



# **Iervolino & Lady Bacardi Entertainment Group Consolidated Annual Financial Report as at 31 December 2021**

Parent Company: IERVOLINO & LADY BACARDI ENTERTAINMENT S.P.A.

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# ILBE GROUP MANAGEMENT REPORT FOR THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

## 1. Introduction

The consolidated financial statements as at 31 December 2021 of the Iervolino & Lady Bacardi Entertainment Group (hereinafter also referred to as the ILBE Group or the Group) represent the second consolidated financial statements and include the parent company Iervolino & Lady Bacardi Entertainment S.p.A. (formerly Iervolino Entertainment S.p.A.) and the investments in Arte Video S.r.l., Arte Video Llc, R.E.D. Carpet S.r.l., Wepost (formerly IExchange) S.r.l. and Iervolino Studios d.o.o. with a minimal change (Arte Video Llc) compared to last year.

Following the shareholders' meeting resolution of June 23rd, the Parent Company changed the company name to 'Iervolino & Lady Bacardi Entertainment S.p.A.', abbreviated to 'ILBE S.p.A.' to focus more attention on foreign markets. Within this framework, the decision was made to include the name of Lady Monika Bacardi, an important international name: a woman entrepreneur, our largest shareholder and producer of all our projects, who has always believed strongly in the Company and the Group.

This was followed by a real rebranding process, which saw the birth of a new logo inspired by the structural elements of the film reel: a harmonious system of letters, of geometries that dialogue by means of joints and links, to evoke the connection, the union, the compactness of ideas, of people, of society.

ILBE's revamped brand expresses both the plurality and dynamism of the international company: the brand has been designed in a 'reassuring' cage that makes the graphics stable and solid but at the same time dynamic through the changing content.

The consolidated financial statements for the year ended 31 December 2021 closed with total revenue of Euro 152,319 thousand, an increase of Euro 31,584 thousand compared to 2020 (+26%).

EBIT for the 2021 financial year, before certain non-recurring expenses of Euro 941 thousand, was Euro 24,443 thousand, up Euro 1,662 thousand compared to the same period in 2020 (+7%).

These brilliant results are the result of the strategic choices of:

- (i) Investing in quality Intellectual Properties;
- (ii) essentially international market choice and, predominantly, aimed at a streaming audience;
- (iii) Prioritise growth and value creation over time over short-term profitability;
- (iv) Investment and growth in the context of financial balance.

The success of the 'Actic-Friends' and 'Puffins' collections on Apple TV and Amazon Prime Video in terms of audience ratings confirms the validity of the choices made. Recently, there has also been an agreement for the sale of programming rights for the animated series 'Puffins' with KidsMe, the Children Content Factory Gruppo De Agostini Editore, specialised in the development, production and distribution of Italian and European content dedicated to the Kids and Family target audience.

On the other hand, the effects of the Covid-19 pandemic were limited and essentially referred to (i) an increase in non-recurring charges for production in 'smart-working' mode equal to approximately 941 thousand of the 2021 financial year (741 thousand in the 2020 financial year) (ii) a cascade postponement of the production of films and (iii) of the related deliveries, to which the Group responded as from the financial year 2020 by bringing forward certain productions of the web series 'Actic-Friends' and 'Puffins' and revising the financial plans.

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

### *Some preliminary considerations on future market trends related to the evolution of the COVID-19 Pandemic*

The restriction and subsequent relaxation of certain activities of daily life adopted by governments in most countries to contain the pandemic have led to changes in the behaviour, activities and desires of the community, some of which are probably destined to last because they are the result of an acceleration of dynamics that were already in progress.

Therefore, we are talking about those trends that, unlike momentary ones, foreshadow the future. Among those most analysed by scholars and experts, although it must be said that these dynamics are still developing and not consolidated, it is worth mentioning the following:

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

The new frontiers of healthcare are likely to be shaped by a regulatory reorganisation of risk protection and risk-taking. Regulations along these lines could give a boost to the development of new drugs, but also genomics and precision medicine. In contrast, new rules aimed at risk protection could drive new technologies capable of ensuring greater preparedness for health systems.

The new generation's mindset is to adopt an online approach in all fields, from e-commerce to entertainment and e-learning. Here again, it is reasonable to think that we are in the presence of a trend projected well beyond the pandemic and that, from an investor's point of view, will reward companies with a solid digital footprint.

Finally, the commitment and consideration of environmental, social and governance aspects to promote a more sustainable society and economy are at the top of the agendas of global society and economy actors.

The importance of these factors can be found in the ever-increasing importance of non-financial sustainability reporting (the so-called social report), which, together with an adequate communication policy in compliance with the principle of accountability, constitutes an irreplaceable means of corporate characterisation that is recognised globally.

### *The macroeconomic and market context: an industry undergoing global restructuring*

The year 2021 presented itself for media and entertainment market players with a landscape permanently changed by the pandemic. Consumers have adopted new habits and preferences,

while the impacts that affected Industry the previous year have increased.

As we slowly move into a post-COVID-19 world, some structural trends generally accepted by observers of market dynamics need to be carefully considered.

We can consider the Media & Entertainment Industry undergoing restructuring on a global level. Most research and studies at a global level note that most industry executives believe they can no longer rely on traditional business models to drive future growth, highlighting the imperative for strategic and operational reinvention.

The impacts of COVID-19 have accelerated and amplified long-standing secular changes, including the growth of streaming, a decline in users' use of multi-channel television services available via cable or satellite in response to competition from media available on the Internet (the cord-cutting effect), declining cinema attendance and an increased focus on price-value ratio by media consumers. COVID-19 also caused short-term cyclical shocks. Lockdowns and travel restrictions have walled off virtually all companies that rely on the physical aggregation of people. Industry executives respond by taking bold steps to reposition their companies to align with new market realities.

The consolidation catalysts for companies in the Media & Entertainment market are clearly defined. In particular, they include the strategic need to acquire content to fuel streaming growth and the tactical reality that increasing size enables efficiencies and unlocks incremental investment capital.

Companies in the industry that lack scalable elements to increase efficiency are faced with a crucial choice: try to go it alone through turbulent waters or move quickly to tie up with a similarly positioned peer to improve competitive and financial positioning. They also have to set their strategy while navigating the uncertainty arising from the pandemic.

In the future, globally, we are likely to see more bundling transactions involving owners and studios of medium and small networks, motivated by the need to create a critical mass to finance the investment in content, marketing and technology required to pivot towards a direct-to-consumer model.

#### *The value of connection quality*

Cable companies see record results from their high-speed data offerings as consumers rely more than ever on fast Internet connectivity for work, school and entertainment.

Once the cornerstone of the subscriber relationship, Pay-TV packages are being de-emphasised in favour of broadband speed levels and other related services. According to the Digital Home study by a leading international consultancy, 40% of respondents buy Internet-only packages from cable companies, an 8% year-on-year increase, further reinforcing market dynamics.

In the future, cable companies will seek to expand deeper into the household by deploying a broader suite of products that rely on the core Internet connection, including in adjacent 'smart home' areas such as home security, a variety of connected devices - thermometers, doorbells, home appliances - and potentially telemedicine applications.

Further integration into the family makes good strategic sense for cable companies as wireless providers begin to deploy 5G networks on a large scale.

### The return of events in person

In-person events will see a robust return as the human need for shared experiences remains extraordinarily powerful. We are already seeing this in selective sporting events where limited crowds have returned to stadiums to cheer on their teams. Even so, in the absence of a fully distributed vaccine for COVID-19, mitigation strategies will be required when fans return. This will change the dynamics of events and potentially open up new innovative channels to enhance the consumer experience.

Corporate conferences will continue to use digital platforms to extend their reach and include remote participants who remain wary of business travel. Music venues will push forward with creative audience layouts to encourage participation while promoting interactive options. Large stadiums will use their extensive capacity to design ticket blocks that meet the physical spacing guidelines. Theme parks will promote security measures and offer attractive offers to drive admissions.

While acting as a bridge to full re-opening, these solutions will keep the audience engaged and establish new multi-channel and personalised connections - mobile and powered by sophisticated data analytics - that will become part of the consumer value proposition.

### eSports and video games

eSports and video games will be based on a user base multiplied in size during the pandemic. When sporting events were shut down, teams, leagues, athletes and promoters embraced eSports competitions involving simulations of real-life events to maintain fan engagement and fill broadcast slots.

From car racing to basketball, cycling, and even horse racing, millions of people have tuned in to virtual events, opening up a vast new avenue of consumer engagement that is expected to grow in 2021.

Meanwhile, video game revenues have almost doubled in the last five years. New game launches by publishers, combined with the growth of microtransactions and in-game advertising, are leading to another record year for the industry. Upcoming versions of next-generation consoles and the launch of cloud streaming gaming services will further fuel demand in 2021.

Success will depend on industry leaders adapting strategies to cope with unforeseen market opportunities and threats. With disruption as a constant, the only way to survive and thrive in exceptional circumstances is to build systemic agility and perform at lightning speed.

In the future, companies will succeed not because they are better at predicting future market dynamics but because they can better manage a large ecosystem of internal talent and external partners and act in a timely and confident manner.

### NFT opportunities

NFT stands for Non-Fungible Token and are digital certificates of authenticity. NFTs demonstrate ownership of a unique digital asset such as a work of art, a song, a collector's item, a film or video or anything else with blockchain technology.

If you buy a physical painting, you know it is real because you see the artist's signature on the

canvas. Someone can photocopy the painting, but they don't own it. You do. Before NFT, digital assets were like photocopies: you can see who has published something, but you cannot see who owns an Instagram post, a Pinterest Pin or a Reddit meme.

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

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

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

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

#### *The effects of the Covid-19 pandemic and future market trends on the ILBE Group's activities*

Taking the macroeconomic effects and market trends described above into context, the following illustrates the effects on the ILBE Group's activities.

##### *a) Assets in the 2021 financial year*

With reference to the restrictions related to the outbreak of the Covid-19 pandemic, the ILBE Group's productions, being mainly destined for streaming platforms, did not suffer any significant effects, essentially relating to non-recurring charges incurred for the activation of the smart-working mode of operation (from home with technological adaptations) for the production activities of cartoons and some limited postponements of the shooting of film works.

##### *b) Foreseeable effects on future activities*

The ILBE Group's productions will be increasingly focused on streaming platforms and social impact content following the megatrends mentioned in the section on media market evolution.

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

### **3. The ILBE Group's business model**

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

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



- ✓ Film and audiovisual content production activities;
- ✓ The exploitation of rights and IP in the portfolio. In particular, in the area of 'animation' products, the licensing of characters and pipelines (processes and working methods for the production of animated content), plus the exploitation of distribution rights;
- ✓ 'Service' activities, i.e. executive production carried out for other producers;
- ✓ post-production, which is the activity of the subsidiary Arte Video S.r.l. and from next year also of the subsidiary Wepost S.r.l., which is completing investments in the studios. Arte Video is also the official encoding house for Apple iTunes, GooglePlay, Sony Entertainment, Amazon Prime Video, Microsoft, and Rakuten;
- ✓ celebrity management and advertising, communication & marketing consultancy activities carried out by the subsidiary R.E.D. Carpet S.r.l. and from next year also by the recently acquired Sobe Sport S.r.l..

The production of films and audiovisual content is the main activity of the Group carried out by the parent company ILBE and its subsidiaries.

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

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

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

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

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

The collection of the MG generally takes place on average between five to six months after delivery to the customer, but also over a year. In this case, the greater share in the film's income compensates for the greater financial exposure;

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

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

- ✓ Revenues from the distributor's share of the income after the MG (so-called backend, of which the distributor is obviously responsible for the majority). In this case, these revenues are recognised when they are realised, i.e. when they are collected, which generally takes

place over a long period of time, or, in the case of sales to third parties when the relevant rights are transferred.

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

The backend of the web series also includes the licensing of characters and pipelines both in Italy and abroad, which, in this type of work, realise the dominant share of revenues after the guaranteed minimum of distribution. This should be seen in this context: (i) the activities of Iervolino Studios d.o.o. (Serbia) for the production of episodes of the web series Puffins: Impossible for several episodes to be produced for the commissioning producer in line with the development plan; (ii) the licensing of characters and processes and methodologies for the animated production. These investments also have the indirect benefit of enhancing the value and commercialisation of the IP owned and, therefore, the possibility of creating new lines of business through the commercial exploitation of the same, such as merchandising or video games.

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

- ✓ Income from distribution rights or the sale thereof.

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

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

Revenues and margins deriving from the Group's other activities other than the production of films and audiovisual products are recorded on an accrual basis based on the production carried out.

For IFRS 8 - the Group's activities can be identified in three operating segments, details of which are set out in Note 3 to the financial statements:

- ✓ Film productions including rights exploitation and service activities (production activities carried out on behalf of third parties - the final Intellectual Property is not owned by the Group) and post-production. These activities are carried out in all group companies;
- ✓ Digital delivery activities. This activity is a part of the activity carried out by Arte Video.
- ✓ Celebrity management and consultancy in ADV, communication & marketing. This activity

is a part of the activity carried out by Red Carpet.

#### **4. Activities carried out in 2021**

##### Productions

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

##### *Arctic Friends (formerly Arctic Justice)*

During the period, the project 'Arctic-Friends', a web series that started in 2018, based on the animated film produced by Andrea Iervolino, 'Arctic Justice', came to an end. The film was released under Arctic Dogs in US cinemas in 2019 and was among the three most-viewed titles during the 'lock-down' period on Netflix US.

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

This series tells the exciting life adventures of Swifty, the Arctic fox who has finally achieved his dream job; being the best delivery dog at 'Arctic Blast Delivery Service'. With the help of his best friend, the polar bear PB, Jade the feisty red fox and the ABDS team, this team is ready and determined for anything they are asked to deliver. Constantly thwarted by the nefarious mastermind, Otto Van Walrus, and his mischievous puffins, Swifty must outsmart and 'defeat' these villains to ensure that all packages are delivered to their intended recipients.

The last 68 episodes were produced and delivered during the period, resulting in revenues totalling Euro 47,455 thousand (including government grants) and revenues for back-end services, production pipeline licences, and character licences described in the specific paragraph below.

Distribution is by 'Collection' (groups of 4 episodes) on Apple TV and Amazon Prime Video platforms for use by audiences in around 80 countries.

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

The debut on Apple TV was significant, with the first season of 'Arctic-Friends' ranking second in the Italian charts and first in the family charts.

## *Puffins*

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

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

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

Also significant for the Puffins was their debut on Apple TV, where the first season ranked number one in the Italian family charts.

In 2021, 29 episodes in the animatics version and 59 in the animation version were produced and delivered to the customer, resulting in recognition of revenues for a total of Euro 36,254 thousand (including government grants).

## *Tell it like a woman (already Together now)*

'Tell it like a woman', an all-female 'live-action' and 'animation' project produced by ILBE, is a film consisting of 7 short contents of 15 minutes each, whose main theme is a story based on animation scenes that represent an important part of the project. The content, directed by eight female directors from different parts of the world, encompasses various genres, ranging from drama and comedy to docudrama and animation, and features internationally renowned actresses.

For the financial year 2021, the contract entailed the recognition of revenues related to the production and delivery to the customer of the last few years of the contract. of the film, 'A Week of My Life', 'Elbows Deep', and 'Pepcy & Kim', recording revenues for a total of Euro 2,560 thousand (including government grants).

'Elbows Deep' was shot in January 2021 in Los Angeles and is directed by Catherine Hardwicke and stars Cara Delevingne and Oscar-winning actress Marcia Gay Harden. 'Pepcy & Kim' was filmed in the USA and is directed by Taraji P. Henson and stars Jennifer Hudson. 'A week of my life' was filmed in Japan and is directed by Mipo O and stars Ann Watanabe.

## *Dakota*

Dakota is a film directed by Kirk Harris and written by Johnny Harrington.

*SYNOPSIS: When Marine Clet Sanders dies tragically in Afghanistan, Sergeant TJ Malcolm makes good on his promise to bring Dakota, Clet's best friend and attack dog, home. Clet's wife, Kate, is struggling to maintain ownership of the family farm, while the local sheriff knows Kate's land is valuable and will stop at nothing to get hold of it. With the help of TJ, her daughter, her father and her new friend Dakota, Kate will discover the true value of the family farm and friendship.*

The cast includes Abbie Cornish ('Three Billboards Outside Ebbing, Missouri,' 'Limitless,' 'Bright Star,' 'Geostorm'); Lola Sultan ('Yes Day' and 'Bernie the Dolphin'); William Baldwin ('Backdraft,' 'Sliver'); Patrick Muldoon ('The Comeback Trail,' 'Starship Troopers') and Tim Rozon ('Instant Star,' 'Schitt's Creek,' 'Winona Earp').

The film was shot between Italy (province of Bari) and Los Angeles and qualified as an Italian film, thus benefiting from the 'Tax Credit' regulations and the rules on European quotas for exports to China.

The film is produced by ILBE, which has signed two agreements with Universal Pictures and WWPS.TV Corp respectively, for the transfer of the film's distribution rights.

Based on these agreements, ILBE acquires the production rights of the film from WWPS. At the same time, Universal has been assigned the distribution rights *worldwide*, except for Italy and other territories (Canada, the United States and airlines worldwide), whose distribution rights will instead be held by WWPS.

The agreements with Universal and WWPS resulted in recognition of revenues related to the production and delivery to the customer for a total of euro 5,141 thousand (including government grants) for the year 2021.

### *Eddie & Sunny*

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

The film is directed by Desmond Devenish and stars US actor Gabriel Luna (known for his role in Terminator - Dark Destiny).

For the financial year 2021, revenues related to the delivery of the film (3D part) were recorded for a total of Euro 1,225 thousand (including government grants).

### *Current productions*

#### *State of Consciousness*

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

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

The contract foresees revenues of at least US\$4.8 million for ILBE, plus shares in the worldwide proceeds of the film. The exploitation rights in Italy remain with ILBE.

The film is expected to be delivered in 2022.

### *Lamborghini*

The film is produced by Lambo film llc, and Notorious Pictures is responsible, together with ILBE, for executive production.

Synopsis: Set in post-war Italy, 'Lamborghini' tells the story of the life of automotive icon Ferruccio Lamborghini, from the founding of the tractor company to his worldwide success, including his historic rivalry with Enzo Ferrari.

The film was directed and scripted by Bobby Moresco, who won an Oscar for his screenplay for 'Crash'.

The cast features Frank Grillo as the adult Ferruccio Lamborghini ('Captain America', 'Avengers: Endgame'), Gabriel Byrne as Enzo Ferrari ('The Iron Mask', 'Hereditary') and Oscar winner Mira Sorvino as Annita ('The Goddess of Love', 'Norma Jean & Marilyn, as well as Romano Reggiani and Fortunato Cerlino.

The first filming session took place in 2018 and was dedicated to Ferruccio Lamborghini's younger years. It featured Fortunato Cerlino ('Gomorra'), Romano Reggiani ('1993 - the series', 'She still talks to me') and Hannah Van Der Westhuysen ('The Bay of Silence').

The new shoot took place between September and October 2021 between Cento (Emilia Romagna) and Rome. Post-production activities are ongoing.

In addition to executive production, which entailed revenues of Euro 2 million, recorded as 'agent' and therefore net of the related costs, as well as credits and advances to customers for Euro 1.8 million, ILBE acquired all the distribution rights for the film for Euro 3.6 million, in addition to those relating to Italian distribution for a net Euro 2.1 million already acquired in previous years.

### *Muti*

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

Filming began in Mississippi (USA) and continued later in Italy. ILBE has signed agreements with RedBox Entertainment for distribution in the US and Canada and WWPS for worldwide distribution (excluding Italy, US and Canada). The production will bring ILBE minimum guaranteed revenues for the activities carried out in the USA and Italy, approximately Euro 12 million in total.

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

As at 31 December 2021, post-production activities are ongoing.

### *IP and distribution rights*

The caption IP and distribution rights, which include the capitalisation of the costs incurred for the acquisition of distribution rights for films in Italy and abroad and rights relating to Intellectual Properties, increased by Euro 14.5 million, mainly due to the acquisition of rights for the films *The Good Witch of Christmas*, *Christmas Thieves*, *Vote for Santa*, *A day with Santa*, *Detective Santa* and the *Lamborghini* mentioned above (Euro 3.6 million).

### *Service activities, including licences for the exploitation of Intellectual Properties*

These activities totalled Euro 50.1 million, including the *Puffins Impossible* animated series and films: *Spin me round*, *Vote for Santa*, *The Good Witch of Christmas*, *Vote for Santa*, *A day with Santa*, *Detective Santa*, and *Save Christmas* also include sales of licences for the exploitation of Intellectual Properties relating to the licensing of rights to exploit the animation production process (pipeline) and the licensing of characters. In particular, there are several projects concerning works with a 'family' theme, which have been or will be produced by several national and European producers.

### *Service activities in the Republic of Serbia*

The Group operates in Serbia through its wholly-owned subsidiary *Iervolino Studios d.o.o.* with offices in Belgrade and Novi Sad with approximately 100 employees and approximately 30 external collaborators as at 31 December 2021.

The company's main contract is an executive production activity (service) on behalf of the producer *Archangel Digital Studios*, a Serbian company owned by the Serbian actor and producer *Milos Bikovic* (highly regarded in the former Yugoslavian territories, often awarded at national festivals), for the production of animated content.

In detail, the existing agreements provide that *Archangel Digital Studios* obtains the right to exploit the copyrights of the animated characters of the '*Puffins*' series (the '*Intellectual Properties of the animated characters*') and the production process (the '*Pipeline*') of the *ILBE* animated web-series. The Group, for its part, will invest in the project and, through its Serbian subsidiary *Iervolino Studios* will provide the executive production (service) of the new episodes of the series called '*Puffins: impossible*'.

The existing contracts relate to the first 54 episodes completed during the year. However, concerning those to be signed under the framework agreement, pre-production activities for approximately 90 episodes have been concluded, and activities for a further 90 have commenced.

In the financial year 2021, the production of service activities amounted to approximately EUR 10,767 thousand.

### *Post-production and service activities for streaming platforms*

Film post-production and service for streaming platforms for video on demand are the core business of *Arte Video S.r.l.*. A company recognised as an '*Official Encoding House*' by the most important brands in the sector, such as *Apple iTunes* (*Apple iTunes Preferred*, one of the 7 companies in the world), *GooglePlay*, *Sony Entertainment*, *Amazon Prime Video*, *Disney+*,

Microsoft and Rakuten. In addition to developing and implementing projects in the field of Film and Video Production and Post Production, it provides services for the creation of print matrices for DVD and Blu-ray, both in High Definition and Ultra High Definition, with exclusive technology in Italy (and a few others in the world such as Disney) for Java programming; it has systems for the creation of DCP (Digital Cinema Package) film projection matrices, the creation of KDMs (DCP matrix decryption keys) for cinemas and, finally, it creates 2D and 3D animations.

The year 2021 was a year of change in the on-demand platform sector. The already consolidated basis related to the certifications of 'Authorized Encoding House' made the company chosen for the creation of new services for the public related to the TV Channels of Apple and Amazon Prime Video; in fact, Arte Video Srl created, and still manages in exclusive national rights, the Minerva Channel for Apple and several channels for the Amazon Prime Video platform such as Zelig, I-Wonder-Full, Cecchi Gori Entertainment and has created the Juventus Channel and Mediaset Infinity Channel. Arte Video S.r.l. is the only Italian company certified by Apple to create TV Channels packages.

The streaming video sector, which is constantly developing, is characterised by aggregators that rely on Arte Video to manage film packages. These include WarnerBros, RaiCom, Minerva, Koch Media, CG ENT, Sweet Chili Ent, Under The Milkyway, and Pathè. They have chosen the company for the quality of the checks carried out on the video/cinematographic masters before they are released onto the market and the technologies applied to create the finished products. The DVD and BluRay sector sees the company supporting several Italian distributors. Some of the films, Drive My Car or Parasite (winner of 4 Oscars), were completely made in the company's studios and were produced for DVD, Blu-ray HD Java, Blu-ray UHD Java.

For the year 2021, Arte Video Srl has been awarded the 'Apple Preferred Encoding House Award', an award that, to date, only 7 companies in the world can boast.

In addition to the streaming business, the company is developing new film post-production projects. For example, it has developed activities in graphic animation for cartoon series such as Puffins: Impossible, Puffins and Arctic Friends (series that have been in Apple's TOP 10 for several months). The 2D -> 3D encoding process for the various mobile devices present on the market provides for 3D encodings in various formats (Anaglyphic Red/Cyan, Anaglyphic Green/Magenta, SideBySide and Top/Bottom) for dozens of devices per single episode or film; encodings are carried out internally with an exclusive licence for the Italian territory.

In addition to 3D animation, which will see further developments with new formats over the next four years, the company has completed. Furthermore, it is working on the post-production of several films (both for the parent company and for other end clients such as, for example, Fenix Entertainment Spa) such as State of Consciousness, Muti, Lamborghini, A day with Santa, Detective Santa.

With the start-up of these service activities, the company also increased the workforce in the various locations, reaching about thirty people with permanent and project-based hires.

With the entry into the ILBE group, in addition to the historical headquarters in Palmanova (UD), the operational headquarters in Rome Via Tiburtina 521 at the 'STUDIOS' have been opened. Furthermore, in March 2021, the headquarters in Pasadena, California (Hollywood area) of the subsidiary Arte Video LLC will be opened, which will allow the company to enter the American market with its services.

*Castings, celebrity management and production of digital ADV content*



Casting, celebrity management and production of digital ADV content are carried out by the subsidiary R.E.D. Carpet S.r.l. (hereinafter also Red Carpet).

In the second half of 2021, Red Carpet maintained the positive growth trend of the first half. Below are the main objectives achieved in the second half of the year, in addition to those already outlined in the half-yearly report

- ✓ individual projects carried out: around 33, in addition to the previous 50
- ✓ total clients managed: around 25, in addition to the previous 35
- ✓ total new customers acquired: 10, in addition to the previous 20
- ✓ total contracted talent: around 66, in addition to the previous 70
- ✓ total annual turnover: EUR 4.8 million.

The company has consolidated its partnerships with its long-standing customers. This semester's work has given a strong impetus to the current year, 2022. Among the things that stand out are:

Red Carpet was invited to the content creation tender organised by BAT for the Glo brand. Competition where 3 of the most important agencies in Italy for the sector participated besides us. In addition, the highly successful production of the documentary on Salmo, WATERWORLD has created a major new strand that will be extensively developed in 2022.

Here are the most important activities in 2021:

- ✓ Disney+ relied on Red carpet to identify a Testimonial for the launch of the new STAR section within the Platform; for this important TV commercial, Andrea Pirlo was identified and hired as the perfect Ambassador and the ideal face to work alongside actor Stefano Fresi. The production of the spot was entrusted to Greenland Film, directed by Sidney Sibilia. A. Pirlo also shared some original content on his official social accounts to mark the launch of Star.
- ✓ Rai Pubblicità, with whom Red collaborated on the Brand Integration project 'The Unbreakable', hired the international star James Blunt to take part in an event to light the Olympic flame at the Tokyo Olympics. The British singer-songwriter accompanies an original and emotional monologue by five Olympic champions participating in the cross-media project 'The Unbreakable', born from an original format of The&Partnership: Bebe Vio, Arianna Fontana, Clemente Russo, Vanessa Ferrari, and Francesca Piccinini are extraordinary people who have courageously faced and overcome physical or emotional challenges and who, in the face of failure or adversity, have come back stronger than before.
- ✓ The realisation of the See Sicily Spot for the Region of Sicily is aimed at promoting tourism during the 2021 summer season: The collaboration was confirmed through the subsequent engagement to develop a second spot dedicated to the Bellini Festival. In particular, Red Carpet worked with Itaca Comunicazione to select the talent for the Region's new national and international ADV campaign. Red Carpet has chosen four Sicilian personalities as testimonials for the Region's promotional videos: Eleonora Abbagnato, Colapesce and Dimartino, Nicole Grimaudo and Carlotta Ferlito. The commercials were filmed in places that strongly represented the Sicilian essence and made to relaunch tourism on the island after the health emergency. On-air from 6 June, the cross-media campaign will be

broadcast on the main Italian television networks (RAI, Mediaset, Sky, Discovery, TV2000 and LA7), out-of-home in many cities table-top cities advertising in national and international newspapers.

- ✓ Sport e Salute entrusted the Company with the communication, brand identity and special activities related to the launch of the World Street Skate Boarding Championships, held in Rome in May 2021. This involved the creation of content for social channels, the activation of media partnerships and the involvement of influencers and personalities from the world of entertainment.
- ✓ An important partnership has been established with Carlo degli Esposti's PALOMAR company. After handling the contract with PAOLO ROSSI's family to develop the documentary on the beloved late footballer, the company co-produced the documentary on Luciano MOGGI.
- ✓ Through the collaboration with Lebonski Management (the company that owns Salmo's image and music rights), the first music documentary was made and aired on AMAZON PRIME on the occasion of the Water World Music Festival, a music event organised by LBNSK360, rapper Salmo's record label, which took place on Sunday 25 July 2021 off the coast of Marina di Cala dei Sardi, a bay on the Costa Smeralda located in the Gulf of Cugnana (Olbia, Sardinia). The rights to the documentary were sold to Amazon Prime Video Italia. Activities included finding sponsors for the event, including 2 new clients as title sponsor - Mini (BMW group) and main sponsor - GLO Italia. A real Boat Party: a floating stage set up in the middle of the sea to host performances by various Italian artists of the moment, including the host Salmo. The audience watched the concert on board some 200 boats that were positioned around the stage, forming a real arena on the sea.
- ✓ Digital and ADV activities had an important increase by acquiring new clients such as McDonald's and Dixan. Specifically:
  - Mc Donald's: Red Carpet has consolidated the collaboration through various projects: through the involvement of Frank Matano for the campaign dedicated to the McDrive service; then through the creation and realisation of the Mc Chicken Challenge project involving Frank Matano, Guglielmo Scilla, Tess Masazza and Valeria Angione; finally an event completely dedicated to the McChicken Variation activity in collaboration with Giallo Zafferano where we took care of the involvement of the talent Guglielmo Scilla who acted as speaker.
  - Dixan: Red Carpet has identified Laura Chiatti as the new Testimonial for the 2021 campaign, supporting the brand in the TV commercial's management, contract management, and logistics.
  - As far as celebrity management is concerned, Red Carpet took care of the participation of the most representative name of the Beijing Express cast (Ciro Ferrara with his son Giovi). Not forgetting Celebrity Management's ongoing work on successful programmes such as 'C'è posta per te', which, once again this year, thanks to the guests present on the evenings (Roberto Baggio, Roberto Mancini, Lorenzo Insigne, Salvatore Esposito, Leonardo Bonucci and Giorgio Chiellini) was share champion for the entire television season. Last but not least, as in previous years, guest appearances (Roberto Baggio, Flavia Pennetta, Paola Egonu, and Giulia Michelini) were arranged for the afternoon 'Amici' programme.

## 5. Backlog and projects in development

### *Backlog*

At the date of approval of the consolidated financial statements for the year ended December 31,

2021, the contracted production portfolio (guaranteed minimum revenue still to be produced) totalled Euro 152.4 million, of which Euro 74.5 million related to activities in 2022, and was composed as follows:

The last episodes of the Puffins are scheduled for delivery in the first half of 2022 for approximately Euro13.7 million; production of the film State of Consciousness for approximately Euro3.6 million scheduled for delivery in the first half of 2022; production of the film Muti for approximately Euro12 million scheduled for delivery in the first half of 2022; production of the film In the Fire for approximately Euro3.7 million scheduled for delivery in the second half of 2022; production of the projects Giving Back Generation 2 and 3 for approximately Euro2.6 million scheduled for delivery in the first half of 2022.

In 2022, the Group began production on a new sequel to the animated series Arctic Friends and Puffins, entitled Baby Puffins & Bunny, which will consist of a maximum of 405 episodes of 5 minutes each. The backlog of new animated production is Euro116.8 million, with an almost constant production plan spread over 2022, 2023 and 2024.

#### *Projects under development*

The projects under development relate to the following future activities that the Group will reasonably develop and contract in the next three-year period '22-'24, amounting, at the date of approval of this document, to a rough estimate of assets of Euro 338.3 million.

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

#### *Production activities*

The activities of the ILBE Group as a producer over the next three years are currently estimated at a total of 79.7 million euros, broken down as follows:

- ✓ Audiovisual projects in development in which the Group has decided to invest since the current financial year. To date, some 10 projects are under development for an estimated Euro 51.2 million to be developed over the next three years.
- ✓ Feature film projects. To date, about three projects are under development for an estimated Euro17.3 million to be developed over the next three years.
- ✓ 'Unscripted' projects. To date, some 15 projects are in the development phase with an estimated budget of EUR 11.2 million to be developed over the next three years.

#### *Service activities (executive production and post-production) and licensing*

The activities of the ILBE Group as a service provider, including IP licensor, to a third party producer, are currently estimated at a total of Euro 223.6 million for the next three years, broken down as follows:

- ✓ The production of new Puffins Impossible episodes in the studios in Serbia on behalf of a local producer and destined for international distribution for a maximum estimate of Euro 88.2 million to be developed over the next three years.
- ✓ IP service and licensing projects favour national and international customers for an estimated 18 plans amounting to Euro135.4 million to be developed over the next three years.

#### *Celebrity management and digital ADV activities*

The activities of this CGU developed by the subsidiaries Red Carpet and Sobe Sport, based mainly on recurring revenues and contracts, are expected to grow strongly. It is reasonable to assume assets from third parties of approximately 35 million for the three-year period '22-'24.

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

The summary data illustrated in this management report refer to the ILBE Group's consolidated financial statements as at 31 December 2021, prepared following the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and approved by the European Union.

Therefore, the report should be read in conjunction with the financial statements and related notes to the consolidated financial statements for the year ended 31 December 2021.

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

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

- ✓ these indicators are constructed exclusively from historical data of the Group and are not indicative of the Group's future performance;
- ✓ IFRS does not require iAPs and, although derived from the Group's consolidated financial statements, are not audited;
- ✓ IAPs should not be considered as a substitute for the indicators required by the relevant accounting standards (IFRS);
- ✓ these HICPs must be read in conjunction with the Group's financial information taken from the Group's comparative consolidated financial statements;
- ✓ the definitions of the indicators used by the Group, as they are not derived from IFRS, may not be homogeneous with those adopted by other groups and therefore comparable with them;
- ✓ the IAPs used by the Group are prepared with continuity and uniformity of definition and representation for the financial periods considered. As amortisation of audiovisual works constitutes the majority of the Group's cost of sales, EBIT (before non-recurring costs) is the economic indicator of operations.

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

Euro thousands	31/12/2021	31/12/2020	Changes	Change %
Revenues	152,319	120,735	31,584	26%
Operating costs	10,601	6,559	4,041	62%
Staff costs	3,446	1,730	1,716	99%
Amortisation, write-downs, and provisions	113,830	89,665	24,164	27%
<b>EBIT</b>	<b>24,442</b>	<b>22,780</b>	<b>1,662</b>	<b>7%</b>
<b>EBIT margin %</b>	<b>16%</b>	<b>19%</b>	<b>N.A.</b>	<b>-3%</b>
Non-recurring charges (classified in the balance sheet under amortisation)	941	741	200	27%
<b>EBIT net of non-recurring costs</b>	<b>23,502</b>	<b>22,040</b>	<b>1,462</b>	<b>7%</b>
Net financial charges	3,140	657	2,483	>100%
<b>Pre-tax result</b>	<b>20,362</b>	<b>21,382</b>	<b>(1,021)</b>	<b>-5%</b>
Taxes	(1,934)	(1,884)	(50)	3%
<b>Net profit for the period</b>	<b>18,428</b>	<b>19,498</b>	<b>(1,071)</b>	<b>-5%</b>

The reclassified Group balance sheet is shown below:

Euro thousands	31/12/2021	31/12/2020
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	99,322	68,057
Trademark	358	359
Goodwill	75	75
Tangible assets	505	214
Deferred tax assets	8,958	6,289
Investments accounted for using the equity method	18	18
Other non-current assets	1,788	2,334
<b>Total non-current assets</b>	<b>111,024</b>	<b>77,345</b>
<b>Current assets</b>		
Trade receivables	18,759	16,787
Tax receivables	19,452	21,721
Current financial assets	12,070	4,348
Other current assets	14,626	6,367
Cash and other liquid assets	3,246	3,513
<b>Total current assets</b>	<b>68,153</b>	<b>52,736</b>
<b>Total Assets</b>	<b>179,177</b>	<b>130,082</b>
<b>Shareholders' equity</b>		
<b>85,579</b>	<b>67,041</b>	
<b>Non-current liabilities</b>		
Employee benefits	308	181
Deferred tax liabilities	109	117
Provisions for liabilities and charges	300	300
Non-current financial liabilities	32,940	18,108
<b>Total non-current liabilities</b>	<b>33,657</b>	<b>18,706</b>
<b>Current liabilities</b>		
Current financial liabilities	11,665	5,379
Trade payables	22,257	25,289
Tax payables	1,281	1,625
Contractual Liabilities	16,484	2,980
Other current liabilities	8,254	9,062
<b>Total current liabilities</b>	<b>59,941</b>	<b>44,335</b>
<b>Total liabilities</b>	<b>179,177</b>	<b>130,082</b>

The Group's key balance sheet and financial indicators are shown below:

<b>Main balance sheet and financial indicators - Euro thousands</b>	<b>31/12/2021</b>	<b>31/12/2020</b>
Intangible fixed assets (including Trade Mark and Goodwill)	99.755	68.491
Property, plant and equipment	505	214
Other non-current assets	10.764	8.641
<b>Fixed assets</b>	<b>111.024</b>	<b>77.345</b>
Receivables from clients	18.759	16.787
Payables to clients	(22.257)	(25.289)
Other current assets/(liabilities)	8.059	14.421
<b>CCN</b>	<b>4.561</b>	<b>5.919</b>
Post-employment benefits	(308)	(181)
Other non-current liabilities	(409)	(417)
<b>CIN</b>	<b>114.868</b>	<b>82.667</b>
Shareholders' equity	85.579	67.041
Cash and cash equivalents	(3.246)	(3.513)
Financing assets	(12.070)	(4.348)
Financial liabilities	44.605	23.487
<b>NFP</b>	<b>29.289</b>	<b>15.626</b>
<b>Sources of Finance</b>	<b>114.868</b>	<b>82.667</b>

The main indicators of the Group's cash flow statement are shown below:

<b>Euro thousands</b>	<b>31/12/2021</b>	<b>31/12/2020</b>
A - Net cash flow provided by/(used in) operating activities	102,613	68,782
B - Net cash flow provided by/(used in) investing activities	(123,566)	(88,379)
C - Net cash flow generated/(absorbed) by financing activities	20,686	15,158
<b>D - Total cash flow generated/(absorbed) in the period (A+B+C)</b>	<b>(267)</b>	<b>(4,439)</b>
<b>E - Cash and cash equivalents at the beginning of the period</b>	<b>3,513</b>	<b>7,952</b>
<b>F - Cash and cash equivalents at the end of the period (D+E)</b>	<b>3,246</b>	<b>3,513</b>

Under IAS No. 7, net cash provided by/used in investing activities includes only those investments paid for, either in cash or by way of compensation, during the period.

The breakdown of the Group NFP is shown below:

<b>Net financial position - Euro thousands</b>	<b>31/12/2021</b>	<b>31/12/2020</b>
Cash and cash equivalents	(3,246)	(3,513)
Current financial assets	(12,070)	(4,348)
<b>Liquidity</b>	<b>(15,316)</b>	<b>(7,861)</b>
Current portion of non-current financial liabilities	1,996	366
Other current financial liabilities	9,669	5,012
<b>Current financial debt</b>	<b>11,665</b>	<b>5,378</b>
<b>Net current financial debt</b>	<b>(3,651)</b>	<b>(2,483)</b>
Non-current financial liabilities	32,940	18,108
<b>Non-current financial debt</b>	<b>32,940</b>	<b>18,108</b>
<b>NFP debt</b>	<b>29,289</b>	<b>15,625</b>

### Operating performance and financial results

The year 2021 ended with a Group net profit of Euro 18,428 thousand, down 5% compared to the same period of 2020 of Euro 19,498 thousand. This change essentially refers to the increase in net financial charges deriving mainly from exchange rate differences on foreign currency contracts.

From an operational perspective, the year recorded a Group EBIT before non-recurring expenses of Euro 24,442 thousand, which shows an increase of 7% compared to the same period of 2020 of Euro 22,780 thousand.

EBIT in 2021 represents 16% (19% in FY2020) of total revenue of EUR 152,319 thousand (EUR 120,735 thousand in FY2020). The decrease in margins, as outlined in the previous year's management report, is mainly due to the performance of the reference market.

The result mainly derives from licence revenues for the use of the pipeline (processes and working methods for the production of animated content) and the licence for the use of animated characters, which amounted to a total of Euro 37,110 thousand (Euro 6,333 thousand in 2020).

Revenues from the sale of film, audiovisual and government grant rights amount to Euro 93,604 thousand (Euro 93,926 thousand last year) less the related cost of sales represented, essentially, by the year's portion of amortisation of intangible assets (film and audiovisual works) equal to Euro 86,773 thousand (Euro 80,969 thousand in 2020).

Operating revenues and income, including 'government grants' recognised on an accrual basis in respect of the productions to which they relate, mainly relate to the productions Arctic Friends (Euro 47,455 thousand), Puffins (Euro 36,254 thousand), Dakota (Euro 5,141 thousand).

From a financial point of view, the ILBE Group's net invested capital is mainly represented by intangible assets (film works, intellectual properties and others) of Euro 99,322 thousand (Euro

68,057 thousand the previous year); other fixed assets amount to Euro 11,702 thousand (Euro 9,289 thousand the previous year) while net working capital is positive at Euro 4,560 thousand (Euro 5,919 thousand the previous year). Other non-current liabilities and severance pay amounted to Euro 716 thousand (Euro 598 thousand in the previous year).

The resulting net invested capital amounts to Euro 114,868 thousand, increased by Euro 32,201 thousand compared to the balance at 31 December 2020 of Euro 82,667 thousand and is financed by net borrowings of Euro 29,289 thousand (Euro 15,626 thousand at 31 December 2020) and shareholders' equity of Euro 85,579 thousand (Euro 67,041 thousand at 31 December 2020).

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

From a financial point of view, cash and cash equivalents at 31 December 2021 showed a balance of Euro 3,246 thousand, down by Euro 267 thousand compared to the balance at the beginning of the period of Euro 3,513 thousand.

Adding the net difference between financial assets and liabilities to the balance of cash and cash equivalents, the net financial position at 31 December 2021 shows a debit balance of Euro 29,289 thousand, up Euro 13,663 thousand compared to the balance at 31 December 2020 of Euro 15,626 thousand. This growth is mainly attributable to payments for investments in film works, particularly the Lamborghini and Muti films, in the second half of 2021, supported by new financing.

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

The negative change in cash and cash equivalents of Euro 267 thousand (Euro 4,438 thousand at 31 December 2020) is made up of the flows generated by financing activities amounting to Euro 20,686 thousand (Euro 15,158 thousand at December 31, 2020) and those absorbed by investment activities in audiovisual works (mainly Arctic Friends, Puffins, Puffins impossible, Dakota, Eddy & Sunny, Lamborghini, Muti and State of Consciousness) and in the preparatory activities for future new productions for a total of Euro 123,566 thousand (Euro 88,379 thousand at December 31, 2020), which were higher than the flows generated by operating activities of Euro 102,613 thousand (Euro 68,782 thousand at December 31, 2020).

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

- ✓ The raising of five medium-term loans, two of which amount to Euro 3 million with Banca IFIS and Unicredit and the other three, amounting to Euro 10.1 million, with ISP assisted by a SACE guarantee to support existing film productions;
- ✓ The issuance of the Euro10 million medium-term bond;
- ✓ The transfer of tax credits to Intesa SanPaolo for a total of Euro9.6 million to repay medium-term loans.

## **7. Transactions with related parties**

The Issuer's financial and economic transactions with related parties from 1 January 2021 to 31



December 2021 are set out below:

€/000	Trade	Other assets	Trade	Other liabilities	Revenues	Costs
	Receivables		payables			
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	22	1,721	-	-	33	-
<b>Total related party transactions</b>	<b>22</b>	<b>1,721</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>-</b>
<b>Total budget items</b>	<b>18,759</b>	<b>160,418</b>	<b>22,257</b>	<b>71,341</b>	<b>152,319</b>	<b>128,817</b>
<b>Weight on budget items</b>	<b>0%</b>	<b>1%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Transactions with related parties carried out with Tatatu S.p.A. during the period, amounting to Euro 33 thousand on the revenue side and Euro 22 thousand on the credit side, refer to services rendered by the subsidiary Arte Video S.r.l.. The outstanding credit balance with Tatatu S.p.A. of euro 1,721 thousand relates to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (euro 1,089 thousand) and a trade receivable (euro 641 thousand).

## 8. Human Resources

The ILBE Group has a structure of about 120 permanent employees plus some contracted resources. In addition, some professionals have an ongoing relationship with the ILBE Group and, in some cases, also have specific responsibilities for Law 231/2001.

It should be noted that when the production of an audiovisual work starts, a considerable number of workers are employed on fixed-term contracts until its completion. During the year, 1,200 fixed-term employees were hired for existing productions.

## 9. Research and development

Background: know-how and company software created through research activities carried out in the three-year period 2018-2020

In 2018, the Company, starting from the idea of developing a new production process in the field of animation to arrive at an innovative production of short animation both in qualitative and quantitative terms (production costs), commissioned to an external supplier (the company Al Mashael Movies S.P.C., (which also operates with the JV set up with the company Assemblage Entertainment Private Ltd), but under its supervision, the 2018-2020 project for the study, conception and research of new and innovative processes and working methods (so-called pipeline) for the innovative production of short animated content lasting 5 minutes but with excellent graphic, sound and visual quality, each intended for use on digital platforms. The company's in-house technical staff plan and coordinate Research and Development (from now on, also referred to as R&D) activities and actively contribute to the development and validation of new processes.

The entire research project consisted of the conception, study, design and prototyping of new advanced processing methods applicable to short content. This is because these new products are in line with the social media consumption habits of the new generations, who favour the consumption of video content through web and social channels such as Instagram, Facebook, Youtube etc., but who also demand high-quality products.

The contents of the project, divided into several phases, can be identified in the conception, study, development and design of new processes, new methodologies and production systems aimed at technological advancement and at identifying, studying and defining procedures that allow high productivity to be able to offer the market products that can best optimise the company's production cycle of these innovative animated works. This makes it possible to intervene promptly, if necessary, on the uncertainty of the result, the timely analysis of the reduction of cycle time, the reduction of production costs while maintaining a unique level of quality in digital production, which is the main factor in the company's development of this innovative project and the creation of innovative products.

The main reason for this R&D path is the company's constant need to keep pace with global technological advancement by increasing the company's **know-how** and technical knowledge. The activities carried out and completed led to the design and development of production processes called Pipeline 0.1 and Pipeline 0.2 with the implementation of the new **software**, A.T.O.M. (Animation Tracking Operations and Management). This software has made it possible and continues to make it possible to automate and optimise various tasks during the various stages of production. With the implementation of A.T.O.M., greater process automation has been achieved, allowing:

- ✓ improve interaction by making movements between departments more fluid,
- ✓ increasing the automation and dynamism of departments by enabling artists and technicians to work in parallel at different stages of processing; and
- ✓ allow the manager to monitor and make better use of all rendering resources.

More specifically, the results obtained, which are the basis for further developments, are as follows:

#### - **Iteration**

Innovative research is solving numerous problems in the pipeline. It provides a solution to time-consuming departmental latencies in the interaction of both resource and hardware artists and the rendering of time truncations.

For example, the layout department does not require the use of high-resolution resources. This is at the expense of making it work with such computationally heavy files using the modest hardware specifications common to the department. Since the pipeline has to determine which resolution is needed for each step before starting the file, artists can start working faster and with better interaction during the process.

The technical achievements in this area through process innovations were as follows:

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

#### - **Automation and dynamic departments**

The resource department can quickly prototype the resources and pass their files on to subsequent departments to start work immediately. As resources are refined, version control will also be extended to files that used the original versions of the model.

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

- significant reduction in human error;
- use of the parallel pipeline;
- reducing wasteful rendering.

- **Optimised automated rendering management**

Rendering is an area where a constant state of innovation is needed due to the high dependency on computation and long lead times. In addition, there are ever-increasing demands for high-resolution exports in various formats. As each resolution standard increases exponentially, so do rendering times and hardware infrastructure requirements. It is also an area where waste and mismanagement significantly impact time and costs. The technical results obtained to date in this area have been as follows:

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

Know-how and business software and the request, during the 2021 financial year, of the Patent Box benefit

During the 2021 financial year, regarding the five years 2020-2024, the Company filed an application with the Inland Revenue Agency for access to the Patent Box benefit. It believes all the elements exist and is waiting to receive a relative reply.

In fact, the Company, as illustrated above, is the owner of the following intangible assets, acquired, created, perfected and constantly maintained, namely:

- the know-how identifiable in the conception, study, development and design of new processes, new methodologies and production systems aimed at technological advancement and at identifying, studying and defining procedures that allow high productivity to offer the market products capable of optimising the company's production cycle;
- the A.T.O.M. software. (Animation Tracking Operations and Management), which has made it possible to automate and optimise various tasks between the various stages of production.

These intangible assets are fully complementary in an iteration as the operation and improvement of software are closely linked to proprietary innovations that constitute a complex architecture (reference is made to know-how).

In this regard, Article 6, paragraph 1, letter e) of the Patent Box Decree provides that, if within the individual types of intangible assets identified above, two or more of them are connected by a complementary link such that the finalisation of a product or a production process is dependent on the joint use of such assets, such assets constitute the same intangible asset for the application of the facilitating provisions referred to above.

In particular, the intangible assets described above are jointly used in the design and production phase of the short animation: the know-how and the software form, therefore, a unicum representing that set of intangible assets that contribute to the development of the business by the Company.

Given the specific nature of the business, know-how represents the basis on which the company bases its activities. This intangible asset acts transversally as a driver for the

conception of new production processes while the software is grafted on to support production activity.

Thanks to the synergetic use of these intangible assets (know-how and software), the company is becoming increasingly successful in the market.

There is, therefore, a bond of strict complementarity between the individual intangible assets referred to, which, therefore, for the Patent Box regulations, are substantiated in a single real intangible used in the realisation of the short animation.

In particular, the short animations for the production of which the Company avails itself of the exploitation of the intangible assets described above are, to date, the following:

- **Puffins**

'Puffins the series' is an animated web series, a spin-off of the animated family film 'Arctic Justice'. Each about five minutes long, the episodes feature the 'puffins', the cute and mischievous creatures of 'Arctic Friends'.

In June 2020, an agreement was signed to hire Johnny Depp, who will lend his voice to Johnny Puff's character in 'Puffins' for 250 of the episodes.

Also significant for the Puffins was their debut on Apple TV, where the first season ranked number one in the Italian family charts.

During the financial year 2021, 59 episodes were produced and delivered to the customer in the 'animation' version and 29 in the 'animatic' version. A further 61 episodes are planned to be produced during 2022.

- **Arctic Friends**

In 2020, the 'Arctic-Friends' project continued, a web series started in 2018, based on the animated film produced by Andrea Iervolino, 'Arctic Justice'. The film was released under the title Arctic Dogs in US cinemas in 2019 and was among the top three most viewed titles during the lock-down period on Netflix US.

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

In September 2020, the distribution of the first three 'Collections' (groups of 4 episodes per Collection) began on Apple TV and Amazon Prime platforms for use by audiences in around 80 countries.

The debut on Apple TV was significant, with the first season of Arctic Friends ranking second in the Italian charts and first in the family charts. In 2021, the last 68 episodes were completed.

#### R&D activities during 2021

During 2021, the research and development activities of the financial year were applied research carried out to the exploitation of the theoretical knowledge already acquired for

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

#### Software:

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

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

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

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

#### Hardware and network:

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

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

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

In addition, the company is in dialogue with Unitelma Sapienza and the University of Pisa. In particular, the former is interested in establishing collaboration for the training and realisation of training courses to teach young students our animated production techniques through the instrument of 'University Start-up'. The latter, on the other hand, appreciated the system thanks to which 'it was possible to create innovative entertainment formats regarding the mix of minutes, CGI technical quality, narrative fabric and consequent broadcasting methodology' and is interested in 'proposing elements for reflection that will allow further development of the pipeline, also because of the stimuli on eco-sustainability born, at world level, from the recent COP26 conference in Glasgow.

#### The benefits of research and development results

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

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

Finally, another factor should be considered in terms of profitability deriving from the Licensing of the Pipeline (i.e., processes and working methods for the production of short animated content) obtained from the implementation of the R&D activity (know-how and software), which, after having led to the recognition of revenues totalling euro 4,688 thousand in 2020, contributed total revenues of euro 30,220 thousand in 2021.

Moreover, this also entailed the licensing to third party customers of copyrights related to the characters that otherwise would not have been granted for a total of Euro 1,645 thousand in the 2020 financial year and Euro 6,891 thousand in the 2021 financial year.

Therefore, in the two years 2020-21, revenues deriving directly or indirectly from the implementation of know-how and software resulting from R&D activities amount to Euro 43,444 thousand.

Finally, it must be duly noted that this success was also possible with the help of the provisions of the national regulations in the field of research and development, for which the Company benefited from the activities carried out in the 2018 and 2019 financial years for a total of EUR 11,456 thousand. This, in fact, set in motion a virtuous production and investment process that, on the one hand, led to the development of exclusively Italian technologies through the use of specialised Italian and foreign labour and, on the other, characterised the contribution received for R&D as public investment expenditure. This public expenditure has a considerably higher multiplier than that of current public expenditure, precisely because of the confidence in future developments that it opens up on the economic horizon, stimulating private operators to invest, and is on average indicated at around 1.5.

The result of the activities carried out has created a significant and recurring increase in domestic production, including exports, through the flywheel of supply chain activities (ILBE's revenues, totalling Euro 43,444 thousand in the two years 2020-21, are the cost of sales of other companies which in turn produce higher revenues to other customers, etc.).

## **10. Disclosure of principal risks and uncertainties**

### Management of financial risks and cash flow variation

#### Liquidity risk

The ILBE Group's day-to-day operations generated cash flows intended for requirements and absorbed by the day-to-day operations for the regular payment of suppliers. The group's business model includes an important use of the payment clearing system, which allows, through agreements with customers and suppliers, to reduce liquidity risk significantly. Additional financial resources for investment are raised either through financial or capital transactions. Having put in place an effective economic and financial planning system, IE constantly monitors management flows to finance working capital and monitor the monetisation of the realised EBIT, which takes place a few months after the delivery of the audiovisual work and is appropriately financed and guaranteed by/to the banking system.

#### Foreign exchange rate risk

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

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

## Interest Rate Risk

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

## Market risk, credit risk and price risk

Risks related to the competitiveness and cyclicity of the sector

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

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

## Credit risk

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

## **11. Issue of a bond for Euro 10,000,000**

On July 27th, the parent company ILBE successfully completed the issuance of a bond for a total principal amount of EUR 10,000,000 maturing in 2028. The resources collected will be used by the Group for the production of film and audiovisual works.

The bond issue is part of the 'Supply chain Basket Bond' operation, the Euro200 million programme promoted by Cassa Depositi e Prestiti and UniCredit to finance the development plans in Italy and abroad companies belonging to strategic sectors of the Italian economy.

Specifically, the bond issued by ILBE is dedicated to companies operating in the cultural sector.

The Bond has a term of 7 years, and semi-annual instalments will be of the 'amortising' type with a 12-month pre-amortisation period. The bonds will bear interest at a fixed nominal annual gross rate of 2.55% to be paid, regarding the first coupon, in advance on the fifteenth day following the issue date and, regarding the subsequent coupons, in arrears on a semi-annual basis.

## **12. Significant events occurring after the end of the period**

### Acquisition of 60% of Sobe Sport S.r.l.

In February 2022, ILBE signed an agreement to acquire 60% of SoBe Sport S.r.l., a reference point for communication and marketing in the field of sports for professional athletes and coaches.

Sobe Sport offers services of sponsorship and management of image rights, brand identity, social media and marketing, web design, communication and press office; it is a fast-growing company that for the year 2021 expects to achieve total revenues of approximately Euro 2 million (+58% compared to the previous year and + 39% compared to 2019) and an EBITDA of approximately Euro 380 thousand (+78% compared to the previous year and + 26% compared to 2019). The expected net working capital at the end of 2021 is approximately EUR 410 thousand, and the net financial position is positive by approximately EUR 50 thousand.

With the acquisition of SoBe Sport, ILBE will expand its range of services in the areas of celebrity management and consultancy in ADV, communication & marketing. In fact, important business synergies are expected with the subsidiary Red Carpet, which has been operating in communication and entertainment since 2008 through three lines: celebrity management activities; ADV, communication & marketing consultancy; and original production, documentaries and series. Together with SoBe Sport founder Gian Luca Voulaz, who has been confirmed at the company's helm, new development strategies are also expected in international markets, starting with the World Cup in Qatar.

The agreement provides for a cash consideration of Euro 658,000 for a representative share of 31.38% of SOBE Sport's share capital, as well as the assignment to the seller (the Company's founder Gian Luca Voulaz) of ILBE's ordinary shares for a total value, including share premium, of Euro 600,000 for a representative share of 28.62% of SOBE Sport's share capital, following an earmarked capital increase. The number of such shares will be determined by reference to the official stock exchange price in the period preceding the transaction. The acquisition of 60% of SoBe Sport will be finalised within the first six months of 2022.

The agreement also provides for call and put options for ILBE and the seller, respectively, for the purchase of the remaining 40% share, for a total value of Euro 1,000,000, which ILBE may exercise over a period of two years from the date of execution, while the seller may exercise from 1 July 2023 until 30 September 2023. The options provide that 40% of the transaction will be settled in cash, while the remaining 60% will be settled through the contribution in kind of the remaining stake in the Company. The shares to be received by the seller will be determined by reference to the volume-weighted average unit price of the shares before the transaction.

#### Russian-Ukrainian crisis

In late February 2022, Russia announced a military operation in the Donbass, initiating an invasion of Ukraine. The European Union, the United States and other countries have adopted a series of restrictive measures against the Russian Federation in response to Moscow's decision to recognise the self-proclaimed Donetsk and Luhansk Republics and to carry out military operations in Ukraine.

The Group has no past or anticipated exposure to the Russian market.

### **13. Management Outlook**

The company's activities will focus on completing ongoing productions (Puffins, Muti and State of Consciousness) and new animated productions (Baby Puffins & Bunny). Concerning new film works, we highlight the new film work 'In the fire', starring Amber Heard, Eduardo Noriega and Lorenzo McGovern Zaini and directed by Conor Allyne.

In the second half of the year, the production of 'Belle Bimbe Addormentate' and service activities (executive production) as well as character and pipeline licences (Top dogs,



Bunnyhood, Kid Santa and Billie bad girl) will start. Further impetus will also be given to celebrity management activities through the new group company Sobe Sport.

This should be seen in this context: (i) the activities of Iervolino Studios d.o.o. (Serbia) for the production of episodes of the web series Puffins: Impossible for which five series of episodes are to be produced for the commissioning producer, in line with the development plan; (ii) the licensing of characters and processes and methodologies for the animated production.

In light of the above, a growth in revenues and capitalised works is expected for the year 2022, while the dynamics of margins will be slightly lower. Dedicated loans will finance new activities. In general, net financial debt is expected to decrease slightly.

Rome, 24 March 2022

For the Board of Directors

The President  
Andrea Iervolino



# Consolidated Financial Statements and Notes

31 December 2021

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# Statement of the consolidated financial position

## As at 31 December 2021 - amounts in euro thousands

Values in euro thousands	Notes	31-dic-21	of which related parties	31-dic-20	of which related parties
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets:	Note 5	99,322	-	68,057	-
Completed productions		40,168	-	40,725	-
Ongoing productions		22,733	-	5,401	-
IP and Distribution Rights		36,277	-	21,806	-
Other intangible activities		144	-	124	-
Trademark	Note 6	358	-	359	-
Goodwill	Note 6	75	-	75	-
Tangible assets	Note 7	505	-	214	-
Deferred tax assets	Note 8	8,958	-	6,289	-
Investments accounted for using the equity method	Note 9	18	-	18	-
Other non-current assets	Note 10	1,788	1,721	2,334	1,731
<b>Total non-current assets</b>		<b>111,024</b>	<b>1,721</b>	<b>77,345</b>	<b>1,731</b>
<b>Current assets</b>					
Trade receivables	Note 11	18,759	21	16,787	-
Tax receivables	Note 12	19,452	-	21,721	-
Current financial assets	Note 13	12,070	-	4,348	-
Other current assets	Note 14	12,953	-	3,590	-
Assets arising from contracts with customers	Note 15	1,673	-	2,777	-
Cash and other liquid assets	Note 16	3,246	-	3,513	-
<b>Total current assets</b>		<b>68,153</b>	<b>21</b>	<b>52,736</b>	<b>-</b>
<b>Total Assets</b>		<b>179,177</b>	<b>1,742</b>	<b>130,082</b>	<b>1,731</b>
<b>Shareholders' Equity</b>					
Share Capital	Note 17	1,401	-	1,401	-
Legal reserve	Note 17	497	-	497	-
Extraordinary reserve	Note 17	19,436	-	-	-
Other reserves	Note 17	16,574	-	16,464	-
Profit/(Loss carried forward)	Note 17	29,243	-	29,181	-
Profit/(loss) for the year	Note 17	18,428	-	19,498	-
<b>Assets attributable to the shareholders of the parent company</b>		<b>85,579</b>	<b>-</b>	<b>67,041</b>	<b>-</b>
Minority interests		-	-	-	-
<b>Total Shareholders' equity</b>		<b>85,579</b>	<b>-</b>	<b>67,041</b>	<b>-</b>
<b>Non-current liabilities</b>					
Employee benefits		308	-	181	-
Deferred tax liabilities		109	-	117	-
Provisions for liabilities and charges		300	-	300	-
Non-current financial liabilities	Note 18	32,940	-	18,108	-
<b>Total non-current liabilities</b>		<b>33,657</b>	<b>-</b>	<b>18,706</b>	<b>-</b>
<b>Current liabilities</b>					
Current financial liabilities	Note 19	11,665	-	5,379	-
Trade payables	Note 20	22,257	-	25,289	-
Tax payables	Note 21	1,281	-	1,625	-
Contractual liabilities	Note 22	16,484	-	2,980	-
Other current liabilities	Note 23	8,254	-	9,062	-
<b>Total current liabilities</b>		<b>59,941</b>	<b>-</b>	<b>44,335</b>	<b>-</b>
<b>Total liabilities</b>		<b>179,177</b>	<b>-</b>	<b>130,082</b>	<b>-</b>

## Consolidated statement of comprehensive income as at 31 December 2021 - amounts in euro thousands

	Notes	31-dic-21	of which related parties	31-dic-20	of which related parties
Revenues	Note 24	137.279	33	97.482	1.090
Other revenues and income	Note 25	190	-	8.907	-
Tax credits and other government grants	Note 26	14.850	-	14.346	-
<b>Total operating income and revenues</b>		<b>152.319</b>	<b>33</b>	<b>120.735</b>	<b>1.090</b>
Purchases of raw materials, consumables and merchandise		277	-	302	-
Costs for services	Note 27	9.826	-	6.005	-
Staff costs	Note 28	3.446	-	1.730	-
Other operating costs		497	-	252	-
Amortisation, write-downs, and provisions	Note 29	114.771	-	90.406	-
<b>Operating Result</b>		<b>23.502</b>	<b>33</b>	<b>22.040</b>	<b>1.090</b>
Financial income	Note 30	525	-	1.127	-
Financial charges	Note 30	3.665	-	1.784	-
<b>Profit before tax</b>		<b>20.362</b>	<b>-</b>	<b>21.382</b>	<b>-</b>
Income tax	Note 31	(1.934)	-	(1.884)	-
<b>Profit for the period</b>		<b>18.428</b>	<b>-</b>	<b>19.498</b>	<b>-</b>
Group interest		18.428	-	19.498	-
Minority interest		-	-	-	-
Other comprehensive income components that may be reclassified subsequently to profit/(loss) for the year net of taxation		152	-	-	-
Other comprehensive income components that will not be subsequently reclassified to profit/(loss) for the year net of taxation		(66)	-	(35)	-
Re-measurement of net employee benefit liabilities/(assets)		(66)	-	(35)	-
<b>Total comprehensive profit/(loss) after tax</b>		<b>18.514</b>	<b>-</b>	<b>19.463</b>	<b>-</b>
<b>Basic earnings per share (ordinary shares)</b>	<b>Note 32</b>	<b>0,77</b>	<b>-</b>	<b>0,87</b>	<b>-</b>
<b>Diluted earnings per share (ordinary shares)</b>	<b>Note 32</b>	<b>0,77</b>	<b>-</b>	<b>0,81</b>	<b>-</b>

## Consolidated statement of changes in equity

### as at 31 December 2021 - amounts in euro thousands

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other Reserves	Translation reserve	Capital contribution payment	Profit/(Loss) carried forward	Profit/(loss) for the financial year	Total	Minority interests	Total Shareholders' equity
<b>Balance as at 1 January 2021</b>		<b>1,401</b>	<b>497</b>	-	<b>16,491</b>	<b>(35)</b>	<b>8</b>	-	<b>29,181</b>	<b>19,498</b>	<b>67,041</b>	-	<b>67,041</b>
Profit/(loss) for the financial year	Note 17	-	-	-	-	-	-	-	-	18,428	18,428	-	-
Allocation of the 2020 result	Note 17	-	-	19,437	-	-	-	-	62	(19,498)	1	-	-
Increased translation reserve	Note 17	-	-	-	-	-	23	-	-	-	23	-	-
OCI changes	Note 17	-	-	-	-	86	-	-	-	-	86	-	-
<b>Balance as at 31 December 2021</b>		<b>1,401</b>	<b>497</b>	<b>19,437</b>	<b>16,491</b>	<b>51</b>	<b>31</b>	-	<b>29,243</b>	<b>18,428</b>	<b>85,579</b>	-	<b>85,579</b>

### as at 31 December 2020 - amounts in euro thousands

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other Reserves	Translation reserve	Capital contribution payment	Profit/(Loss) carried forward	Profit/(loss) for the financial year	Total	Minority interests	Total Shareholders' equity
<b>Balance as at 1 January 2020</b>		<b>1,335</b>	<b>497</b>	-	<b>16,263</b>	-	-	-	<b>9,306</b>	<b>20,249</b>	<b>47,650</b>	-	<b>47,650</b>
Profit/(loss) for the financial year		-	-	-	-	-	-	-	-	19,498	19,498	-	19,498
Allocation of the 2019 result		-	-	-	-	-	-	-	20,249	(20,249)	-	-	-
Capital increase 'Arte Video' operation		1	-	-	146	-	-	-	-	-	147	-	147
Capital increase 'RED Carpet' operation		1	-	-	146	-	-	-	-	-	147	-	147
Capital increase converted bonds		64	-	-	(64)	-	-	-	-	-	-	-	-
Increased translation reserve		-	-	-	-	-	8	-	-	-	8	-	8
Changes in consolidation		-	-	-	-	-	-	-	(374)	-	(374)	-	(374)
OCI changes		-	-	-	-	(35)	-	-	-	-	(35)	-	(35)
<b>Balance as at 31 December 2020</b>		<b>1,401</b>	<b>497</b>	-	<b>16,491</b>	<b>(35)</b>	<b>8</b>	-	<b>29,181</b>	<b>19,498</b>	<b>67,041</b>	-	<b>67,041</b>

## Consolidated cash flow statement as at 31 December 2021 - amounts in euro thousands

Values in euro thousands	Notes	31-dic-21	31-dic-20
Operating profit for the year before tax		20,362	21,382
Income Tax	Note 31	(1,934)	(1,884)
Adjustments to reconcile pre-tax profit with net cash flows:			
Amortisation of intangible assets and property, plant and equipment	Note 29	114,771	90,406
Net exchange rate changes		-	215
Financial income		(3)	(2)
Financial charges		1,780	434
Provisions (Utilisations) to staff-related funds		60	109
<b>Cash flow generated by operations</b>		<b>135,036</b>	<b>110,660</b>
Change in working capital:			
Change in trade credits		(22,595)	3,413
Change in trade payables		(12,740)	(26,406)
Change in other receivables and other assets		(8,438)	(11,022)
Change in other payables and other liabilities		16,933	(1,305)
Interest paid		(1,023)	(832)
Income tax paid		(4,560)	(5,728)
<b>A - Net cash flow provided by/(used in) operating activities</b>		<b>102,613</b>	<b>68,782</b>
Investments in intangible and tangible assets		(115,997)	(84,031)
Investments in other financial assets		(7,569)	(4,348)
<b>B - Net cash flow provided by/(used in) investing activities</b>		<b>(123,566)</b>	<b>(88,379)</b>
Mortgages and loans taken out in the period		31,129	21,665
Loans and borrowings repaid in the period		(10,443)	(6,507)
<b>C - Net cash flow generated/(absorbed) by financing activities</b>		<b>20,686</b>	<b>15,158</b>
<b>D - Total cash flow generated/(absorbed) in the period (A+B+C)</b>		<b>(267)</b>	<b>(4,439)</b>
<b>E - Cash and cash equivalents at the beginning of the period</b>		<b>3,513</b>	<b>7,952</b>
<b>F - Cash and cash equivalents at the end of the period (D+E)</b>		<b>3,246</b>	<b>3,513</b>

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



# Notes to the consolidated financial statements

## 1. Company information

Publication of the consolidated financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. (formerly Iervolino Entertainment S.p.A.) and its subsidiaries (the Group) for the period ended 31 December 2021 was authorised by the Board of Directors on 24 March 2022. The consolidating company, following the resolution of the shareholders' meeting of 23 June this year, changed its name from Iervolino Entertainment S.p.A. to 'Iervolino & Lady Bacardi Entertainment S.p.A.'.

Iervolino & Lady Bacardi Entertainment S.p.A., the consolidating company, is a listed joint-stock company registered and domiciled in Italy. The registered office is located in Via Barberini 29, 00187 Rome.

The Group's main activity is producing film and television content, including films, TV shows, web series, short TV shows and much more. The content produced by the Group is considered standing Hollywood-style productions and features internationally-renowned actors. The Group's main objective is to produce for the international market, based on the business model used by the major Hollywood majors. The Group is also involved in authoring, encoding & digital delivery, celebrity management, and ADV, communications & marketing consultancy (Celebrity Management).

Information on the Group's transactions with related parties is presented in Note 33.1.

## 2. Main accounting principles

### 2.1 Drafting principles

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

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

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

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

These financial statements have been prepared on a going concern basis. The Directors have verified that there are no financial, operational or other indicators that may indicate that the Group will be able to meet its obligations in the foreseeable future. Risks and uncertainties related to the business are described in the relevant sections of the Report on Operations. A description of how the Group manages financial risks, including liquidity risks and capital risks, is contained in the section Additional

information on financial instruments and risk management policies of these Notes. The main accounting principles and valuation criteria applied in preparing the consolidated financial statements are described below.

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

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

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

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

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

## 2.2 Principles of consolidation

The consolidated financial statements include the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. and its subsidiaries at 31 December 2021.

Control is achieved when the Group is exposed to or entitled to variable returns from its relationship with the entity being invested in and, at the same time, can affect those returns by exercising its power over that entity.

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

- power over the investee entity (i.e. it has valid rights that give it the current ability to direct the relevant activities of the investee entity);
- the exposure to or rights to variable returns arising from the relationship with the entity being invested in;
- the ability to exercise its power over the invested entity to affect the number of its returns.

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

- Contractual arrangements with other holders of voting rights;

- Rights under contractual agreements;
- Voting rights and potential voting rights of the Group.

The Group reconsiders whether or not it has control of an investee if facts and circumstances indicate that there have been changes in one or more of the three elements relevant to the definition of control. Consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses control. The assets, liabilities, revenues and expenses of the subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

Profit or loss and each component of comprehensive income are allocated to the owners of the parent and non-controlling interests, even if this means that the non-controlling interests have a negative balance. When necessary, appropriate adjustments are made to the financial statements of subsidiaries to ensure compliance with the group's accounting policies. All assets and liabilities, equity, revenues, expenses and intra-group cash flows relating to transactions between group entities are eliminated in full consolidation.

Changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for in equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, non-controlling interests and other components of shareholders' equity, and any gain or loss is recognised in profit or loss. Any retained interest must be recognised at fair value.

The following table summarises, concerning the subsidiaries, the information as at 31 December 2021, relating to the name, registered office and share capital held directly and indirectly by the Group.

Company name	Headquarters	Group share of ownership	Direct ownership	Methods of consolidation
<b>Parent company</b>				
Iervolino & Lady Bacardi S.p.A.	Via Barberini 29, 00187 Roma (Italia)	N.A.	N.A.	N.A.
<b>Subsidiaries</b>				
Arte Video S.r.l.	Via Barberini 29, 00187 Roma (Italia)	100%	100%	Full
R.E.D. Carpet S.r.l.	Via del Porto Fluviale 69, 00154 Rome (Italy)	100%	100%	Full
Wepost S.r.l. (formerly Iexchange S.r.l.)	Via Barberini 29, 00187 Roma (Italia)	100%	100%	Full
Iervolino Studios d.o.o.	Svetosavka Street 26/9, Pozarevac (Serbia)	100%	100%	Full
Art Video LLC	1680 Knowlwood Drive - Pasadena, California 91103 (USA)	99%	0%	Full
<b>Associated companies</b>				
Furuna Crafts d.o.o.	Zeleznicka 4, Novi Sad	50%	0%	Equity

The balance sheet is presented in euro, which is the functional currency.

## 2.3 Summary of the main accounting principles

### a) Business combinations, goodwill and trade marks

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the sum of the consideration transferred, measured at fair value as at the date of acquisition and the amount of the minority stake in the acquisition. For each business combination,

the Group defines whether to measure the minority stake in the acquisition at fair value or in proportion to the share of the minority stake in the net identifiable assets of the acquisition. Acquisition costs are expensed during the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or liabilities assumed in accordance with the contractual terms, economic conditions and other relevant conditions existing as at the acquisition date. This includes verifying whether an embedded derivative should be separated from the primary contract.

The acquirer recognises any contingent consideration to be recognised at fair value at the acquisition date. The potential consideration classified as equity not subject to remeasurement and its subsequent payment is accounted for with the balancing entry of shareholders' equity. The change in fair value of contingent consideration classified as an asset or liability, such as a financial instrument within the scope of IFRS 9 Financial Instruments, shall be recognised in profit or loss following IFRS 9. Contingent consideration that is not within the scope of IFRS 9 is measured at fair value at the balance sheet date, and changes in fair value are recognised in profit or loss.

Goodwill and brand names are initially recognised at cost represented by the excess of all consideration paid and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total amount of paid, the Group again checks whether it has correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognised as at the date of acquisition. If the new valuation still shows a fair value of the net assets acquired higher than the consideration, the difference (profit) is recognised in the income statement.

After initial recognition, goodwill and brand names are measured at cost less accumulated impairment losses. For impairment testing, goodwill and brands acquired in a business combination are allocated from the acquisition date to each cash-generating unit of the Group that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units.

If goodwill and a brand name have been allocated to a cash-generating unit and the entity disposes of part of the operations of that unit, the goodwill and brand name associated with the operation disposed of are included in the carrying amount of the operation when determining the gain or loss on disposal. The goodwill and brand associated with the discontinued operation are determined based on the relative values of the discontinued operation and the retained portion of the cash-generating unit.

## **b) Investments in associates**

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

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

Under the equity method, an investment in an associate is initially recognised at cost. The carrying amount of the investment is increased or decreased to recognise the investor's share of the investee's

profits and losses realised after the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test.

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

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

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

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

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

### **c) Intangible assets**

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

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

Under the headings 'Completed productions' and 'Work in progress', all costs relating to film productions and incurred in the films' various pre-production, production and post-production phases are capitalised. Finished products are amortised using the film forecast computation method, under which amortisation at the reporting date is determined over the time horizon over which the intangible

asset will generate revenue. The amortisation period, based on the peculiarity and visibility of the individual productions in place, is estimated over the time horizon of four financial years.

At each balance sheet date, in addition to reviewing the useful life, intangible assets with finite useful lives are analysed to identify any indicators of impairment, whether from external or internal sources. In circumstances where such indicators are identified, the recoverable amount of these assets is estimated, and any impairment loss is recognised in the income statement. The recoverable amount of an asset is the higher its fair value, less costs to selling and its value in use, where the latter is the sum of the estimated future revenue from the asset.

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

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

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

Concession/licensing agreements for the acquisition of film exploitation rights are recognised as intangible assets under 'IP and Distribution Rights' at the time of transfer of control, which usually coincides with receipt of the invoice. These rights are amortised using a projected revenue-based method, commonly used in the industry and which provides that cumulative amortisation at the balance sheet date is determined by reference to the ratio of revenue realised to total revenue from the various types of exploitation of the rights, as projected under the sales plans, as the Directors believe that this method more appropriately and fairly reflects the speed with which the Group expects to utilise the economic benefits associated with these rights.

Costs for the acquisition of Intellectual Property for future productions are recorded under 'Other Rights'. 'Other intangible assets' contains other intangible assets with a finite useful life; these assets are shown net of accumulated amortisation and any accumulated impairment losses. Depreciation is calculated straight-line over the estimated useful life, which is reviewed at least annually; any changes in amortisation criteria are applied prospectively. Amortisation begins when the intangible asset is available for use. The estimated useful life of 'Other intangible assets' is 5 years.

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

They are recognised at historical cost less accumulated amortisation and accumulated impairment losses. Depreciation charged to the profit and loss account was calculated according to the economic-technical life of the assets, based on the criterion of residual useful life. If, regardless of amortisation already recorded, an impairment loss were to occur, the asset will be written down. If, in future years,

the assumptions for the write-down no longer apply, the original value adjusted only by amortisation is restored.

### **e) Financial assets**

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

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the business model the Group uses to manage them. Except for trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value, through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as explained in paragraph n) Revenue.

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

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

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

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

#### *Subsequent evaluation*

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

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

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

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

- the financial asset is held as part of a business model whose objective is to own financial assets to collect contractual cash flows;

and

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

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

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

#### *Cancellation*

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

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

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

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

#### *Impairment of financial assets*

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

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

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



## **f) Financial liabilities**

### *Initial detection and assessment*

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

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

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

### *Subsequent evaluation*

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

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

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

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

#### *Cancellation*

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. When an existing financial liability is exchanged for another financial liability of the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any difference between the carrying amounts recognised in the consolidated statement of profit or loss.

#### *Clearing of financial instruments*

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

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

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

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

The Group bases its impairment test on the most recent budgets and forecast calculations, prepared separately for each of the Group's cash-generating units to which individual assets are allocated. These budgets and forecast calculations generally cover five years. A long-term growth rate is calculated to project future cash flows beyond the fifth year.

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

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

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

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

Goodwill impairment cannot be reversed in future periods.

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

#### **h) Cash and short-term deposits**

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

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

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

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

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

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

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

### **m) Contractual liabilities**

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

### **n) Revenues**

Revenues from sales and services are recognised when the actual transfer of control of the goods or services contracted with the customer occurs. A summary description of the applied recognition,

measurement, and measurement process is provided below for each of the main revenue streams identified.

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

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

### **Licence revenues**

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

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

### **Revenues from service activities**

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

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

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

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

**Revenues related to service authoring, encoding & digital delivery activities:** are collected when the service is rendered.

**Revenues relating to Celebrity Management activities:** are recognised as the service is rendered.

Revenues are shown net of returns, discounts, allowances and premiums, and directly related taxes.

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

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

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

With specific reference to the film sector, the Group currently benefits from a type of public contribution, i.e., incentives consisting of tax relief and deriving from tax credits granted to film production companies concerning the production of cinematographic works under Law 244/2007, as regulated by the 'Tax Credit' Producers Decree, setting out the application methods. In 2021, the Group also benefited from the Distribution 'Tax Credit' regarding the self-distribution operation of the film 'Waiting for the Barbarians'.

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

#### **p) Current taxes**

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

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

#### **q) Deferred taxes**

Deferred taxes are calculated by applying the liability method to temporary differences between the tax bases of assets and liabilities and their corresponding carrying amounts at the balance sheet date.

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

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

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

## **r) Currency conversion**

In the Consolidated Financial Statements, the results of operations, assets and liabilities are expressed in Euro, which is the presentation currency of the Parent Company Iervolino & Lady Bacardi Entertainment S.p.A.. To prepare the Consolidated Financial Statements, the financial statements of the investee company Iervolino Studios d.o.o. are converted into euros by applying to assets and liabilities the exchange rate in force at the end of the financial year and to the items of the Profit and Loss Account the average exchange rates of the financial year if they approximate the exchange rates in force at the date of the respective transactions.

The Group uses the direct consolidation method; the gain or loss reclassified to profit or loss upon disposal of a foreign subsidiary represents the amount that arises from using this method.

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

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

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

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

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

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

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

## **t) Recognition of costs**

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

## **2.4 Effects related to the covid-19 pandemic**

The effects of the covid-19 pandemic on the Group's activities and the effects on future activities are outlined below.

The effects of the Covid-19 pandemic were limited and essentially related to (i) an increase in non-recurring costs for smart-working production of approximately 941 thousand in FY 2021 (741 thousand in FY 2020), (ii) a cascade postponement of film productions and (iii) of the related deliveries, to which the Group responded from FY 2020 with a pre-release of some productions of the web series 'Arctic Friends' and 'Puffins' and revisiting financial planning.

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

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

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

### **Assessment of the existence of control, joint control and significant influence**

According to the provisions of IFRS 10, control is achieved when the Group is exposed to, or has the right to, the variable returns from its relationship with the investee and has the ability, through the exercise of power over the investee, to affect those returns. Power is defined as the current ability to direct the relevant activities of the investee under existing substantive rights.

The existence of control does not depend solely on the possession of a majority of voting rights but on the investor's substantive rights over the investee. Accordingly, management judgement is required to assess specific situations that give rise to substantial rights giving the Group the power to direct the relevant activities of the investee to influence its performance.

Management analyses all facts and circumstances to assess the control requirement, including agreements with other investors, rights arising from other contractual arrangements, and potential voting rights. These other facts and circumstances may be particularly relevant in the context of this assessment, especially in cases where the Group holds less than a majority of the investee's voting rights or similar rights.

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

Investments in associates are those in which the company exercises significant influence, i.e., those in which it has the power to participate in the determination of financial and operating policies without having control or joint control. In general, the Group is presumed to have significant influence when it holds an interest of at least 20% in the investee's capital.

To determine significant influence, management judgement is required to assess all facts and circumstances.

The Group reviews the existence of significant influence when facts and circumstances indicate that there has been a change in one or more of the elements considered for the test of significant influence.

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

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

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

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

Deferred tax assets are recognised for temporary deductible differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. A discretionary assessment is required of the directors to determine the number of deferred tax assets that may be recognised, depending on the estimated timing and amount of future taxable profits.

### **Application of IFRS 15**

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

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

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



## **Recognition of Cinema Tax Credit**

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

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

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

The Group has applied for the first time several standards or amendments that are effective from 1 January 2021. The Group has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective.

### **Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

The changes include the temporary easing of the requirements concerning the effects on the balance sheets when the interest rate offered in the interbank market (IBOR) is replaced by an alternative rate that is essentially risk-free (Risk-Free Rate - RFR):

The changes include the following practical expedients:

A practical expedient that allows contractual changes, or changes in cash flows that are directly required by the reform, to be considered and treated as changes in a variable interest rate, equivalent to a movement of an interest rate in the market;

Allow changes required by the IBOR reform to be made to the documentation for the designation of the hedging report without the hedging report having to be discontinued;

It provides temporary relief to entities to comply with separate identification requirements when an RFR is designated as a hedge of a risk component.

These changes have no impact on the Group's financial statements. The Group intends to use these practical expedients in future periods in which they are applicable.

## **2.7 Financial risk management**

### *Liquidity risk*

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

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

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

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

Lending institution	Type of loan	Interest rate	Amount disbursed	Year of start-up	Year of expiry	Within 1 year	Between 1 year and 5 years	After 5 years
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	102	172	-
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	101	181	-
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2023	128	135	-
Intesa San Paolo S.p.A.	Basket Bond	4.07%	8,000	2020	2027	735	7,265	-
Unicredit S.p.A.	Financing	Euribor 3M+spread 1.5%	3,000	2021	2023	-	3,000	-
Banca Ifis S.p.A.	Financing	Euribor 3M+spread 3.25%	3,000	2021	2026	600	2,400	-
Unicredit S.p.A.	Supply chain Basket Bond	2.55%	10,000	2021	2028	330	6,667	3,003
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.55%	4,200	2021	2026	-	4,200	-
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.44%	3,800	2021	2027	-	3,325	475
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.3%	2,100	2021	2027	-	1,706	394

The Group's gross exposure to the banking system amounts to Euro 44.6 million at 31 December 2021, while cash and cash equivalents amount to Euro 15.3 million.

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

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

#### *Foreign exchange rate risk*

The Group incurs a portion of its costs in US dollars and receives a portion of its revenues in US dollars. Therefore, the Group is exposed to the risk of devaluation of the Euro against the US dollar. However, it was not deemed appropriate to set up hedging instruments, as this risk is significantly reduced through direct remittance from the customer to the supplier.

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

#### *Interest Rate Risk*

The Group is exposed to marginal risks related to the volatility of interest rates linked to financing. In fact, the percentage of fixed-rate loans at 31 December 2021 is 52% of total loans.

The variable-rate loans are all indexed to the 3m Euribor, at its lowest.

#### *Credit risk*

The Group's commercial activities are considered to have a good credit quality. The risk of a counterparty defaulting on its outstanding obligations at 31 December 2021 is limited.

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

As at 31 December 2021, the percentage of total past due on trade receivables is 5%, and the percentage of allowance for doubtful accounts on total past due is 12%.

## Financial instruments by category

As required by IFRS 7, financial instruments are identified by category of the Group's assets and liabilities concerning the classification presented in the statement of financial position.

### 2021

	Receivables and other assets	AF/PF at amortised cost	AF/PF adjusted for fair value in the income statement	AF Adjusted for fair value change OCI	A/P not covered by IFRS 7	Total
	€/000	€/000	€/000	€/000	€/000	
Intangible assets	-	-	-	-	99,322	<b>99,322</b>
Trademark	-	-	-	-	358	<b>358</b>
Goodwill	-	-	-	-	75	<b>75</b>
Tangible assets	-	-	-	-	505	<b>505</b>
Deferred tax assets	-	-	-	-	8,958	<b>8,958</b>
Investments accounted for using the equity method	-	-	-	-	18	<b>18</b>
Other non-current assets	1,788	-	-	-	-	<b>1,788</b>
Trade receivables	18,759	-	-	-	-	<b>18,759</b>
Tax receivables	-	-	-	-	19,452	<b>19,452</b>
Current financial assets	2,154	-	-	9,916	-	<b>12,070</b>
Other current assets	-	-	-	-	12,953	<b>12,953</b>
Assets arising from contracts with customers	-	-	-	-	1,673	<b>1,673</b>
Cash and other liquid assets	3,246	-	-	-	-	<b>3,246</b>
<b>Total</b>	<b>25,947</b>	-	-	<b>9,916</b>	<b>143,314</b>	<b>179,177</b>
Total Shareholders' equity	-	-	-	-	85,579	<b>85,579</b>
Employee benefits	-	-	-	-	308	<b>308</b>
Deferred tax liabilities	-	-	-	-	109	<b>109</b>
Provisions for liabilities and charges	-	-	-	-	300	<b>300</b>
Non-current financial liabilities	-	32,940	-	-	-	<b>32,940</b>
Current financial liabilities	-	11,665	-	-	-	<b>11,665</b>
Trade payables	-	-	-	-	22,257	<b>22,257</b>
Tax payables	-	-	-	-	1,281	<b>1,281</b>
Contractual liabilities	-	-	-	-	16,484	<b>16,484</b>
Other current liabilities	-	-	-	-	8,254	<b>8,254</b>
<b>Total</b>	-	<b>44,605</b>	-	-	<b>134,572</b>	<b>179,177</b>

## 2020

	Receivables and other assets	AF/PF at amortised cost	AF/PF adjusted for fair value in the income statement	AF Adjusted for fair value change OCI	A/P not covered by IFRS 7	Total
	€/000	€/000	€/000	€/000	€/000	
Intangible assets	-	-	-	-	68,057	<b>68,057</b>
Trademark	-	-	-	-	359	<b>359</b>
Goodwill	-	-	-	-	75	<b>75</b>
Tangible assets	-	-	-	-	214	<b>214</b>
Deferred tax assets	-	-	-	-	6,289	<b>6,289</b>
Investments accounted for using the equity method	-	-	-	-	18	<b>18</b>
Other non-current assets	2,334	-	-	-	-	<b>2,334</b>
Trade receivables	16,787	-	-	-	-	<b>16,787</b>
Tax receivables	-	-	-	-	21,721	<b>21,721</b>
Current financial assets	-	-	-	4,348	-	<b>4,348</b>
Other current assets	-	-	-	-	3,590	<b>3,590</b>
Assets arising from contracts with customers	-	-	-	-	2,777	<b>2,777</b>
Cash and other liquid assets	3,513	-	-	-	-	<b>3,513</b>
<b>Total</b>	<b>22,634</b>	-	-	<b>4,348</b>	<b>103,100</b>	<b>130,082</b>
Total Shareholders' equity	-	-	-	-	67,041	<b>67,041</b>
Employee benefits	-	-	-	-	181	<b>181</b>
Deferred tax liabilities	-	-	-	-	117	<b>117</b>
Provisions for liabilities and charges	-	-	-	-	300	<b>300</b>
Non-current financial liabilities	-	18,108	-	-	-	<b>18,108</b>
Current financial liabilities	-	5,379	-	-	-	<b>5,379</b>
Trade payables	-	-	-	-	25,289	<b>25,289</b>
Tax payables	-	-	-	-	1,625	<b>1,625</b>
Contractual liabilities	-	-	-	-	2,980	<b>2,980</b>
Other current liabilities	-	-	-	-	9,062	<b>9,062</b>
<b>Total</b>	-	<b>23,487</b>	-	-	<b>106,595</b>	<b>130,082</b>

## Fair value

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

- › Level 1: quoted prices (unmodified) on active markets for identical assets or liabilities that the Company can access at the valuation date;
- › Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (such as prices) or indirectly (derived from prices);
- › Level 3: Inputs to the asset and liability not based on observable market data (unobservable inputs).

The group has designated financial assets at fair value through OCI the financial investments in investment funds in Note 13 - Current financial assets. As at 31 December 2021, the assets measured at fair value consisted of the investment in investment funds for Euro 9,916 thousand, whose fair value level is level 1.

### 3 Main changes in the scope of consolidation

During the period, the only change in the consolidation area was the incorporation of the company Arte Video LLC, 99% controlled by the Group company Arte Video S.r.l..

### 4 Operating sectors: Disclosure

For the purposes of IFRS 8 - Operating Segments, the Group's activities can be identified in three operating segments: (i) Film productions, including service activities (production activities carried out on behalf of third parties - the Group does not own the final Intellectual Property), post-production and distribution of productions produced internally and acquired from third party producers; (ii) Authoring, encoding & digital delivery activities (A, E & DD); (iii) and Celebrity management and ADV, communication & marketing consultancy (Celebrity Management).

The film production segment is the Group's core business. The parent company is a global production company specialised in the production of film and television content, from the preliminary assessment of the project to post-production, with Hollywood-style standing for the international market; for these characteristics, the customers of this operating segment are international sales agents or distributors located outside Italy

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

The Celebrity Management, casting and digital ADV content production segment relates to developing an in-house celebrity management agency and is developed by the subsidiary R.E.D. Carpet S.r.l..

The directors monitor the performance of the business units separately to make decisions on resource allocation and performance reviews. The performance of the segments is assessed based on the result, which is measured consistently with the result of the consolidated financial statements.

Values in thousands	Film Productions	A, E & DD	Celebrity Management	Not allocated	Financial Statements
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets:	99,230	92	-	-	99,322
Completed productions	40,168	-	-	-	40,168
Ongoing productions	22,732	-	-	-	22,732
Other rights	36,277	-	-	-	36,277
Other intangible activities	52	92	-	-	144
Trademark	-	-	358	-	358
Goodwill	-	70	4	-	75
Tangible assets	364	123	18	-	505
Deferred tax assets	8,837	-	121	-	8,958
Investments accounted for using the equity method	18	-	-	-	18
Other non-current assets	1,774	14	0	-	1,788
<b>Total non-current assets</b>	<b>110,223</b>	<b>299</b>	<b>503</b>	<b>-</b>	<b>111,024</b>
<b>Current assets</b>					
Trade receivables	17,435	310	1,013	-	18,759
Tax receivables	19,328	-	124	-	19,452
Current financial assets	11,670	-	400	-	12,070
Other current assets	12,943	-	10	-	12,953
Assets arising from contracts with customers	1,673	-	-	-	1,673
Cash and other liquid assets	2,875	-	371	-	3,246
<b>Total current assets</b>	<b>65,925</b>	<b>310</b>	<b>1,918</b>	<b>-</b>	<b>68,153</b>
<b>Total Assets</b>	<b>176,148</b>	<b>609</b>	<b>2,421</b>	<b>-</b>	<b>179,177</b>

<b>Total Shareholders' equity</b>	-	-	-	<b>85,579</b>	<b>85,579</b>
<b>Non-current liabilities</b>					
Employee benefits	243	5	60	-	308
Deferred tax liabilities	83	25	1	-	109
Provisions for liabilities and charges	300	-	-	-	300
Non-current financial liabilities	32,940	-	-	-	32,940
<b>Total non-current liabilities</b>	<b>33,566</b>	<b>30</b>	<b>60</b>	<b>-</b>	<b>33,656</b>
<b>Current liabilities</b>					
Current financial liabilities	11,661	-	4	-	11,665
Trade payables	20,775	93	1,389	-	22,257
Tax payables	791	-	491	-	1,281
Contractual liabilities	16,484	-	-	-	16,484
Other current liabilities	8,166	-	88	-	8,254
<b>Total current liabilities</b>	<b>57,877</b>	<b>93</b>	<b>1,972</b>	<b>-</b>	<b>59,942</b>
<b>Total liabilities</b>	<b>91,442</b>	<b>123</b>	<b>2,032</b>	<b>85,579</b>	<b>179,177</b>

Values in thousands	Film Productions	Digital Delivery	Celebrity Management	Not allocated	Financial Statements
Revenues	132,107	975	4,197	-	137,279
Other revenues and income	39	29	122	-	190
Tax Credit	14,850	-	0	-	14,850
<b>Total operating income and revenues</b>	<b>146,996</b>	<b>1,004</b>	<b>4,319</b>	<b>-</b>	<b>152,319</b>
	0				
Purchases of raw materials, consumables and mercha	205	60	13	-	277
Costs for services	5,459	519	3,848	-	9,826
Staff costs	2,952	43	451	-	3,446
Other operating costs	490	2	5	-	497
Amortisation, Write-downs and Provisions	114,756	8	7	-	114,771
<b>Operating Result</b>	<b>23,133</b>	<b>372</b>	<b>(4)</b>	<b>-</b>	<b>23,502</b>
	0				
Financial income	525	-	0	-	525
Financial charges	3,656	5	3	-	3,665
<b>Profit before tax</b>	<b>20,002</b>	<b>367</b>	<b>(7)</b>	<b>-</b>	<b>20,361</b>
	0		0		
Income tax	(1,858)	(64)	(12)	-	(1,934)
<b>Profit for the period</b>	<b>17,993</b>	<b>431</b>	<b>4</b>	<b>-</b>	<b>18,428</b>

## Note no. 5 Intangible Assets

The breakdown of Intangible Assets as at 31 December 2021, compared to the same values as at 31 December 2020, is shown below:

€/000	31-dic-21	31-dic-20	Changes
Completed productions	40,168	40,725	(557)
Ongoing productions	22,733	5,401	17,332
IP and Distribution Rights	36,277	21,806	14,471
Other intangible activities	144	124	20
<b>Total Intangible Assets</b>	<b>99,322</b>	<b>68,057</b>	<b>31,266</b>

Changes in intangible assets are shown below (the column for decreases includes not only amortisation for the year but also other decreases):

€/000	As at 31 December 2020	Increases	Changes in consolidation	Reclassifications	Reductions/Amortisation	As at 31 December 2021
Completed productions	40,725	108,854	-	2,375	(111,786)	40,168
Ongoing productions	5,401	19,706	-	(2,375)	-	22,733
IP and Distribution Rights	21,806	18,544	-	-	(4,073)	36,277
Other intangible activities	124	77	-	-	(57)	144
<b>Total Intangible Assets</b>	<b>68,057</b>	<b>147,180</b>	<b>-</b>	<b>-</b>	<b>(115,916)</b>	<b>99,322</b>

The Finished productions item includes the capitalisation of finished productions whose rights have been transferred to the client. These works refer to (i) the films The Poison Rose and Waiting for the Barbarians delivered in 2018 and 2019, respectively; (ii) 190 episodes of the web series Arctic Friends (15 episodes were delivered in 2018, 35 in 2019, 72 in 2020 and 68 in 2021); (iii) 129 episodes of the web series Puffins (20 episodes were delivered in 2019, 50 in 2020 and 59 in 2021) and 29 episodes of the web series Puffins delivered in 2021 in animatics mode; (iv) segments of the film Tell it Like a Woman (formerly Together Now) delivered in 2019, 2020 and 2021; (v) the film Eddie & Sunny delivered partly in 2020 and partly in 2021; (vi) the Vod Cast Giving Back Generation I delivered in 2019; (vii) the film Dakota delivered in 2021; (viii) the documentary on Salmo delivered in 2021 and (viii) other minor projects.

Below are details of the completed productions:

€/000	As at 31 December 2020	Increases 2021	Reductions/Amortisation 2021	Reclassifications	As at 31 December 2021
The Poison Rose	-	-	-	-	-
Waiting for the Barbarians	359	-	(180)	-	179
AF 2018 (15 episodes)- 2018	-	-	-	-	-
AF 2019 (35 episodes)- 2019	2,856	-	(2,855)	-	1
AF 2020 (72 episodes)- 2020	14,947	-	(14,947)	-	-
AF 2021 (68 episodes)- 2021	-	54,768	(43,617)	96	11,247
Rights AF	3,571	-	(3,009)	-	562
<b>Total AF</b>	<b>21,374</b>	<b>54,768</b>	<b>(64,428)</b>	<b>96</b>	<b>11,810</b>
Puffins 2019 (20 episodes)- 2019	3,341	-	(2,606)	-	735
Puffins 2020 (50 episodes)- 2020	7,728	-	-	-	7,728
Puffins 2021 (59 episodes)- 2021	-	35,457	(26,625)	41	8,873
Puffins 2021 - Animatics- (29 episodes) - 2021	-	11,274	(8,455)	-	2,819
Rights Puffins	3,331	-	(1,283)	-	2,048
<b>Total Puffins</b>	<b>14,400</b>	<b>46,731</b>	<b>(38,969)</b>	<b>41</b>	<b>22,203</b>
Eddie & Sunny	742	1,242	(944)	16	1,056
Tell it like a Woman	3,850	727	(2,037)	-	2,540
Giving Back Generation I	-	-	-	-	-
Dakota	-	5,071	(3,802)	-	1,269
WW Salmo	-	315	(315)	-	-
Other projects	-	-	(1,111)	2,222	1,111
<b>TOTAL</b>	<b>40,725</b>	<b>108,854</b>	<b>(111,786)</b>	<b>2,375</b>	<b>40,168</b>

The item Production in progress includes capitalising costs of films not completed in 2021.

Below are details of the current productions:

€/000	As at 31 December 2020	Increases 2021	Reductions/Amortisation 2021	Reclassifications	As at 31 December 2021
State of Consciousness	2,300	574	-	-	2,874
Tell it like a Women	-	-	-	-	-
In the Fire	-	727	-	-	727
Puffins 2022	-	1,531	-	-	1,531
Giving Back Generation II	-	1,633	-	-	1,633
Giving Back Generation III	-	1,635	-	-	1,635
MUTI	-	12,708	-	-	12,708
Other projects	3,101	898	-	(2,375)	1,624
<b>TOTAL</b>	<b>5,401</b>	<b>19,706</b>	<b>-</b>	<b>(2,375)</b>	<b>22,733</b>

The item 'Other rights' includes the capitalisation of costs incurred for acquiring distribution rights for films in Italy and abroad and of rights related to Intellectual Properties. Compared to the previous period, the increase in the item is mainly related to the acquisition of the rights to the films 'The Good Witch of Christmas', 'Vote for Santa', 'A Day with Santa', 'Detective Santa and 'Lamborghini'.

Details of other rights are given below:

€/000	As at 31 December 2020	Increases 2021	Reductions/Amortisation 2021	Reclassifications	As at 31 December 2021
Library	147	-	(37)	-	110
Arctic Justice Characters - IP	11,042	843	(1,189)	-	10,696
Lamborghini distribution rights	2,080	3,612	-	-	5,692
Distribution rights Arctic Justice film	2,039	538	(1,289)	-	1,288
Distribution rights Christmas Thieves	2,609	1,672	(1,233)	-	3,048
Distribution rights The Good Witch of Christmas	-	3,482	-	-	3,482
Distribution rights Vote for Santa	-	2,840	-	-	2,840
Distribution rights A Day with Santa	-	2,560	-	-	2,560
Distribution rights Detective Santa	-	2,753	-	-	2,753
Rights Puffins - IP	3,642	-	(325)	-	3,317
Other rights - IP	247	244	-	-	491
<b>TOTAL</b>	<b>21,806</b>	<b>18,544</b>	<b>(4,073)</b>	<b>-</b>	<b>36,277</b>

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

## Note no. 6 Trademark and Goodwill

Trademark and Goodwill derive from the difference between the prices paid for the acquisitions of controlling interests and the fair value of the net assets acquired at the date when control is essentially established. In particular, the Trademark relates to acquiring participation in R.E.D. Carpet S.r.l., and Goodwill for acquiring the shareholding in Arte Video S.r.l..



## Information on impairment testing of assets

### Scope

International Accounting Standard (IAS) 36 requires an assessment of impairment for tangible and intangible assets with a finite useful life when indicators indicate impairment may exist. In the case of goodwill and trademarks and any other intangible assets with indefinite useful lives, this impairment test is performed annually or more frequently upon the occurrence of extraordinary negative events implying a presumption of impairment, the so-called 'triggering events' - through the 'impairment test' process.

Since trademarks and goodwill are not, according to international accounting standards, assets in their own right as they cannot generate cash flows independently of other assets or groups of assets, they cannot be subject to an impairment test separately from the assets to which they relate. The brand and goodwill must be allocated to a 'CGU-Cash Generating Unit' or a group of CGUs, the maximum limit of aggregation coinciding with the notion of 'sector' in IFRS 8. As part of the impairment test for each year, the goodwill and brand acquired through the business combination were allocated to different and distinct cash-generating units to test for impairment. It should be noted that the CGUs identified essentially coincide with the operating sectors of authoring, encoding & digital delivery and Celebrity Management, casting and production of digital ADV content. While the CGU Celebrity Management, casting and production of digital ADV content also coincides with the company R.E.D.. Carpet S.r.l.; the CGU of authoring, encoding & digital delivery does not coincide with Arte Video S.r.l. (this company is divided, in addition to the A, E & DD sector, also into film productions).

Based on these premises, the Group then proceeded to verify the recoverability of the net invested capital of the CGUs identified (so-called Level I test) authoring, encoding & digital delivery and Celebrity Management, casting and production of digital ADV content.

### Evaluation system

The Group has performed impairment tests for both CGUs. The discount rate for cash flows (the so-called discount rate) coincides with the weighted average cost of capital (WACC). It was determined as a weighted average of the cost of equity.

The Capital Asset Pricing Model ('CAPM') method was used for the cost of equity (kE), the parameters of which were identified as follows: (i) The risk-free rate was calculated regarding the yield curve for Italian government bonds (BTPs with a maturity of ten years). The risk-free rate considered for Italy is, for 2021, equal to -2.77; (ii) for the estimation of the beta non-differentiable systemic risk coefficient, reference was instead made to the inputs elaborated by international practice (i.e. Damodaran), whose estimate is based on the average values of the sector. The value of the average  $\beta$  applied is 1.03; (iii) The equity risk premium has been estimated at 7.54%; (iv) An additional risk premium of 4% has been included due to the lack of diversification of the business portfolio and uncertainty about the expected market development.

The discount rate determined for the year is 8.98%.

The explicit projection of future cash flows was made on a 3-year plan in line with IAS 36. At the end of the explicit projection period, a Terminal Value was estimated by projecting in perpetuity a normalised annual cash flow and considering a constant annual growth rate (g) of the flows themselves equal to 5%, estimated considering the prudent appreciation of the potential future growth of the activity

beyond the explicit projection period, taking into account the need for the company to make the necessary investments to maintain a competitive advantage.

The impairment test results showed that the recoverable amount exceeds the carrying amount.

Finally, a sensitivity analysis was performed, which confirmed the negative results of the impairment test.

## Note no. 7 Tangible assets

Tangible assets amounted to Euro 506 thousand. The increase in the item compared to 31 December 2020, amounting to Euro 292 thousand, is mainly related to the investments made during the year in hardware instrumental to animated production.

## Note no. 8 Deferred tax assets

Deferred tax assets, amounting to Euro 8,958 thousand, consist of taxes calculated on temporary deductible differences arising from a mismatch between the carrying amounts in the financial statements and the corresponding amounts recognised for tax purposes. The composition of deferred tax assets at 31 December 2021, compared to the same at 31 December 2020, is shown below:

€/000	31-dic-21	31-dic-20	Changes
Amortisation of intangible fixed assets	7,335	5,523	1,812
Impairment of intangible assets	413	413	-
Other temporary differences	1,210	353	857
<b>Total Deferred tax assets</b>	<b>8,958</b>	<b>6,289</b>	<b>2,669</b>

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

Deferred tax assets have been recognised based on an estimate of the probable timing and amount of future taxable profits, as envisaged in the 2022-2024 business plan.

## Note no. 9 Investments accounted for using the equity method

Total investments in associated companies at 31 December 2021 amounted to EUR 18 thousand. This amount relates to the company Furuna Crafts d.o.o..

## Note no. 10 Other non-current assets

Other non-current assets amounted to Euro 1,788 thousand and are made up of the excess receivables for the year, mainly for the consideration paid to the Group by Tatatu S.p.A. and

connected with the consideration paid for the closure of the ADV business unit (Euro 1,089 thousand) and a trade receivable (Euro 641 thousand).

€/000	31-dic-21	31-dic-20	Changes
Trade receivables due after 2022	1,721	2,264	(543)
Prepaid expenses	-	32	(32)
Other non-current assets	67	38	29
<b>Total Other non-current assets</b>	<b>1,788</b>	<b>2,334</b>	<b>(546)</b>

## Note no. 11 Trade receivables

Trade receivables amounted to Euro 18,759 thousand. Details are given below:

€/000	31-dic-21	31-dic-20	Changes
Trade receivables from third party customers	18,737	16,787	1,950
Receivables from related parties	22	-	22
<b>Total trade receivables</b>	<b>18,759</b>	<b>16,787</b>	<b>1,972</b>

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

The following table shows the geographical breakdown of trade Receivables:

€/000	31-dic-21	31-dic-20	Changes
Receivables from domestic customers	10,584	5,486	5,098
Receivables from EU customers	14	-	14
Receivables from non-EU customers	8,161	11,301	(3,140)
<b>Total trade receivables</b>	<b>18,759</b>	<b>16,787</b>	<b>1,972</b>

The company makes a specific assessment of the risk of bad debt for each client. As at 31 December 2021, uncollectable receivables amounting to 132 thousand euros were identified.

€/000	31-dic-21	31-dic-20	Changes
Gross trade receivables	18,891	16,909	1,982
Provision for write-down of trade receivables	(132)	(122)	(10)
<b>Total trade receivables</b>	<b>18,759</b>	<b>16,787</b>	<b>1,972</b>

## Note no. 12 Tax receivables

The table below gives a breakdown of tax receivables at 31 December 2021 and 31 December 2020:

€/000	31-dic-21	31-dic-20	Changes
VAT credits	529	801	(272)
Film production tax credit	17,953	20,052	(2,099)
Self-distribution tax credit for cinema	929	520	409
IPO tax credit	-	209	(209)
IRES net advances	-	93	(93)
Other tax receivables	41	46	(5)
<b>Total tax assets</b>	<b>19,452</b>	<b>21,721</b>	<b>(2,269)</b>

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

## Note no. 13 Current financial assets

The item of Euro12,070 thousand mainly consists of financial investments made by the Group to optimise the management of uncommitted cash.

€/000	31-dic-21	31-dic-20	Changes
Financial investments in investment funds	9,916	4,348	5,568
Financial advance to ADS	1,346	-	1,346
Receivables from financial institutions for transfer of VAT credit 2020	796	-	796
Other current financial assets	12	-	12
<b>Total current financial assets</b>	<b>12,070</b>	<b>3,590</b>	<b>8,480</b>

The financial investments consist of investment funds, 85% of which are made up of bonds.

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

- › Level 1: quoted prices (unmodified) on active markets for identical assets or liabilities that the Company can access at the valuation date;
- › Level 2: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (such as prices) or indirectly (derived from prices);
- › Level 3: Inputs to the asset and liability not based on observable market data (unobservable inputs).

As at 31 December 2021, the assets valued at FVOCI consist of the investment in investment funds for EUR 9,916 thousand, whose fair value level is 1.

## Note no. 14 Other current assets

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

€/000	31-dic-21	31-dic-20	Changes
Advances to suppliers	278	150	128
Due from ADS	11,683	3,300	8,383
Receivables from Lazio Region	-	117	(117)
Other receivables	36	-	36
Prepaid expenses	956	23	933
<b>Total Other current assets</b>	<b>12,952</b>	<b>3,590</b>	<b>9,362</b>

The relationship with ADS is connected with the receivable from the Serbian company Archangel Digital Studios, a user of service activities by the company of the Iervolino Studios Group. This credit will be fully repaid in 2022.

## Note no. 15 Assets arising from contracts with customers

The item of 1,673 includes assets for work in progress related to service activities carried out mainly for the Lamborghini project. These activities are accounted for on a progress basis.

## Note no. 16 Cash and other liquid assets

The item of 3,246 includes the balance of cash and cash equivalents.

There are no cash and cash equivalents restrictions at 31 December 2021 and 31 December 2020.

## Note no. 17 Shareholders' equity

The breakdown of this item is shown below:

€/000	31-dic-21	31-dic-20	Changes
Share capital	1,401	1,401	-
Legal Reserve	497	497	-
Share premium reserve	16,491	16,491	-
Extraordinary Reserve	19,437	-	19,437
Other reserves	83	(27)	110
Profit/(Loss) carried forward	29,243	29,181	62
Profit/(loss) for the financial year	18,427	19,498	(1,071)
<b>Total Shareholders' Equity</b>	<b>85,579</b>	<b>67,041</b>	<b>18,539</b>
<i>of which minority equity</i>	-	-	-

### Share capital

At 31 December 2021, the share capital amounted to EUR 1,401 thousand, fully paid up, and consisted of 35,016,104 shares.

### Legal reserve

At 31 December 2021, the legal reserve amounted to Euro 497 thousand.

### Share premium reserve

At 31 December 2021, the share premium reserve consisted of:

- Listing the shares on the AIM Italia multilateral trading system is organised and managed by Borsa Italiana S.p.A. ('AIM Italy') concluded with the start of trading on 5 August 2019 (EUR 8,240 thousand);

- conversion of the bonds arising from the convertible bond 'Iervolino & Lady Bacardi Entertainment S.p.A. Convertible Bond 5% 2019' (Euro 707 thousand);
- issue of the automatically convertible bond 'Iervolino & Lady Bacardi Entertainment S.p.A. Convertendo 3% 2019' (Euro 7,251 thousand);
- Acquisition of the subsidiaries Arte Video S.r.l. and R.E.D. Carpet S.r.l. (euro 293 thousand).

## Other reserves

This item includes part of the allocation of the 2020 result.

## Other reserves

A breakdown of the item Other reserves at 31 December 2021 and 2020 is provided below:

€/000	31-dic-21	31-dic-20	Changes
Translation reserve	31	8	23
IAS 19 OCI reserve	(101)	(35)	(66)
OCI reserve Other components of comprehensive income	152	-	152
<b>Other reserves</b>	<b>83</b>	<b>(27)</b>	<b>110</b>

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

## Note no. 18 Non-current financial liabilities

A breakdown of the item Non-current financial liabilities at 31 December 2021 and 2020 is provided below:

€/000	31-dic-21	31-dic-20	Changes
Loans	15,961	10,281	5,680
Basket Bond	16,871	7,798	9,073
Other non-current financial liabilities	108	29	79
<b>Total non-current financial liabilities</b>	<b>32,940</b>	<b>18,108</b>	<b>14,832</b>

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

€/000								
Lending institution	Type of loan	Interest rate	Amount disbursed	Year of start-up	Year of expiry	Within 1 year	Between 1 year and 5 years	After 5 years
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	102	172	-
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2024	101	181	-
Banca Progetto	Financing	Euribor 1M+spread 5%	500	2019	2023	128	135	-
Intesa San Paolo S.p.A.	Basket Bond	4.07%	8,000	2020	2027	735	7,265	-
Unicredit S.p.A.	Financing	Euribor 3M+spread 1.5%	3,000	2021	2023	-	3,000	-
Banca Ifis S.p.A.	Financing	Euribor 3M+spread 3.25%	3,000	2021	2026	600	2,400	-
Unicredit S.p.A.	Supply chain Basket Bond	2.55%	10,000	2021	2028	330	6,667	3,003
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.55%	4,200	2021	2026	-	4,200	-
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.44%	3,800	2021	2027	-	3,325	475
Intesa San Paolo S.p.A.	Financing	Euribor 3M+spread 2.3%	2,100	2021	2027	-	1,706	394

The Basket Bond regulations provide, in particular, for specific economic-financial covenants relating

to compliance with predefined thresholds in terms of Net Financial Position/EBIT, Net Financial Position/Shareholders' Equity and EBIT/Gross Interest. As at 31 December 2021, these covenants have been met.

The net financial position at 31 December 2021 and 31 December 2020 is shown below:

<b>Net financial position - Euro thousands</b>	<b>31/12/2021</b>	<b>31/12/2020</b>
Cash and cash equivalents	(3,246)	(3,513)
Current financial assets	(12,070)	(4,348)
<b>Liquidity</b>	<b>(15,316)</b>	<b>(7,861)</b>
Current portion of non-current financial liabilities	1,996	366
Other current financial liabilities	9,669	5,012
<b>Current financial debt</b>	<b>11,665</b>	<b>5,378</b>
<b>Net current financial debt</b>	<b>(3,651)</b>	<b>(2,483)</b>
Non-current financial liabilities	32,940	18,108
<b>Non-current financial debt</b>	<b>32,940</b>	<b>18,108</b>
<b>NFP debt</b>	<b>29,289</b>	<b>15,625</b>

## Note no. 19 Current financial liabilities

Current financial liabilities as at 31 December 2021 amounted to Euro 11,665 thousand and consisted of the following:

€/000	31-dic-21	31-dic-20	Changes
Current portion of non-current financial liabilities	1,996	366	1,630
Other current financial liabilities	19	37	(18)
Current account overdraft	9,650	4,975	4,675
<b>Total current financial liabilities</b>	<b>11,665</b>	<b>5,378</b>	<b>6,287</b>

## Note no. 20 Trade payables

Trade payables amount to Euro 22,257 thousand, as shown in the following table:

€/000	31-dic-21	31-dic-20	Changes
Trade payables	22,257	25,289	(3,032)
Payables to related parties	-	-	-
<b>Total trade payables</b>	<b>22,257</b>	<b>25,289</b>	<b>(3,032)</b>

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

The following table shows the geographical breakdown of trade Payables:

€/000	31-dic-21	31-dic-20	Changes
National trade payables	13,823	10,738	3,085
Payables to EU suppliers	4,253	6,653	(2,400)
Non-UE Trade payables	4,181	7,898	(3,717)
<b>Total trade payables</b>	<b>22,257</b>	<b>25,289</b>	<b>(3,032)</b>

## Note no. 21 Taxes payable

The item Taxes payable includes payables related to IRES, IRAP and other taxes. The details are below.

€/000	31-dic-21	31-dic-20	Changes
Current tax liabilities	567	810	(243)
VAT payables from previous years	136	150	(14)
Sundry tax payables	578	665	(87)
<b>Total tax payables</b>	<b>1,281</b>	<b>1,625</b>	<b>(344)</b>

Among the tax payables as at 31 December 2021, the largest item is the one of euro 567 thousand related to current tax payables.

## Note no. 22 Contractual liabilities

As at 31 December 2021, contractual liabilities amounted to euro 16,484 thousand; details are shown below compared to the amounts as at 31 December 2020:

€/000	31-dic-21	31-dic-20	Changes
Contractual liabilities	16,484	2,980	13,504
<b>Total Contractual Liabilities</b>	<b>16,484</b>	<b>2,980</b>	<b>13,504</b>

Contractual liabilities arise from financial advances received on obligations to do something that will be fulfilled in the following period. In particular, contractual liabilities refer to advances related to the Muti, Giving Back Generation II and III, and In the Fire projects and to service activities carried out by the subsidiary Iervolino Studios d.o.o.. Concerning the portion of contractual liabilities relating to Iervolino Studios d.o.o., it should be noted that to comply with the more restrictive interpretations of IFRS 15.9, the item includes the suspension of revenues of Euro 4.3 million arising from production activities financed by ILBE, but not yet collected from the customer Archangel Digital Studios. Such revenues will be recognised in the income statement when ILBE collects such receivables. This is expected within the first quarter.

## Note no. 23 Other current liabilities

As at 31 December 2021, other current liabilities amounted to Euro 8,254 thousand; a breakdown is provided below compared to the amounts as at 31 December 2020:

€/000	31-dic-21	31-dic-20	Changes
Payables to staff	347	213	134
Deferred income	7,695	8,769	(1,074)
Other payables	212	80	132
<b>Total other current liabilities</b>	<b>8,254</b>	<b>9,062</b>	<b>(808)</b>

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



## Note no. 24 Revenues

Revenues amounted to a total of Euro 132,279 thousand and referred to the following operating segments:

€/000	31-dic-21	31-dic-20	Changes
Revenues Film productions	132,107	94,560	37,547
ADV Revenues	-	1,090	(1,090)
Revenues Celebrity Management, casting and digital ADV content production	4,197	897	3,300
Revenues from authoring, encoding & digital delivery	975	935	40
<b>Total Revenues</b>	<b>137,279</b>	<b>96,585</b>	<b>39,797</b>

Revenues from Film Productions are related: (i) licenses for the exploitation of Intellectual Property rights during the year (euro 81,941 thousand); (ii) licenses for 'pipeline' know-how (euro 30,220 thousand); (iii) licenses for the exploitation of characters (euro 6,891 thousand); (iv) revenues from services (euro 12,942 thousand); (v) other revenues (euro 114 thousand).

€/000	31-dic-21	31-dic-20	Changes
Revenues from sales of IP exploitation rights	81,941	85,112	(3,171)
Revenues from the sale of the Pipeline	30,220	4,688	25,532
Revenues from the sale of characters	6,891	1,645	5,246
Revenues from services	12,942	2,881	10,061
Other revenue	114	234	(120)
<b>Total Revenues</b>	<b>132,107</b>	<b>94,560</b>	<b>37,547</b>

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

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

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

No estimated revenues are recognised in the financial statements.

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

€/000	31-dic-21	31-dic-20	Changes
<b>Transfer of IP exploitation rights</b>	<b>81,941</b>	<b>85,112</b>	<b>(3,171)</b>
The Poison Rose	-	90	(90)
Artic Friends Web Series	42,366	55,902	(13,536)
Tell it like a Woman	2,420	3,630	(1,210)
Waiting for the barbarians	-	200	(200)
Eddie & Sunny	894	1,585	(691)
Puffins Web Series	31,962	23,705	8,257
Dakota	3,904	-	3,904
WW Salmo	394	-	394
<b>Concession of the Pipeline</b>	<b>30,220</b>	<b>4,688</b>	25,532
Artic Friends Web Series	30,220	4,688	25,532
<b>Character transfer</b>	<b>6,891</b>	<b>1,645</b>	5,246
Artic Friends and Puffins Web Series/Other IPs	6,891	1,645	5,246
<b>Services activities</b>	<b>12,942</b>	<b>2,881</b>	10,061
Puffins Impossible	10,767	2,881	7,886
Other services activities	2,175	-	2,175
Other revenue film productions	114	234	(120)
<b>Total Revenues Film productions</b>	<b>132,107</b>	<b>94,560</b>	<b>37,547</b>

Revenues are mainly from non-EU customers (Euro 92.7 million); the remainder is mainly from Italian customers.

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

## Note no. 25 Other income and revenues

As at 31 December 2021, Other revenues and income amounted to Euro 190 thousand. The sharp decrease compared to 31 December 2020 is related to the absence of transactions during the period involving the transfer of rights to receive income due to the economic exploitation of films.

€/000	31-dic-21	31-dic-20	Changes
Income from the sale of Backend rights	-	8,614	(8,614)
Other revenues	190	293	(103)
<b>Total Other Revenues and Income</b>	<b>190</b>	<b>8,907</b>	<b>(8,717)</b>

## Note no. 26 Tax Credits and other government grants

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

Tax credits and other government grants are detailed below:

€/000	31-dic-21	31-dic-20	Changes
<b>Tax Credit film productions</b>	<b>14,266</b>	<b>11,406</b>	<b>2,860</b>
The Poison Rose	-	338	(338)
Artic Friends Web Series (various seasons)	7,265	5,517	1,748
Tell it like a Woman	140	700	(560)
Waiting for the barbarians	460	995	(535)
Eddie & Sunny	331	674	(343)
Puffins Web Series (various seasons)	4,717	3,182	1,535
Dakota	1,236	-	1,236
WW Salmo	116	-	116
<b>R&amp;D Tax Credit</b>	<b>559</b>	<b>2,303</b>	<b>(1,744)</b>
Artic Friends Web Series	559	2,303	(1,744)
<b>Other government grants</b>	<b>26</b>	<b>637</b>	<b>(611)</b>
<b>Total Tax Credits and other government grants</b>	<b>14,851</b>	<b>14,346</b>	<b>505</b>

## Note no. 27 Costs for Services

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

€/000	31-dic-21	31-dic-20	Changes
ADV costs	-	541	(541)
Celebrity Management costs	3,361	643	2,718
Costs for offering service	1,808	412	1,396
Costs for digital delivery	151	314	(163)
Self-distribution costs	-	1,163	(1,163)
Business travel and transfers	316	138	178
Various administrative expenses	537	869	(332)
Bank fees	168	60	108
Technical expertise	371	318	53
Marketing costs	781	82	699
Insurance costs	89	41	48
Directors' fees	1,296	1,112	184
Rentals and leases	555	68	487
Fees of the Board of Statutory Auditors	40	60	(20)
Other purchases of services	353	183	170
<b>Total costs for services</b>	<b>9,826</b>	<b>6,004</b>	<b>3,822</b>

Compared to the previous period, the increase in the item is mainly due to the costs incurred i) for Celebrity Management activities related to the subsidiary R.E.D. Carpet S.r.l.; ii) for services offered during the year; iii) for marketing expenses mainly related to the promotion of animated web series.

## Note no. 28 Personnel costs

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

€/000	31-dic-21	31-dic-20	Changes
Salaries and wages	2624	1381	1,243
Social charges on wages and salaries	731	283	448
ESI Fund	91	65	26
<b>Total personnel costs</b>	<b>3,446</b>	<b>1,729</b>	<b>1,717</b>

The increase is related to the Group-wide recruitment plan that mainly concerned the subsidiary Iervolino Studios d.o.o..

## Note no. 29 Amortisation, write-downs and provisions

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

€/000	31-dic-21	31-dic-20	Changes
<b>Amortisation of intangible assets</b>	<b>114,683</b>	<b>90,346</b>	<b>24,337</b>
<i>Amortisation The Poison Rose</i>	-	1,447	(1,447)
<i>Artic Friends WS amortisation</i>	64,428	55,670	8,758
<i>Amortisation Puffins WS</i>	38,969	24,272	14,697
<i>Amortisation Waiting for the Barbarians</i>	180	3,302	(3,122)
<i>Amortisation Tell it like a Woman</i>	2,037	2,740	(703)
<i>Amortisation Eddie &amp; Sunny</i>	944	2,190	(1,246)
<i>Amortisation Dakota</i>	3,802	-	3,802
<i>Amortisation of other production</i>	1,111	-	1,111
<i>WW Amortisation Salmo</i>	315	-	315
<i>Amortisation other rights</i>	2,840	725	2,115
<i>Amortisation of other intangible assets</i>	57	-	57
			-
<b>Amortisation of tangible fixed assets</b>	<b>79</b>	<b>48</b>	<b>31</b>
<b>Amortisation of tangible and intangible fixed assets</b>	<b>114,762</b>	<b>90,394</b>	<b>24,368</b>
<b>Write-downs and Provisions</b>	<b>9</b>	<b>12</b>	<b>(3)</b>
<b>Total Amortisation Write-downs and provisions</b>	<b>114,771</b>	<b>90,406</b>	<b>24,365</b>

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

## Note no. 30 Financial income and charges

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

€/000	31-dic-21	31-dic-20	Changes
Foreign currency rate gains	522	1,124	(602)
Other financial income	3	3	-
<b>Total financial income</b>	<b>525</b>	<b>1,127</b>	<b>(602)</b>
Interest expense on loans	856	279	577
Amortised cost	265	63	202
Gains and losses on foreign exchange	1,877	1,340	537
Other financial charges	667	102	565
<b>Total financial charges</b>	<b>3,665</b>	<b>1,784</b>	<b>1,881</b>

## Note no. 31 Income tax

Income taxes are broken down as follows:

€/000	31-dic-21	31-dic-20	Changes
IRES (Corporate income tax)	4,135	4,039	96
IRAP	783	465	318
Taxes from previous years	(307)	(110)	(197)
Deferred taxes	(2,677)	(2,510)	(167)
<b>Total income tax</b>	<b>1,934</b>	<b>1,884</b>	<b>50</b>

The difference between the standard tax rate for IRES of 24% and the effective tax rate of 9% is mainly attributable to the combined effect of: (i) increase in amortisation of intangible assets for Euro 30.3 million; (ii) decrease in revenues from government grants for Euro 14.8 thousand; (iii) decrease in amortisation of intangible assets taxed in 2021 in the amount of Euro 23.1 million.

## Note no. 32 Earnings per share

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

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

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

€/000	31-dic-21	31-dic-20
Weighted average number of ordinary shares for basic earnings per share purposes	24,016	22,496
Operating profit	18,428	19,498
<b>Basic earnings per share (ordinary shares)</b>	<b>0.77</b>	<b>0.87</b>
<b>Bonds convertible into ordinary shares</b>	-	1,575
<b>Diluted earnings per share (ordinary shares)</b>	<b>0.77</b>	<b>0.81</b>

## Note no. 33 Other information

### 33.1 Transactions with related parties

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

€/000	Trade Receivables €/000	Other assets €/000	Trade payables €/000	Other liabilities €/000	Revenues €/000	Costs €/000
TATATU S.p.A.	-	1,721	-	-	-	-
<b>Total related party transactions</b>	<b>21</b>	<b>1,721</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>-</b>
<b>Total budget items</b>	<b>18,759</b>	<b>160,418</b>	<b>22,257</b>	<b>156,920</b>	<b>152,319</b>	<b>128,817</b>
<b>Weight on budget items</b>	<b>0%</b>	<b>1%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Transactions with related parties carried out with Tatatu S.p.A. during the period, amounting to Euro 33 thousand on the revenue side and Euro 22 thousand on the credit side, refer to services rendered by the subsidiary Arte Video S.r.l.. The outstanding credit balance with Tatatu S.p.A. of euro 1,721 thousand relates to a receivable due in 2023 for the consideration paid for the closure of the ADV business unit (euro 1,089 thousand) and a trade receivable (euro 641 thousand).

The Issuer's financial and economic transactions with related parties from 1 January 2020 to 31 December 2020 are set out below:

€/000	Trade Receivables €/000	Other assets €/000	Trade payables €/000	Other liabilities €/000	Revenues €/000	Costs €/000
TATATU S.p.A.	-	1,731	-	-	1,090	-
<b>Total related party transactions</b>	<b>-</b>	<b>1,731</b>	<b>-</b>	<b>-</b>	<b>1,090</b>	<b>-</b>
<b>Total budget items</b>	<b>16,876</b>	<b>113,295</b>	<b>25,289</b>	<b>37,752</b>	<b>120,735</b>	<b>98,695</b>
<b>Weight on budget items</b>	<b>0%</b>	<b>2%</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>	<b>0%</b>

Transactions carried out by the Group with related parties at market conditions concern the consideration paid by TATATU Enterprises Ltd (now TATATU S.p.A.) to Iervolino & Lady Bacardi Entertainment S.p.A. for the closure of the ADV business unit (euro 1,089 thousand) and a trade receivable (euro 641 thousand).

### 33.2 Amount of fees payable to the Auditing Firm

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

Euro thousands

Service	Party	Total
Legal and accounting audit as at 31 December 2021	EY S.p.A.	77
Limited audit of the half-yearly report as at 30 June 2021	EY S.p.A.	20
<b>Total</b>		<b>97</b>

### 33.3 Commitments and guarantees given by the Group

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

Euro thousands	31/12/2021
Guarantees given by the Group	3,517
Guarantees received by the Group	18,317
<b>Total guarantees given and received</b>	<b>21,833</b>

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

In compliance with the obligations of transparency of public disbursements introduced by art. 1, paragraphs 125-129 of Law no. 124/2017, it should be noted that concerning the tax credits for independent producers of audiovisual works referred to in art. 8, paragraph 2, of Decree-Law no. 91 of 8 August 2013 and Ministerial Decree of 5 February 2015, and DM Tax Credit 15/03/2018 referred to art. 15 and 16 of Law no. 220 of 14 November 2016, below is the detail of the tax credit accrued in the year 2019, 2020 and 2021:

Euro thousands		Tax credit accrued in	Tax credit accrued in	Tax credit accrued in
Granting body	Title of the work	2021	2020	2019
Mibact	Tell it like a women	-	-	2,620
Mibact	Arctic Friends web series (various seasons)	5,908	6,177	3,986
Mibact	Puffins web series (various seasons)	5,348	3,971	2,181
Mibact	Waiting for the Barbarians	-	520	4,187
Mibact	Eddie & Sunny	-	1,233	-
<b>Total</b>		<b>11,256</b>	<b>11,901</b>	<b>12,974</b>

### 33.5 Events after the balance sheet date

#### Acquisition of 60% of Sobe Sport S.r.l.

In February 2022, ILBE signed an agreement to acquire 60% of SoBe Sport S.r.l., a reference point for communication and marketing in the field of sports for professional athletes and coaches.

Sobe Sport offers services of sponsorship and management of image rights, brand identity, social media and marketing, web design, communication and press office; it is a fast-growing company that for the year 2021 expects to achieve total revenues of approximately Euro 2 million (+58% compared to the previous year and + 39% compared to 2019) and an EBITDA of approximately Euro 380 thousand (+78% compared to the previous year and + 26% compared to 2019). The expected net working capital at the end of 2021 is approximately EUR 410 thousand, and the net financial position is positive by approximately EUR 50 thousand.

With the acquisition of SoBe Sport, ILBE will expand its range of services in the areas of celebrity management and consultancy in ADV, communication & marketing. In fact, important business synergies are expected with the subsidiary Red Carpet, which has been operating in communication and entertainment since 2008 through three lines: celebrity management activities; ADV, communication & marketing consultancy; and original production, documentaries and series. Together with SoBe Sport founder Gian Luca Voulaz, who has been confirmed at the company's helm, new development strategies are also expected in international markets, starting with the World Cup in Qatar.

The agreement provides for a cash consideration of Euro 658,000 for a representative share of 31.38% of SOBE Sport's share capital, as well as the assignment to the seller (the Company's founder Gian Luca Voulaz) of ILBE's ordinary shares for a total value, including share premium, of Euro 600,000 for a representative share of 28.62% of SOBE Sport's share capital, following an earmarked capital increase. The number of such shares will be determined by reference to the official stock exchange price in the period preceding the transaction. The acquisition of 60% of SoBe Sport will be finalised within the first six months of 2022.

The agreement also provides for call and put options for ILBE and the seller, respectively, for the purchase of the remaining 40% share, for a total value of Euro 1,000,000, which ILBE may exercise over a period of two years from the date of execution, while the seller may exercise from 1 July 2023 until 30 September 2023. The options provide that 40% of the transaction will be settled in cash, while the remaining 60% will be settled through the contribution in kind of the remaining stake in the Company. The shares to be received by the seller will be determined by reference to the volume-weighted average unit price of the shares before the transaction.

#### Russian-Ukrainian crisis

In late February 2022, Russia announced a military operation in the Donbass, initiating an invasion of Ukraine. The European Union, the United States and other countries have adopted a series of restrictive measures against the Russian Federation in response to Moscow's decision to recognise the self-proclaimed Donetsk and Luhansk Republics and to carry out military operations in Ukraine.

The Group has no past or anticipated exposure to the Russian market.

### **33.6 Transactions arising from atypical and/or unusual operations**

No atypical and/or unusual transactions were carried out in the period between 31/12/2020 and 31/12/2021.





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

**Consolidated financial statements as at December 31, 2021**

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

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

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

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Group Iervolino & Lady Bacardi Entertainment (the Group), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis for Opinion

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

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

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

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

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

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

## **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

## Report on compliance with other legal and regulatory requirements

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

The Directors of Iervolino & Lady Bacardi Entertainment S.p.A. are responsible for the preparation of the Report on Operations of Group Iervolino & Lady Bacardi Entertainment as at December 31, 2021, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Iervolino & Lady Bacardi Entertainment Group as at December 31, 2021 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of Iervolino & Lady Bacardi Entertainment Group as at December 31, 2021 and comply with the applicable laws and regulations.

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

Rome, March 30, 2022

EY S.p.A.

Signed by: Andrea Eronidi, Auditor

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