



Annual Financial Report of Iervolino & Lady Bacardi Entertainment S.p.A. as at 31 December 2021

IERVOLINO & LADY BACARDI ENTERTAINMENT S.P.A.

Registered Office: Via Barberini n. 29 - 00187 - ROME

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REPORT ON THE MANAGEMENT OF IERVOLINO & LADY BACARDI ENTERTAINMENT S.P.A. FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2021

1. Introduction

The financial statements for the year ended 31 December 2021 of Iervolino & Lady Bacardi Entertainment (from now on also referred to as ILBE or the Company) 2021 closed with total revenue of Euro 147,758 thousand, an increase of Euro 30,753 thousand compared to 2020 (+26%).

EBIT for the 2021 financial year, before certain non-recurring expenses of Euro 941 thousand, was Euro 26,810 thousand, an increase of Euro 5,119 thousand compared to the same period in 2020 (+24%).

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 programming rights of 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.

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

Following the resolution of the shareholders' meeting of June 23rd, the Company changed its name to 'Iervolino & Lady Bacardi Entertainment S.p.A.', abbreviated to 'ILBE S.p.A.', to increase its focus on foreign markets. It is within this framework, in fact, that the decision to include the name of Lady Monika Bacardi, an important name at the international level, is inserted: a woman entrepreneur, our largest shareholder and producer of all our projects, who has always strongly believed in the Company.

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.

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 company's activities

Taking the macroeconomic effects and market trends described above into context, the following illustrates the effects on the company.

a) Assets in the 2021 financial year

With reference to the restrictions related to the outbreak of the Covid-19 pandemic, the ILBE'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'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 Company's core business, there are immediate expectations of increased growth opportunities.

3. The ILBE's business model

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

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

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

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

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

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

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

- ✓ Revenues deriving from 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. These investments also have the indirect benefit of enhancing the value and commercialisation of the IP owned and, therefore, the possibility of creating new lines of business through the commercial exploitation of the same, such as merchandising or video games.

It should also be noted that the latter transactions are generally part of overall agreements with producers that also provide for significant investments by the Company in distribution rights for the works to be produced. While this quantitatively and qualitatively increases the

Company's library of distribution rights, which will have a financial manifestation in terms of receipts in future years, it also has a significant financial absorption that reduces the net receipts from 'service' activities that also involve the 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.

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 € 47,454 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 'Actic-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 Westhuisen ('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 15.1 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 50.9 million, including the 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. Services activities also refer to intercompany services in the amount of Euro 10.8 million.

5. Backlog and projects in development

Backlog

At the date of approval of the 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 Company 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 Company 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 167.1 million.

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

Production activities

The activities of the ILBE as a producer over the next three years are currently estimated at a total of 73 million euros, broken down as follows:

- ✓ Audiovisual projects in development in which the Company has decided to invest since the current financial year. To date, some 10 projects are under development for an estimated Euro 46.7 million to be developed over the next three years.
- ✓ Feature film projects. To date, about three projects are under development for an estimated Euro15.6 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 Euro 10.7 million to be developed over the next three years.

Service activities (executive production) and licensing

The activities of the ILBE as a service provider, including IP licensor, to a third party producer, are currently estimated at a total of Euro 94.1 million for the next three years, broken down and are related to IP service and licensing projects for national and international customers.

6. Summary data and alternative performance indicators (APIs)

The summary data illustrated in this management report refer to ILBE's 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 financial statements for the year ended 31 December 2021.

In addition, to facilitate understanding of the Company's economic and financial performance, several alternative performance indicators (the 'Alternative Performance Indicators' or 'APIs')

illustrating the operating performance achieved have also been represented.

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

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

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

	31/12/2021	31/12/2020	Changes	Change %
Revenues	147,757,608	117,004,303	30,753,305	26%
Operating costs	4,001,763	4,539,375	(537,612)	-12%
Staff costs	945,052	704,093	240,959	34%
Amortisation, write-downs, and provisions	116,000,585	90,069,900	25,930,685	29%
EBIT	26,810,208	21,690,936	5,119,272	24%
EBIT margin %	18%	19%	N.A.	-1%
Non-recurring charges (classified in the balance sheet under amortisation)	941,000	740,747	200,253	27%
EBIT net of non-recurring costs	25,869,208	20,950,189	4,919,019	23%
Net financial charges	(3,029,711)	(668,776)	(2,360,935)	>100%
Pre-tax result	22,839,497	20,281,413	2,558,084	13%
Taxes	(2,092,484)	(1,593,382)	(499,102)	31%
Net profit for the period	20,747,013	18,688,030	2,058,983	11%

The reclassified balance sheet is shown below:

	31/12/2021	31/12/2020
Assets		
Non-current assets		
Intangible assets	94,616,763	62,042,563
Tangible assets	119,467	5,112
Deferred tax assets	7,928,690	6,096,330
Equity investments in subsidiaries	6,776,412	5,686,412
Other non-current assets	1,774,103	2,322,662
Total non-current assets	111,215,435	76,153,079
Current assets		
Trade receivables	17,223,597	16,876,138
Tax receivables	19,909,672	21,661,629
Current financial assets	12,070,002	4,348,355
Other current assets	14,549,325	3,545,484
Cash and other liquid assets	2,545,166	2,860,150
Total current assets	66,297,762	49,291,757
Total Assets	177,513,197	125,444,837

Shareholders' equity	87,486,457	66,611,902
Non-current liabilities		
Employee benefits	158,890	86,974
Provisions for liabilities and charges	300,000	300,000
Non-current financial liabilities	32,831,086	18,078,170
Total non-current liabilities	33,289,976	18,465,144
Current liabilities		
Current financial liabilities	11,599,988	5,351,441
Trade payables	19,190,134	26,058,952
Tax payables	855,071	581,544
Contractual Liabilities	17,171,241	2,847,110
Other current liabilities	7,920,330	5,528,745
Total current liabilities	56,736,764	40,367,791
Total liabilities	177,513,197	125,444,837

The main balance sheet and financial indicators are shown below:

Key balance sheet and financial indicators	31/12/2021	31/12/2020
Intangible fixed assets	94,616,763	62,042,563
Property, plant and equipment	119,467	5,112
Other non-current assets	16,479,205	14,105,404
Fixed assets	111,215,435	76,153,079
Receivables from clients	17,223,597	16,876,138
Payables to clients	(19,190,133)	(26,058,952)
Other current assets/(liabilities)	8,512,354	16,249,714
CCN	6,545,818	7,066,901
Post-employment benefits	(158,890)	(86,974)
Other non-current liabilities	(300,000)	(300,000)
CIN	117,302,363	82,833,007
Shareholders' equity	87,486,457	66,611,902
Cash and cash equivalents	(2,545,166)	(2,860,150)
Financing assets	(12,070,002)	(4,348,355)
Financial liabilities	44,431,074	23,429,611
NFP	29,815,906	16,221,105
Sources of Finance	117,302,363	82,833,007

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

	31/12/2021	31/12/2020
A - Net cash flow provided by/(used in) operating activities	105,822,317	67,369,289
B - Net cash flow provided by/(used in) investing activities	(126,707,362)	(87,619,122)
C - Net cash flow generated/(absorbed) by financing activities	20,570,061	15,158,126
D - Total cash flow generated/(absorbed) in the period (A+B+C)	(314,984)	(5,091,706)
E - Cash and cash equivalents at the beginning of the period	2,860,150	7,951,856
F - Cash and cash equivalents at the end of the period (D+E)	2,545,166	2,860,150

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.

Details of the NFP are shown below:

Net financial position - Euro	31/12/2021	31/12/2020
Cash and cash equivalents	(2,545,166)	(2,860,150)
Current financial assets	(12,070,002)	(4,348,355)
Liquidity	(14,615,168)	(7,208,506)
Current portion of non-current financial liabilities	1,696,013	366,000
Other current financial liabilities	4,952,975	4,985,441
Other current intercompany financial payables	4,951,000	-
Current financial debt	11,599,988	5,351,441
Net current financial debt	(3,015,180)	(1,857,065)
Non-current financial liabilities	32,831,086	18,078,170
Non-current financial debt	32,831,086	18,078,170
NFP debt	29,815,906	16,221,105

Operating performance and financial results

The 2021 financial year closed with a net profit of Euro 20,747 thousand, an increase of 11% compared to that of the same period of 2020 of Euro 18,688 thousand.

From a management perspective, the year recorded an EBIT before non-recurring expenses of Euro 26,810 thousand, which shows an increase of 24% compared to the same period of 2020 of Euro 21,691 thousand.

EBIT in 2021 represents 18% (19% in FY2020) of total revenue of EUR 147,758 thousand (EUR 117,004 thousand in FY2020).

The result mainly derives from the licence 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 amounting to Euro 42,582 thousand (including government grants), as well as intercompany revenues of Euro 10.8 million and other services revenues of Euro 0.7 million.

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 47,454 thousand), Puffins (Euro 36,254 thousand), Dakota (Euro 5,141 thousand).

Revenues from the licence 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 totalled Euro 39,422 thousand (Euro 6,554 thousand in 2020).

From a financial point of view, the Company's net invested capital is mainly represented by intangible assets (films, intellectual properties and others) amounting to Euro 94,617 thousand (Euro 62,043 thousand in the previous financial year); other fixed assets amount to Euro 16,599 thousand (Euro 14,111 thousand in the previous financial year), while net working capital is positive at Euro 6,546 thousand (Euro 7,067 thousand in the previous financial year). Other non-current liabilities and severance pay amounted to Euro 459 thousand (Euro 387 thousand in the previous year).

The resulting net invested capital amounts to Euro 117,302 thousand, increased by Euro 34,469 thousand compared to the balance at 31 December 2020 of Euro 82,833 thousand and is financed by the net financial position of Euro 29,816 thousand (Euro 16,221 thousand at 31

December 2020) and by the shareholder's equity of Euro 85,486 thousand (Euro 66,612 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 2,545 thousand, down by Euro 315 thousand compared to the balance at the beginning of the period of Euro 2,860 thousand.

Adding the net difference between financial assets and liabilities to the cash and cash equivalents balance, the net financial position at 31 December 2021 presents a debit balance of Euro 29,816 thousand, an increase of Euro 13,595 thousand compared to that of the balance at 31 December 2020 of Euro 16,221 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 315 thousand consists of flows generated by financing activities for Euro 20,570 thousand 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 preparatory activities for future new productions for a total of Euro 126,707 thousand, which are higher than the flows generated by operating activities of Euro 105,822 thousand.

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

	Trade Receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,721	-	-	-	-
Arte Video S.r.l.	-	1,154	2,884	4,551	2,540	-
Wepost S.r.l. (formerly Iexchange S.r.l.)	-	6	-	-	-	-
R.E.D. Carpet S.r.l.	271	7	-	400	304	-
Iervolino Studios d.o.o.	1,474	-	-	5,025	10,629	-
Total related party transactions	1,745	2,888	2,884	9,976	13,473	-
Total budget items	17,224	160,290	19,190	158,323	147,758	121,888
Weight on budget items	10%	2%	15%	6%	9%	0%

The credit balance with Tatatu S.p.A. of euro 1,721 thousand refers 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).

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

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

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

8. Human Resources

The ILBE has a structure of about 12 permanent employees plus some contracted resources. In addition, some professionals have an ongoing relationship with the ILBE 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 4,909 thousand in 2020, contributed total revenues of euro 32,531 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 45,976 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 45,976 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'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, ILBE constantly monitors management flows to finance working capital and monitor the monetisation of the realised EBIT, which takes place a few months after the delivery of the audiovisual work and is appropriately financed and guaranteed by/to the banking system.

Foreign exchange rate risk

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

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

Interest Rate Risk

The 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 cyclical nature of the sector

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

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

Credit risk

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

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

On July 27th, 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 Company 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 Company 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 Allyn.

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.

This should be seen in this context 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



Financial Statements and Notes

31 December 2021

INDICATOR

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Statement of the financial position

As at 31 December 2021 - values in euro

	Notes	31-dic-21	of which related parties	31-dic-20	which related parties
Assets					
Non-current assets					
Intangible assets:	Note 4	94,616,763	-	62,042,563	-
Completed productions		41,162,838	-	41,104,286	-
Ongoing productions		22,813,408	-	5,404,572	-
IP and Distribution Rights		30,592,517	-	15,533,706	-
Other intangible activities		48,000	-	-	-
Tangible assets	Note 5	119,467	-	5,112	-
Deferred tax assets	Note 6	7,928,691	-	6,096,330	-
Investments in subsidiaries	Note 7	6,776,412	-	5,686,412	-
Other non-current assets	Note 8	1,774,102	1,721,270	2,322,662	1,731,270
Total non-current assets		111,215,435	1,721,270	76,153,079	1,731,270
Current assets					
Trade receivables	Note 9	17,223,597	1,744,815	16,876,138	939,860
Tax receivables	Note 10	19,909,672	-	21,661,629	-
Current financial assets	Note 11	12,070,002	-	4,348,355	-
Other current assets	Note 12	13,206,593	1,167,178	3,545,484	3,300,000
Assets arising from contracts with customers	Note 13	1,342,732	-	-	-
Cash and other liquid assets	Note 14	2,545,166	-	2,860,150	-
Total current assets		66,297,762	2,911,993	49,291,757	4,239,860
Total Assets		177,513,197	4,633,263	125,444,837	5,971,130
Shareholders' Equity					
Share Capital	Note 15	1,400,644	-	1,400,644	-
Legal reserve	Note 15	496,996	-	496,996	-
Extraordinary reserve	Note 15	18,688,030	-	-	-
Other reserves	Note 15	16,598,261	-	16,470,718	-
Profit/ (Loss carried forward)	Note 15	29,555,513	-	29,555,513	-
Profit (loss) for the year	Note 15	20,747,013	-	18,688,030	-
Total Shareholders' equity		87,486,457	-	66,611,902	-
Non-current liabilities					
Employee benefits		158,890	-	86,974	-
Provisions for liabilities and charges		300,000	-	300,000	-
Non-current financial liabilities	Note 16	32,831,086	-	18,078,170	-
Total non-current liabilities		33,289,976	-	18,465,144	-
Current liabilities					
Current financial liabilities	Note 17	11,599,988	4,951,000	5,351,441	-
Trade payables	Note 18	19,190,134	2,884,308	26,058,952	8,354,609
Tax payables	Note 19	855,071	-	581,544	-
Contractual liabilities	Note 20	17,171,241	5,025,000	2,847,110	-
Other current liabilities	Note 21	7,920,330	-	5,528,745	-
Total current liabilities		56,736,764	12,860,308	40,367,791	8,354,609
Total liabilities		177,513,197	12,860,308	125,444,837	8,354,609

Statement of comprehensive income

as at 31 December 2021 - values in euro

	Notes	31-dic-21	of which related parties	31-dic-20	of which related parties
Revenues	Note 22	132,714,759	13,168,562	93,099,954	1,311,659
Other revenues and income	Note 23	308,692	304,348	9,557,893	717,100
Tax credits and other government grants	Note 24	14,734,157	-	14,346,456	-
Total operating income and revenues		147,757,608	13,472,910	117,004,303	2,028,759
Purchases of raw materials, consumables and merchandise		29,825	-	22,101	-
Costs for services	Note 25	3,552,974	-	4,415,043	4,762
Staff costs	Note 26	945,052	-	704,093	-
Other operating costs		418,964	-	102,230	-
Amortisation, write-downs, and provisions	Note 27	116,941,585	-	90,810,647	-
Operating Result		25,869,208	13,472,910	20,950,189	2,023,997
Financial income	Note 28	338,095	-	1,026,568	-
Financial charges	Note 28	3,367,806	-	1,695,344	-
Profit before tax		22,839,497		20,281,412	-
Income tax	Note 29	(2,092,484)		(1,593,382)	-
Operating profit		20,747,013		18,688,030	-
Other comprehensive income components that may be reclassified subsequently to profit/(loss) for the year net of taxation		152,179	-	-	-
Other comprehensive income components that will not be subsequently reclassified to profit/(loss) for the year net of taxation		(24,637)	-	(20,000)	-
Re-measurement of net employee benefit liabilities/assets		(24,637)	-	(20,000)	-
Total comprehensive profit/(loss) after tax		20,874,555	-	18,668,030	-
Basic earnings per share (ordinary shares)	Note 30	0.86	-	1.84	-
Diluted earnings per share (ordinary shares)	Note 30	0.86	-	1.61	-

Statement of changes in equity

as at 31 December 2021 - values in euro

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other Reserves	Capital contribution payment	Profit/(Loss) carried forward	Profit/(loss) for the financial year	Total Shareholders' equity
Balance as at 1 January 2021		1,400,644	496,996	-	16,490,718	(20,000)	-	29,555,513	18,688,030	66,611,901
Profit/(loss) for the financial year	Note 15	-	-	-	-	-	-	-	20,747,013	20,747,013
Allocation of the 2020 result	Note 15	-	-	18,688,030	-	-	-	-	(18,688,030)	-
OCI changes	Note 15	-	-	-	-	127,543	-	-	-	127,543
Balance as at 31 December 2021		1,400,644	496,996	18,688,030	16,490,718	107,543	-	29,555,513	20,747,013	87,486,457

as at 31 December 2020 - values in euro

	Notes	Share capital	Legal reserve	Extraordinary reserve	Share premium reserve	Other Reserves	Capital contribution payment	Profit/(Loss) carried forward	Profit/(loss) for the financial year	Total Shareholders' equity
Balance as at 1 January 2020		1,334,801	496,996	-	16,262,562	-	-	9,306,384	20,249,129	47,649,872
Profit/(loss) for the financial year		-	-	-	-	-	-	-	18,688,030	18,688,030
Allocation of the 2019 result		-	-	-	-	-	-	20,249,129	(20,249,129)	-
Capital increase 'Arte Video' operation		1,200	-	-	145,800	-	-	-	-	147,000
Capital increase 'RED Carpet' operation		1,050	-	-	145,950	-	-	-	-	147,000
Capital increase converted bonds		63,593	-	-	(63,593)	-	-	-	-	-
OCI changes		-	-	-	-	(20,000)	-	-	-	(20,000)
Balance as at 31 December 2020		1,400,644	496,996	-	16,490,718	(20,000)	-	29,555,513	18,688,030	66,611,902

Cash flow statement

as at 31 December 2021 - values in euro

	Notes	31-dic-21	31-dic-20
Operating profit for the year before tax		22,839,497	20,281,413
Income Tax	Note 29	(2,092,484)	(1,593,382)
Adjustments to reconcile pre-tax profit with net cash flows:			
Amortisation of intangible assets and property, plant and equipment	Note 27	116,941,585	90,810,647
Net exchange rate changes		-	239,472
Financial income		(2,742)	(2,094)
Financial charges		1,720,597	431,398
Provisions (Utilisations) to staff-related funds		47,279	30,656
Other non-monetary items		-	-
Cash flow generated by operations		139,453,732	110,198,109
Change in working capital:			
Change in trade credits		(20,970,928)	3,324,084
Change in trade payables		(17,829,455)	(26,208,241)
Change in other receivables and other assets		(10,860,949)	(8,081,399)
Change in other payables and other liabilities		21,514,699	(5,324,510)
Interest paid		(961,486)	(829,981)
Income tax paid		(4,523,296)	(5,708,773)
A - Net cash flow provided by/(used in) operating activities		105,822,317	67,369,289
Investments in intangible and tangible assets		(118,047,894)	(82,326,011)
Investments in financial assets (participations)		(1,090,000)	(944,756)
Investments in other financial assets		(7,569,468)	(4,348,355)
B - Net cash flow provided by/(used in) investing activities		(126,707,362)	(87,619,122)
Mortgages and loans taken out in the period		30,998,539	21,665,487
Loans and borrowings repaid in the period		(10,428,478)	(6,507,361)
C - Net cash flow generated/(absorbed) by financing activities		20,570,061	15,158,126
D - Total cash flow generated/(absorbed) in the period (A+B+C)		(314,984)	(5,091,706)
E - Cash and cash equivalents at the beginning of the period		2,860,150	7,951,856
F - Cash and cash equivalents at the end of the period (D+E)		2,545,166	2,860,150

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

Notes to the financial statements

1. Company information

The publication of the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. (formerly Iervolino Entertainment S.p.A.) for the period ended 31 December, 2021 was authorised by the Board of Directors on 24 March 2022. Following the resolution of the shareholders' meeting of June 23rd, the Company changed its name from Iervolino Entertainment S.p.A. in 'Iervolino & Lady Bacardi Entertainment S.p.A.'.

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

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

Information on related party transactions is presented in Note 31.1

2. Main accounting principles

2.1 Drafting principles

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

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

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

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

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

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

Statement of Comprehensive Income: is prepared following the 'by nature' format and shows the 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).

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

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

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

2.2 Summary of the main accounting principles

a) 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 Company 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.

b) 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.

c) Financial assets

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

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

costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as explained in paragraph m) Revenue.

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

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

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

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

Subsequent evaluation

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Cancellation

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

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

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

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

Impairment of financial assets

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

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

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

d) Investments in subsidiaries

Equity investments in subsidiaries are valued at purchase cost. In the presence of objective evidence of impairment, recoverability is verified by comparing the equity investment's carrying value to the related recoverable value, represented by the greater of the fair value and the value of use. The latter is determined by discounting the expected cash flows from the equity investment; in the absence of different evidence, the value in use is at least equal to the consolidated shareholders' equity. The investing company's share of any losses of the investee, exceeding the carrying amount of the equity investment, is recognized in a special provision to the extent that the investing company is committed

to fulfilling legal or implicit obligations of the investee, or in any case, to cover its losses.

e) 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 Company's financial liabilities include trade and other payables, mortgages and loans, including overdrafts.

Subsequent evaluation

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

Assets and liabilities at amortised cost

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

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

Cancellation

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

Clearing of financial instruments

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

f) Impairment of non-financial assets

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

generated by other assets or groups of assets. If the carrying amount of an asset is greater than its recoverable amount, the asset is impaired and written down to its recoverable amount accordingly.

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

The Company bases its impairment test on the most recent budgets and forecast calculations, prepared separately for each of the Company'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 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 Company assesses whether any indicators previously recognised impairment losses have ceased to exist (or have decreased) and, if such indicators exist, estimates the recoverable amount of the asset or CGU. The value of a previously impaired asset may be reinstated only if there has been a change in the assumptions underlying the calculation of the determined recoverable amount since the last impairment loss was recognised.

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

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

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

Goodwill impairment cannot be reversed in future periods.

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

g) 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 Company's cash management.

h) Pension funds and other post-employment benefits

The Company provides its employees with benefits that will be paid on termination of employment through defined benefit pension plans. Defined benefit pension plans, which include the termination benefits payable to employees of Italian companies under Article 2120 of the Civil Code, are based on the working life of employees and the remuneration received by them over a predetermined period of service. Specifically, the liability relating to staff termination benefits is recognised in the balance sheet based on its actuarial value, as it qualifies as an employee benefit due under a defined benefit plan. Recognition of defined benefit plans requires the use of actuarial techniques to estimate the number of benefits accrued by employees in exchange for their service in the current and prior periods and to discount those benefits to their present value to determine the present value of the Company'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.

i) Provisions for risks and charges

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

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

l) Contractual liabilities

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

m) 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 Company has transferred the right to exploit the Intellectual Property to the customer who has significant independent functionality, and (ii) the customer, who has received the right, can use it and benefit from the right to use it without further involvement of the Company.

Licence revenues

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

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

Revenues from service activities

Construction contracts usually involve an obligation to perform over time; for such contracts, the 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 Company'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 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 are shown net of returns, discounts, allowances and premiums, and directly related taxes.

n) Public contributions - Tax Credit:

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

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

With specific reference to the film sector, the Company currently benefits from a type of public contribution, i.e., incentives consisting of tax relief and deriving from tax credits granted to film production companies concerning the production of cinematographic works under Law 244/2007, as regulated by the 'Tax Credit' Producers Decree, setting out the application methods. In 2021, the Company 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.

o) Current taxes

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

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

p) 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.

q) Currency conversion

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

r) 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 Company initially recognises the non-monetary asset or non-monetary liability resulting from the upfront consideration. If there are several payments or advances, the Company determines the transaction date for each payment or advance.

s) Recognition of costs

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

2.3 Effects related to the covid-19 pandemic

The effects of the covid-19 pandemic on the Company'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 Company responded from FY 2020 with a pre-release of some productions of the web series 'Arctic Friends' and 'Puffins' and revisiting financial planning.

2.4 Discretionary evaluations and significant accounting estimates

The preparation of the Company'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:

Recoverability of equity investments

The Company assesses the presence of impairment indicators of each equity investment at least annually, in line with its own management strategy of legal entities within the Group and, if they occur, tests these assets for impairment. The processes and procedures for evaluation and determination of the recoverable amount of each equity investment are based on assumptions sometimes complex which by their nature involve recourse to the opinion of the Directors, in particular regarding the identification of impairment indicators, forecasting their future profitability for the period of the Group business plan, to the determination of the normalized cash flows at the basis of the estimate of the terminal value and to the determination of the long term growth and discounting rates applied to the forecasts of future cash flows.

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

Recognition of Cinema Tax Credit

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

2.5 Changes in accounting principles and disclosures

New accounting standards, interpretations and amendments adopted by the Company

The Company has applied for the first time several standards or amendments that are effective from 1 January 2021. The Company 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 Company's financial statements. The Company intends to use these practical expedients in future periods in which they are applicable.

2.6 Financial risk management

Liquidity risk

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

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

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

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

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 Company's gross exposure to the banking system amounts to Euro 39.4 million at 31 December 2021, while cash and cash equivalents amount to Euro 14.6 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 Company's debt and other obligations.

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

Foreign exchange rate risk

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

Therefore, the Company is exposed to the risk of devaluation of the 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 Company is exposed to marginal risks related to the volatility of interest rates linked to financing. In fact, the percentage of fixed-rate loans at 31 December 2021 is 52% of total loans. The variable-rate loans are all indexed to the 3m Euribor, at its lowest.

Credit risk

The Company's commercial activities are considered to have a good credit quality. The risk of a counterparty defaulting on its outstanding obligations at 31 December 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 1%, and the percentage of allowance for doubtful accounts on total past due is 74%.

Financial instruments by category

As required by IFRS 7, financial instruments are identified by category of the Company'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
Intangible assets	-	-	-	-	94,616,763	94,616,763
Tangible assets	-	-	-	-	119,467	119,467
Deferred tax assets	-	-	-	-	7,928,691	7,928,691
Equity investments in subsidiaries	-	-	-	-	6,776,412	6,776,412
Other non-current assets	1,774,102	-	-	-	-	1,774,102
Trade receivables	17,223,597	-	-	-	-	17,223,597
Tax receivables	-	-	-	-	19,909,672	19,909,672
Current financial assets	2,154,018	-	-	9,915,984	-	12,070,002
Other current assets	-	-	-	-	13,206,593	13,206,593
Assets arising from contracts with customers	-	-	-	-	1,342,732	1,342,732
Cash and other liquid assets	2,545,166	-	-	-	-	2,545,166
Total	23,696,883	-	-	9,915,984	143,900,762	177,513,197
Total Shareholders' equity	-	-	-	-	87,486,457	87,486,457
Employee benefits	-	-	-	-	158,890	158,890
Provisions for liabilities and charges	-	-	-	-	300,000	300,000
Non-current financial liabilities	-	32,831,086	-	-	-	32,831,086
Current financial liabilities	-	11,599,988	-	-	-	11,599,988
Trade payables	-	-	-	-	19,190,134	19,190,134
Tax payables	-	-	-	-	855,071	855,071
Contractual liabilities	-	-	-	-	17,171,241	17,171,241
Other current liabilities	-	-	-	-	7,920,330	7,920,330
Total	-	44,431,074	-	-	133,082,123	177,513,197

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
Intangible assets	-	-	-	-	62,042,563	62,042,563
Tangible assets	-	-	-	-	5,112	5,112
Deferred tax assets	-	-	-	-	6,096,330	6,096,330
Equity investments in subsidiaries	-	-	-	-	5,686,412	5,686,412
Other non-current assets	2,322,662	-	-	-	-	2,322,662
Trade receivables	16,876,138	-	-	-	-	16,876,138
Tax receivables	-	-	-	-	21,661,629	21,661,629
Current financial assets	-	-	-	4,348,355	-	4,348,355
Other current assets	-	-	-	-	3,545,484	3,545,484
Assets arising from contracts with customers	-	-	-	-	-	-
Cash and other liquid assets	2,860,150	-	-	-	-	2,860,150
Total	22,058,951	-	-	4,348,355	99,037,530	125,444,837
Total Shareholders' equity	-	-	-	-	66,611,902	66,611,902
Employee benefits	-	-	-	-	86,974	86,974
Provisions for liabilities and charges	-	-	-	-	300,000	300,000
Non-current financial liabilities	-	18,078,170	-	-	-	18,078,170
Current financial liabilities	-	5,351,441	-	-	-	5,351,441
Trade payables	-	-	-	-	26,058,952	26,058,952
Tax payables	-	-	-	-	581,544	581,544
Contractual liabilities	-	-	-	-	2,847,110	2,847,110
Other current liabilities	-	-	-	-	5,528,745	5,528,745
Total	-	23,429,611	-	-	102,015,227	125,444,837

Fair value

The Company determines fair value under IFRS 13 whenever international accounting standards require such measurement. 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 company has designated as 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 Operating sectors: Disclosure

For the purposes of IFRS 8 - Operating Segments, the activity carried out by the Company is identifiable in the sole operating segment consisting of Film Productions, including service activities (production activities carried out on behalf of third parties - the final Intellectual Property is not owned by the Company) and excluding post production activities that are carried out by the subsidiary Arte Video S.r.l.

Note no. 4 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	41,163	41,104	59
Ongoing productions	22,814	5,405	17,409
IP and Distribution Rights	30,593	15,534	15,059
Other intangible activities	48	-	48
Total Intangible Assets	94,617	62,043	32,574

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	Reclassifications	Decreases	As at 31 December 2021
Completed productions	41,104	112,079	2,375	(114,395)	41,163
Ongoing productions	5,405	19,784	(2,375)	-	22,814
IP and Distribution Rights	15,534	17,574	-	(2,515)	30,593
Other intangible activities	-	60	-	(12)	48
Total Intangible Assets	62,043	149,497	-	116,922	94,617

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) 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	-	(2,856)	-	-
AF 2020 (72 episodes) - 2020	15,143	-	(15,143)	-	-
AF 2021 (68 episodes) - 2021	-	56,392	(44,908)	96	11,580
Rights AF	3,571	-	(3,009)	-	562
Total AF	21,570	56,392	(65,916)	96	12,142
Puffins 2019 (20 episodes) - 2019	3,341	-	(2,606)	-	735
Puffins 2020 (50 episodes) - 2020	7,892	-	-	-	7,892
Puffins 2021 (59 episodes) - 2021	-	36,800	(27,631)	41	9,210
Puffins 2021 - Animatics- (29 episodes) - 2021	-	11,274	(8,455)	-	2,819
Rights Puffins	3,331	-	(1,283)	-	2,048
Total Puffins	14,564	48,074	(39,975)	41	22,704
Eddie & Sunny	761	1,505	(1,141)	16	1,141
Tell it like a Woman	3,850	836	(2,119)	-	2,567
Giving Back I	-	-	-	-	-
Dakota	-	5,272	(3,953)	-	1,319
Other projects	-	-	(1,111)	2,222	1,111
TOTAL	41,104	112,079	(114,395)	2,375	41,163

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	2,303	574	-	-	2,877
Tell it like a Woman	-	-	-	-	-
In the Fire	-	727	-	-	727
Puffins 2022	-	1,580	-	-	1,580
Giving Back Generation II	-	1,633	-	-	1,633
Giving Back Generation III	-	1,635	-	-	1,635
MUTI	-	12,731	-	-	12,731
Other projects	3,101	904	-	(2,375)	1,630
TOTAL	5,404	19,784	-	(2,375)	22,813

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	-	1,672	-	-	1,672
Distribution rights The Good Witch of Christmas	-	2,495	-	-	2,495
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
Other rights	226	261	-	-	487
TOTAL	15,534	17,574	(2,515)	-	30,593

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

Note no. 5 Tangible assets

Tangible assets amounted to Euro 119 thousand. The increase in the item compared to 31 December 2020, amounting to Euro 5 thousand, is mainly related to the investments made during the year in hardware instrumental to animated production.

Note no. 6 Deferred tax assets

Deferred tax assets, amounting to Euro 7,929 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	7,294	5,523	1,771
Impairment of intangible assets	413	413	-
Other temporary differences	222	160	62
Total Deferred tax assets	7,929	6,096	1,833

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. 7 Investments in subsidiaries

Equity investments amounted to Euro 6,776th and increased by Euro 1,090th compared to the previous year. Total investments in subsidiaries at 31 December 2021 are shown in the following statement:

€/000	31-dic-21	31-dic-20	Changes
Participations in Arte Video S.r.l.	300	300	-
Participations in R.E.D. Carpet S.r.l.	700	300	400
Participations in Iervolino Studios d.o.o	5,766	5,076	690
Investments in Wepost S.r.l.	10	10	-
Total equity investments	6,776	5,686	1,090

The main data concerning investments in subsidiaries at 31 December 2021 are shown below:

€/000	Share Capital	Shareholders' Equity	Profit/(loss)	Share of ownership	Book value
Partecipazioni in Arte Video S.r.l.	10	2,757	1,617	100%	300
Participations in R.E.D. Carpet S.r.l.	50	286	176	100%	700
Partecipazioni in Iervolino Studios d.o.o	5,784	5,874	62	100%	5,766
Partecipazioni in Wepost S.r.l.	10	2	(2)	100%	10
Total equity investments					6,776

As at 31 December 2021, only the investment in R.E.D. Carpet S.r.l. was subjected to an impairment test, comparing the recoverable amount resulting from the impairment test with the relevant carrying amount to verify that it had not suffered any impairment losses. The income forecasts included in the 2022-2022 Plan were considered in this exercise. The rate at which cash flows are discounted to present value (i.e. the rate at which the cash flows are discounted to present value) is used. Discount rate) coincides with the Weighed Average Cost of Capital (WACC). It was determined as a weighted average of the cost of equity. The WACC used was 8.98%. Concerning the cost of equity (kE), the Capital Asset Pricing Model ('CAPM') method was used.

The explicit projection of future cash flows was carried out on a 3-year plan. 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 of the company to make the necessary investments to maintain a competitive advantage. This analysis confirmed the reasonableness of the results obtained and, therefore, the recoverability of the value recorded in the financial statements.

Note no. 8 Other non-current assets

Other non-current assets amounted to Euro 1,774 thousand and are made up of receivables exceeding the year mainly for the consideration paid to the Company 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).

Note no. 9 Trade receivables

Trade receivables amount to Euro 17,224 thousand. Details are given below:

€/000	31-dic-21	31-dic-20	Changes
Trade receivables from third party customers	15,479	16,876	(1,397)
Receivables from related parties	1,745	-	1,745
Total trade receivables	17,224	16,876	348

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	9,042	4,690	4,352
Receivables from non-EU customers	8,182	12,186	(4,004)
Total trade receivables	17,224	16,876	348

The company makes a specific assessment of the risk of bad debt for each client. At 31 December 2021, this analysis revealed uncollectable receivables for EUR 120 thousand.

€/000	31-dic-21	31-dic-20	Changes
Gross trade receivables	17,344	16,987	357
Provision for write-down of trade receivables	(120)	(111)	(9)
Total trade receivables	17,224	16,876	348

Note no.10 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	1,138	801	337
Film production tax credit	17,837	20,052	(2,215)
Self-distribution tax credit for cinema	929	520	409
IPO tax credit	-	209	(209)
IRES credits	-	76	(76)
Other tax receivables	6	4	2
Total tax assets	19,910	21,662	(1,752)

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. 11 Current financial assets

The item of Euro12,070 thousand mainly consists of the company's financial investments 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 c	796	-	796
Other current financial assets	12	-	12
Total current financial assets	12,070	4,348	7,722

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

The Company determines fair value under IFRS 13 whenever international accounting standards require such measurement. 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 measured at fair value OCI consist of the investment in investment funds for Euro 9,916 thousand, whose fair value level is 1.

Note no. 12 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	204	128	76
Due from ADS	11,683	3,300	8,383
Intercompany receivable from Wepost	6	-	6
Intercompany receivables for tax consolidation	864	-	864
Intercompany VAT group receivables	297	-	297
Receivables from Lazio Region	-	117	(117)
Prepaid expenses	153	-	153
Total Other current assets	13,207	3,545	9,662

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. 13 Assets arising from contracts with customers

The item of Euro1,343 includes assets for work in progress related to service activities carried out for the Lamborghini project. These activities are accounted for on a progress basis.

Note no. 14 Cash and other liquid assets

The item of 2,545 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. 15 Shareholder's 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	18,688	-	18,688
Other reserves	107	(20)	127
Profit/(Loss) carried forward	29,556	29,556	-
Profit/(loss) for the financial year	20,747	18,688	2,059
Total Shareholders' Equity	87,486	66,612	20,874

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).

Extraordinary Reserve

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
IAS 19 OCI reserve	(45)	(20)	(25)
OCI reserve Other components of comprehensive income	152	-	152
Other reserves	107	(20)	127

The Company's objectives in the management of capital are inspired by the creation of value for shareholders, the guarantee of stakeholders' interests and the safeguarding of business continuity, as well as the maintenance of an adequate level of capitalisation that allows economic access to external sources of financing aimed at adequately supporting business development.

Note no. 16 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	15,960	10,280	5,680
Basket Bond	16,871	7,798	9,073
Total non-current financial liabilities	32,831	18,078	14,753

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:

Net financial position - Euro	31/12/2021	31/12/2020
Cash and cash equivalents	(2,545,166)	(2,860,150)
Current financial assets	(12,070,002)	(4,348,355)
Liquidity	(14,615,168)	(7,208,506)
Current portion of non-current financial liabilities	1,696,013	366,000
Other current financial liabilities	4,952,975	4,985,441
Other current intercompany financial payables	4,951,000	-
Current financial debt	11,599,988	5,351,441
Net current financial debt	(3,015,180)	(1,857,065)
Non-current financial liabilities	32,831,086	18,078,170
Non-current financial debt	32,831,086	18,078,170
NFP debt	29,815,906	16,221,105

Note no. 17 Current financial liabilities

Current financial liabilities as at 31 December 2021 amounted to Euro11,600 thousand and were composed as follows:

€/000	31-dic-21	31-dic-20	Changes
Current portion of non-current financial liabilities	1,996	366	1,630
Other current financial liabilities	5	10	(5)
Intercompany financial payables	4,951	-	4,951
Current account overdraft	4,648	4,975	(327)
Total current financial liabilities	11,600	5,351	6,249

Note no. 18 Trade payables

Trade payables amount to Euro 19,190 thousand, as shown in the following table:

€/000	31-dic-21	31-dic-20	Changes
Trade payables	16,306	17,705	(1,399)
Payables to related parties	2,884	8,354	(5,470)
Total trade payables	19,190	26,059	(6,869)

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	15,450	14,879	571
Payables to EU suppliers	31	40	(9)
Non-UE Trade payables	3,709	11,140	(7,431)
Total trade payables	19,190	26,059	(6,869)

Note no. 19 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	520	331	189
Sundry tax payables	335	250	85
Total tax payables	855	581	274

Among the tax payables as at 31 December 2021, the largest item is the one of 520 thousand euros related to current tax payables.

Note no. 20 Contractual liabilities

At 31 December 2021, contractual liabilities amounted to Euro 17,171 thousand.

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 for the subsidiary Iervolino Studios d.o.o..

Note no. 21 Other current liabilities

As at 31 December 2021, other current liabilities amounted to Euro 7,920 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	241	190	51
Deferred income	7,679	5,339	2,340
Total other current liabilities	7,920	5,529	2,391

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. 22 Revenues

Revenues amounted to a total of Euro 132,715 thousand and are broken down as follows:

€/000	31-dic-21	31-dic-20	Changes
Revenues from the granting of IP exploitation rights	81,547	85,112	(3,565)
Pipeline concession revenues	32,531	4,909	27,622
Revenue from character concession	6,891	1,645	5,246
Other income from services	11,554	-	11,554
Other revenue	192	1,434	(1,242)
Total Revenues	132,715	93,100	39,615

Revenues from concessions of exploitation rights are recognised when the company grants the right to use the intellectual property, know-how and characters. Revenues, in accordance with IFRS 15, are recognised at a point in time, as the company grants the right to use the know-how as it exists at the

time it is granted. Revenues related to film production service activities are recognised with reference to the state of progress.

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) the 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. In addition, the company grants the right to exploit the know-how developed for animation production (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
Granting of IP exploitation rights	81,547	85,112	(3,565)
The Poison Rose	-	90	(90)
Artic Friends Web Series	42,366	55,902	(13,536)
Puffins Web Series	31,962	23,705	8,257
Tell it like a Woman	2,420	3,630	(1,210)
Waiting for the barbarians	-	200	(200)
Eddie & Sunny	894	1,585	(691)
Dakota	3,904	-	3,904
Pipeline concession	32,531	4,909	27,622
Granting of characters	6,891	1,645	5,246
Artic Friends and Puffins Web Series/Other IPs	6,891	1,645	5,246
Services activities	11,554	-	11,554
Intercompany services activities	10,858	-	10,858
Other services activities	696	-	696
Other revenue	192	1,434	(1,242)
Total Revenues	132,715	93,100	39,615

Revenues are mainly from non-EU customers (Euro 92.2 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.

Please refer to note 31.1 for details of Intercompany revenues.

Note no. 23 Other income and revenues

As at 31 December 2021, Other revenues and income amounted to euro 308 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)
Intercompany revenue from Iervolino Studios d.o.o.	-	717	(717)
Intercompany revenues from R.E.D Carpet S.r.l.	304		
Other revenues	4	227	(223)
Total Other Revenues and Income	308	9,558	(9,554)

Note no. 24 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
Tax Credit film productions	14,148	11,406	2,742
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	330	674	(344)
Puffins Web Series (various seasons)	4,717	3,182	1,535
Dakota	1,236	-	1,236
R&D Tax Credit	559	2,303	(1,744)
Artic Friends Web Series	559	2,303	(1,744)
			-
Other government grants	27	637	(610)
Artic Friends Web Series	27	637	(610)
Total Tax Credits and other government grants	14,734	14,346	388

Note no. 25 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	304	-	304
Costs for offering service	90	98	(8)
Self-distribution costs	-	1,163	(1,163)
Business travel and transfers	264	138	126
Various administrative expenses	454	869	(415)
Bank fees	138	60	78
Technical expertise	384	318	66
Marketing costs	603	82	521
Insurance costs	51	41	10
Directors' fees	844	767	77
Rentals and leases	129	68	61
Fees of the Board of Statutory Auditors	40	60	(20)
Other purchases of services	252	210	42
Total costs for services	3,553	4,415	(862)

Compared to the previous period, the decrease in this item is mainly due to the absence of self-distribution and ADV costs and a reduction in administrative costs. This positive effect is partially offset by the increase in marketing expenses mainly related to the promotion of animated web series.

Note no. 26 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
Salaries and wages	666	516
Social charges on wages and salaries	229	154
ESI Fund	50	34
Total personnel costs	945	704

The increase is related to the recruitment plan carried out during the period.

Note no. 27 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
Amortisation of intangible assets	116,921	90,809	26,112
<i>Amortisation The Poison Rose</i>	-	1,447	(1,447)
<i>Artic Friends WS amortisation</i>	65,915	56,260	9,655
<i>Amortisation Puffins WS</i>	39,975	24,765	15,210
<i>Amortisation Waiting for the Barbarians</i>	180	3,302	(3,122)
<i>Amortisation Tell it like a Woman</i>	2,119	2,740	(621)
<i>Amortisation Eddie & Sunny</i>	1,141	2,258	(1,117)
<i>Amortisation Dakota</i>	3,953	-	3,953
<i>Amortisation of other productions</i>	1,111	-	1,111
<i>Amortisation other rights</i>	2,515	37	2,478
<i>Amortisation of other intangible assets</i>	12	-	12
Amortisation of tangible fixed assets	12	2	10
Amortisation	116,933	90,811	26,122
Write-downs and Provisions	9	-	9
Total Amortisation Write-downs and provisions	116,942	90,811	26,131

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. 28 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	335	1,024	(689)
Other financial income	3	2	1
Total financial income	338	1,026	(688)
Interest expense on loans	797	279	518
Amortised cost	265	63	202
Gains and losses on foreign exchange	1,646	1,264	382
Other financial charges	660	89	571
Total financial charges	3,368	1,695	1,673

Note no. 29 Income tax

Income taxes are broken down as follows:

€/000	31-dic-21	31-dic-20	Changes
IRES (Corporate income tax)	3,611	3,662	(51)
IRAP	621	360	261
Taxes from previous years	(307)	(110)	(197)
Deferred taxes	(1,833)	(2,319)	486
Total income tax	2,092	1,593	499

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 in the amount of Euro 30.3 million; (ii) decrease in revenues from government grants in the amount of Euro 14.7 thousand; (iii) decrease in amortisation of intangible assets taxed in 2021 in the amount of Euro 23.1 million.

Note no. 30 Earnings per share

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

Diluted earnings per share are calculated by dividing the profit attributable to the Company'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:

	31-dic-21	31-dic-20
Weighted average number of ordinary shares for basic earnings per share purposes	24,016,104	22,495,978
Operating profit	20,747,013	18,688,030
Basic earnings per share (ordinary shares)	0.86	0.83
Bonds convertible into ordinary shares	-	1,574,642
Diluted earnings per share (ordinary shares)	0.86	0.78

Note no. 31 Other information

31.1 Transactions with related parties

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

	Trade Receivables	Other assets	Trade payables	Other liabilities	Revenues	Costs
	€/000	€/000	€/000	€/000	€/000	€/000
TATATU S.p.A.	-	1,721	-	-	-	-
Arte Video S.r.l.	-	1,154	2,884	4,551	2,540	-
Wepost S.r.l. (formerly Iexchange S.r.l.)	-	6	-	-	-	-
R.E.D. Carpet S.r.l.	271	7	-	400	304	-
Iervolino Studios d.o.o.	1,474	-	-	5,025	10,629	-
Total related party transactions	1,745	2,888	2,884	9,976	13,473	-
Total budget items	17,224	160,290	19,190	158,323	147,758	121,888
Weight on budget items	10%	2%	15%	6%	9%	0%

The credit balance with Tatatu S.p.A. of euro 1,721 thousand refers 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).

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

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

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

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

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

Transactions carried out by the Company with related parties at market conditions concern

mainly: i) the consideration paid by TATATU S.p.A. to the Company for the closure of the ADV business unit (euro 1,089 thousand) and a trade receivable (euro 641 thousand); ii) the costs incurred towards the subsidiary Arte Video S.r.l. for post-production activities; iii) the receivable from the subsidiary Iexchange S.r.l. used by the latter to finance the production of ADS benefiting from the 'service' activities by the subsidiary Iervolino Studios; iv) Relations with the subsidiary Iervolino Studios d.o.o. connected with (i) the concession of the Pipeline (Euro 222 thousand) and the recharge of expenses incurred by the Company in the start-up phase (Euro 717 thousand).

31.2 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.	57
Limited audit of the half-yearly report as at 30 June 2021	EY S.p.A.	20
Total		77

31.3 Commitments and guarantees given by the Company

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

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

31.4 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

Granting body	Title of the work	Tax credit accrued in	Tax credit accrued in	Tax credit accrued in
		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	-
	Total	11,256	11,901	12,974

31.5 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 Company has no past or anticipated exposure to the Russian market.

31.6 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.

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 Financial Statements

Opinion

We have audited the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. (the Company), which comprise the statement of financial position as at December 31, 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 financial statements, including a summary of significant accounting policies.

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

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

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. as at December 31, 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 financial statements of Iervolino & Lady Bacardi Entertainment S.p.A. 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.