

IERVOLINO ENTERTAINMENT S.p.A.



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Half yearly financial report as at 30 June 2019

IERVOLINO ENTERTAINMENT S.p.A.

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REPORT ON OPERATIONS OF IERVOLINO ENTERTAINMENT S.P.A. FOR THE FINANCIAL STATEMENTS FOR THE INTERIM PERIOD ENDED AS AT 30 JUNE 2019

1. General operating performance

The result for the first half of 2019

The first half of 2019 was characterised by a number of extremely positive and profitable events for your Company. In a macroeconomic context which, over the last part of the previous year, witnessed a slowdown in the rate of GDP growth, which also continued in 2019, with simultaneous repercussions at domestic level, IE continued to develop various activities, both film production activities and R&D, laying the foundations for sustainable long-term growth.

The interim period ended as at 30 June 2019 of Iervolino Entertainment (hereinafter also IE or the Company) closed with total revenues of Euro 9,642 thousand and EBIT of Euro 2,923 thousand deriving from revenues from the transfer of rights of audio-visual works less the associated cost of sales represented, essentially, by the amount pertaining to the year of the amortisation of audio-visual works.

The revenues, realised at the moment of delivery of the work, are in line with the annual planning horizon, given the majority of deliveries are expected in the second half of the year, as outlined in more detail in paragraph 8 relating to the business outlook.

The business model

IE is a Global Production Company specialising in the production of film and television content including films, TV-shows, web series and short TV shows. Boasting relations with leading international partners, it works with famous international actors and actresses to develop audio-visual products for international distribution.

The audio-visual contents produced by the Company are major Hollywood-style productions, designed for the international market and have involved famous international actors like Johnny Depp, Morgan Freeman, Robert Pattinson and Halle Berry. The films are shot directly in English.

Iervolino Entertainment started to produce film and television content after having stipulated contracts for the transfer of international distribution rights which involve the payment of the so-called minimum guarantee, therefore transferring the risk of performance of the film to international distributors. The first revenues are registered on delivery of the film, while back-end revenues are accounted for when realised in future years. The Company then remains the holder of the intellectual property rights which can be used in subsequent years to produce content through rights over remakes, sequels and other derivative products.

The activities carried out in the first half of 2019

During the first half of 2019, IE launched the process of listing of the company shares on the multi-lateral trading system AIM Italia organised and managed by Borsa Italiana S.p.A. ("AIM Italia"), successfully completed with the start of trading on 5 August 2019.

The Company also commenced two new complementary activities in the first half of 2019.

The first relates to the activities of exclusive concessionaire worldwide of advertising spaces and marketing activities on behalf of TaTaTu Enterprises (related party), owner of the social-streaming and advertising digital platform for video on-demand by the same name. Activities will initially be concentrated on Italy and then the rest of the world, also through the stipulation of distribution contracts with international advertising agencies. Based on the contract signed by the parties, IE will be entitled to a gross percentage of 50% of all advertising revenues accrued and collected every six months from performance of the activities.

The second relates to the artistic management of celebrities which, through the leveraging of the contacts with famous international actors by the management and, in particular, by Andrea Iervolino, involves the management of the image and the marketing of celebrities in Italy, in particular by stipulating contracts with TV broadcasters for the participation of international actors in TV programmes (e.g. John Travolta's involvement in the TV programme "Amici di Maria De Filippi" was overseen).

During the period, the back-end rights of the Italian film "The Poison Rose" were transferred, an action thriller directed by Francesco Cinquemani, George Gallo, Luca Gilberto and starring John Travolta, Morgan Freeman, Famke Janssen, Peter Stormare and Brendan Fraser. The film was shot in Savannah, in Georgia and in Rome and the surrounding areas.

We should point out that the film was produced last year and that, through a distribution agreement, the film sale rights for international distribution were transferred to Millennium Media, again last year.

THE POISON ROSE



JOHN TRAVOLTA



MORGAN FREEMAN



FAMKE JANSSEN



PETER STORMARE



BRENDAN FRAISER



ROBERT PATRICK

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

Production continued on another Italian film during the period, which will be completed in the second half of 2019. The film, called "Waiting for the Barbarians", is based on the novel by Nobel Prize winner J.M. Coetzee, directed by Oscar nominee Ciro Guerra and starring Oscar winner Mark Rylance, Johnny

Depp and star of the Twilight saga, Robert Pattinson. The film was shot in Morocco and in the province of Rome.

WAITING FOR THE BARBARIANS



MARK RYLANCE



JOHNNY DEPP



ROBERT PATTINSON



GANA BAYARSAIKHAN



JOE ALWYN

Inspired by the novel *WAITING FOR THE BARBARIANS* by J.M. Coetzee, Nobel Prize Winner for Literature in 2003, the film is based on the crisis of the conscience of the “Magistrate” - a loyal servant of the empire working in a tiny frontier town, who does his best to ignore an inevitable war with the “barbarians”. After witnessing the cruel and unjust treatment of prisoners of war, he reconsiders his role in the regime and carries out a quixotic act of rebellion.

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

The film was previewed globally at the 76th Venice International Film Festival and the 45th Deauville Film Festival. The film received a long applause at the end of the showing in Venice and was described as a “Mesmerising watch” by critics.

“Waiting for the Barbarians” will take part in the BFI – London Film Festival, the Zurich Film Festival and the San Sebastian Film Festival, among the most important events planned in the industry, hence obtaining further visibility with critics and the wider public. There is also a good chance that the film will participate in the Golden Globe Awards.

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





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

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

On 7 June 2019, the Company issued a convertible bond called "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019" for a total nominal amount of Euro 5,000,000, based on the resolution of the extraordinary shareholders' meeting of the Company held on 31 May 2019, and divided into 5,000 bonds with a nominal value of Euro 1,000 each, whose amount cannot be split. The issue price was set at 98% (Euro 0.98) of the nominal value of each bond. The bond has a duration until 31 December 2019 and can be converted to Iervolino Entertainment shares at a unit price equal to the placement price during the IPO phase of Euro 1.95 per conversion share: in the event the conversion right is not exercised, it will be repaid at par, in a lump sum, on the maturity date. The bonds are interest-bearing, at an annual fixed rate of 5%.

As at 30 June 2019, this bond was issued for an amount of Euro 1,215,000.

The bondholders are committed, in the event the Bondholder Conversion Right is exercised, to simultaneously sign a lock-up agreement with the Issuer with which they undertake, for a period that takes effect from the date of the IPO until the expiry of the eighteenth month following said date, not to carry out sale transactions, acts of disposal or, nonetheless, transactions whose object is or are a result of the transfer of shares to third parties, in any capacity and in any form.

2. Summary data

The summary data illustrated in this report on operations refer to the interim financial statements as at 30 June 2019, drafted in accordance with the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB (International Accounting Standards

Board) and endorsed by the European Union.

The report should therefore be read together with the interim financial statements and the relevant explanatory notes, for the period from 1 January to 30 June 2019.

The economic performance for the interim period as at 30 June 2019 is indicated below:

	30/06/2019	30/06/2018	Change	%
Revenues	9,642,177	81,895	9,560,282	> 100%
Operating costs	831,886	32,128	799,758	> 100%
Personnel costs	161,660	77,987	83,673	> 100%
EBITDA	8,648,631	(28,220)	8,676,851	< 100%
Amortisation, depreciation and write-downs	5,725,424	-	5,725,424	> 100%
EBIT	2,923,207	(28,220)	2,951,427	< 100%
Net financial charges	14,754	19,545	(4,791)	-25%
Pre-tax profit	2,937,961	(8,675)	2,946,636	< 100%
Taxes	(264,529)	(781)	(263,748)	>100%
Net profit for the period	2,673,432	(9,456)	2,682,888	< 100%

The reclassified balance sheet is shown below:

	30/06/2019	31/12/2018	Change	%
Assets				
Non-current assets				
Intangible assets:	33,599,250	20,628,386	12,970,864	63%
Completed productions	11,503,567	12,727,223	(1,223,656)	-10%
Productions in progress	19,653,995	5,724,108	13,929,887	>100%
Other rights	2,441,688	2,177,055	264,633	12%
Tangible assets	6,255	5,292	963	18%
Deferred tax assets	1,365,629	1,623,929	(258,300)	-16%

Other non-current assets	3,879	12,510	(8,631)	-69%
Total non-current assets	34,975,013	22,270,117	12,704,896	57%
Current assets				
Trade receivables	5,273,763	14,735,148	(9,461,385)	-64%
Tax receivables	15,841,918	9,383,998	6,457,920	69%
Other current assets	809,447	6,981,210	(6,171,763)	-88%
Cash and cash equivalents	521,422	151,294	370,128	>100%
Total current assets	22,446,550	31,251,650	(8,805,100)	-28%
Total assets	57,421,563	53,521,767	3,899,796	7%
Shareholders' equity				
Share capital	1,120,000	1,120,000	-	0%
Legal reserve	517,349	7,186	510,163	>100%
IFRS transition reserve	1,731,633	-	1,731,633	0%
Other reserves	-	1,770,773	(1,770,773)	-100%
Profits (losses) carried forward	7,515,258	(2,177,835)	9,693,093	<100%
Profit (loss) for the year	2,673,432	10,203,256	(7,529,824)	-74%
Total shareholders' equity	13,557,672	10,923,380	2,634,292	24%
Non-current liabilities				

Employee benefits	24,760	19,091	5,669	30%
Non-current financial liabilities	1,517,583	6,003,980	(4,486,397)	-75%
Total non-current liabilities	1,542,343	6,023,071	(4,480,728)	-74%
Current liabilities				
Current financial liabilities	7,889,540	-	7,889,540	100%
Trade payables	17,375,526	24,302,130	(6,926,604)	-29%
Tax payables	2,515,929	2,693,634	(177,705)	-7%
Other current liabilities	14,540,553	9,579,552	4,961,001	52%
Total current liabilities	42,321,548	36,575,316	5,746,232	16%
Total liabilities	57,421,563	53,521,767	3,899,796	7%

The main balance sheet and financial ratios are outlined below:

Main financial indicators	30/06/2019	31/12/2018	Change	%
Intangible fixed assets	33,599,250	20,628,386	12,970,864	63%
Tangible fixed assets	6,255	5,292	963	18%
Other fixed assets/liabilities	1,369,508	1,636,439	(266,931)	-16%
Fixed assets	34,975,013	22,270,117	12,704,896	27%
Receivables due from customers	5,273,763	14,735,148	(9,461,385)	-64%
Payables to suppliers	(17,375,526)	(24,302,130)	6,926,604	-29%

Other current assets/(liabilities)	(405,117)	4,092,022	(4,497,139)	<100%
NET WORKING CAPITAL (NWC)	(12,506,880)	(5,474,960)	(7,031,920)	4%
Employee severance indemnity	(24,760)	(19,091)	(5,669)	30%
NET INVESTED CAPITAL (NIC)	22,443,373	16,776,066	5,667,307	34%
Shareholders' equity	13,557,672	10,923,380	2,634,292	24%
Cash and cash equivalents	(521,422)	(151,294)	(370,128)	> 100%
Bank payables	9,407,123	6,003,980	3,403,143	57%
NET FINANCIAL POSITION (NFP)	8,885,701	5,852,686	3,033,015	52%
Financing sources	22,443,373	16,776,066	5,667,307	34%

Operating performance and income statement and balance sheet results

The year ended as at 30 June 2019 posted a net profit of Euro 2,673 thousand, not comparable with that as at 30 June 2018, given the company was still at the start-up phase.

From a management point of view, the interim period closed with an EBIT of Euro 2,923 thousand, which derives from revenues from the sale of film rights less the associated cost of sales, essentially represented by the amount pertaining to the year of the amortisation of intangible fixed assets (film works) amounting to Euro 5,725 thousand, given the incidence of structure costs was modest (Euro 994 thousand).

From a management perspective, EBIT in the first half of 2019 accounted for 30% of total revenues of Euro 9,642 thousand.

Revenues relate to the productions Arctic Justice (Euro 4,246 thousand) and Poison Rose (Euro 2,500 thousand), plus income from the cinema and research & development tax credits of Euro 2,879 thousand, recognised on an accrual basis regarding the productions to which they refer.

Film productions and web series productions account for 37% and 63% of revenues respectively.

From an equity-financial point of view, Iervolino Entertainment presents a net invested capital of Euro 22,443 thousand, represented primarily by intangible fixed assets (film works, intellectual property rights and other rights) amounting to Euro 33,599 thousand.

Net working capital was a negative Euro 12,507 thousand.

Net invested capital is financed by the negative net financial position for Euro 8,886 thousand and shareholders' equity of Euro 13,558 thousand.

The increase in the net financial position of Euro 3,033 thousand compared to 31 December 2018 is mainly connected with the (i) obtainment in 2019 of a medium-term bank loan of Euro 1,500 thousand, and (ii) the issuing of a bond called "Iervolino Entertainment S.p.A. Convertible Bond 5% 2019" for a total nominal amount of Euro 5,000,000, issued on the basis of the resolution of the extraordinary shareholders' meeting of the Company held on 31 May 2019, and divided into 5,000 bonds with a nominal value of Euro 1,000 each, whose amount cannot be split. The issue price was set at 98% (Euro 0.98) of the nominal value of each bond. The bond has a duration until 31 December 2019 (hereinafter the "Maturity Date") and is expected to be repaid by the Issuer at par, in a lump sum, on the Maturity Date. The bonds are interest-bearing, whose amount is calculated by applying an annual fixed rate of 5% to each bond from the Interest Payment Date (included) until the Maturity Date (excluded). As at 30 June 2019, this bond was issued for an amount of Euro 1,215,000; (iii) use of current account overdrafts.

In August, at the end of the phases of the share capital increase connected with the process of listing of the company's shares on the multi-lateral trading system AIM Italia, IE collected (therefore, without considering Greenshoe) roughly Euro 10.5 million.

Working capital includes primarily the cinema tax credits of film productions and research and development tax credits, which will be converted to cash through the use (offsetting) of other taxes or the transfer to authorised intermediaries in 2020 and 2021.

3. Related party transactions

The equity and financial transactions of the Issuer with related parties from 1 January 2019 to 30 June 2019 are shown below:

	Accounts receivables	Other assets	Trade payables	Other liabilities	Revenues	Expenses
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film S.r.l.*	-	-	1,164	-	-	502
Total transactions with related parties	-	-	1,164	-	-	502
Total figures	5,274	52,148	17,376	26,488	9,642	6,719
Impact on figures	0%	0%	7%	0%	0%	7%

*Note: starting from June 2019, the entity is not yet included in related party list

The transactions carried out by the Company with Ladybug Film S.r.l. (as of June 2019 the latter is no longer a related party of the Company) concern the provision of the post-production service relating to the Web Series Arctic Justice.

4. Human resources

Iervolino Entertainment has a streamlined structure, with just five permanent employees plus nine

contract staff. However, when it commences production of a film, a considerable number of workers are hired on fixed-term contracts until production is completed. As regards the data relating to personnel and to the average headcount in the year, please refer to the explanatory notes.

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

5. Research and development activities

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

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

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

The entire research project incorporates the conception, study, design and prototyping of new advanced production methods applicable to short content. This was done because said new products are in line with the social media usage habits of the new generations, who prefer to watch video content via web and social media channels like Instagram, Facebook, YouTube etc. but who, at the same time, are looking for high-quality products. The project developed in 2019 involved more than 300 people in the development of pipeline 0.2 which, launched on the basis of not overly successful results in 2018 with pipeline 0.1, will continue in the second half of the year.

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

The main reason for this Research & Development process is the company’s constant need to keep up

with global technological progress, by enhancing company know-how and technical knowledge and by creating innovative processes capable of making the operating margins competitive and increasing the quality standards of its products.

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

Reference is made below to the experimental activities planned and conducted as part of the overall project, such as:

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

Generally, research and development activities involved the internal technical staff of Iervolino Entertainment, the project creator, and an additional expert in the production of animated movies, supervisor and product manager of the project. The external provider of the research commissioned is the Company Al Mashael Movies S.P.C., specialised in planned research and in critical studies targeted at the acquisition of new know-how to be utilised in developing new products and/or in improving them, in existing processes or services or the creation of components in complex systems, necessary for industrial research and the new product development. With the consent and supervision of IE, the company formed a JV with the company Assemblage Entertainment Private Ltd for the development of activities. More specifically, activities are carried out in the following phases:

RESEARCH, DEFINITION OF THE CONCEPT AND FEASIBILITY STUDY

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

RESEARCH, DEVELOPMENT AND DESIGN ACTIVITIES

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

DEVELOPMENT AND EXPERIMENTATION OF TEST EPISODES

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

More specifically, in the first half of 2019, after the production process called Pipeline 0.1 was conceived and developed in 2018, by conducting experimental analyses to define the various phases of processes and to determine the most suitable process parameters for reaching the project objectives, the company started to develop pipeline 0.2 which, in relation to the various releases, made provision for the development of the following:

- Interaction

Innovative research activities are resolving a number of problems in the pipeline. In fact, they are providing a solution to the costly department delays in the interaction between both artists, resources and hardware, as well as the rendering of temporal truncations.

For example, the layout department does not require the use of high-resolution resources. This is to the detriment of having to make it work with files that are computationally so heavy by using modest hardware specifications, common for the department. As the pipeline has to determine which resolution is needed for each phase before launching the file, artists can start to work more quickly and with a better interaction during the process.

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

- Reduction in rendering time of 50%;
- Reduction of 80% in scene loading times;
- Reduction of 30% in hardware costs;
- Automation and dynamic activities in the departments

The innovation process is concentrated on dynamic automation of the versions and provides the use of the parallel pipeline method through departments. The resources department can rapidly prototype the resources and send their files to subsequent departments to start to work immediately. As the resources are gradually perfected, control of the versions will also be extended to the files that used the original versions of the model.

The technical results obtained up until today in this area are as follows:

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

- Optimised automated management of rendering

Rendering is an area which requires a constant state of innovation due to the high dependency on calculation and long times required. This is augmented by ever-growing requests for exports and an increasingly higher resolution for different formats. Since each resolution standard increases exponentially, rendering times and hardware infrastructure requirements also rise. It is also an area in which waste and poor management have a significant impact on time-scales and costs.

Research activities were carried out to achieve a more effective and affordable management of rendering with respect to the previous manual management methods.

The technical results obtained up until today in this area are as follows:

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

The activities in progress for 2019 are, as regards the first half, in line with those estimated and the so-called “draw-backs” that were verified were in line with those estimated, regarding the production problems identified. Research and development activities will continue during the year, in order to innovate pipeline 0.2 whose latest release is expected towards the end of 2019/start of 2020.

In the future, we believe that by reducing the revision processes of the pipeline, the overall production process will improve, by optimising production in quantitative and qualitative terms. Further changes in the original pipeline will be reflected in the next process model (next pipeline release).

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

6. Information on the main risks and uncertainties

Management of financial risks and of the change in cash flows

Liquidity risk

IE’s current operations generated sufficient cash flows to cover the requirements absorbed by both current operations, investments, and the regular payment of suppliers. Having implemented an effective economic-financial planning system, IE constantly monitors management flows in order to finance working capital and oversee the conversion to cash of the EBIT realised, which takes place a few months after the delivery of the film and appropriately financed and guaranteed by/to the banking system.

Exchange rate risk

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

The Company has not entered into transactions to hedge exchange rate risk, which is significantly reduced through the offsetting of the costs incurred in the same currency as the revenues.

With reference to TTU-denominated cryptocurrency transactions, it should be noted that IE is not exposed to the risk of fluctuation in the cryptocurrency, given deriving from payment or collection transactions at a fixed US\$/TTU exchange rate of 0.25 relating to the settlement of contracts in US\$ as the reference currency and whose settlement is expected alternatively in US\$ and TTU.

In addition, February 2019 saw the swap, with the ratio at par, between the old TTU RC20 and the new TTU TAT01 at the fixed US\$/TTU exchange rate of 0.25. The value of the “TTU private stable coin” is recorded on the tatatutoken.io site, where all transactions relating to the reference active market of TTU TAT01 can also be observed in real time.

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

Interest rate risk

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

Market risk, credit risk and price risk

Risks connected to competition and the cyclical nature of the sector

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

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

Credit risk

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

7. Significant events after the close of the interim period

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

The most significant event that occurred after 30 June relates to the successful completion of the process of listing of the company shares on the multi-lateral trading system AIM Italia organised and

managed by Borsa Italiana S.p.A. (“AIM Italia”), concluded with the start of trading on 5 August 2019. The placement price of the new shares issued was Euro 1.95 for each share stemming from the share capital increase in service of the placement.

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

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

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

Due to the conversions shown, the residual amount of the bond “Iervolino Entertainment S.p.A. convertible bond 5% 2019” in place comes to Euro 500,000, while the company’s share capital increases by Euro 14,801, plus share premium of Euro 706,756, therefore with an increase in shareholders’ equity of Euro 721,558.

Following the partial exercise of the Greenshoe option, the institutional placement concerned 5,332,000 Iervolino Entertainment shares; the total amount of funding came to approximately Euro 10.4 million.

As a result of the events outlined above, the Company’s funding came to roughly Euro 10.5 million, while the final composition of IE’s share capital is as follows:

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

	Current share capital		
	Euro	no. shares	Unit nominal value
Total			
of which:	1,334,801	33,370,029	0.040

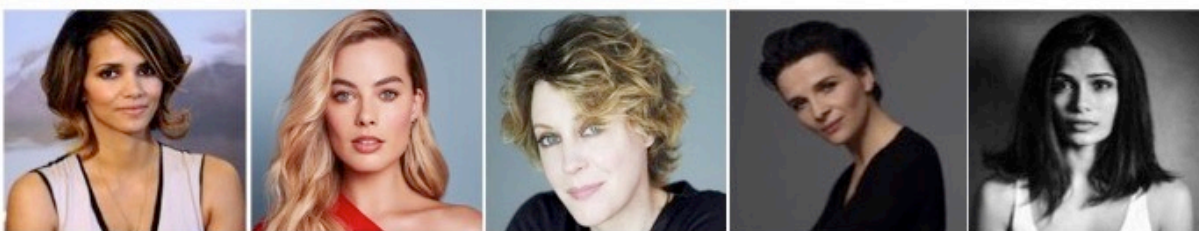
Ordinary shares	894,801	22,370,029	0.040
Multiple vote shares	440,000	11,000,000	0.040

A new sales agreement was stipulated in Los Angeles in August, for a value of Euro 9.8 million, with Hadid Design and Entertainment LLC (“Hadid D&E”), for the transfer of the distribution rights for the film with the working title “Together Now” and extra content.

“Together Now”, an all-female project produced by Iervolino Entertainment, is a film composed of 5 shorts lasting 15 minutes each, whose main theme is a story based on animated scenes. The content, directed by 5 female directors from different parts of the world, incorporates various genres, from drama to comedy, to docudrama and animation, with famous international actresses taking the lead.

The agreement assures Iervolino Entertainment with an irrevocable minimum guarantee of Euro 9.8 million, which allows it to cover 100% of the production costs, while Hadid D&E obtains in exchange the film sale rights for global distribution, excluding Italy, San Marino and Vatican City, for a duration of 18 years. The agreement guarantees the delivery, not only of the audio-visual work itself, but also the delivery of extra content for a total of 600 minutes.

The contract guarantees Iervolino Entertainment with the production and delivery both for the next few months of 2019 - in line with the economic and financial forecasts set forth in the Admission Document - and for 2020.



HALLE BERRY

MARGOT ROBBIE

MARGHERITA BUY

JULIETTE BINOCHÉ

FREIDA PINTO

8. Business Outlook

Company growth will continue on the basis of the production and development guidelines set out in the 2019 business budget.

In particular, the film *Waiting for the Barbarians* and the episodes of the web series *Arctic Justice*, of the film *Together Now* and of an additional web series, *Puffins*, will be delivered in the second half of the year.

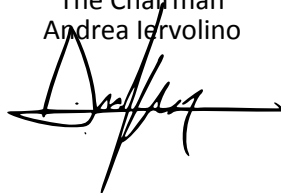
As at the date of approval of this document, the pre-final data relating to the nine-month period as at 30 September, recorded revenues of roughly Euro 47 million and an EBIT of roughly Euro 14 million. The Board of Directors is called for 16 October to approve the associated pre-final data, not subject to an audit.

These results are in line with the time horizon of the 2019 budget. Therefore, the estimated annual objectives for the current year and outlined in the Admission Document, are confirmed.

Rome, 30 September 2019

For the Board of Directors

The Chairman
Andrea Iervolino

A handwritten signature in black ink, appearing to read 'A. Iervolino', written over a horizontal line.



Iervolino Entertainment S.p.A.

Condensed half-yearly financial statements as at 30
June 2019

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Half-yearly statement of financial position
Half-year as at 30 June 2019

	Notes	30/06/2019	31/12/2018
Assets			
Non-current assets			
Intangible assets:	Note 3	33,599,250	20,628,386
Completed productions		11,503,567	12,727,223
Productions in progress		19,653,995	5,724,108
Other rights		2,441,688	2,177,055
Tangible assets	Note 4	6,255	5,292
Deferred tax assets	Note 5	1,365,629	1,623,929
Other non-current assets	Note 6	3,879	12,510
Total non-current assets		34,975,013	22,270,117
Current assets			
Trade receivables	Note 7	5,273,763	14,735,148
Tax receivables	Note 8	15,841,918	9,383,998
Other current assets	Note 9	809,447	6,981,210
Cash and cash equivalents	Note 10	521,422	151,294
Total current assets		22,446,550	31,251,650
Total assets		57,421,563	53,521,767
Shareholders' equity			
Share capital	Note 11	1,120,000	1,120,000
Legal reserve	Note 11	517,349	7,186
Legal reserve	Note 11	1,731,633	1,770,773
IFRS transition reserve	Note 11	-	-
Other reserves	Note 11	7,515,258	(2,177,835)
Profits (losses) carried forward	Note 11	2,673,432	10,203,256
Total shareholders' equity		13,557,672	10,923,380
Non-current liabilities			
Employee benefits	Note 12	24,760	19,091
Non-current financial liabilities	Note 13	1,517,583	6,003,980
Total non-current liabilities		1,542,343	6,023,071
Current liabilities			
Current financial liabilities	Note 14	7,889,540	-
Trade payables	Note 15	17,375,526	24,302,130
Tax payables	Note 16	2,515,929	2,693,634
Other current liabilities	Note 17	14,540,553	9,579,552
Total current liabilities		42,321,548	36,575,316
Total liabilities		57,421,563	53,521,767

Statement of profit/(loss) for the half-year
Half-year as at 30 June 2019

	Notes	30/06/2019	30/06/2018
Revenues	Note 18	6,746,000	-
Other revenues	Note 19	17,620	81,895
Tax Credit	Note 20	2,878,557	-
Total revenues and other revenues		9,642,177	81,895
Purchases of raw materials, materials and goods	Note 21	27,590	48
Service expenses	Note 22	764,455	29,823
Personnel expenses	Note 23	161,660	77,987
Other operating expenses	Note 24	39,841	2,257
Amortization and Depreciation	Note 25	5,725,424	-
EBIT		2,923,207	(28,220)
Financial Income	Note 26	414,829	19,545
Financial Expense	Note 26	400,075	-
Pre-tax income		2,937,961	(8,675)
Income Taxes	Note 27	(264,529)	(781)
Profit/(Loss) of the period		2,673,432	(9,456)
Earning per share		0.024	(0.008)

Half-year statement of other comprehensive income

Half-year as at 30 June 2019

	Notes	30/06/2019	30/06/2018
Profit/(Loss) of the period	Note 11	2,673,432	(9,456)
Other components of other comprehensive income that could be subsequently classified within profit/(loss) of the period net of income taxes		-	-
Other components of other comprehensive income that will not subsequently classified within profit/(loss) of the period net of income taxes		-	-
Total other comprehensive income (loss) net of income taxes	Note 11	2,673,432	(9,456)

Half-year statement of changes in shareholders' equity

Half-year as at 30 June 2019

	Notes	Share capital	Legal reserve	Extraordinary reserve	FTA Reserve	Reserve of conversion option related to Bond	Capital contributions	Profit/(Loss) carried forward	Profit/(Loss) of the period	Total Shareholders' equity
Balance as of Jan 1, 2018		1,120,000	7,186	27,575	-	-	945,312	(585,731)	(1,592,126)	(77,784)
Profit/(Loss) of the period		-	-	-	-	-	-	-	(9,456)	(9,456)
Other movements		-	-	-	-	-	-	-	-	-
Balance as of June 30, 2018		1,120,000	7,186	27,575	-	-	945,312	(585,731)	(1,601,582)	(87,240)
Balance as of Jan 1, 2019	Note	1,120,000	7,186	27,575	-	-	1,743,198	(2,177,835)	10,203,256	10,923,380
Profit/(Loss) of the period	Note 11	-	-	-	-	-	-	-	2,673,432	2,673,432
Profit allocation of 2018	Note 11	-	510,163	-	-	-	-	9,693,091	(10,203,254)	-
Other movements	Note 11	-	-	-	-	(39,140)	-	-	-	(39,140)
Balance as of June 30, 2019	Note 11	1,120,000	517,349	27,575	-	(39,140)	1,743,198	7,515,256	2,673,434	13,557,672

Half-year Cash Flow Statement

Half-year as at 30 June 2019

	Notes	30/06/2019	30/06/2018
Profit/(Loss) of the period	Note 11	2,937,961	(7,894)
Income taxes	Note 27	(264,529)	(781)
Depreciation and amortization	Note 25	5,725,424	-
Net change in currency		(32,187)	(19,545)
Financial Income		-	-
Financial Expenses		17,433	-
Accrual (Uses) of provision related to employees'		12,153	10,741
Other non monetary items		38,901	17,944
Net cash provided by income activities		8,435,156	465
Change in trade receivables		9,461,385	-
Change in trade payables		(25,358,259)	(19,889)
Change in other credits and other assets		(19,226)	696
Change in other payables and other liabilities		4,783,296	(15,944)
A - Net cash provided (absorbed) by operating activities		(2,697,648)	(34,672)
Investment in Fixed Assets and Intangible Assets		(264,999)	-
B - Net cash provided (absorbed) by investment activities		(264,999)	-
Loans (reimbursement)		-	-
Mortgage and loans		2,171,731	-
Bond issue		1,161,045	-
C - Net cash provided (absorbed) by financing activities		3,332,776	-
D - Net cash provided (absorbed) during the period (A+B+C)		370,128	(34,672)
E - Cash and cash equivalent at the beginning of the period		151,294	34,672
F - Cash and cash equivalent at the end of the period (D+E)		521,422	-

Explanatory Notes to the condensed half-yearly financial statements

1. Corporate information

The publication of the condensed half-yearly financial statements of Iervolino Entertainment S.p.A. for the period ended as at 30 June 2019 was authorised by the Board of Directors on 30 September 2019. Iervolino Entertainment S.p.A. is a joint-stock company, registered and domiciled in Europe. The registered office is located in via Barberini 29, 00187 Rome.

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

Iervolino Entertainment S.p.A. is a listed joint-stock company, registered and domiciled in Italy.

Information on the Company's relations with related parties is detailed in Note 28.

2. Main accounting standards

2.1 Drafting principles

The condensed half-yearly financial statements for the period ended as at 30 June 2019 were drafted on the basis of IAS 34 Interim financial reporting.

The main accounting standards adopted to draft the condensed half-yearly financial statements conform to those used for the drafting of the financial statements for the year ended as at 31 December 2018, with the exception of the adoption of new standards and amendments in force from 1 January 2019. The Company did not arrange for the early adoption of any new standard, interpretation or amendment issued but not yet in force.

The amendments and interpretations that apply for the first time in 2019 did not have an impact on the Company's condensed half-yearly financial statements.

2.2 Drafting principles and changes to the company's accounting policies

a) Intangible assets

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

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

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

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

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

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

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

The item ‘Other intangible assets’ includes the amount of cryptocurrency (TATATU) available within the company’s wallet. Pending the start of the potential exchange of cryptocurrency with a currency on an active market and in consideration (a) of the recent launch of the underlying platform and (b) the limits on their use, the cryptocurrency in place at the interim reporting date is measured at cost.

b) Tangible assets

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

c) Financial assets

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

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

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

- Amortised cost - “AC”;
- Fair Value Through Other Comprehensive Income – “FVOCI”;
- Fair Value through Profit and Loss – “FVTPL”.

This classification is carried out on the basis of two discriminating factors:

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

As regards Impairment, the main changes concern:

- The change of the scope of application of the financial assets subject to the impairment process;
- The introduction of an impairment model based on expected losses (Expected Credit Loss) with the adoption of a Forward Looking approach;
- The classification of financial instruments into three stages of credit quality and the subsequent need to adopt an appropriate Stage Assignment Framework;

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

The classification of financial assets at the moment of initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the business model that the Company uses to manage them. With

the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not carried at fair value through profit and loss. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, are measured at the transaction price determined according to IFRS 15. Please refer to the paragraph of accounting standards on 'Revenues'.

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

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

Subsequent measurement

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

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

Financial assets measured at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

- the rights to receive the cash flows of the asset are extinguished, or
- the Company has transferred to a third party the right to receive the cash flows from the asset or assumed the contractual obligation to pay them in full and without delay and (a) has transferred substantially all

rights and benefits of ownership of the financial asset, or (b) has neither transferred nor retained substantially all risks and benefits of the asset, but has transferred control of it.

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

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

Impairment of financial assets

The company recognises a write-down for expected losses (expected credit loss 'ECL') for all financial assets represented by debt instruments not held at fair value through profit or loss. The ECLs are based on the difference between the contractual cash flows due in compliance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include the cash flows deriving from the enforcement of collaterals or other guarantees on the credit that are an integral part of the contractual conditions.

Expected losses recognised refer to the residual duration of the exposure, regardless of the moment in which the default event is expected to occur ("Lifetime ECL").

d) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

This is the most important 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 as well as through the amortisation process.

The amortised cost is calculated by recording any discounts or premiums on the acquisition and any fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included among financial charges in the statement of profit/(loss).

Derecognition

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

Offsetting of financial instruments

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

Embedded derivatives

Derivatives embedded in financial assets are not subject to accounting separation; in this scenario, the entire hybrid instrument is classified on the basis of the general criteria for the classification of financial assets (see point "Financial assets"). Otherwise, derivatives embedded in financial liabilities and/or non-financial assets, are separated if: (i) the economic characteristics and the risks of the embedded derivative are not strictly related to the economic characteristics and the risks of the main contract; (ii) the implicit instrument subject to separation satisfies the definition of derivative; (iii) the hybrid instrument, as a whole, is not measured at fair value through FVTPL. The verification of the existence of implicit derivatives to be separated and measured separately is carried out at the moment in which the company becomes party to the contract and, subsequently, in the presence of changes to the contract conditions that determine significant variations to the cash flows generated by the contract itself.

e) Cash and cash equivalents and short-term deposits

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

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

f) Pension funds and other post-employment benefits

The Company has a defined-benefit pension plan in place. The cost of the benefits envisaged pursuant to the defined-benefit plan is not determined by applying the actuarial method, given the effect of its application would be irrelevant.

The Company has no other defined-benefit pension plans.

g) Revenues

By means of Regulation no. 2016/1905 issued by the European Commission on September 22, 2016, IFRS 15 "Revenue from Contracts with Customers" (hereinafter IFRS 15) was endorsed, which defines the criteria for the recognition and measurement of revenues deriving from contracts with customers. The standard replaces all current

requirements in IFRS regarding revenue recognition and provides a new five-step model which applies to revenues from contracts with customers. Generally speaking, IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity is entitled to, in exchange for the transfer of goods or services to the customer. In particular, IFRS 15 establishes a 5-step model for recognising revenue: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. contractual promises to transfer goods and/or services to a customer); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; and (v) recognition of revenue when the associated performance obligation is satisfied. In addition, IFRS 15 supplements the disclosure to be provided in relation to the nature, amount and timing and uncertainty of the resulting revenues and the related cash flows.

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

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

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

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

With reference to transactions settled in cryptocurrency, please refer to the paragraph on intangible fixed assets.

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

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

Grants recognised by the Ministry of Cultural Heritage and Activities and Tourism (MIBACT) applicable to television and film productions fall into this category, based on the applicable legal regulations, which are recognised as grants in the income statement in relation to the estimated useful life of the asset to which they refer.

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

With specific reference to the film sector, the company currently uses a type of government grant, i.e.: incentives consisting of a tax concession and deriving from tax credits granted to film production companies in relation to the performance of film works pursuant to Law 244/2007, as regulated by the Producers' "Tax Credit" decree, containing the application methods. In particular, the legislation referred to aims to incentivise Italian film production through the recognition of a tax credit corresponding to a given percentage of the total cost of the film work.

i) Current taxes

Current tax assets and current tax liabilities for the year are measured for the amount that is expected to be recovered from or paid to the tax authorities. The rates and the tax legislation used to calculate the amount are

those issued, or essentially in force, at the reporting date in the country in which the Company operates and generates its taxable income.

Current taxes relating to items recognised directly in equity are also charged directly to equity and not to the statement of profit or loss for the year. Management periodically evaluates the position adopted in the tax return in cases in which the tax laws are subject to interpretations and, where appropriate, makes the necessary allocations.

l) Deferred taxes

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

The deferred tax assets are recognised in respect of all deductible temporary differences, unused tax credits and tax losses which can be carried forward, to the extent in which it is likely that sufficient future taxable income will be available to enable the use of the deductible temporary differences and tax credits and losses carried forward, except in the case in which the deferred tax asset related to the deductible temporary differences derives from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction itself, does not influence either the balance sheet result or the tax result. The book value of deferred tax assets is reviewed at each reporting date and reduced to the extent in which it is no longer likely that enough taxable income will be available in the future so that this credit can be partially or totally used. Unrecognised deferred tax assets are reviewed annually at every reporting date and are recognised to the extent it is likely that the taxable profit will be sufficient to allow these deferred tax assets to be recovered.

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

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

m) translation of foreign currency balances

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

n) foreign currency transactions and balances

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

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

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

In the preparation of the cash flow statement, presented with the indirect method, the cash flow from operating activities is determined by adjusting the profit for the effects of unrealised exchange gains and losses, given non-monetary elements.

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

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

o) Cost recognition

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

With reference to transactions settled in cryptocurrency, please refer to the description in the paragraph on intangible fixed assets.

2.3 Discretionary measurements and significant accounting estimates

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

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

Amortisation of intangible fixed assets

The most significant evaluation utilised in the drafting of the half-yearly statement of profit/(loss), relates to the application criterion for determining the future revenues used in the application of the "film forecast computation method" (see paragraph a) Intangible assets), which affects the determination of the amortisation of intangible assets. The application of the "film forecast computation method", based on which amortisation at the reporting date, is determined based on the time horizon by making reference to the existing relationship between revenues realised and total revenues to be received over the entire life cycle of the film, requires the application of an estimate criterion for determining future revenues, in which the intangible asset will generate revenues.

Recoverability of deferred tax assets

Deferred tax assets are recognised against the deductible temporary differences between the values of assets and liabilities stated in the financial statements with respect to the corresponding tax value. A discretionary evaluation is required by the directors to establish the amount of deferred tax assets that may be recorded, which depends on the estimate of the likely time-frame and the amount of future taxable profits.

Cryptocurrencies

The evaluation regarding the existence of an active market as defined by IFRS 13 constitutes the basis for verifying the existence of a fair value for cryptocurrencies. This evaluation is based on multiple factors (i.e. possibility of conversion into foreign currency; volumes of trade) which require significant use of estimates and discretionary evaluations. These evaluations have a direct impact on the valuation of costs and revenues measured by the cryptocurrencies exchanged and obtained.

2.4 Standards that entered into force in 2019

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

IFRS 16 – Leases

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

IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single accounting model similar to the one used to account for finance leases governed by IAS 17.

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

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

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

Transition to IFRS 16

As at June 30 June 2019, the company applied the exemptions set forth in IFRS 16, excluding from the scope of application of the standard the short-term leases and leases for assets with a small unit value. Therefore, there were no accounting effects of the application of the standard on the interim financial statements as at 30 June 2019.

IFRIC 23 – Uncertainty over Income Tax Treatments

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

The interpretation specifically addresses the following points:

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

An entity must define whether to consider each tax treatment uncertain separately or together with others (one or more) uncertain tax treatments. The approach must be applied that allows the best prediction of the resolution of the uncertainty.

At the moment of adoption of the interpretation, the Company does not note the existence of any uncertain tax positions.

Amendments to IAS 9: Prepayment Features with Negative Compensation

Pursuant to IFRS 9, a debt instrument can be measured at amortised cost or fair value through comprehensive income, provided that the contractual cash flows are “exclusively payments of principal and interest on the reference amount (SPPI criterion) and the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract, and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 ratify the accounting rules in the event in which plan amendment, curtailment or settlement occurs during the reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity must determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine net interest for the remainder of the period after the

plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the financial statements of the Company.

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

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

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

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

Given that the Company does not hold investments in associates and joint ventures, the amendments had no impact on the financial statements.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business combinations

The amendments clarify that, when an entity obtains control of a business which is a joint operation, it applies the requirements for a business combination which is realised in several phases, including the remeasurement at fair value of the investment held previously in the assets and liabilities of the joint operation. In doing so, the acquirer remeasures the interest previously held in the joint operation.

The entity applies these amendments to business combinations for which the acquisition date coincides with or is after the first year starting from 1 January 2019, with early application permitted.

This amendment did not have any impact on the Company's financial statements given that no business combination was recorded in which joint control was obtained.

FRS 11 Joint Arrangements

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

The amendments clarify that the investments held previously in said joint operation do not need to be remeasured. An entity applies these amendments to operations in which it holds joint control for years starting on or after 1 January 2019; early application is permitted.

This amendment did not have any impact on the Company's financial statements given that no business combination was recorded in which joint control was obtained.

IAS 12 Income Taxes

The amendments clarify that the effects of taxes on dividends are linked to past transactions or events which generated distributable profits rather than to distributions to shareholders. Therefore, an entity records the effects of income taxes deriving from dividends in the half-yearly statement of profit/(loss), under other components of comprehensive income or in shareholders' equity consistently with the manner in which the entity previously recognised said past transactions or events.

The entity applies said amendments for years starting on or after 1 January 2019, and early application is permitted. When the entity applies these amendments for the first time, it applies them to the effects of the taxes on dividends recorded from the start of the first financial year.

This amendment did not have any impact on the Company's financial statements given that no dividends were distributed.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as non-specific loans any loan granted which, from the outset, is targeted at developing an asset, in the event in which all the necessary actions for preparing said asset for use or sale have been completed.

An entity applies these amendments to the borrowing costs incurred from the start of the year in which the entity applies these amendments for the first time. An entity applies said amendments for years starting on or after 1 January 2019, and early application is permitted. This amendment had no impact on the Company's financial statements.

2.5 Management of financial risks

Liquidity risk

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

Exchange rate risk

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

With reference to TTU-denominated cryptocurrency transactions, it should be noted that IE is not exposed to the risk of fluctuation in the cryptocurrency, given deriving from payment or collection transactions at a fixed US\$/TTU exchange rate of 0.25 relating to the settlement of contracts in US\$ as the reference currency and whose settlement

is expected alternatively in US\$ and TTU.

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

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

Interest rate risk

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

Market risk, credit risk and price risk

Risks connected to competition and the cyclical nature of the sector

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

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

Credit risk

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

Seasonality

The Company's performance is generally not greatly impacted by seasonal trends in given periods during the year.

Note 3 Intangible assets

The breakdown of the item Intangible assets as at 30 June 2019, compared with the same values as at 31 December 2018, is shown below:

	30/06/2019	31/12/2018
	€/000	€/000
Completed productions	11,503	12,726
Productions in progress	19,654	5,725
Other rights	2,442	2,177
Totale Intangible Assets	33,599	20,628

The item 'completed productions' includes the capitalisation of completed works; these works refer to the film Poison Rose and the first 20 episodes of the web series Arctic Justice (15 episodes were delivered in 2018 and 5 in 2019). During the period, the item was subject to: (i) an increase of Euro 4,495 thousand relating to 5 new episodes of the web series Arctic Justice; (ii) a decrease of Euro 5,720 thousand relating to the amortisation pertaining to Poison Rose and the web series Arctic Justice.

The item 'Productions in progress' includes the capitalisation of the costs of research and development and of productions not completed at the close of the year; these productions mainly refer to the film Waiting for the Barbarians and the episodes in progress of the web series Arctic Justice.

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

The item 'Other rights' includes the amount of cryptocurrency (TATATU) available within the company's wallet; the amount of cryptocurrency (TATATU) available within the company's wallet as at 30 June 2019 amounts to Euro 0.

During the period, no indicators of potential impairment emerged with reference to intangible assets.

The changes in the intangible assets are shown below.

	As of Dec. 31, 2018	Increase	Decrease	Amortization	As of Jun. 30, 2019
	€/000	€/000	€/000	€/000	€/000
Completed productions	12,726	4,502	-	(5,725)	11,503
Productions in progress	5,725	13,929	-	-	19,654
Other rights	2,177	265	-	-	2,442
Totale Intangible Assets	20,628	18,696	-	(5,725)	33,599

Note 4 Tangible assets

Tangible assets totalled Euro 6 thousand.

Note 5 Deferred tax assets

Deferred tax assets, amounting to Euro 1,366 thousand, are composed of the taxes calculated on the temporary differences between the book values recognised in the financial statements and the corresponding amounts recognised for tax purposes. The breakdown of Deferred tax assets as at 30 June 2019 is as follows:

	30/06/2019	31/12/2018
	€/000	€/000
Amortization	914	1,172
Impairment on intangible assets	413	413
Other temporary differences	39	39
Total Deferred Tax Assets	1,366	1,624

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

Deferred tax assets were accounted for consistently with the estimate of the likely time-frame and the amount of future taxable profits, as set out in the 2019-2021 business plan.

Note 6 Other non-current assets

The other non-current assets amounted to Euro 4 thousand, relating to security deposits.

Note 7 Trade receivables

Trade receivables came to Euro 5,274 thousand. Details are provided below:

	30/06/2019	31/12/2018
	€/000	€/000
Trade receivables from third parties	5,274	14,385
Trade receivables from related parties (Note 28.1)	-	350
Total trade receivables	5,274	14,735

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

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

	30/06/2019	31/12/2018
	€/000	€/000
Receivables from local clients	1,029	249
Receivables from EU clients	-	-
Receivables from out of EU clients	4,245	14,486
Total trade receivables	5,274	14,735

The company carries out a specific evaluation of the risk of non-collection for each customer. As at 30 June 2019, this analysis did not bring to light any non-collectable receivables and, subsequently, there were no allocations to any provision.

Note 8 Tax receivables

The table below shows the breakdown of tax receivables as at 30 June 2019 and 31 December 2018:

	30/06/2019	31/12/2018
	€/000	€/000
VAT Credit	1,389	518
Tax Credit production	6,961	3,622
R&D Tax credit	7,492	5,244
Total Tax Receivables	15,842	9,384

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

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

More specifically, in the first half of 2019, after the production process called Pipeline 0.1 was conceived and developed in 2018, by conducting experimental analyses to define the various phases of processes and to determine the most suitable process parameters for reaching the project objectives, the company started to develop pipeline 0.2 which, in relation to the various releases, made provision for the development of the following:

- **Interaction**

Innovative research activities are resolving a number of problems in the pipeline. In fact, they are providing a solution to the costly department delays in the interaction between both artists, resources and hardware, as well as the rendering of temporal truncations.

For example, the layout department does not require the use of high-resolution resources. This is to the detriment of having to make it work with files that are computationally so heavy by using modest hardware specifications, common for the department. As the pipeline has to determine which resolution is needed for each phase before launching the file, artists can start to work more quickly and with a better interaction during the process.

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

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

- **Automation and dynamic activities in the departments**

The innovation process is concentrated on dynamic automation of the versions and provides the use of the parallel pipeline method through departments. The resources department can rapidly prototype the resources and send their files to subsequent departments to start to work immediately. As the resources are gradually perfected, control of the versions will also be extended to the files that used the original versions of the model.

The technical results obtained up until today in this area are as follows:

- significant reduction in human error
 - use of the parallel pipeline
 - reduction in rendering waste
- ***Optimised automated management of rendering***

Rendering is an area which requires a constant state of innovation due to the high dependency on calculation and long times required. This is augmented by ever-growing requests for exports and an increasingly higher resolution for different formats. Since each resolution standard increases exponentially, rendering times and hardware infrastructure requirements also rise. It is also an area in which waste and poor management have a significant impact on time-scales and costs.

Research activities were carried out to achieve a more effective and affordable management of rendering with respect to the previous manual management methods.

The technical results obtained up until today in this area are as follows:

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

The activities in progress for 2019 are, as regards the first half, in line with those estimated and the so-called “draw-backs” that were verified were in line with those estimated, regarding the production problems identified.

Note 9 Other current assets

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

	30/06/2019	31/12/2018
	€/000	€/000
Advanced payments to suppliers	230	6,880
Other current assets	48	19
Prepaid expenses	531	82
Totale other current assets	809	6,981

Advances to suppliers refer to the payments made to suppliers for which the invoice has not been received. The reduction in advances to suppliers relates to the closure of invoices received with the associated payments made in 2018.

Prepaid expenses relate to costs directly attributable to the capital transaction which would not have been incurred in the absence of the listing. In line with IAS 32, these costs will be recorded as a direct reduction of shareholders' equity at the date of completion of the listing operation.

Note 10 Cash and cash equivalents

The breakdown of the item is shown below:

	30/06/2019	31/12/2018
	€/000	€/000
Cash and Bank deposits	521	151
Total cash and cash equivalents	521	151

There are no restrictions on Cash and cash equivalents at 30 June 2019 and 31 December 2018.

Note 11 Shareholders' equity

The breakdown of the item is shown below:

	30/06/2019	31/12/2018
	€/000	€/000
Share Capital	1,120	1,120
Legal Reserve	517	7
Other reserves	1,732	1,771
FTA Reserve	-	-
Profit/(Loss) carried forward	7,515	(2,178)
Profit/(Loss) of the period	2,673	10,203
Total Shareholders' equity	13,557	10,923

Share capital

As at 30 June 2019 and 31 December 2018, the share capital amounts to Euro 1,120,000, fully paid up and is comprised of 1,120,000 shares with a nominal value of Euro 1 each.

Legal reserve

As at 30 June 2019, the legal reserve amounts to Euro 517 thousand.

Other reserves

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

	30/06/2019	31/12/2018
	€/000	€/000
Extraordinary reserve	28	28
Reserve of conversion option related to Bond	(39)	-
Capital contributions	1,743	1,743
Other reserves	1,732	1,771

Note 12 Employee benefits

The item 'Employee benefits' amounted to Euro 25 thousand and relates to employee severance indemnity.

Note 13 Non-current financial liabilities

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

Istituto erogante	Tipologia finanziamento	Tasso d'interesse	€/000				
			Importo erogato	Anno di accensione	Anno di scadenza	Entro 1 anno	Tra 1 anno e 5 anni
Mediocredito Italiano	Finanziamento	2,80 (fino al 21/06/2019) - Euribor 3M+spread 3,1	1.500	2019	2020	0	1.500

The reduction in the item is connected with the reclassification under current financial liabilities of the loan disbursed in 2018 by Mediocredito Italiano for an amount of Euro 6,000 million. There are no covenants or negative pledges on said loan.

Note 14 Current financial liabilities

Current financial liabilities as at 30 June 2019 totalled Euro 7,890 thousand are composed as follows:

	30/06/2019	31/12/2018
	€/000	€/000
Loans	6,144	-
Bond	1,231	-
Bank Overdraft	515	-
Total current financial liabilities	7,890	-

The details of the bank loan are reported below:

Istituto erogante	Tipologia finanziamento	Tasso d'interesse	€/000				
			Importo erogato	Anno di accensione	Anno di scadenza	Entro 1 anno	Tra 1 anno e 5 anni
Mediocredito Italiano	Finanziamento	2,80 (fino al 24/01/2019) - Euribor 3M+spread 3,1	6.000	2018	2020	6.000	-

The bond loan was issued on 7 June 2019 (hereinafter, “Interest Payment Date”). The instrument is a convertible bond called “Iervolino Entertainment S.p.A. Convertible Bond 5% 2019” for a total nominal amount of Euro 5,000,000, issued on the basis of the resolution of the extraordinary shareholders’ meeting of the Company held on 31 May 2019, and divided into 5,000 bonds with a nominal value of Euro 1,000 each, whose amount cannot be split. The issue price was set at 98% (Euro 0.98) of the nominal value of each bond. The bond has a duration until 31 December 2019 (hereinafter the “Maturity Date”) and is expected to be repaid by the Issuer at par, in a lump sum, on the Maturity Date.

The bonds are interest-bearing, whose amount is calculated by applying an annual fixed rate of 5% to each bond from the Interest Payment Date (included) until the Maturity Date (excluded).

In the event of listing of the Issuer’s shares on a regulated market or admission to a multi-lateral trading system (hereinafter “IPO”) by the Expiry Date, the Issuer will have the right to convert the bonds to conversion shares (hereinafter, “Issuer Conversion Right”). The Issuer Conversion Right must be exercised on all bonds, not just on part of them. No later than the third day before the IPO, the Issuer will be required to send a conversion communication (hereinafter, “Conversion Communication”) to each holder of convertible bonds, indicating the associated conversion ratio and the number of conversion shares each one will be entitled to. The holders of the convertible bonds must convert these by the tenth day (excluded) from the date of receipt of the Conversion Communication.

If the Company should not exercise the Conversion Right, each bondholder will have the right to convert the bonds to conversion shares (hereinafter, “Bondholder Conversion Right”). The Bondholder Conversion Right must be exercised on all bonds held by each bondholder, not just on part of them. No later than the third day before the IPO, the Issuer will be required to communicate its intention not to exercise the Conversion Right to all bondholders, indicating the conversion ratio of the bonds and the number of conversion shares each one will be entitled to. The holders of the convertible bonds may convert these by the tenth day (excluded) from the date of receipt of the Communication from the Issuer.

Note 15 Trade payables

Trade payables came to Euro 17,376 thousand, as indicated in the following table:

	30/06/2019	31/12/2018
	€/000	€/000
Trade payables from third parties	16,212	18,500
Trade payables from related parties (Note 28.1)	1,164	5,802
Total Trade Payables	17,376	24,302

Total trade payables represent the Company’s debt to suppliers for the purchases of services. The item is composed of invoices to be received (Euro 8,252).

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

	30/06/2019	31/12/2018
	€/000	€/000
Payables from local clients	3,799	6,912
Payables from EU clients	255	466
Payables from out of EU clients	13,322	16,924
Total Trade Payables	17,376	24,302

Note 16 Tax payables

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

	30/06/2019	31/12/2018
	€/000	€/000
Current Tax Payables	2,376	2,370
Other Tax Payables	140	323
Total Tax Payables	2,516	2,693

As regards, tax payables as at 30 June 2019, the most significant item is direct taxes amounting to Euro 2,376 thousand, more specifically Euro 2,142 for IRES and Euro 233 thousand for IRAP.

Note 17 Other current liabilities

As at 30 June 2019, Other current liabilities totalled Euro 14,451 thousand; details of the comparison with the amounts at 31 December 2018 are shown below:

	30/06/2019	31/12/2018
	€/000	€/000
Personnel liabilities	41	14
Social contribution payables	82	225
Contract liabilities	8,800	7,011
Deferred revenues	5,580	2,227
Other liabilities	38	103
Total other current liabilities	14,541	9,580

Other current liabilities are composed of contract liabilities (Euro 8.8 million) deriving primarily from the advance payment of the international sales agency for the film "Waiting for the Barbarians", and prepaid expenses relating to the portion of Government grants - tax credit which, on the basis of IAS 20, must be systematically distributed over the years in order to be commensurate to the recognition of the costs that they intend to offset (Euro 6.6 million).

Note 18 Revenues

Revenues totalled Euro 6,746 thousand and refer to the transfers of rights-of-use of Intellectual Property carried out in the year. The revenues were recognised following the delivery of films to the customer. Revenues are recognised at a point in time connected to the services actually set forth in the contract and provided in the period.

Estimated revenues are not recorded in the financial statements.

	30/06/2019	30/06/2018
	€/000	€/000
Poison Rose	2,500	-
Artic Justice Web Series	4,246	-
Total Revenues	6,746	-

Revenues are from non-EU customers.

The Company's performance is generally not greatly impacted by seasonal trends in given periods during the year.

Note 19 Other revenues and income

Details of Other revenues and income are provided below:

	30/06/2019	30/06/2018
	€/000	€/000
Transfer of other rights	-	82
Other revenues	18	-
Total Revenues	18	82

Note 20 Tax Credit

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

	30/06/2019	30/06/2018
	€/000	€/000
Tax credit production	951	-
Tax credit R&D	1,927	-
Total grants	2,878	-

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

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

More specifically, in the first half of 2019, after the production process called Pipeline 0.1 was conceived and developed in 2018, by conducting experimental analyses to define the various phases of processes and to determine the most suitable process parameters for reaching the project objectives, the company started to develop pipeline 0.2.

Note 21 Purchases of Raw materials, consumables and merchandise

The item Purchase of Raw materials, consumables and merchandise amounted to Euro 28 thousand.

Note 22 Costs for services

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

	30/06/2019	30/06/2018
	€/000	€/000
Travels and transfers	81	16
Fiscal and administrative advisor	90	7
Technical consultancy services	136	-
Banking charges	5	1
Compensation for Directors	39	3
Compensation for Statutory Auditors	16	-
Other costs of Services	38	3
Advertising costs	181	-
Marketing and promotion costs	178	-
Total costs of services	764	30

The item increased during the period, mainly connected with Advertising and Marketing expenses.

Note 23 Personnel costs

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

	30/06/2019	30/06/2018
	€/000	€/000
Salary and wages	124	66
Social contribution on salary and wages	32	12
Accrual for post-employment benefits	6	-
Total of personnel costs	162	78

Note 24 Other operating costs

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

	30/06/2019	30/06/2018
	€/000	€/000
Leases	14	1
Contingent liabilities	25	-
Other operating costs	-	1
Total other operating costs	39	2

Note 25 Amortisation, depreciation and write-downs

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

	30/06/2019	30/06/2018
	€/000	€/000
Amortization	5,725	-
<i>Ammortiztion Poison Rose</i>	2,228	-
<i>Ammortiztion Artic Justice WS</i>	3,497	-
Amortization	5,725	-
Impairment	-	-
Total Amortization and Impairment	5,725	-

Note 26 Financial income and charges

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

	30/06/2019	30/06/2018
	€/000	€/000
Exchange gains	249	16
Other financial income	166	-
Total financial income	415	16
Financial expenses on loans	184	-
Exchange losses	216	-
Total financial charges	400	-

Note 27 Income taxes

Details for the item ‘Taxes’ are shown below:

	30/06/2019	30/06/2018
	€/000	€/000
IRES	-	-
IRAP	6	1
Deferred taxes	259	-
Total income taxes	265	1

The difference between the standard tax rate for IRES, equal to 24%, and the actual tax rate, is mainly attributable to the combined effect of: (i) the increase relating to the amortisation of intangible assets for Euro 1,247 thousand; (ii) the decrease relating to revenues for Government grants amounting to Euro 2,878 thousand; (iii) the decrease relating to the amortisation of intangible fixed assets non-deductible for tax purposes in 2018 amounting to Euro 2,157 thousand.

Note 28 Other information

28.1 Transactions with related parties

The equity and financial transactions of the Issuer with related parties from 1 January 2019 to 30 June 2019 are shown below:

	Accounts receivables	Other assets	Trade payables	Other liabilities	Revenues	Expenses
	€/000	€/000	€/000	€/000	€/000	€/000
Ladybug Film S.r.l.*	-	-	1,164	-	-	502
Total transactions with related parties	-	-	1,164	-	-	502
Total figures	5,274	52,148	17,376	26,488	9,642	6,719
Impact on figures	0%	0%	7%	0%	0%	7%

*Note: starting from June 2019, the entity is not yet included in related party list

The transactions carried out by the Company with Ladybug Film S.r.l. (as of June 2019 the latter is no longer a related party of the Company) concern the provision of the post-production service relating to the Web Series Arctic Justice.

28.2 Commitments and guarantees given by the company

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

28.3 Events after the reporting date

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

The most significant event that occurred after 30 June relates to the successful completion of the process of listing of the company shares on the multi-lateral trading system AIM Italia organised and managed by Borsa Italiana S.p.A.

(“AIM Italia”), concluded with the start of trading on 5 August 2019. The placement price of the new shares issued was Euro 1.95 for each share stemming from the share capital increase in service of the placement.

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

Following the exercise of the Greenshoe option, the institutional placement concerned 5,332,000 Iervolino Entertainment shares; the total amount of funding came to approximately Euro 10.4 million. During the stabilisation period, Intermonte SIM S.p.A. carried out the following stabilisation transactions relating to the aforementioned financial instruments:

Financial instruments under stabilisation (values are in Euros): ordinary shares Iervolino Entertainment S.p.A. (ISIN IT0005380602)								
Execution date of transaction	Purchases				Sales			
	M/F (*)	Quantity	Countervalue	Price	M/F (*)	Quantity	Countervalue	Price
19/08/2019	M	3,000	5,850.00	1.9500	-	-	-	-
04/09/2019	M	165,000	319,291.50	1.9351	-	-	-	-
Total		168,000	325,141.50	-	-	-	-	-

(*) M: AIM Italia; F: out of market

As a result of the above, Iervolino Entertainment’s share capital is composed as follows:

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

	Current share capital		
	Euro	no. shares	Unit nominal value
Total			
of which:	1,334,801	33,370,029	0.040
Ordinary shares	894,801	22,370,029	0.040
Multiple vote shares	440,000	11,000,000	0.040

A new sales agreement was stipulated in Los Angeles in August, for a value of Euro 9.8 million, with Hadid Design

and Entertainment LLC (“Hadid D&E”), for the transfer of the distribution rights for the film with the working title “Together Now” and extra content.

“Together Now”, an all-female project produced by Iervolino Entertainment, is a film composed of 5 shorts lasting 15 minutes each, whose main theme is a story based on animated scenes. The content, directed by 5 female directors from different parts of the world, incorporates various genres, from drama to comedy, to docudrama and animation, with famous international actresses taking the lead.

The agreement assures Iervolino Entertainment with an irrevocable minimum guarantee of Euro 9.8 million, which allows it to cover 100% of the production costs, while Hadid D&E obtains in exchange the film sale rights for global distribution, excluding Italy, San Marino and Vatican City, for a duration of 18 years.

The agreement guarantees the delivery, not only of the audio-visual work itself, but also the delivery of extra content for a total of 600 minutes.

The contract guarantees Iervolino Entertainment with the production and delivery both for the next few months of 2019 - in line with the economic and financial forecasts set forth in the Admission Document - and for 2020.

28.4 Transactions resulting from atypical and/or unusual operations

No atypical and/or unusual transactions were carried out in the period between 31/12/2018 and 30/06/2019.