<b>3,081</b>	<b>9,454</b>	<b>14,695</b>	<b>-</b>
<b>Total financial statements items</b>	<b>36,216</b>	<b>143,666</b>	<b>9,963</b>	<b>80,965</b>	<b>128,293</b>	<b>122,463</b>
<b>Weight on financial statements items</b>	<b>35%</b>	<b>6%</b>	<b>31%</b>	<b>12%</b>	<b>11%</b>	<b>0%</b>

The outstanding credit balance with Tatatu S.p.A. of €1,701 thousand relates to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (€1,089 thousand) and a trade receivable (€612 thousand).

Relations with Welcome to Italy S.r.l. refer to the services rendered by ILBE for the executive production of the film "Ferrari".

The relationship with AMBI Distribution relates to the sales agency contract stipulated for the distribution of the film "Lamborghini" in some territories.

Transactions carried out during the period with Arte Video S.r.l. refer to: i) receivables accrued for tax consolidation and Group VAT (other current assets for €1,782 thousand); ii) payables related to post-production services received (trade payables for €3,021 thousand); iii) financial liabilities related to the management of centralised liquidity (financial liabilities for €4,673 thousand); iv) supervision services provided for the finalisation of the web series (revenues for €3,793 thousand and receivables for €2,217 thousand).

Transactions relating to the subsidiary R.E.D. Carpet relate to: i) commercial transactions carried out in 2021 (trade receivables for €271 thousand) and in 2022 (revenues for €179 thousand and trade receivables for €128 thousand); ii) financial liabilities associated with centralised liquidity management (financial liabilities of €400 thousand); iii) ) receivables accrued for group tax consolidation and VAT (other assets for €38 thousand).

Relations with the company Iervolino & Lady Bacardi Studios d.o.o. are connected with (i) the Pipeline concession (€4,502 thousand), (ii) the recharge of expenses incurred by the Company (€143 thousand), (iii) the service provided for the implementation of the production structure (€5,500 thousand); (iv) the advance received in the period for services that the Company will provide in 2022 (€4,381 thousand); (v) financial assets associated with centralised liquidity management (financial assets of €4,558 thousand).

Relations with the company Wepost S.r.l. they are connected to (i) payables relating to post-production services received (trade payables for €60 thousand), (ii) financial assets connected with centralised liquidity management (financial assets for €86 thousand)

The Company's financial and economic transactions with related parties from 1 January 2021 to

31 December 2021 are set out below:

	Trade receivables	Other assets	Trade payables	Other liabilities	Revenues	Expenses
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,731	-	-	1,090	-
Arte Video S.r.l.	-	-	8,355	-	-	5
lexchange S.r.l.	-	3,300	-	-	-	-
Iervolino Studios d.o.o	939	-	-	-	939	-
<b>Total related party transaction</b>	<b>939</b>	<b>5,031</b>	<b>8,335</b>	<b>-</b>	<b>2,020</b>	<b>5</b>
<b>Total financial statements items</b>	<b>16,876</b>	<b>108,569</b>	<b>26,059</b>	<b>32,774</b>	<b>117,004</b>	<b>96,054</b>
<b>Weight on financial statements items</b>	<b>6%</b>	<b>5%</b>	<b>32%</b>	<b>0%</b>	<b>2%</b>	<b>0%</b>

The credit balance with Tatatu S.p.A. of €1,721 thousand refers to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (€1,089 thousand) and a trade receivable (€641 thousand).

Transactions carried out during the period with Arte Video S.r.l. refer to: i) receivables accrued for tax consolidation and Group VAT (other assets for €1,154 thousand); ii) payables related to post-production services received (trade payables for €2,884 thousand); iii) financial liabilities related to the management of centralised liquidity (financial liabilities for €4,551 thousand); iv) supervision services provided for the finalisation of the web series (revenues for €2,540 thousand).

Transactions relating to the subsidiary R.E.D. Carpet are related to: i) commercial transactions carried out during the period (trade receivables for €271 thousand and revenues for €304 thousand); ii) financial liabilities related to the management of centralised liquidity (financial liabilities for €400 thousand); iii) receivables accrued during the period for tax consolidation transactions (other assets for €7 thousand).

Relations with the company ILBE Studios d.o.o. are connected with (i) the concession of the Pipeline (€2,311 thousand), (ii) the chargeback of expenses incurred by the Company (€318 thousand), (iii) the service rendered for the implementation of the production structure (€8,000 thousand); (iv) the advance received in the period for services that the Company will provide in 2022 (€5,025 thousand).

## 8. Human Resources

ILBE has a structure of about 11 permanent employees plus some contracted resources. In addition, some professionals have an ongoing relationship with ILBE and, in some cases, also have specific responsibilities for Law 231/2001.

It should be noted that, at the time of the launch of the production of an audiovisual work, a considerable number of workers are employed on fixed-term contracts until its completion. During the year, 989 fixed-term employees were hired for existing productions.

## 9. Research and development

During the financial year, the research and development activities of the financial year were applied research carried out to the exploitation of the theoretical knowledge already acquired

for practical purposes, i.e. essentially for the development in the technical area of the IP 0.2.1 pipeline release in particular on the following aspects of the hardware and software of the production process:

*Software:*

*Teradici & Nomachine:* These are software applications that allow users to access their workstations remotely. Each user is assigned unique login credentials to access the workstation. Teradici was mainly deployed for the FX, SHF, Lighting and Compositing activities, while Nomachine was deployed for the other activities: Asset Development, Layout, Animation, Rendering and Production Support Supervision.

*Ase-Sync:* It is the tool for synchronising data between all users, thus enabling users to work on their workstations remotely. This tool synchronises project data securely between our internal memory and the user's workstation. This tool optimises the organisational process.

*WFH(Work From Home) Asset and Shot Publish:* It is a publishing tool for users in the Asset and Animation department working in smart-working mode to publish data in the pipeline from their home workstation.

*ASE Player:* It is a proprietary media player (ASE Player) that connects directly to ATOM. This media player allows various departments to review content directly within the pipeline and propagates notes directly to interested and relevant parties without leaving the ATOM environment.

*Hardware and network:*

*Firewall:* The firewall supports over 350 networked users for secure remote access to workstations.

*Bandwidth:* The width is 500 Mbps for easier connectivity between everyone.

*Isilon Archive:* The Isilon storage server provides 400 TB of data.

The benefits of research and development results

Over the years, the research and development results led to the conception of new and innovative pipeline processes and methodologies for the production of new and innovative short animated content of 5 minutes each for use on digital platforms.

This has also cut processing times by 45%, taking annual productivity from 50 to almost 300 episodes in a year, increasing the quality of output and control of time and costs.

Finally, another factor should be considered in terms of profitability deriving from the Licensing of the Pipeline (i.e., processes and working methods for the production of short animated content) obtained from the implementation of the R&D activity (know-how and software), which, after having led to the recognition of revenues totalling €37,440 thousand in 2020 and in 2021, contributed to further revenues equal to €4,502 thousand during the financial year.

## 10. Disclosure of principal risks and uncertainties

### Management of financial risks and cash flow variation

#### Liquidity risk

ILBE's day-to-day operations generated cash flows intended for requirements and absorbed by the day-to-day operations for the regular payment of suppliers. Additional financial resources for investment are raised either through financial or capital transactions. Having put in place an effective economic and financial planning system, ILBE constantly monitors management flows to finance working capital and monitor the monetisation of the realised EBIT, which takes place a few months after the delivery of the audiovisual work and is appropriately financed and guaranteed by/to the banking system.

#### Foreign exchange rate risk

ILBE is limited to financial risks related to exchange rate fluctuations regarding transactions with countries outside the Eurozone. It should also be noted that almost all receivables and payables are in the same foreign currency (US dollar).

The Company has not implemented any exchange rate risk hedging transactions as they are significantly reduced by offsetting costs incurred in the same currency as revenues.

#### Interest Rate Risk

The Company has no derivative contracts in place to hedge risks related to interest rate fluctuations as this risk exposure is marginal.

### Market risk, credit risk and price risk

#### Risks related to the competitiveness and cyclicalities of the sector

An element that increasingly characterises *the entertainment market* is the growing importance of the contents offered, which are increasingly differentiated according to the transmission channels.

The Company is constantly looking for new formats and content to be created independently or through service contracts and always remaining the owner of the relevant Intellectual Property. In addition, productions are always funded based on the so-called 'guaranteed minimum' with relationships with international distributors and always responsive to the demands of the general public that can then generate additional business in the *merchandising* channel as well.

#### Credit risk

The Company does not have a significant concentration of credit risk and has appropriate procedures, such as verifying the creditworthiness of debtors by analysing their reliability in the market, to minimise credit risk

## **11. Significant events occurring after the end of the financial year**

There were no significant events occurring after the end of the financial year. The Company will continue to monitor the evolution of the negative impacts of the Russian-Ukrainian conflict and the increase in interest rates in 2023.

## **12. Management Outlook**

The company activities will focus on the new animated productions in progress (Baby Puffins & Bunny, Mini Puffins Wonder, Swifty and Super Impossible). With reference to the new film works, we point out "In the fire", "Paradox Effect", and the new animated films: A Stellar Adventure, In Search of the Arctic Idol and The Walrus Who Wanted too Much. Furthermore, further revenues will derive from the distribution of the new Skin Care production.

In light of the foregoing, for 2023 the forecast of growth in revenues and capitalised works is confirmed, while a slightly more contained trend in margins is expected compared to the current year.

## **13. Allocation of profit for the financial year**

The Board of Directors proposes to allocate the result for the year of €1,201,311 to the extraordinary reserve.

Rome, 23 March 2023

For the Board of Directors



# Financial Statements and Notes

31/12/2022

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# Statement of the financial position

As at 31 December 2022 - values in euro

	Notes	31-dic-22	of which related parties	31-dic-21	of which related parties
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets:	Note 4	70,337,354	-	95,524,763	-
Completed productions	Note 4	43,962,831	-	41,162,838	-
Ongoing productions	Note 4	6,395,880	-	22,813,408	-
IP and Distribution Rights	Note 4	19,942,643	-	31,500,517	-
Other intangible activities	Note 4	36,000	-	48,000	-
Tangible assets and rights-of-use assets	Note 5	1,860,609	-	119,467	-
Deferred tax assets	Note 6	7,747,788	-	7,928,691	-
Investments in subsidiaries	Note 7	8,034,412	-	6,776,412	-
Investments accounted for using the equity method	Note 8	54,800	-	-	-
Other non-current assets	Note 9	2,748,224	1,701,270	1,774,102	1,721,270
<b>Total non-current assets</b>		<b>90,783,187</b>	<b>1,701,270</b>	<b>112,123,435</b>	<b>1,721,270</b>
<b>Current assets</b>					
Trade receivables	Note 10	36,216,174	12,778,814	17,223,597	1,744,815
Tax receivables	Note 11	2,057,408	-	-	-
Current financial assets	Note 12	22,792,292	4,644,036	12,070,002	-
Other current assets	Note 13	17,155,672	1,819,780	33,116,265	1,167,178
Assets arising from contracts with customers			-	1,342,732	-
Cash and other liquid assets	Note 14	10,877,447	-	2,545,166	-
<b>Total current assets</b>		<b>89,098,993</b>	<b>19,242,630</b>	<b>66,297,762</b>	<b>2,911,993</b>
<b>Total Assets</b>		<b>179,882,180</b>	<b>20,943,900</b>	<b>178,421,197</b>	<b>4,633,263</b>
<b>Shareholders' Equity</b>					
Share Capital	Note 15	1,410,428	-	1,400,644	-
Legal reserve	Note 15	496,996	-	496,996	-
Extraordinary reserve	Note 15	39,435,044	-	18,688,030	-
Treasury Shares	Note 15	(232,093)	-	-	-
Other reserves	Note 15	17,086,633	-	16,598,261	-
Profit/ (Loss carried forward)	Note 15	29,555,513	-	29,555,513	-
Profit (loss) for the year	Note 15	1,201,311	-	20,747,013	-
<b>Total Shareholders' equity</b>		<b>88,953,832</b>	<b>-</b>	<b>87,486,457</b>	<b>-</b>
<b>Non-current liabilities</b>					
Employee benefits		161,755	-	158,890	-
Deferred tax liabilities		9,958	-	-	-
Provisions for liabilities and charges			-	300,000	-
Non-current financial liabilities	Note 16	25,000,660	-	32,831,086	-
<b>Total non-current liabilities</b>		<b>25,172,373</b>	<b>-</b>	<b>33,289,976</b>	<b>-</b>
<b>Current liabilities</b>					
Current financial liabilities	Note 17	27,098,523	5,073,402	11,599,988	4,951,000
Trade payables	Note 18	9,963,161	3,081,023	19,190,134	2,884,308
Tax payables			-	520,069	-
Contractual liabilities	Note 19	10,200,494	4,380,920	18,079,241	5,025,000
Other current liabilities	Note 20	18,493,797	-	8,255,332	-
<b>Total current liabilities</b>		<b>65,755,975</b>	<b>12,535,345</b>	<b>57,644,764</b>	<b>12,860,308</b>
<b>Total liabilities</b>		<b>179,882,180</b>	<b>12,535,345</b>	<b>178,421,197</b>	<b>12,860,308</b>

## Statement of comprehensive income for the year

as at 31 December 2022 - values in euro

	Note	31-dic-22	of which related parties	31-dic-21	of which related parties
Revenues	Note 21	110,274,690	14,695,141	132,714,759	13,168,562
Other revenues and income		17,208	-	308,692	304,348
Tax credits and other government grants	Note 22	18,000,866	-	14,734,157	
<b>Total operating income and revenues</b>		<b>128,292,764</b>	<b>14,695,141</b>	<b>147,757,608</b>	<b>13,472,910</b>
Purchases of raw materials, consumables and merchandise		20,596	-	29,825	
Costs for services	Note 23	4,204,804	-	3,552,974	
Staff costs	Note 24	1,151,974	-	945,052	
Other operating costs		264,926	-	418,964	
Amortisation, write-downs, and provisions	Note 25	116,820,366	-	116,941,585	
<b>Operating Result</b>		<b>5,830,098</b>		<b>25,869,208</b>	<b>13,472,910</b>
Financial income	Note 26	192,678	-	338,095	
Financial expenses	Note 26	5,217,510	-	3,367,806	
Share pertaining to the result of associates and joint ventures	Note 8	38,800	-	-	
<b>Profit before tax</b>		<b>844,066</b>		<b>- 22,839,497</b>	
Income tax	Note 27	357,245	-	(2,092,484)	
<b>Profit for the period</b>		<b>1,201,311</b>		<b>- 20,747,013</b>	
Other comprehensive income components that may be reclassified subsequently to profit/(loss) for the year net of taxation			-	152,179	
Other comprehensive income components that will not be subsequently reclassified to profit/(loss) for the year net of taxation		50,327		(24,637)	
Re-measurement of net employee benefit liabilities/(assets)		50,327	-	(24,637)	
<b>Total comprehensive profit/(loss) after tax</b>		<b>1,251,638</b>		<b>- 20,874,555</b>	
<b>Basic earnings per share (common stock)</b>	Note 28	<b>0,05</b>		<b>- 0,86</b>	
<b>Diluted earnings per share (common shares)</b>	Note 28	<b>0,05</b>		<b>- 0,86</b>	

## Statement of changes in equity

### as at 31 December 2022 - values in euro

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other Reserves	Capital contribution payment	Profit/(Loss) carried forward	Profit/(loss) for the financial year	Total Shareholders' equity
<b>Balance as at 01 January 2022</b>		<b>1,400,644</b>	<b>496,996</b>	<b>18,688,030</b>	<b>16,490,718</b>	<b>107,543</b>	-	<b>29,555,513</b>	<b>20,747,013</b>	<b>87,486,457</b>
Profit/(loss) for the financial year	Nota 15	-	-	-	-	-	-	-	1,201,311	1,201,311
Allocation of the 2021 result "SoBE" transaction capital increase	Nota 15	-	-	20,747,013	-	-	-	-	(20,747,013)	-
Purchase of treasury shares	Nota 15	9,785	-	-	590,215	-	-	-	-	600,000
Other items of the statement of comprehensive income	Nota 15	-	-	-	-	(232,093)	-	-	-	(232,093)
OCI transfers	Nota 15	-	-	-	-	50,327	-	-	-	50,327
	Nota 15	-	-	-	-	(152,170)	-	-	-	(152,170)
<b>Balance as at 31 December 2022</b>		<b>1,410,429</b>	<b>496,996</b>	<b>39,435,044</b>	<b>17,080,933</b>	<b>(226,393)</b>	-	<b>29,555,513</b>	<b>1,201,311</b>	<b>88,953,832</b>

### as at 31 December 2021 - values in euro

<b>Balance as at 01 January 2021</b>		<b>1.400.644</b>	<b>496.996</b>	<b>-</b>	<b>16.490.718</b>	<b>(20.000)</b>	-	<b>29.555.513</b>	<b>18.688.030</b>	<b>66.611.901</b>
Profit/(loss) for the financial year	Nota 15	-	-	-	-	-	-	-	20.747.013	20.747.013
Allocation of the 2020 result	Nota 15	-	-	18.688.030	-	-	-	-	(18.688.030)	-
OCI changes	Nota 15	-	-	-	-	127.543	-	-	-	127.543
<b>Balance as at 31 December 2021</b>		<b>1.400.644</b>	<b>496.996</b>	<b>18.688.030</b>	<b>16.490.718</b>	<b>107.543</b>	-	<b>29.555.513</b>	<b>20.747.013</b>	<b>87.486.457</b>

## Statement of Cash flow

### as at 31 December 2022 - values in euro

	Notes	31-dic-22	31-dic-21
Operating profit		1,201,311	20,747,013
Income Tax	Note 29	(357,245)	2,092,484
Adjustments to reconcile pre-tax profit with net cash flows:			
Amortisation of intangible assets and property, plant and equipment	Note 25	117,127,773	116,941,585
Net exchange rate changes	Note 26	1,731,046	
Financial income	Note 26	(129,868)	(2,742)
Financial expenses	Note 8	3,425,364	1,720,597
Share pertaining to the result for the year of associated companies and joint ventures	Note 8	(38,800)	
Provisions (Utilisations) to staff-related funds		53,201	47,279
Changes in provisions, pension funds and government grants	Note 25	(300,000)	
Other non-monetary items			
<b>Cash flow generated by operations</b>		<b>122,712,783</b>	<b>141,546,216</b>
Change in working capital:			
Change in trade credits		(18,992,577)	(20,970,928)
Change in trade payables		(26,205,833)	(17,829,455)
Change in other receivables and other assets		13,226,177	(10,860,949)
Change in other payables and other liabilities		4,418,724	19,422,215
Interest paid/collected		(2,864,266)	(961,486)
Income tax paid		(2,628,858)	(4,523,296)
<b>A - Net cash flow provided by/(used in) operating activities</b>		<b>89,666,150</b>	<b>105,822,317</b>
Investments/divestments in intangible and tangible assets		(75,303,263)	(118,047,894)
Investments in financial assets (participations)		(674,000)	(1,090,000)
Investments/divestments in other financial assets		(10,919,596)	(7,569,468)
<b>B - Net cash flow provided by/(used in) investing activities</b>		<b>(86,896,859)</b>	<b>(126,707,362)</b>
Purchase of treasury shares	Note 15	(232,093)	
Mortgages and loans taken out in the period		17,644,061	30,998,539
Loans and borrowings repaid in the period		(11,672,777)	(10,428,478)
Lease liability principal payments		(176,200)	
<b>C - Net cash flow generated/(absorbed) by financing activities</b>		<b>5,562,991</b>	<b>20,570,061</b>
<b>D - Total cash flow generated/(absorbed) in the period (A+B+C)</b>		<b>8,332,281</b>	<b>(314,984)</b>
<b>E - Cash and cash equivalents at the beginning of the period</b>		<b>2,545,166</b>	<b>2,860,150</b>
<b>F - Cash and cash equivalents at the end of the period (D+E)</b>		<b>10,877,447</b>	<b>2,545,166</b>

Note: Under IAS 7, net cash flow provided by/(used in) investing activities only includes investments paid, including compensation, during the period.

# Notes to the financial statements

## 1. Company information

The publication of the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. for the period ended 31 December 2022 was authorised by the Board of Directors on 23 March 2023.

Iervolino & Lady Bacardi Entertainment S.p.A. is a joint-stock company listed, registered and domiciled in Italy. The registered office is located in Via Salaria 222, 00198 Rome.

The Company's main activity is producing film and television content, including films, TV shows, web series, short TV shows and more. The content produced by the Company is considered to be Hollywood-style stand-out productions and features internationally-renowned actors. The Company's main objective is to produce for the international market, based on the business model used by the major Hollywood majors.

Information on related party transactions is presented in Note 29.1

## 2. Main accounting principles

### 2.1 Drafting principles

The financial statements have been prepared following the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention.

The financial statements are presented in euros, and all amounts are expressed in thousands of euros unless otherwise indicated.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and these notes to the financial statements.

These financial statements have been prepared on a going concern basis. The Directors have verified that there are no financial, operational or other indicators that may indicate that the Company will be able to meet its obligations in the foreseeable future. Risks and uncertainties related to the business are described in the relevant sections of the Report on Operations. A description of how the Company manages financial risks, including liquidity risks and capital risks, is contained in the section Additional information on financial instruments and risk management policies of these Notes. The main accounting principles and valuation criteria applied in preparing the financial statements are described below.

Following the relevant accounting standards, the Directors have made the following choices regarding their financial statements.

**Statement of Comprehensive Income:** is prepared following the 'by nature' format and shows the results relating to Operating Profit/(Loss) and Profit/(Loss) Before Tax to allow for the measurability of normal operating performance. Operating income is determined as the difference between revenues and other income and operating expenses (the latter including non-cash expenses related to write-downs and amortisation of current and non-current assets, net of any reversals).

**Statement of Financial Position:** is presented using the distinction between 'current - non-current' assets and liabilities. An asset/liability is classified as current when it meets one of the following criteria: it is expected to be realised/extinguished, or it is expected to be sold or used in the normal course of business, it is held for trading, and it is expected to be realised/extinguished within 12 months after the reporting period. If all three conditions are not met, the assets/liabilities are classified as non-current.

**Statement of Cash Flows:** is prepared using the 'indirect method', whereby the net result for the period is normally adjusted for the effects of non-monetary transactions.

**Statement of Changes in Shareholders' Equity:** illustrates the changes in equity items.

## 2.2 Summary of the main accounting principles

### a) Equity investments in subsidiaries

Equity investments in subsidiaries are valued at purchase cost. In the presence of objective evidence of impairment, the recoverability is verified by comparing the book value of the investment with the related recoverable value represented by the higher between the fair value and the value in use. The latter is determined by discounting the cash flows expected from the equity investment; in the absence of different evidence, the value in use is made equal at least to the shareholders' equity for consolidated use. The investor's share of any losses of the investee, exceeding the carrying value of the investment, is recognised in a special provision to the extent that the investor is committed to fulfilling the legal or implicit obligations of the investee, or in any case, to cover the losses.

### b) Investments in associates

An associate is a company over which the Company exercises significant influence. Significant influence means the power to participate in determining an investee's financial and operating policies without having control or joint control over it.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company's investments in associates are accounted for using the equity method.

Under the equity method, an investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to recognise the investor's share of the investee's profits and losses realised after the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test.

The year's statement of profit/(loss) reflects the Company's share of the associate's profit/(loss) for the year. Any changes in other comprehensive income relating to these investees are presented as part of the Company's comprehensive income. In addition, if an associate reports a change directly to equity, the Company recognises its share, if applicable, in the statement of changes in equity. Unrealised gains and losses arising from transactions between the Company and associates are eliminated in proportion to the share of the investment in the associates.

The Company's aggregate share of the profit/(loss) of associates is recognised in the statement of profit/(loss) for the year after operating profit/(loss). It represents profit/(loss) after tax and the shares of other associate shareholders.

The financial statements of associated companies are prepared on the same date as the Company's financial statements. Where necessary, the financial statements are adjusted to align with Company's accounting standards.

Following the application of the shareholders' equity method, the Company assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. The Company assesses whether there is any objective evidence that investments in associates are impaired at each balance sheet date. In this case, the Company calculates the amount of the loss as the difference between the recoverable amount of the associate and the carrying amount of the associate in its financial statements and recognises the difference in profit/(loss) for the year under the caption 'share of profit/(loss) of associates'.

Upon loss of significant influence over an associate, the Company measures and recognises the remaining investment at fair value. The difference between the carrying amount of the investment at the date of loss of significant influence and the fair value of the remaining investment and consideration received is recognised in profit or loss.

### **c) Intangible assets**

Intangible assets acquired separately are initially recognised as assets at their purchase cost, including any directly attributable incidental expenses and financial charges incurred during the period of realisation of the assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Internally produced intangible assets, except for internal production costs of cinematographic works, are not capitalised and are recognised in the year's income statement in which they are incurred. Within the item 'Intangible Assets', we distinguish the following types of costs related to acquired rights to cinematographic works: (i) costs incurred for film productions; (ii) costs for acquired rights with a limited duration such as concessions/licences acquired at a fixed price or with a guaranteed minimum; (iii) costs for the acquisition of Intellectual Property for future productions.

Under the headings 'Completed productions' and 'Work in progress', all costs relating to film productions and incurred in the films' various pre-production, production and post-production phases are capitalised. Finished products are amortised using the film forecast computation method, under which amortisation at the reporting date is determined over the time horizon over which the intangible asset will generate revenue. The amortisation period, based on the peculiarity and visibility of the individual productions in place, is estimated over the time horizon of four financial years.

At each balance sheet date, in addition to reviewing the useful life, intangible assets with finite useful lives are analysed to identify any indicators of impairment, whether from external or internal sources.



In circumstances where such indicators are identified, the recoverable amount of these assets is estimated, and any impairment loss is recognised in the income statement. The recoverable amount of an asset is the higher its fair value, less costs to selling and its value in use, where the latter is the sum of the estimated future revenue from the asset.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, it can be demonstrated:

- a) the technical feasibility of completing the intangible asset so that it is available for use and sale;
- b) its intention to complete the intangible asset for use or sale;
- c) the ability to use or sell the intangible asset;
- d) how the intangible asset will generate probable future economic benefits. However, the entity can demonstrate the existence of a market for the output of the intangible asset or for the intangible asset itself or, if it is to be used for internal purposes, the usefulness of the intangible asset;
- e) the availability of adequate technical, financial and other resources to complete the development or sale of the intangible asset;
- f) its ability to reliably measure the cost attributable to the intangible asset during its development.

The asset is subject to an annual impairment test during the development period.

Concession/licensing agreements for the acquisition of film exploitation rights are recognised as intangible assets under 'IP and Distribution Rights' at the time of transfer of control, which usually coincides with receipt of the invoice. These rights are amortised according to a methodology based on expected revenues, commonly used in the sector and which provides that the cumulative amortisation at the balance sheet date is determined by making reference to the relationship between the revenues realised and the total revenues deriving from the various types of exploitation of the rights, envisaged on the basis of the sales plans considering the visibility of a defined short-medium term time horizon. This is because the Directors believe that this method reflects more appropriately and correctly the speed with which the Company expects the use of the economic benefits associated with these rights. Costs for the acquisition of Intellectual Property for future productions are recorded under 'Other Rights'. 'Other intangible assets' contains other intangible assets with a finite useful life; these assets are shown net of accumulated amortisation and any accumulated impairment losses. Depreciation is calculated straight-line over the estimated useful life, which is reviewed at least annually; any changes in amortisation criteria are applied prospectively. Amortisation begins when the intangible asset is available for use. The estimated useful life of 'Other intangible assets' is 5 years.

#### **d) Tangible assets**

They are recognised at historical cost less accumulated amortisation and accumulated impairment losses. Depreciation charged to the profit and loss account was calculated according to the economic-technical life of the assets, based on the criterion of residual useful life. If, regardless of amortisation already recorded, an impairment loss were to occur, the asset will be written down. If, in future years, the assumptions for the write-down no longer apply, the original value adjusted only by amortisation and depreciation is restored.

## **e) Leases**

When signing a contract, the Company assesses whether it is, or contains, a lease. In other words, if the contract confers the right to control the use of an identified asset for a period of time in exchange for a fee.

The Company as lessee

The Company adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Company recognises the liabilities relating to lease payments and the right-of-use asset which represents the right to use the asset underlying the contract.

### **i. Right-of-use assets**

The Company recognises the right-of-use assets on the commencement date of the lease (i.e. the date on which the underlying asset is available for use). Right-of-use assets are measured at cost, net of accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability. The cost of the right-of-use assets includes the amount of the lease liability recognised, the initial direct costs incurred and the lease payments made at the commencement date or before commencement, net of any incentives received. Right-of-use assets are amortised on a straight-line basis from the effective date to the end of the useful life of the asset consisting of the right-of-use or, if earlier, at the end of the lease term, as follows:

- Buildings from 2 to 6 years

If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise its call option, the lessee shall depreciate the asset, consisting of the right of use from the effective date until the end of the useful life of the underlying asset.

Right-of-use assets are subject to impairment.

### **ii) Liabilities linked to leases**

At the commencement date of the lease, the Company recognises the lease liabilities by measuring them at the present value of the payments due for the lease not paid at that date. Payments due include fixed payments (including payments that are fixed in substance) less any lease incentives receivable, variable lease payments that are index or rate dependent, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Group and lease termination penalty payments, if the lease term takes into account the exercise by the Group of the termination option of the lease itself.

Variable lease payments that do not depend on an index or a rate are recognised as costs in the period (unless they have been incurred for the production of inventories) in which the event or condition that generated the payment occurs.

In calculating the present value of payments due, the Company uses the incremental borrowing rate at the inception date if the implied interest rate is not readily determinable. After the effective date, the amount of the lease liability increases to take into account the interest on the lease liability and

decreases to take into account the payments made. Furthermore, the book value of lease payables is recalculated in the event of any changes to the lease or for the revision of the contractual terms for the modification of payments; it is also restated in the presence of changes regarding the valuation of the option to purchase the underlying asset or for changes in future payments deriving from a change in the index or rate used to determine such payments.

Lease liabilities are included in the item Financial liabilities.

#### *Short-Term Leases and Low-Value Asset Leases*

The Company applies the exemption for the recognition of short-term leases relating to machinery and equipment (i.e., leases that have a duration of 12 months or less from the commencement date and do not contain a purchase option). The Company has also applied the low value asset lease exemption with respect to lease agreements relating to office equipment whose value is considered low. Payments relating to short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

### **f) Financial assets**

Upon initial recognition, financial assets are classified according to the subsequent measurement methods, i.e. amortised cost, fair value through OCI and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the business model the Company uses to manage them. Except for 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, in the case of a financial asset not at fair value, through profit or loss, transaction costs. 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 as explained in paragraph n) Revenue.

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it must generate cash flows that depend solely on principal and interest on the amount of principal to be repaid (so-called 'solely payments of principal and interest (SPPI)'). This evaluation is referred to as the SPPI test and is performed at the instrument level. Financial assets whose cash flows do not meet the above requirements (e.g., the cash flow from the sale of the asset to the buyer) are subject to the following conditions (SPPI) are classified and measured at fair value through profit or loss.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will arise from collecting contractual cash flows, the sale of financial assets or both.

Financial assets classified and measured at amortised cost are held as part of a business model whose objective is to own financial assets to collect contractual cash flows. In contrast, financial assets that are classified and measured at fair value through OCI are held as part of a business model whose objective is to collect contractual cash flows and sell financial assets.

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

#### *Subsequent evaluation*

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

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with the reclassification of accumulated gains and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without a reversal of accumulated gains and losses on derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

#### *Financial assets at amortised cost (debt instruments)*

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

- the financial asset is held as part of a business model whose objective is to own financial assets to collect contractual cash flows;
- and
- the contractual terms of the financial asset provide for cash flows at specified dates consisting solely of principal payments and interest on the principal amount to be repaid.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment as indicated below. When the asset is derecognised, modified, or revalued, gains and losses are recognised in profit or loss.

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

#### *Cancellation*

A financial asset is derecognised in the first instance (e.g. removed from the statement of financial position) when:

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

In cases where the Company has transferred rights to receive cash flows from an asset or has entered into an arrangement under which it retains the contractual rights to receive the cash flows from the financial asset. Still, it assumes a contractual obligation to pay the cash flows to one or more recipients (pass-through). Therefore, it assesses how it has retained the risks and rewards of ownership. If it has neither transferred nor retained substantially all risks and rewards or has not lost control over it, the asset continues to be recognised in the Group's financial statements to the extent of its continuing involvement in the asset. In this case, the Company also recognises an associated liability. The transferred asset and associated liability are measured to reflect the rights and obligations that remain with the Group.

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

### *Impairment of financial assets*

The Company recognises an expected credit loss ('ECL') write-down for all financial assets represented by debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due following the contract. All cash flows that the Company expects to receive are discounted to approximate the original effective interest rate. Expected cash flows will include cash flows arising from the enforcement of collateral held or other credit guarantees that are integral to the contractual terms.

For credit exposures for which there has been no significant increase in credit risk since initial recognition, credit losses arising from estimated default events that are possible within the next 12 months (12-month ECL) must be recognised.

For credit exposures for which there has been a significant increase in credit risk since initial recognition, expected losses that relate to the remaining life of the exposure must be recognised in full, regardless of when the event of default is expected to occur ('Lifetime ECL').

## **g) Financial liabilities**

### *Initial detection and assessment*

Upon initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss, as loans and borrowings, or as derivatives designated as hedging instruments.

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

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

### *Subsequent evaluation*

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

#### *Assets and liabilities at amortised cost*

This is the most relevant category for the Company. After initial recognition, 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 and through the amortisation process.

Amortised cost is calculated by recognising the discount or premium on the acquisition and the fees or costs that form part of the effective interest rate. Amortisation at the effective interest rate is included in financial charges in the statement of profit/(loss).

#### *Cancellation*

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. When an existing financial liability is exchanged for another financial liability of the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability, accompanied by

the recognition of a new liability, with any difference between the carrying amounts recognised in the statement of profit or loss.

#### *Clearing of financial instruments*

A financial asset and a financial liability may be offset and the net balance presented in the statement of financial position if there is a present legal right to offset the recognised amounts and there is an intention to settle the net balance or to realise the asset and settle the liability simultaneously.

#### **h) Impairment of non-financial assets**

At each balance sheet date, the Company assesses whether indicators of asset impairment exist. In this case, or in cases where an annual impairment test is required, the Company estimates the recoverable amount. The recoverable amount is the higher of the fair value of the asset or cash-generating unit, less costs to sell, and its value in use. The recoverable amount is determined for each individual asset, except when that asset generates cash flows that are largely independent of those generated by other assets or groups of assets. If the carrying amount of an asset is greater than its recoverable amount, the asset is impaired and written down to its recoverable amount accordingly.

In determining value in use, the Company discounts estimated future cash flows to present value using a pre-tax discount rate that reflects market assessments of the present value of money and the risks specific to the asset. Recent market transactions are considered when determining the fair value less costs to sell. An appropriate valuation model is used if such transactions cannot be identified. These calculations are supported by appropriate valuation multiples, quoted share prices for investees whose securities are traded in the market, and other available fair value indicators.

The Company bases its impairment test on the most recent budgets and forecast calculations, prepared separately for each of the Group's cash-generating units to which individual assets are allocated.

These budgets and forecast calculations generally cover five years. A long-term growth rate is calculated to project future cash flows beyond the fifth year.

Impairment losses on continuing transactions are recognised in the comprehensive profit/(loss) statement in the cost categories consistent with the function of the asset that caused the impairment loss. An exception is made for previously revalued fixed assets, where the revaluation has been recognised in other comprehensive income. In such cases, the impairment loss is recognised in other comprehensive income up to the amount of the previous revaluation. For assets other than goodwill, at each reporting date, the Company assesses whether any indicators previously recognised impairment losses have ceased to exist (or have decreased) and, if such indicators exist, estimates the recoverable amount of the asset or CGU. The value of a previously impaired asset may be reinstated only if there has been a change in the assumptions underlying the calculation of the determined recoverable amount since the last impairment loss was recognised.

The reversal may not exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised in prior periods. This reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount. In this case, the reversal is treated as a revaluation increase.

Goodwill is frequently tested for impairment at least once a year or more if circumstances indicate that the carrying amount may be impaired.

Goodwill impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. If the cash-generating unit's recoverable amount is less than the carrying amount of the cash-generating unit to which goodwill has been allocated, an impairment loss is recognised.

Goodwill impairment cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment at least annually at the cash-generating unit level and when circumstances indicate that an impairment loss may occur.

### **i) Cash and cash equivalents and short-term deposits**

Cash and short-term deposits comprise cash on hand and demand and short-term deposits with maturities of three months or less, which are held to meet short-term cash commitments rather than for investment or other purposes, and which are not subject to a significant risk of changes in value.

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

### **l) Pension funds and other post-employment benefits**

The Company provides its employees with benefits that will be paid on termination of employment through defined benefit pension plans. Defined benefit pension plans, which include the termination benefits payable to employees of Italian companies under Article 2120 of the Civil Code, are based on the working life of employees and the remuneration received by them over a predetermined period of service. Specifically, the liability relating to staff termination benefits is recognised in the balance sheet based on its actuarial value, as it qualifies as an employee benefit due under a defined benefit plan. Recognition of defined benefit plans requires the use of actuarial techniques to estimate the number of benefits accrued by employees in exchange for their service in the current and prior periods and to discount those benefits to their present value to determine the present value of the Group's obligations. The present value of these commitments is determined using the projected unit credit method. This method, which falls within the more general framework of techniques relating to so-called 'accrued benefits', considers each period of service provided by employees to the company as an additional unit of entitlement: the actuarial liability must therefore be quantified based on only the seniority accrued at the valuation date; therefore, the total liability is normally re-proportioned based on the ratio between the years of service accrued at the valuation date and the total seniority reached at the time the benefit is due to be paid. In addition, the above method provides for taking into account future salary increases, for whatever reason (inflation, career, contract renewals, etc.), up to the time of termination of employment.

### **m) Provisions for risks and charges**

Provisions for risks and charges are made when the Company has a present obligation (legal or constructive) due to a past event. An outflow of resources will probably be required to settle the obligation, and a reliable estimate of the amount can be made. When the Company considers that a provision for risks and charges will be partly or fully reimbursed, for example, in the case of risks covered by insurance policies, the indemnity is recognised separately as an asset if, and only if, it is practically certain. In this case, the cost of the provision, if any, is presented in the statement of profit or loss net of the amount recognised for compensation.

If the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liabilities. When the liability is discounted, the increase in the provision due to the passage of time is recognised as a finance cost.

### **n) Contractual liabilities**

Contractual liability is an obligation to transfer to the customer goods or services the Company has already received consideration (or for which a portion of the consideration is due). Contractual liability is recognised if payment has been received or payment is due (whichever comes first) from the customer before the Company has transferred control of the goods or services to the customer. Liabilities arising from contracts are recognised as revenue when the Company meets its obligations under the relevant contract.

### **o) Revenue**

Revenues from sales and services are recognised when the actual transfer of control of the goods or services contracted with the customer occurs. A summary description of the applied recognition, measurement, and measurement process is provided below for each of the main revenue streams identified.

#### ***Revenues from the exploitation of Intellectual Property***

Revenue relating to the exploitation of Intellectual Property (IP) is recognised if both of the following conditions are met: (i) the Company has transferred the right to exploit the Intellectual Property to the customer who has significant independent functionality, and (ii) the customer, who has received the right, can use it and benefit from the right to use it without further involvement of the Group.

#### ***Licence revenues***

Revenue relating to royalties based on the use and sales of an IP licence is recognised if both of the following conditions are met: (i) use has occurred, and (ii) the performance obligations under which some or all of the royalties based on the use of an IP licence have been allocated, have been satisfied.

The Company grants the right to exploit the know-how developed for animation production (hereinafter 'pipeline'). Revenue, following IFRS 15, is recognised *at a point in time*, as the Company grants the right to use (*right to use*) the know-how as it exists at the time it is granted.



### ***Revenues from service activities***

Construction contracts usually involve an obligation to perform over time; for such contracts, the Company generally considers it appropriate to use an input method of measuring progress in the performance of the obligation unless a contract-specific analysis suggests the use of a different method that better represents the Group's performance obligation at the balance sheet date.

For construction contracts that include an obligation to perform over time, the Company recognises revenue over time by measuring the progress towards completing that obligation.

The method of hours worked by production personnel is generally considered to be the best method of measuring progress towards the Group's obligation at the balance sheet date.

The amount due from customers for construction contracts is presented as an asset arising from contracts with customers; the amount due to customers for construction contracts is presented as a liability arising from contracts with customers.

### **p) Public contributions - Tax Credit:**

Government grants - tax credits are recognised when there is reasonable assurance that they will be received and all the conditions attached to them have been met. Grants related to cost components are recognised as income and are allocated systematically over the periods to match the costs they are intended to compensate. The grant related to an asset is recognised as income in the same proportion as that applied for the amortisation of the related intangible asset, following IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.

This item primarily includes grants from the Ministry of Cultural Heritage and Activities and Tourism (MIBACT) for television and film productions, following applicable laws, which are recognised as grants in the income statement over the estimated useful life of the assets to which they relate.

With specific reference to the film sector, the Company currently benefits from a type of public contribution, i.e., incentives consisting of tax relief and deriving from tax credits granted to film production companies concerning the production of cinematographic works under Law 244/2007, as regulated by the 'Tax Credit' Producers Decree, setting out the application methods.

In particular, the legislation aims to encourage Italian film production by granting a tax credit corresponding to a certain percentage of the film's total cost.

### **q) Current taxes**

Current tax assets and liabilities for the year are valued at the amount expected to recover from or pay to the tax authorities. The tax rates and regulations used to calculate the amount are enacted or substantively enacted at the balance sheet date in the country where the Company operates and generates its taxable income.

Current income taxes relating to items recognised directly in equity are also recognised in equity and not in the profit/(loss) statement for the period. Management periodically assesses the position taken in the tax return in cases where tax rules are subject to interpretation and, where appropriate, makes provisions.

### **r) Deferred taxes**

Deferred taxes are calculated by applying the liability method to temporary differences between the tax bases of assets and liabilities and their corresponding carrying amounts at the balance sheet date. Deferred tax assets are recognised for all temporary deductible differences and unused tax credits and losses carried forward to the extent that sufficient future taxable profit will probably be available against which the temporary deductible differences and tax credits and losses carried forward can be utilised, except to the extent that the deferred tax asset associated with the temporary deductible difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss reported in the financial statements nor the tax profit or loss. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of that credit to be utilised. Unrecognised deferred tax assets are reviewed at each balance sheet date. They are recognised to the extent that it becomes probable that taxable profit will be sufficient to allow the recovery of those deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when those assets are realised, or those liabilities are settled, taking into account tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes relating to items recognised outside the income statement are also recognised outside the income statement. Therefore, in equity or the statement of comprehensive income, consistently with the item they relate.

### **s) Currency conversion**

In the Financial Statements, the results of operations, assets and liabilities are expressed in Euro, which is the presentation currency of Iervolino & Lady Bacardi Entertainment S.p.A.

### **t) Foreign currency transactions and balances**

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

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

The exchange differences realised or those deriving from the conversion of monetary items are recorded in the income statement, with the exception of the monetary elements that constitute part of the coverage of a net investment in a foreign operation. These differences are recognised in the statement of comprehensive income until the sale of the net investment, and only then is the total amount reclassified to the income statement. The taxes attributable to foreign exchange differences on monetary items are also recognised in the statement of comprehensive income.

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

Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rates on the date of initial recognition of the transaction. Non-monetary items recorded at fair value in foreign currency are converted at the exchange rate on the date of determination of this value. The profit or loss that emerges from the conversion of non-monetary items is treated consistently with the recognition of profits and losses related to the change in the fair value of the aforementioned items (i.e. the translation differences on the items whose variation in fair value is recognised in the statement of comprehensive income or in the income statement, respectively, recorded in the statement of comprehensive income or in the income statement).

In determining the spot exchange rate to be used when initially recognising the related asset, expense or income (or portion thereof) upon derecognition of a non-monetary asset or non-monetary liability related to the upfront consideration, the date of the transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability resulting from the upfront consideration. If there are several payments or advances, the Company determines the transaction date for each payment or advance.

#### **u) Cost recognition**

Costs are recognised when the good or service is acquired or consumed.

### **2.3 Discretionary evaluations and significant accounting estimates**

The preparation of the financial statements requires management to make discretionary judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could lead to outcomes that will require a significant adjustment to the carrying amount of these assets and/or liabilities in the future.

The main evaluations that require management's judgement are as follows:

#### **Amortisation and verification of the recoverable amount of Intangible Assets**

The most significant valuation used in the preparation of the statement of profit/(loss) relates to the film forecast computation method (see paragraph c) Intangible Assets), which affects the determination of amortisation of Intangible Assets. The application of the 'film forecast computation method', according to which the amortisation at the date of the financial statements is determined based on the time horizon, referring to the ratio existing between the revenues realised and the total revenues to be received throughout the life cycle of the film, requires the application of an estimation criterion to determine the future revenues in which the intangible asset will produce revenues.

Regarding verifying the recoverable amount of Intangible Assets, their future exploitation was verified within the last Business Plan approved by the Board of Directors on 23 March 2023.

#### **Recoverability of Deferred Tax Assets**

Deferred tax assets are recognised for temporary deductible differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. A

discretionary assessment is required of the directors to determine the number of deferred tax assets that may be recognised, depending on the estimated timing and amount of future taxable profits.

### **Application of IFRS 15**

Management assesses at the outset of each contract with customers the appropriate method of measuring the fulfilment of the performance obligation contained in the contract. For most existing contracts, the obligation is outlined following paragraph 38 of IFRS 15. The management considers this to be the moment when the confirmation of the technical correspondence of the delivered production is obtained.

The directors, with particular reference to royalty income based on the use of an IP licence, have considered whether both of the following conditions are satisfied: (i) use has occurred, and (ii) the performance obligations under which some or all of the royalties based on the use of an IP licence have been allocated, have been satisfied.

The Company grants the right to exploit the know-how developed for animation production (hereinafter 'pipeline'). Revenue, following IFRS 15, is recognised *at a point in time*, as the Company grants the right to use (*right to use*) the know-how as it exists at the time it is granted.

### **Recognition of Cinema Tax Credit**

Regarding recognising the 'Cinema' tax credit, the management believes that it is reasonably certain when the relative recognition procedure is respected. The corresponding entry as income is related to the production delivered and the rights realised.

### **Lease – Estimate of the marginal borrowing rate**

The Company cannot readily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate to measure the lease liability. The marginal borrowing rate is the interest rate that the lessee would have to pay for a loan, with a similar term and collateral, required to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Company would have had to pay, and this requires an estimate to be made when there is no observable data (as in the case of investees that are not direct counterparties to financial transactions) or when rates need to be adjusted to reflect the terms and conditions of the lease (for example, when the lease is not in the functional currency of the investee). The Company estimates the marginal borrowing rate using observable data (such as market interest rates) if available, and making specific considerations on the conditions of the investee (such as the creditworthiness of the investee alone).

## **2.4 Changes in accounting principles and disclosures**

### **New accounting standards, interpretations and amendments adopted by the Company**

The Company has applied for the first time several standards or amendments that are effective from 1 January 2022. The Company has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective.

### **Onerous contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

An onerous contract is a contract in which the non-discretionary costs (i.e., costs that the Company cannot avoid as a party to a contract) necessary to fulfil its obligations exceed the economic benefits expected to be obtainable from the contract.

The amendment specifies that in determining whether a contract is onerous or generates losses, an entity must consider the costs directly related to the contract for the supply of goods or services which include both incremental costs (i.e., the cost of direct labour and materials) than costs directly attributable to the contract assets (i.e. depreciation of equipment used to fulfil the contract as well as costs for contract management and supervision). General and administrative expenses are not directly related to a contract and are excluded unless they are explicitly payable to the other party on the basis of the contract.

These changes have no impact on the Company's financial statements.

### **Reference to the Conceptual Framework – Amendments to IFRS 3**

The amendments aim to replace the references to the Framework for the Preparation and Presentation of Financial Statements with references to the Conceptual Framework for Financial Reporting published in March 2018 without a significant change of the requirements of the standard.

The amendment added an exception to the measurement principles of IFRS 3 to avoid the risk of potential “day after” losses or gains deriving from liabilities and contingent liabilities that would fall within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if contracted separately. The exemption requires entities to apply the requirements of IAS 37 or IFRIC 21, rather than the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendment also added a new paragraph to IFRS 3 to clarify that contingent assets do not qualify as recognizable assets at the acquisition date.

In accordance with the transition rules, the Company applies the change prospectively, i.e., to business combinations that occur after the beginning of the financial year in which this change is applied for the first time (date of first application). These amendments had no impact on the Company's financial statements as potential assets, liabilities and contingent liabilities were not recognised for the purpose of these amendments.

### **Property, plant and equipment: Proceeds before intended Use – Amendment to IAS 16**

The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any revenue deriving from the sale of products sold in the period in which the asset is brought to the place or the conditions necessary for it to be able to operate the way it was designed by management. An entity accounts for revenue from the sale of such products, and the costs of producing those products, in profit or loss.

In accordance with the transition rules, the Company applies the amendment retrospectively only for the elements of property, plant and equipment that came into operation after or at the beginning of the financial year.

These amendments had no impact on the Company's financial statements as no sales relating to these items of property, plant and equipment were made before they came into operation before or after the start of the previous comparative period.

### **IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

This change allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 to account for cumulative translation differences based on the amounts accounted for by the parent, considering the date of transition to IFRSs by the parent, in the event that which no adjustments had been made in the consolidation procedures and for the effects of the business combination in which the parent company acquired the subsidiary. This amendment also applies to associates or joint ventures that choose to apply paragraph D16(a) of IFRS 1.

This change had no impact on the Company's financial statements as it is not a first time adopter.

### **IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

This amendment clarifies which fees an entity includes in determining whether the conditions of a new or modified financial liability are substantially different from the conditions of the original financial liability. These fees include only those paid or received between the obliger and the lender, including fees paid or received by the obliger or lender on behalf of others. No such amendment has been proposed with regard to IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transition rules, the Company applies the amendment to financial liabilities that are modified or exchanged subsequently or at the beginning of the financial year in which this amendment is applied for the first time (date of first application). This change had no impact on the Company's financial statements as no changes occurred in the financial liabilities during the year.

### **IAS 41 Agriculture – Taxation in fair value measurements**

The amendment removes the requirements in paragraph 22 of IAS 41 referring to the exclusion of cash flows for taxes when the fair value of an asset is measured in the scope of IAS 41. This change had no impact on the Company's financial statements as the Company does not have any assets within the scope of IAS 41 at the balance sheet date.

## 2.5 Financial risk management

### Liquidity risk

Liquidity risk relates to the difficulty in raising funds to meet commitments.

It may arise from the insufficiency of available resources to meet financial obligations within the agreed terms and deadlines in the event of sudden revocation of uncommitted financing lines or from the possibility that the company may have to meet its financial liabilities before their natural expiry.

Thanks to a careful and prudent financial policy, which is reflected in the adopted policy and the constant monitoring of both the ratio between credit granted and used and the balance between short-term and medium/long-term debt, the Company has adequate quality and quantity of financing lines.

In recent years, the Company's business has been characterised by rapid development, high growth and the acquisition of new Intellectual Property. In this context of growth, characterised by high utilisation of liquidity, the Company has resorted to bank borrowing through the stipulation of loans and two basket bonds, whose time profile of the relative repayment plans is illustrated in the following table:

Company	Lending institution	Type of loan	Interest rate	Amount disbursed	Year of start-up	Year of expiry	Within 1 year	Between 1 year and 5 years	After 5 years
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	113	73	-
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	113	64	-
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2023	144	-	-
ILBE SPA	Intesa San Paolo S.p.a.	Basket Bond	4,07%	8,000	2020	2027	2,464	5,600	-
ILBE SPA	Unicredit S.p.a.	Financing	Euribor 3M+spread 1,5%	3,000	2021	2023	2,501	-	-
ILBE SPA	Banca Ifis S.p.a.	Financing	Euribor 3M+spread 3,25%	3,000	2021	2026	779	1,815	-
ILBE SPA	Unicredit S.p.a.	Supply chain Basket Bond	2,55%	10,000	2021	2028	1,652	6,620	1,335
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,55%	4,200	2021	2026	100	516	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,44%	3,800	2021	2027	102	714	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,3%	2,100	2021	2027	25	407	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,75%	2,400	2022	2027	-	2,395	-
ILBE SPA	BPM	Financing	Euribor 3M+spread 2,65%	1,500	2022	2027	292	1,199	-
ILBE SPA	MedioCredito Centrale S.p.a.	Financing	Euribor 1M+spread 2,3%	3,000	2022	2026	627	2,351	-
ILBE SPA	Deutsch Bank	Financing	Euribor 3M+spread 2,75%	1,500	2022	2025	499	876	-

The monitoring of the risks of a liquidity shortage is carried out using a financial planning tool to verify the availability of sufficient cash flows to cover the principal and interest payments to service the Company's debt and other obligations.

The Company also uses the instrument of direct remittance from the customer to the supplier, and the related flows, although shown 'gross' in the statement, do not generate operating cash flows.

### *Foreign exchange rate risk*

The Company incurs a portion of its costs in US dollars and receives a portion of its revenues in US dollars.

Therefore, the Company is exposed to the risk of devaluation of the € against the US dollar. However, it was not deemed appropriate to set up hedging instruments, as this risk is significantly reduced through direct remittance from the customer to the supplier.

Receipts and payments in currencies other than the US dollar are irrelevant.

### *Interest Rate Risk*

The Company is exposed to marginal risks related to the volatility of interest rates linked to financing. In fact, the percentage of fixed-rate loans at 31 December 2022 is 53% of total loans.

Variable-rate loans are mainly indexed to the 3m Euribor and residually to the 1m Euribor. During 2022, the European Central Bank raised interest rates to combat rising inflation. This increase in interest rates, which also continued in the first quarter of 2023, will result in an increase in interest payable to the Banks. The Company will continue to monitor interest rate trends throughout 2023.

### *Credit risk*

The Company's commercial activities are considered to have a good credit quality. The risk of a counterparty defaulting on its outstanding obligations at 31 December 2022 is limited.

The Company maintains a high level of vigilance through monthly checks of exposures to its customers to identify the most critical positions. Where necessary, the allowance for doubtful accounts is supplemented by a specific assessment of individual positions to align trade receivables with their estimated realisable value.

## **3 Operating sectors: Disclosure**

For the purposes of IFRS 8 - Operating Segments, the activity carried out by ILBE can be identified in the only operating segment made up of Film Productions including the service activity (production activity carried out on behalf of third parties - the final Intellectual Property is not owned of the Group) and distribution and excluding post-production activities.



## Note no. 4 Intangible Assets

The breakdown of Intangible Assets as at 31 December 2022, compared to the same values as at 31 December 2021, is shown below:

€/000	31-dic-22	31-dic-21	Changes
Completed productions	43,963	41,163	2,800
Ongoing productions	6,396	22,813	(16,417)
IP and Distribution Rights	19,943	31,501	(11,558)
Other intangible activities	36	48	(12)
<b>Total Intangible Assets</b>	<b>70,338</b>	<b>95,525</b>	<b>(25,187)</b>

The changes in Production completed, Production in progress, IP and Distribution rights and Other intangible assets are shown below (the column of decreases in addition to amortisation for the year also includes other decreases):

€/000	As at 31 December 2021	Increases	Reclassifications	Reductions/Amortisation	As at 31 December 2022
Completed productions	41,163	85,212	21,299	(103,711)	43,963
Ongoing productions	22,813	4,062	(20,456)	(23)	6,396
IP and Distribution Rights	31,501	5,448	(843)	(16,163)	19,943
Other intangible activities	48	-	-	(12)	36
<b>Total</b>	<b>95,525</b>	<b>94,722</b>	<b>-</b>	<b>(119,909)</b>	<b>70,338</b>

The Finished productions item includes the capitalisation of finished productions whose rights have been granted to the client. Specifically, during the year, the works produced and completed, the exploitation rights of which were granted to the client were as follows: 61 episodes of the Puffins web series in animation mode; 135 episodes of the web series Baby Puffins & Bunny in animatics mode; 300 episodes of the Tik Tok web series in animatics mode; 3 animation films in animatics mode; the films State of Consciousness and MUTI; the Vod Cast Giving Back Generation II and III.

The productions completed and fully amortised in previous years relating to the productions The Poison Rose and Giving Back I, in addition to the typical rights of the IP, in relation to the individual contracts, are in any case entitled to receive further revenues (backend) in the long term deriving from the exploitation of productions.

Below are details of the completed productions:

€/000	As at 31 December 2021	Increases 2022	Reductions/Amortisation 2022	Reclassifications	As at 31 December 2022
Waiting for the Barbarians	179	-	(179)	-	-
AF 2018 (15 episodes) - 2018	-	-	-	-	-
AF 2019 (35 episodes) - 2019	-	-	-	-	-
AF 2020 (72 episodes) - 2020	-	-	-	-	-
AF 2021 (68 episodes) - 2021	11,580	-	-	(2,514)	9,066
Rights AF	562	-	-	(122)	440
<b>Total AF</b>	<b>12,142</b>	<b>-</b>	<b>-</b>	<b>(2,636)</b>	<b>9,506</b>
Puffins 2019 (20 episodes) - 2019	735	-	(735)	-	-
Puffins 2020 (50 episodes) - 2020	7,892	-	(3,946)	-	3,946
Puffins 2021 (59 episodes) - 2021	9,210	-	-	-	9,210
Puffins 2021 - Animatics - (29 episodes) - 2021	2,819	-	-	-	2,819
Puffins 2022 (61 episodes) - 2022	-	28,705	(22,714)	1,580	7,571
Rights Puffins	2,048	-	(1,508)	-	540
<b>Total Puffins</b>	<b>22,704</b>	<b>28,705</b>	<b>(28,903)</b>	<b>1,580</b>	<b>24,086</b>
Baby Puffins & Bunny 2022 - Animatics - (135 episodes) - 2022	-	26,429	(25,372)	-	1,057
Bunny rights	-	-	(227)	843	616
<b>Total Baby Puffins &amp; Bunny</b>	<b>-</b>	<b>26,429</b>	<b>(25,599)</b>	<b>843</b>	<b>1,673</b>
MUTI	-	2,368	(13,664)	12,731	1,435
State of Consciousness	-	1,303	(3,636)	2,877	544
TIK TOK	-	11,007	(10,567)	-	440
Animation Movie	-	15,252	(14,641)	-	611
Eddie & Sunny	1,141	-	(46)	-	1,095
Tell it like a Woman	2,567	-	-	-	2,567
Giving Back II - III	-	148	(3,416)	3,268	-
Dakota	1,319	-	(54)	-	1,265
Other projects	1,111	-	(370)	-	741
<b>TOTAL</b>	<b>41,163</b>	<b>85,212</b>	<b>(103,711)</b>	<b>21,299</b>	<b>43,963</b>

The item Production in progress includes capitalising costs of films not completed in 2022.

Below are details of the current productions:

€/000	As at 31 December 2021	Increases 2022	Reductions/Amortisation 2022	Reclassifications	As at 31 December 2022
Paradox Effect	-	397	-	-	397
Le mura di Bergamo	-	318	--	350	668
State of Consciousness	2,877	-	-	(2,877)	-
In the Fire	727	2,773	-	-	3,500
Puffins 2022	1,580	-	-	(1,580)	-
Giving Back Generation II	1,633	-	-	(1,633)	-
Giving Back Generation III	1,635	-	-	(1,635)	-
MUTI	12,731	-	-	(12,731)	-
Altri Progetti	1,630	574	(23)	(350)	1,831
<b>TOTALE</b>	<b>22,813</b>	<b>4,062</b>	<b>(23)</b>	<b>(20,456)</b>	<b>6,396</b>

The item 'Other rights' includes the capitalisation of costs incurred for acquiring distribution rights for films in Italy and abroad and of rights related to Intellectual Properties. The decrease for the year is mainly due to the amortisation of the so-called "family movies". These depreciations amount to approximately €7,1 million.

Details of other rights are given below:

€/000	As at 31 December 2021	Increases 2022	Reductions/Amortisation 2022	Reclassifications	As at 31 December 2022
Library	110	-	(37)	-	73
Arctic Justice Characters - IP	10,696	-	(1,094)	(843)	8,759
Lamborghini distribution rights	6,600	120	(4,265)	-	2,455
Distribution rights Arctic Justice film	1,288	-	(429)	-	859
Distribution rights Christmas Thieves	3,048	-	(2,271)	(150)	627
Distribution rights The Good Witch of Christmas	3,482	-	(2,696)	150	936
Distribution rights Vote for Santa	2,840	-	(1,775)	-	1,065
Distribution rights A Day with Santa	2,560	-	(1,600)	-	960
Distribution rights Detective Santa	2,753	-	(1,721)	-	1,032
Distribution rights Save Christmas	-	788	(394)	-	394
Distribution rights KID Santa	-	2,133	(1,066)	-	1,067

Distribution rights Billie's Magic World	-	2,133	(1,066)	-	1,067
Other rights - IP	487	276	(114)	-	649
<b>TOTAL</b>	<b>31,501</b>	<b>5,450</b>	<b>(16,165)</b>	<b>(843)</b>	<b>19,943</b>

During the period, there were no indications of a possible loss of value concerning Intangible Assets; in fact, the exploitation of Intangible Assets is considered in the last Business Plan approved by the Board of Directors.

## Note no. 5 Tangible Assets and Rights-of-Use Assets

The composition of the item Tangible assets and Rights of use as at 31 December 2022, with the same values as at 31 December 2021, is shown below:

€/000	31-dic-22	31-dic-21	Changes
Tangible fixed assets	625	119	506
Rights of use	1,236	-	1,236
<b>Total Tangible assets and rights-of-use assets</b>	<b>1,861</b>	<b>119</b>	<b>1,742</b>

The movements in the Materials and Rights of use assets are shown below:

€/000	As at 31 December 2021	Increases	Reclassifications	Reductions/Amortisation	As at 31 December 2022
Tangible fixed assets	119	626	-	(120)	625
Rights of use	-	1,408	-	(172)	1,236
<b>Total Tangible assets and rights-of-use assets</b>	<b>119</b>	<b>2,034</b>	<b>-</b>	<b>(292)</b>	<b>1,861</b>

The change in the period is mainly connected with the rental contracts entered into in 2022 and accounted for under right-of-use assets. The increase in tangible fixed assets is mainly related to the works carried out for the construction of a post-production studio located in Rome.

## Note no. 6 Deferred tax assets

Deferred tax assets, amounting to €7,748 thousand, consist of taxes calculated on temporary deductible differences arising from a mismatch between the carrying amounts in the financial statements and the corresponding amounts recognised for tax purposes. The composition of deferred tax assets at 31 December 2022, compared to the same at 31 December 2021, is shown below:

€/000	31-dic-22	31-dic-21	Changes
Amortisation of intangible fixed assets	7,299	7,314	(15)
Impairment of intangible assets	413	413	-
Other temporary differences	35	202	(167)
<b>Total Deferred tax assets</b>	<b>7,747</b>	<b>7,929</b>	<b>(182)</b>

Deferred tax assets are recognised to the extent that it is probable that adequate future taxable profit will be available against which temporary deductible differences and tax assets and liabilities carried forward can be utilised.

Deferred tax assets have been recognised based on an estimate of the probable timing and amount of future taxable profits, as envisaged in the 2023-2025 business plan.

## Note no. 7 Investments in subsidiaries

Equity investments amounted to €8,034 and increased by €1,258 compared to the previous year. The increase is related to the purchase during the year of 60% of SoBe Sport S.r.l. Total investments in subsidiaries at 31 December 2022 are shown in the following statement.

€/000	31-dic-22	31-dic-21	Changes	
Investments in Arte Video S,r,l,		300	300	-
Investments in R,E,D, Carpet S,r,l,		700	700	-
Investments in ILBE Studios d,o,o		5,766	5,766	-
Investments in SoBe Sport S,r,l,		1,258	-	1,258
Investments in Wepost S,r,l,		10	10	-
<b>Totale Investments</b>		<b>8,034</b>	<b>6,776</b>	<b>1,258</b>

The main data concerning investments in subsidiaries at 31 December 2022 are shown below:

€/000	Share Capital	Shareholders' equity	Profit/(loss)	Share of ownership	Book value
Investments in Arte Video S.r.l.	10	4,436	1,679	100%	300
Investments in R.E.D. Carpet S.r.l.	50	336	50	100%	700
Investments in ILBE Studios d.o.o	5,784	3,246	(2,630)	100%	5,766
Investments in SoBe Sport S.r.l.	30	227	119	60%	1,258
Investments in Wepost S.r.l.	10	7	5	100%	10
<b>Totale Investments</b>					<b>8,034</b>

As at 31 December 2022, investments in R.E.D. Carpet S.r.l., ILBE Studios d.o.o. and SoBe Sport S.r.l. were subjected to an impairment test, comparing the recoverable amount resulting from the impairment test with the relevant carrying amount to verify that it had not suffered any impairment. In this year, the income forecasts included in the 2023-2025 Plan approved by the Board of Directors on March 23, 2023 were considered. The rate at which cash flows are discounted to present value (i.e. the rate at which the cash flows are discounted to present value) is used. Discount rate) coincides with the Weighed Average Cost of Capital (WACC). It was determined as a weighted average of the cost of equity.

The Capital Asset Pricing Model ('CAPM') method was used for the cost of equity (kE), the parameters of which were identified as follows: (i) The risk-free rate was calculated regarding the yield curve for Italian government bonds (BTPs with a maturity of ten years). The risk-free rate considered for Italy is, for 2022, equal to 3,98%; (ii) for the estimation of the beta non-differentiable systemic risk coefficient, reference was instead made to the inputs elaborated by international practice (i.e. Damodaran), whose estimate is based on the average values of the sector. The value of the average  $\beta$  applied is 1.01; (iii) The equity risk premium has been estimated at 8,35%; (iv) An additional risk premium has been included

due to the lack of diversification of the business portfolio and uncertainty about the expected market development.

The discount rate determined for the year is approximately 14%.

This analysis confirmed the reasonableness of the results obtained and, therefore, the recoverability of the value recorded in the financial statements.

## Note no. 8 Investments accounted for using the equity method

The Company holds a 40% stake in Welcome to Italy S.r.l., a company whose purpose is the executive production of films and other audiovisual products. Specifically, in 2022 Welcome to Italy took care of the executive production of the film "Ferrari". The participation of the Company in Welcome to Italy S.r.l. is accounted for in the financial statements using the equity method. Following the valuation of the investment using the equity method, the Company recognised the pertinent share of the result of the associated company at 31 December 2022 for €39 thousand.

## Note no. 9 Other non-current assets

Other non-current assets amount to €2,748 thousand and consist of trade receivables exceeding the year mainly for (i) the consideration paid to the Company by Tatatu S.p.A. and connected with the consideration recognised for the closure of the ADV business unit (€1,060 thousand) and a trade receivable (€641 thousand); (ii) part of the consideration relating to the MUTI film (€1,021 thousand).

## Note no. 10 Trade receivables

Trade receivables amount to €32,216 thousand. Details are given below:

€/000	31-dic-22	31-dic-21	Changes	
Trade receivables from third party customers	23,437	15,479	7,958	
Receivables from related parties	12,779	1,745	11,034	
<b>Total trade receivables</b>	<b>36,216</b>	<b>17,224</b>	<b>18,992</b>	

Receivables from customers are generated by normal commercial activity and are regularly collected or offset against any debt positions at the due dates agreed in the sales contracts.

The following table shows the geographical breakdown of trade Receivables:

€/000	31-dic-22	31-dic-21	Changes	
Receivables from domestic customers	4,153	9,042	(4,889)	
Receivables from EU customers	663	-	663	
Receivables from non-EU customers	31,400	8,182	23,218	
<b>Total trade receivables</b>	<b>36,216</b>	<b>17,224</b>	<b>18,992</b>	

The company makes a specific assessment of the risk of bad debt for each client. At 31 December 2022, this analysis revealed uncollectable receivables for EUR 120 thousand.

€/000	31-dic-22	31-dic-21	Changes	
Gross trade receivables		36,336	17,344	18,992
Provision for write-down of trade receivables		(120)	(120)	-
<b>Total trade receivables</b>		<b>36,216</b>	<b>17,224</b>	<b>18,992</b>

## Note no.11 Tax receivables

The item includes the receivable from the tax authorities following the advance payments made during the year for IRES and IRAP purposes.

## Note no. 12 Current financial assets

The item of €22,792 thousand mainly consists of the company's financial investments to optimise the management of uncommitted cash.

€/000	31-dic-22	31-dic-21	Changes	
Financial investments in investment funds		9,457	9,916	(459)
Financial advance to ADS		-	1,346	(1,346)
Intercompany financial assets		4,644	-	4,644
Receivables from financial institutions for transfer of VAT credit 2020		-	796	(796)
Financial receivables from Verona LLC		6,500	-	6,500
Financial receivables for the transfer of tax credit		1,644	-	1,644
Other current financial assets		547	12	535
<b>Total current financial assets</b>		<b>22,792</b>	<b>12,070</b>	<b>10,722</b>

The financial investments consist of investment funds, 85% of which are made up of bonds. The reduction for the year is given by the difference between the investments made and the loss recorded but not yet realised.

Interest-bearing financial receivables from Verona LLC relate to the financial advance payment made by the Group for the final production of the Verona project and used by Verona LLC to pay the sums allocated for tax payables resulting from the final production. Verona LLC will reimburse the credits in question upon collection of the Tax Credit for which it is responsible.

the Group determines fair value under IFRS 13 whenever international accounting standards require such a measurement criterion. The fair value represents the price that would be received for the sale of an asset or paid for the transfer of a liability in an ordinary transaction between market participants at the valuation date (so-called 'exit price'). Its best identification is the market price, i.e. its current, publicly available price traded on a liquid and active market. The fair value of assets and liabilities is classified in a fair value hierarchy with three different levels, defined as follows, based on the inputs and valuation techniques used to measure fair value:

- › Level 1: quoted prices (unmodified) on active markets for identical assets or liabilities that the Company can access at the valuation date;
- › Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (such as prices) or indirectly (derived from prices);

› Level 3: Inputs to the asset and liability not based on observable market data (unobservable inputs).

As at 31 December 2022, the assets valued at FVTPL consist of the investment in investment funds for EUR 9,457 thousand, whose fair value level is 1.

## Note no. 13 Other current assets

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

€/000	31-dic-22	31-dic-21	Changes
VAT credits	323	1,138	(815)
Film production tax credit	14,506	17,837	(3,331)
Self-distribution tax credit for cinema	-	929	(929)
Other tax receivables	70	6	64
Advances to suppliers	155	204	(49)
Due from ADS	-	11,683	(11,683)
Intercompany receivable from Wepost	-	6	(6)
Intercompany receivables for tax consolidation	407	864	(457)
Intercompany VAT group receivables	1,413	297	1,116
Receivables from Lazio Region	180	-	180
Prepaid expenses	102	152	(50)
<b>Total Other current assets</b>	<b>17,156</b>	<b>33,116</b>	<b>(15,960)</b>

The change is mainly associated with the settlement of the receivable from the company Archangel Digital Studios, user of the service activities by the company of the ILBE Studios group.

## Note no. 14 Cash and other liquid assets

The item of €10,877 thousand includes the balance of cash and cash equivalents.

There are no cash and cash equivalents restrictions at 31 December 2022 and 31 December 2021.

## Note No. 15 Shareholder's equity

The breakdown of this item is shown below:

€/000	31-dic-22	31-dic-21	Changes
Share capital	1,410	1,401	9
Legal Reserve	497	497	-
Share premium reserve	17,081	16,491	590
Extraordinary Reserve	39,435	18,688	20,747
Treasury Shares	(232)	-	(232)
Other reserves	5	107	(102)
Profit/(Loss) carried forward	29,556	29,556	-
Profit/(loss) for the financial year	1,201	20,747	(19,546)
<b>Total Group Shareholders' Equity</b>	<b>88,953</b>	<b>87,486</b>	<b>1,467</b>



## Share capital

At 31 December 2022, the share capital amounted to EUR 1,410 thousand, fully paid up, and consisted of 35,260,702 shares. The increase in share capital compared to the previous period is associated with the acquisition of 60% of the company SoBe Sport S.r.l.

## Legal reserve

At 31 December 2022, the legal reserve amounted to €497 thousand.

## Share premium reserve

At 31 December 2022, the share premium reserve consisted of:

- Listing the shares on the AIM Italia multilateral trading system is organised and managed by Borsa Italiana S.p.A. ('AIM Italy') concluded with the start of trading on 5 August 2019 (EUR 8,240 thousand);
- conversion of the bonds arising from the convertible bond 'Iervolino & Lady Bacardi Entertainment S.p.A. Convertible Bond 5% 2019' (€707 thousand);
- issue of the automatically convertible bond 'Iervolino & Lady Bacardi Entertainment S.p.A. Convertendo 3% 2019' (€7,251 thousand);
- Acquisition of the subsidiaries Arte Video S.r.l. and R.E.D. Carpet S.r.l. (€293 thousand);
- Acquisition of the subsidiary SoBe Sport S.r.l. (€590 thousand).

## Extraordinary reserve

This item includes the allocation of the 2021 result.

## Treasury Shares

The item mainly refers to the purchase of treasury shares carried out on Euronext Growth Milan during the period and equal to €225 thousand. As part of the treasury share buyback programme approved by the Shareholders' Meeting on 12 November 2021 and launched by the Board of Directors on 11 May 2022, in the period between 18 May 2022 and 31 December 2022 inclusive, ILBE purchased a total 150,000 ordinary shares at a weighted average ordinary price of approximately €1,5 per share. The residual amount of €thousand relates to the purchase of treasury shares carried out on Euronext Growth Paris.

## Other reserves

A breakdown of the item Other reserves at 31 December 2022 and 2021 is provided below:

Tatatu's objectives in managing capital are inspired by the creation of shareholder value, guaranteeing the interests of stakeholders and safeguarding business continuity, and maintaining an adequate level of capitalisation that allows economic access to external sources of finance to support the development of the Company's activities adequately.

## Note no. 16 Non-current financial liabilities

A breakdown of the item Non-current financial liabilities at 31 December 2022 and 2021 is provided below:

€/000	31-dic-22	31-dic-21	Changes	
Loans		10,410	15,960	(5,550)
Liabilities for non-current leases		1,036	-	1,036
Basket Bond		13,555	16,871	(3,316)
<b>Total non-current financial liabilities</b>		<b>25,001</b>	<b>32,831</b>	<b>(7,830)</b>

This item includes medium/long-term fixed and variable rate bank loans. The table below shows the loans granted by the Company:

Company	Lending institution	Type of loan	Interest rate	Amount disbursed	Year of start-up	Year of expiry	Within 1 year	Between 1 year and 5 years	After 5 years
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	113	73	-
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	113	64	-
ILBE SPA	Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2023	144	-	-
ILBE SPA	Intesa San Paolo S.p.a.	Basket Bond	4,07%	8,000	2020	2027	2,464	5,600	-
ILBE SPA	Unicredit S.p.a.	Financing	Euribor 3M+spread 1,5%	3,000	2021	2023	2,501	-	-
ILBE SPA	Banca Ifis S.p.a.	Financing	Euribor 3M+spread 3,25%	3,000	2021	2026	779	1,815	-
ILBE SPA	Unicredit S.p.a.	Supply chain Basket Bond	2,55%	10,000	2021	2028	1,652	6,620	1,335
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,55%	4,200	2021	2026	100	516	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,44%	3,800	2021	2027	102	714	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,3%	2,100	2021	2027	25	407	-
ILBE SPA	Intesa San Paolo S.p.a.	Financing	Euribor 3M+spread 2,75%	2,400	2022	2027	-	2,395	-
ILBE SPA	BPM	Financing	Euribor 3M+spread 2,65%	1,500	2022	2027	292	1,199	-
ILBE SPA	MedioCredito Centrale S.p.a.	Financing	Euribor 1M+spread 2,3%	3,000	2022	2026	627	2,351	-
ILBE SPA	Deutsch Bank	Financing	Euribor 3M+spread 2,75%	1,500	2022	2025	499	876	-

The Basket Bond regulations provide, in particular, for specific economic-financial covenants relating to compliance with predefined thresholds in terms of Net Financial Position/EBIT, Net Financial Position/Shareholders' Equity and EBIT/Gross Interest. As at 31 December 2022, these covenants have been met.

The net financial position at 31 December 2022 and 31 December 2021 is shown below:

Net financial position - Euro thousands	31/12/2022	31/12/2021
Cash and cash equivalents	(10,877,447)	(2,545,166)
Current financial assets	(18,148,256)	(12,070,002)
Intercompany financial current assets	(4,644,036)	-
<b>Liquidity</b>	<b>(33,669,739)</b>	<b>(14,615,168)</b>
Current portion of non-current financial liabilities	9,507,372	1,696,013
Other current financial liabilities	12,294,104	4,952,975
Liabilities for current leases	223,645	-
Other current intercompany financial liabilities	5,073,402	4,951,000
<b>Current financial debt</b>	<b>27,098,523</b>	<b>11,599,988</b>
<b>Net current financial debt</b>	<b>(6,571,216)</b>	<b>(3,015,180)</b>
Non-current financial liabilities	23,964,678	32,831,086
Liabilities for non-current leases	1,035,981	-
Non-current trade payables	-	-
<b>Non-current financial debt</b>	<b>25,000,659</b>	<b>32,831,086</b>
<b>NFP debt</b>	<b>18,429,443</b>	<b>29,815,906</b>
<i>of which IFRS 16 (leasing)</i>	<i>(1,259,626)</i>	<i>-</i>
<b>Adjusted NFP debt</b>	<b>17,169,817</b>	<b>29,815,906</b>

## Note no. 17 Current financial liabilities

Current financial liabilities as at 31 December 2022 amounted to €27,098 thousand and were composed as follows:

€/000	31-dic-22	31-dic-21	Changes
Current portion of non-current financial liabilities	9,507	1,996	7,511
Other current financial liabilities	42	5	37
Liabilities for current leases	224	-	224
Liabilities for factoring transactions	2,000	-	2,000
Intercompany financial liabilities	5,073	4,951	122
Current account overdraft	10,252	4,648	5,604
<b>Total current financial liabilities</b>	<b>27,098</b>	<b>11,600</b>	<b>15,498</b>

## Note no. 18 Trade payables

Trade payables amount to €9,963 thousand, as shown in the following table:

€/000	31-dic-22	31-dic-21	Changes
Trade payables	6,882	16,306	(9,424)
Payables to related parties	3,081	2,884	197
<b>Total trade payables</b>	<b>9,963</b>	<b>19,190</b>	<b>(9,227)</b>

Total trade payables represent the Company's indebtedness to suppliers for purchases of services.

The following table shows the geographical breakdown of trade Payables:

€/000	31-dic-22	31-dic-21	Changes	
National trade payables		7,939	15,450	(7,511)
Payables to EU suppliers		344	31	313
Non-UE Trade payables		1,680	3,709	(2,029)
<b>Total trade payables</b>		<b>9,963</b>	<b>19,190</b>	<b>(9,227)</b>

## Note no. 19 Contractual Liabilities

As at 31 December 2022, contractual liabilities amounted to €10,200 thousand; details are shown below compared to the amounts as at 31 December 2021:

€/000	31-dic-22	31-dic-21	Changes	
Contractual liabilities		10,200	18,079	(7,879)
<b>Total Contractual Liabilities</b>		<b>10,200</b>	<b>18,079</b>	<b>(7,879)</b>

Contractual liabilities arise from financial advances received on obligations to do something that will be fulfilled in the following period. Specifically, the contractual liabilities refer to the advances relating to the In the Fire project and the executive production of Verona.

## Note no. 20 Other current liabilities

As at 31 December 2022, other current liabilities amounted to €18,494 thousand; a breakdown is provided below compared to the amounts as at 31 December 2021:

€/000	31-dic-22	31-dic-21	Changes	
Payables to staff		397	241	156
Sundry Tax paybles		2,059	336	1,723
Deferred income		16,038	7,679	8,359
<b>Total other current liabilities</b>		<b>18,494</b>	<b>8,256</b>	<b>10,238</b>

Other liabilities mainly consist of deferred income related to the portion of government grants - tax credits that, based on IAS 20, must be systematically allocated between periods to be commensurate with the recognition of the costs they are intended to offset.

## Note no. 21 Revenues

Revenues amounted to a total of €110,275 thousand and are broken down as follows:

€/000	31-dic-22	31-dic-21	Changes
Revenues from the granting of IP exploitation rights	92,070	81,547	10,523
Pipeline concession revenues	4,025	32,531	(28,506)
Revenue from character concession	3,029	6,891	(3,862)
Revenues from services	10,890	11,554	(664)
Other revenues	261	192	69
<b>Total Revenues Film productions</b>	<b>110,275</b>	<b>132,715</b>	<b>22,440</b>

Revenues from concessions of exploitation rights are recognised when the company grants the right to use the intellectual property, know-how and characters. Revenue, following IFRS 15, is recognised *at a point in time*, as the company grants the right to use (*right to use*) the know-how as it exists at the time it is granted. Revenues related to film production service activities are accounted for on a progress basis.

Revenue relating to royalties based on the use and sales of an IP licence is recognised if both of the following conditions are met: (i) use has occurred, and (ii) the performance obligations under which some or all of the royalties based on the use of an IP licence have been allocated, have been satisfied.

The Company grants the right to exploit the know-how developed by the company for the production of animation (from now on, 'pipeline'). Revenue, following IFRS 15, is recognised *at a point in time*, as the company grants the right to use (*right to use*) the know-how as it exists at the time it is granted.

No estimated revenues are recognised in the financial statements.

Below is a breakdown of revenue from Film Productions by film/web series:

€/000	31-dic-22	31-dic-21	Changes
<b>Granting of IP exploitation rights</b>	<b>92,070</b>	<b>81,547</b>	<b>10,523</b>
Artic Friends Web Series	-	42,366	(42,366)
Puffins Web Series	15,168	31,962	(16,794)
Tell it like a Woman	-	2,420	(2,420)
Waitingforthe barbarians	114	-	114
Eddie & Sunny	4	894	(890)
Baby Puffins & Bunny Web Series	24,936	-	24,936
TikTok	11,799	-	11,799
Animation Movie	16,170	-	16,170
MUTI	16,216	-	15,215
State of Consciousness	2,836	-	2,835
Giving Back He III	2,619	-	2,619
Lamborghini	3,168	-	3,168
Dakota	42	3,904	(3,862)
<b>Pipeline concession</b>	<b>4,025</b>	<b>32,531</b>	<b>(28,506)</b>
<b>Granting of characters</b>	<b>3,029</b>	<b>6,891</b>	<b>(3,862)</b>
Artic Friends e Puffins Web Series/Other IP	3,029	6,891	(3,862)
<b>Services activities</b>	<b>10,890</b>	<b>11,554</b>	<b>(664)</b>
Intercompany activity service	9,721	10,858	(1,137)
Other services activities	1,169	696	473
Other revenues	261	192	69
<b>Total Revenues</b>	<b>110,275</b>	<b>132,715</b>	<b>(22,440)</b>

Revenues associated with other service activities mainly relate to services provided in relation to executive productions.

Other revenues include royalties relating to the ILBE Library.

Revenues are mainly from non-EU customers (€99 million); the remainder is mainly from Italian customers.

On the whole, the company's performance is not significantly affected by seasonal phenomena related to certain year periods.

## Note No. 22 Tax Credits and other government grants

The item is mainly composed of the tax credit for cinema production, which refers to the tax benefit deriving from tax credits granted to film production companies concerning costs incurred for producing Italian audiovisual works.

Tax credits and other government grants are detailed below:

€/000	31-dic-22	31-dic-21	Changes
<b>Tax Credit film productions</b>	<b>17,833</b>	<b>14,148</b>	<b>3,685</b>
Arctic Friends Web Series (various seasons)	325	7,265	(6,940)
Tell it like a Woman	42	140	(98)
Waiting for the barbarians	51	460	(409)
Eddie & Sunny	16	330	(314)
Baby Puffins & Bunny Web Series (various seasons)	4,576	-	4,576
Tik Tok	1,689	-	1,689
Animation Movie	1,918	-	1,918
MUTI	1,903	-	1,903
State of Consciousness	1,032	-	1,032
Giving Back II and III	885	-	885
Puffins Web Series (various seasons)	5,364	4,717	647
Dakota	32	1,236	(1,204)
<b>R&amp;D Tax Credit</b>	<b>-</b>	<b>559</b>	<b>(559)</b>
Arctic Friends Web Series	-	559	(559)
<b>Other government grants</b>	<b>168</b>	<b>-</b>	<b>168</b>
<b>Total Tax Credits and other government grants</b>	<b>18,001</b>	<b>14,707</b>	<b>3,294</b>

## Note no. 23 Costs for Services

The item Cost of services and its comparison with the previous year's balances are detailed in the following table:

€/000	31-dic-22	31-dic-21	Changes
Celebrity Management costs	-	304	(304)
Costs for offering service	51	90	(39)
Business travel and transfers	224	264	(40)
Various administrative expenses	482	454	28
Bank fees	87	138	(51)
Technical expertise	599	384	215
Marketing costs	1,062	603	459
Insurance costs	67	51	16
Directors' fees	850	844	6
Rentals and leases	176	129	47
Other film production costs	525	-	525
Fees of the Board of Statutory Auditors	40	40	-
Other purchases of services	42	252	(210)
<b>Total costs for services</b>	<b>4,205</b>	<b>3,553</b>	<b>652</b>

The increase in the item compared to the previous period is mainly attributable to the higher costs incurred for marketing activities and other film production costs.

## Note no. 24 Personnel costs

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

€/000	31-dic-22	31-dic-21	Changes	
Salaries and wages		782	666	116
Social charges on wages and salaries		312	229	83
Severance Indemnity		58	50	8
<b>Total personnel costs</b>		<b>1,152</b>	<b>945</b>	<b>207</b>

## Note no. 25 Amortisation, write-downs and provisions

Amortisation, write-downs and provisions and their comparison with the previous year's balances are detailed in the following table:

€/000	31-dic-22	31-dic-21	Changes	
<b>Amortisation of intangible assets</b>	<b>116,695</b>	<b>116,921</b>	<b>(226)</b>	
Amortisation Artic Friends WS	2,636	65,915	(63,279)	
Amortisation Puffins WS	28,903	39,975	(11,072)	
Amortisation Waiting for the Barbarians	180	180	-	
Amortisation Tell it like a Woman	-	2,119	(2,119)	
Amortisation Eddie & Sunny	45	1,141	(1,096)	
Amortisation Dakota	53	3,953	(3,9)	
Amortisation State of Consciousness	3,636	-	3,636	
Amortisation MUTI	13,664	-	13,664	
Amortisation Baby Puffins & Bunny WS	25,599	-	25,599	
Amortisation Family Movie	7,146	-	7,146	
Amortisation Tik Tok	10,567	-	10,567	
Amortisation Animation Movie	14,641	-	14,641	
Amortisation Giving Back II e III	3,416	-	3,416	
Amortisation Lamborghini	4,265	-	4,265	
Amortisation of other production	370	1,111	(741)	
Amortisation of other rights	1,562	2,515	(953)	
Amortisation of other intangible assets	12	12	-	
<b>Amortisation of tangible assets</b>	<b>120</b>	<b>12</b>	<b>108</b>	
<b>Amortisation Rights of use</b>	<b>172</b>	<b>-</b>	<b>172</b>	
<b>Amortisation of tangible and intangible fixed assets</b>	<b>116,987</b>	<b>116,933</b>	<b>54</b>	
<b>Write-downs and Provisions</b>	<b>(167)</b>	<b>9</b>	<b>(176)</b>	
<b>Total Amortisation Write-downs and provisions</b>	<b>116,820</b>	<b>116,942</b>	<b>(122)</b>	



The value in amortisation is related to the application of the 'film forecast computation method', according to which amortisation at the balance sheet date is determined in relation to the useful life of the asset and prudentially estimated over a maximum of four years, taking into account the peculiarity of each single existing production and their visibility.

It should be noted that during the year, for the so-called "family movies" depreciation for €7,146 thousand.

## Note no. 26 Financial income and charges

The item Financial Income and Charges and the related comparison with the previous year's balances are detailed in the following table:

€/000	31-dic-22	31-dic-21	Changes	
Foreign currency rate gains		66	335	(269)
Other financial income		127	3	124
<b>Total financial income</b>		<b>193</b>	<b>338</b>	<b>(145)</b>
Interest expense on loans		1,056	797	259
Amortised cost		125	265	(140)
Interest payable on leases		28	-	28
Finance fees		416	-	416
Unrealised losses on financial investments		993	-	993
Gains and losses on foreign exchange		1,795	1,646	149
Other financial expenses		805	660	45
<b>Total financial expenses</b>		<b>5,218</b>	<b>3,368</b>	<b>1,850</b>

The increase in the item is mainly associated with the recognition of unrealised losses on financial investments.

## Note no. 27 Income tax

Income taxes are broken down as follows:

€/000	31-dic-22	31-dic-21	Changes	
IRES (Corporate income tax)		-	3,611	(3,611)
IRAP (Regional Income Tax)		-	621	(621)
Income from tax consolidation		(598)	-	(598)
Taxes from previous years		50	(307)	357
Deferred taxes		191	(1,833)	2,024
<b>Total income tax</b>		<b>(357)</b>	<b>2,092</b>	<b>(2,449)</b>

## Note No. 28 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to the ordinary shareholders (after adjusting for interest on bonds convertible into shares) by the weighted average number of ordinary shares outstanding during the year and those arising from the conversion of all convertible bonds.

The result and share information used in the calculation of basic and diluted earnings per share are shown below:

€/000	31-dic-22	31-dic-21
Weighted average number of ordinary shares for basic earnings per share purposes	24,272,251	24,016,104
Operating profit	1,201,311	20,747,013
<b>Basic earnings per share (ordinary shares)</b>	<b>0,05</b>	<b>0,86</b>
<b>Bonds convertible into ordinary shares</b>	<b>-</b>	<b>-</b>
<b>Diluted earnings per share (ordinary shares)</b>	<b>0,05</b>	<b>0,86</b>

## Note no. 29 Other information

### 29.1 Transactions with related parties

The Company's financial and economic transactions with related parties from 1 January 2022 to 31 December 2022 are set out below:

	Trade Receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,701	-	-	-	-
Welcome to Italy S.r.l.	386	-	-	-	424	-
AMBI Distribution	-	-	-	-	154	-
Arte Video S.r.l.	2,217	1,782	3,021	4,673	3,793	-
R.E.D. Carpet S.r.l.	399	38	-	400	179	-
Wepost S.r.l.	-	86	60	-	-	-
Iervolino & Lady Bacardi Entertainment Studios d.o.o. (Iervolino Studios d.o.o.)	9,777	4,558	-	4,381	10,146	-
<b>Total related party transactions</b>	<b>12,778</b>	<b>8,165</b>	<b>3,081</b>	<b>9,454</b>	<b>14,695</b>	<b>-</b>
<b>Total financial statements items</b>	<b>36,216</b>	<b>143,666</b>	<b>9,963</b>	<b>80,965</b>	<b>128,293</b>	<b>122,463</b>
<b>Weight on financial statements items</b>	<b>35%</b>	<b>6%</b>	<b>31%</b>	<b>12%</b>	<b>11%</b>	<b>0%</b>

The outstanding credit balance with Tatatu S.p.A. of €1,701 thousand relates to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (€1,089 thousand) and a trade receivable (€612 thousand).

Relations with Welcome to Italy S.r.l. refer to the services rendered by ILBE for the executive production of the film "Ferrari".

The relationship with AMBI Distribution relates to the sales agency contract stipulated for the distribution of the film "Lamborghini" in some territories.

Transactions carried out during the period with Arte Video S.r.l. refer to: i) receivables accrued for tax consolidation and Group VAT (other current assets for €1,782 thousand); ii) payables related to post-production services received (trade payables for €3,021 thousand); iii) financial liabilities related to the management of centralised liquidity (financial liabilities for €4,673 thousand); iv) supervision services provided for the finalisation of the web series (revenues for €3,793 thousand and receivables for €2,217 thousand).

Transactions relating to the subsidiary R.E.D. Carpet relate to: i) commercial transactions carried out in 2021 (trade receivables for €271 thousand) and in 2022 (revenues for €179 thousand and trade receivables for €128 thousand); ii) financial liabilities associated with centralized liquidity management (financial liabilities of €400 thousand); iii) ) receivables accrued for group tax consolidation and VAT (other assets for €38 thousand).

Relations with the company Iervolino & Lady Bacardi Studios d.o.o. are connected with (i) the Pipeline concession (€4,502 thousand), (ii) the recharge of expenses incurred by the Company (€143 thousand), (iii) the service provided for the implementation of the production structure (€5,500 thousand); (iv) the advance received in the period for services that the Company will provide in 2022 (€4,381 thousand); (v) financial assets associated with centralised liquidity management (financial assets of €4,558 thousand).

Relations with the company Wepost S.r.l. they are connected to (i) payables relating to post-production services received (trade payables for €60 thousand), (ii) financial assets connected with centralised liquidity management (financial assets for €86 thousand).

The Company's financial and economic transactions with related parties from 1 January 2021 to 31 December 2021 are set out below:

	Trade Receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,731	-	-	1,090	-
Arte Video S.r.l.	-	-	8,355	-	-	5
Iexchange S.r.l.	-	3,300	-	-	-	-
Iervolino Studios d.o.o.	939	-	-	-	939	-
<b>Total related party transactions</b>	<b>939</b>	<b>5,031</b>	<b>8,355</b>	<b>-</b>	<b>2,029</b>	<b>5</b>
<b>Total financial statements items</b>	<b>16,876</b>	<b>108,569</b>	<b>26,059</b>	<b>32,774</b>	<b>117,004</b>	<b>96,054</b>
<b>Weight on financial statements items</b>	<b>6%</b>	<b>5%</b>	<b>32%</b>	<b>0%</b>	<b>2%</b>	<b>0%</b>

The credit balance with Tatatu S.p.A. of €1,721 thousand refers to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (€1,089 thousand) and a trade receivable (€641 thousand).

Transactions carried out during the period with Arte Video S.r.l. refer to: i) receivables accrued for tax consolidation and Group VAT (other assets for €1,154 thousand); ii) payables related to post-production services received (trade payables for €2,884 thousand); iii) financial liabilities related to the management of centralised liquidity (financial liabilities for €4,551 thousand); iv) supervision services provided for the finalisation of the web series (revenues for €2,540 thousand).

Transactions relating to the subsidiary R.E.D. Carpet are related to: i) commercial transactions carried out during the period (trade receivables for €271 thousand and revenues for €304 thousand); ii) financial liabilities related to the management of centralised liquidity (financial liabilities for €400 thousand); iii) receivables accrued during the period for tax consolidation transactions (other assets for €7 thousand).

Relations with the company ILBE Studios d.o.o. are connected with (i) the concession of the Pipeline (€2,311 thousand), (ii) the chargeback of expenses incurred by the Company (€318 thousand), (iii) the service rendered for the implementation of the production structure (€8,000 thousand); (iv) the advance received in the period for services that the Company will provide in 2022 (€5,025 thousand).

## 29.2 Amount of fees payable to the Auditing Firm

The following statement shows the fees for audit and non-audit services provided by the same audit firm:

Service type	Service supplier	Fees (Euro thousands)
<b>Iervolino &amp; Lady Bacardi Entertainment S.p.a.</b>		
Accounting Audit	EY S.p.a.	102
Certification services	EY S.p.a.	4
Limited review	EY S.p.a.	25
Other services	EY network entity	30
<b>Total</b>		<b>161</b>

## 29.3 Commitments and guarantees given by the Company

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

Euro thousands	31/12/2022
Guarantees given by the Group	19,058
Guarantees received by the Group	18,840
<b>Total guarantees given and received</b>	<b>37,898</b>

## 29.4 Information pursuant to Article 1, paragraph 125 of Law No. 124 of 4 August 2017

In compliance with the obligations of transparency of public disbursements introduced by art. 1, paragraphs 125-129 of Law no. 124/2017, it should be noted that concerning the tax credits for independent producers of audiovisual works referred to in art. 8, paragraph 2, of Decree-Law no. 91 of 8 August 2013 and Ministerial Decree of 5 February 2015, and DM Tax Credit 15/03/2018 referred to art. 15 and 16 of Law no. 220 of 14 November 2016, below is the detail of the tax credit accrued in the year 2021 and 2022:

Granting body	Title of the work	Tax credit accrued in 2022	Tax credit accrued in 2021
Mibact	Tell it like a women	-	-
Mibact	Arctic Friends web series (various seasons)	-	5,908
Mibact	Puffins web series (various seasons)	-	5,348
Mibact	Dakota	1,669	-
Mibact	State of Consciousness	1,374	-
Mibact	Le Mura di Bergamo	390	-
Mibact	Muti	2,144	-
Mibact	Spin Me Round	802	-
Mibact	Giving Back Generation II	442	-
Mibact	Giving Back Generation III	442	-
	<b>Total</b>	<b>7,264</b>	<b>11,256</b>

## 29.5 Events after the balance sheet date

There were no significant events occurring after the end of the financial year.

The Company will continue to monitor the evolution of the negative impacts of the Russian-Ukrainian conflict and the increase in interest rates in 2023.

## 29.6 Transactions arising from atypical and/or unusual operations

No atypical and/or unusual transactions were carried out in the period between 31/12/2021 and 31/12/2022.



# Iervolino & Lady Bacardi Entertainment S.p.A.

Financial statements as at December 31, 2022

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

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

To the Shareholders of  
Iervolino & Lady Bacardi Entertainment S.p.A.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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, 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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.



## Report on compliance with other legal and regulatory requirements

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

The Directors of Iervolino & Lady Bacardi Entertainment S.p.A. are responsible for the preparation of the Report on Operations of Iervolino & Lady Bacardi Entertainment S.p.A. as at December 31, 2022, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. as at December 31, 2022 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. as at December 31, 2022 and comply with the applicable laws and regulations.

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

Rome, March 29, 2023

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

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