

WARSAW, August 30TH 2018

SEMI-ANNUAL REPORT OF 11 BIT STUDIOS S.A. FOR H1 2018



LETTER FROM THE MANAGEMENT BOARD

Warsaw, August 30th 2018

Dear Shareholders and Investors

It is our great pleasure to present to you the half-year report of 11 bit studios S.A. for the first half of 2018. It was a very important period for our Company. We released *Frostpunk*, our biggest and most expensive game to date that we had worked on in preceding quarters. The premiere was impressive. *Frostpunk* quickly moved to top positions on bestseller lists of the world's most important digital platforms, headed by Steam. In just 66 hours from the launch, fans bought 250,000 copies of *Frostpunk*, which more than covered our expenses to develop the game. The game continues to sell very well, which, bearing in mind the plans for its further development, allows us to expect *Frostpunk*'s life cycle to be long. We believe *Frostpunk* will prove to be a source of solid revenues for a number of quarters to come.

We are also very pleased with our other title that premiered in the first six months of the year. *Moonlighter*, a game we published, topped the best-sellers list on Steam, a major achievement for a low-budget game of this size. The success of *Moonlighter* attests to strong competence of 11 bit studios S.A. in providing marketing and other support to independent developers, opening the door for rapid growth in publishing.

With excellent sales of *Frostpunk* and *Moonlighter* and sales of *This War of Mine* remaining on satisfactory levels, 11 bit studios S.A. delivered record performance in the first half of 2018. The Company reported an operating profit of PLN 30.18m and a net profit of PLN 24.92 on revenue of PLN 45.72m. Operating profit margin reached 66%, with net profit margin at almost 55.5%. These ratios would have been still higher if it were not for non-cash provisions related to the implementation of the 2017-2019 Incentive Scheme and provisions for annual bonuses for staff. The results were further affected by royalties due to the developer of *Moonlighter* on sales of the game in the first half of 2018. Our cash resources were a testimony to our robust financial standing, with the Company holding in aggregate PLN 51.3 of cash in bank accounts, bank deposits and other financial instruments. Almost PLN 12.7m in trade receivables that are regularly converted into cash should be added to this figure.

The success of *Frostpunk* and *Moonlighter*, which demonstrated the excellent development and publishing capabilities of 11 bit studios S.A., should support the rapid pace of growth in future periods. The Company intends to expand its development resources with the goal of having three independent development teams, each working on a different title, available to it in a few years' time. In the publishing segment, the Company is set to increase the number of new releases of games developed by third parties, to drive the segment's revenue.

In the near future, 11 bit studios S.A. will concentrate on further development of *Frostpunk*. We will also step up work on *Project 8* and DLC for *This War of Mine*. Our publishing division is making preparations for the release of *Children of Mort*, which has attracted strong interest from gamers and the media, suggesting its significant commercial potential. In the next few months, *TwoM* will be released for the widely popular game console Nintendo Switch. *Beat Cop*, *Moonlighter* and *Children of Mort* will also be brought to Nintendo Switch, which proves the Company is ready and able to seize all available opportunities to monetise its products.

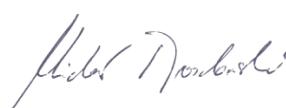
Yours faithfully



Grzegorz Miechowski
President of the Management Board



Przemysław Marszał
Member of the Management Board



Michał Drozdowski
Member of the Management Board

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SELECTED FINANCIAL DATA

The selected financial data presented in the tables below was converted into the euro at the following rates:

Assets, equity and liabilities in the statement of financial position - at the mid exchange rate quoted by the National Bank of Poland on the last day of the reporting period:

- Exchange rate as at June 30th 2018 - **PLN 4.3616**
- Exchange rate as at December 31st 2017 - **PLN 4.1709**

Items of the statement of profit or loss and statement of cash flows - at the mid exchange rate calculated as the arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of the month in a given period.

- Exchange rate for the first half of 2018 - **PLN 4.2395**
- Exchange rate for the first half of 2017 - **PLN 4.2474**

STATEMENT OF FINANCIAL POSITION

	Jun 30 2018 (PLN) (unaudited)	Dec 31 2017 (PLN) (audited)	Jun 30 2018 (EUR) (unaudited)	Dec 31 2017 (EUR) (audited)
Total assets	82,298,141	48,649,817	18,868,796	11,664,105
Non-current assets	21,091,790	17,173,693	4,835,792	4,117,503
Intangible assets	15,893,218	13,067,498	3,643,896	3,133,016
Current assets	61,206,351	31,476,124	14,033,004	7,546,602
Non-current financial assets	3,074,430	3,053,534	704,886	732,104
Cash	32,247,613	28,176,332	7,393,528	6,755,456
Short-term financial assets	16,000,000	0	3,668,378	0
Total equity and liabilities	82,298,141	48,649,817	18,868,796	11,664,105
Equity	73,341,264	46,222,796	16,815,220	11,082,211
Liabilities and provisions	8,956,877	2,427,021	2,053,576	581,894

STATEMENT OF PROFIT OR LOSS

	Period ended Jun 30 2018 (PLN) (unaudited)	Period ended Jun 30 2017 (PLN) (unaudited)	Period ended Jun 30 2018 (EUR) (unaudited)	Period ended Jun 30 2017 (EUR) (unaudited)
Revenue	45,725,373	8,669,204	10,785,558	2,041,061
Depreciation and amortisation	1,388,989	938,495	327,630	220,958
Operating profit	30,182,797	3,020,253	7,119,424	711,083
EBITDA	31,571,786	3,958,748	7,447,054	932,040
Profit before tax	31,476,698	478,018	7,424,625	112,544
Net profit	24,916,340	270,857	5,877,188	63,770

STATEMENT OF CASH FLOWS

	Period ended Jun 30 2018 (PLN) (unaudited)	Period ended Jun 30 2017 (PLN) (unaudited)	Period ended Jun 30 2018 (EUR) (unaudited)	Period ended Jun 30 2017 (EUR) (unaudited)
Net cash from operating activities	24,174,544	1,216,790	5,702,216	286,479
Net cash from investing activities	(20,103,263)	(4,462,855)	(4,741,895)	(1,050,726)
Net cash from financing activities	0	591,340	0	139,224
Total net cash flows	4,071,281	(2,654,725)	960,321	(625,024)

**FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A.
FOR THE FIRST HALF OF 2018**



1. OVERVIEW

11 bit studios S.A. (the "Company") was incorporated by a notarial deed of December 7th 2009 before notary public Paweł Andrzej Kania at his Notary Office in Warsaw (number in the register of notarial deeds: Rep. 16069/2009). The Company shares are traded in a public market.

1.1. COMPANY OVERVIEW

Business name:	11 bit studios Spółka Akcyjna
Abbreviated name:	11 bit studios S.A.
Registered office:	Warsaw, Poland
Registered address:	03-472 Warsaw, ul. Bertolta Brechta 7
Principal business activity:	computer programming activities (Polish Classification of Business Activities - 62.01.Z)
Registry court:	District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division
National Court Register (KRS) No.:	0000350888
Tax Identification Number (NIP):	1182017282
Industry Identification Number (REGON):	142118036

The Company was established for an indefinite period.

The financial year of the Company coincides with the calendar year.

The principal business activities of the Company are:

- production of cross-platform video games,
- sale of cross-platform video games.

The Company does not have any subsidiaries, associates or interests in joint ventures. Until April 11th 2017, 11 bit studios S.A. was the parent of the 11 bit studios S.A. Group consisting of 11 bit studios S.A. and a subsidiary, Games Republic Limited of Malta. On April 11th 2017, the Company announced that it had signed an agreement to sell 100% of shares in Games Republic Limited to Lousva Trading Limited. As of that date, the 11 bit studios Group ceased to exist. Consequently, 11 bit studios S.A. has not published any further consolidated financial statements since 2018.

1.2. COVERED PERIODS

These interim condensed financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to June 30th 2018 and contain the following comparative data:

- Statement of financial position - as at December 31st 2017,
- Statement of profit or loss and other comprehensive income - 6 months ended June 30th 2017,
- Statement of changes in equity - 6 months ended June 30th 2017,
- Statement of cash flows - 6 months ended June 30th 2017.

1.3. COMPOSITION OF THE COMPANY'S GOVERNING BODIES AS AT JUNE 30TH 2018

Management Board

- Grzegorz Miechowski - President of the Management Board,
- Przemysław Marszał - Member of the Management Board,
- Michał Drozdowski - Member of the Management Board.

Supervisory Board

- Piotr Sulima - Chairman of the Supervisory Board,
- Jacek Czykiel - Deputy Chairman of the Supervisory Board,
- Radosław Marter - Member of the Supervisory Board,
- Agnieszka Maria Kruz - Member of the Supervisory Board,
- Wojciech Ozimek - Member of the Supervisory Board.

The composition of the Company's Management Board changed in the reporting period. On May 9th 2018, Bartosz Brzostek, member of the Management Board, resigned from office for personal reasons. The term of office of the other Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2018. The term of office of the Supervisory Board ends on June 9th 2019.

1.4. AUDITORS

Deloitte Audit Sp. z o.o. Sp.k.
ul. Jana Pawła II 22
00-133 Warsaw

In Current Report No. 29/2017 of July 27th 2017, the Company announced that in accordance with the applicable laws and professional standards, on July 26th 2017 the competent body, i.e. the Company's Supervisory Board, appointed Deloitte Polska Sp. z o.o. Sp.k. (currently Deloitte Audit Sp. z o.o. Sp.k.), a qualified auditor of financial statements, to audit full-year financial statements and review half-year financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2017, 2018 and 2019.

1.5. SHAREHOLDING STRUCTURE AS AT THE DATE OF ISSUE OF THE HALF-YEAR REPORT

Name	Number of shares	% ownership interest	Number of voting rights	% of total voting rights
Bartosz Brzostek	183,696	8.03	183,696	8.03
Grzegorz Miechowski	160,696	7.03	160,696	7.03
Przemysław Marszał	118,000	5.16	118,000	5.16
Michał Drozdowski	89,630	3.92	89,630	3.92
NN TFI	119,229	5.21	119,229	5.21
Other shareholders	1,615,948	70.65	1,615,948	70.65
Total	2,287,199	100.00	2,287,199	100.00

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A., including changes in holdings of Company shares by management staff and persons related to the Company's supervisory staff.

In Current Report No. 9/2018 of May 19th 2018, 11 bit studios S.A. announced that on that date the Company received notifications under Art. 19.1 of the Market Abuse Regulation from Agnieszka Rabenda-Ozimek, a person closely related to Wojciech Ozimek, member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On May 14th and 15th 2018, Agnieszka Rabenda-Ozimek sold 94 shares of 11 bit studios S.A. (60 shares at PLN 500 per share and 34 shares at PLN 545 per share).

In Current Report No. 13/2018 of May 19th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Agnieszka Rabenda-Ozimek, a person closely related to Wojciech Ozimek, member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On June 5th 2018, Agnieszka Rabenda-Ozimek sold 20 shares of 11 bit studios S.A., at PLN 490 per share.

In Current report No. 14/2018 of June 19th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in connection with Art. 87.1.2.a) of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies from NN Investment Partners TFI S.A. ("NN TFI") on exceeding the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights in the Company changed following purchase of Company shares on June 15th 2018 by NN Fundusz Inwestycyjny Otwarty, NN Specjalistyczny Fundusz Inwestycyjny Otwarty 2, NN (L) Total return Fundusz Inwestycyjny Zamknięty and Fundusz Właściwości Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty. Prior to the change, the investment funds managed by NN TFI held 112,476 shares in 11 bit studios S.A., representing 4.93% of the Company's share capital As at the date of exceeding the threshold, the investment funds managed by NN TFI held 119,229 shares in 11 bit studios S.A., representing 5.21% of the Company's share capital

In Current Report No. 15/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Grzegorz Miechowski, President of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 5th 2018, Grzegorz Miechowski sold 2000 shares of 11 bit studios S.A., at PLN 445 per share. Following the transaction, Grzegorz Miechowski holds 160,696 Company shares representing 7.03% of the share capital.

In Current Report No. 16/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Przemysław Marszał, member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Przemysław Marszał sold 4000 shares of 11 bit studios S.A., at PLN 445 per share. Following the transaction, Przemysław Marszał holds 118,000 Company shares representing 5.16% of the share capital.

In Current Report No. 17/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Michał Drozdowski, member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Michał Drozdowski sold 4000 shares of 11 bit studios S.A., at PLN 445 per share. Following the transaction, Michał Drozdowski holds 89,630 Company shares representing 3.92% of the share capital.

After the reporting period, in Current Report No. 19/2018 of July 26th 2018, 11 bit studios S.A. announced that on that date the Company received a notification from Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. of Warsaw, concerning reduction of its holding of Company shares to below 5% of total voting rights in the Company. The share in the total voting rights decreased as a result of disposal of the Company shares. The transaction was settled on July 20th 2018.

Prior to the transaction, the funds managed by N-N PTE S.A. held 114,922 Company shares, conferring 5.02% of total voting rights in the Company and representing 5.02% of the share capital. Following the transaction, the Funds hold 111,832 Company shares, conferring 4.89% of total voting rights in the Company and representing 4.89% of the share capital.

1.6. COMPANY SHARES HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY STAFF

	Position	Number of shares as at Dec 31 2017 (shares)	Number of shares as at Jun 30 2018 (shares)	Number of shares as at this report date
Grzegorz Miechowski	President of the Management Board	162,696	160,696	160,696
Przemysław Marszał	Member of the Management Board	122,000	118,000	118,000
Michał Drozdowski	Member of the Management Board	93,630	89,630	89,630

According to the submitted declarations, members of the Company's Supervisory Board hold no shares in 11 bit studios S.A.

In the reporting period, there were changes in holdings of Company shares by the management staff of 11 bit studios S.A. For details, see Note 1.5.

1.7. COMMENTARY ON ESTIMATES OF FINANCIAL RESULTS

The Company did not release any estimates of financial results for the reporting period.

1.8. HEADCOUNT

As at the date of issue of these financial statements, 101 persons were employed by the Company under employment contracts or provided services to the Company on the basis of agreements under civil law.

1.9. FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements are presented in the Polish złoty (PLN). The Management Board concluded that the Polish złoty would be the Company's functional and presentation currency. In the case of an entity operating on international markets, the choice of the functional currency and the identification of the currency which should be recognised as the currency used in the principal economic environment in which the entity operates, is a subjective decision. The Company monitors its economic environment for any material changes that could affect its choice of functional currency.

1.10. MANAGEMENT BOARD'S STATEMENT

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated March 29th 2018, the Company's Management Board hereby represents that, to the best of its knowledge, these interim condensed financial statements and comparative data have been prepared in accordance with the accounting policies applicable to 11 bit studios S.A. and that they give a true, fair and clear view of the Company's assets, financial standing and financial results.

These interim condensed financial statements as at June 30th 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz.U. of 2018, item 757).

These interim condensed financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to June 30th 2018 and contain the following comparative data:

- Statement of financial position - as at December 31st 2017,
- Statement of profit or loss and other comprehensive income - 6 months ended June 30th 2017,
- Statement of changes in equity - 6 months ended June 30th 2017,
- Statement of cash flows - 6 months ended June 30th 2017.

These interim condensed financial statements have been prepared on a historical cost basis. They do not include all information and disclosures required in full-year financial statements and should be read in conjunction with the Company's full-year financial statements for 2017, including notes thereto, for the period of 12 months ended December 31st 2017, prepared in accordance with the IFRS as endorsed by the EU.

These interim condensed financial statements are not subject to auditing by an independent auditor.

1.11. STATEMENT OF THE MANAGEMENT BOARD CONCERNING THE ENTITY AUTHORIZED TO REVIEW THE RELIABILITY OF PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The Management Board of 11 bit studios S.A. represents that Deloitte Audyt sp. z o.o. Sp.k., an entity authorized to audit financial statements, which reviewed the interim condensed financial statements, was selected in accordance with the provisions of law and that the entity and the certified auditors who reviewed the statements met the conditions to issue a report on the review of the financial statements, in accordance with the applicable provisions of Polish law and professional standards.

1.12. AUTHORISATION OF FINANCIAL STATEMENTS

These interim condensed financial statements of 11 bit studios S.A. were authorised for issue by the Company's Management Board on August 30th 2018.

2. INTERIM CONDENSED FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A.

2.1. INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (PLN)

	Note	3 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Continuing operations					
Revenue	3.3	43,480,787	5,797,360	45,725,373	8,669,204
Other income	3.7.1	318,736	31,872	463,392	185,359
Total operating income		43,799,523	5,829,232	46,188,765	8,854,563
Depreciation and amortisation		(987,058)	(452,911)	(1,388,989)	(938,495)
Raw materials and consumables used		(75,271)	(41,260)	(112,711)	(134,661)
Services		(5,661,021)	(1,405,020)	(6,930,814)	(2,677,097)
Salaries, wages and employee benefits		(5,741,408)	(741,099)	(6,430,684)	(1,272,356)
Taxes and charges		(128,587)	(15,802)	(134,315)	(31,836)
Other expenses	3.7.2	(171,885)	(617,987)	(954,272)	(779,865)
(Impairment)/reversal of impairment of financial instruments		(54,183)	0	(54,183)	0
Total operating expenses		(12,819,413)	(3,274,079)	(16,005,968)	(5,834,310)
Operating profit		30,980,110	2,555,153	30,182,797	3,020,253
Finance income	3.5	1,207,625	17,581	1,294,479	43,135
Finance costs	3.6	204,580	(1,334,338)	(578)	(2,585,370)
Profit before tax		32,392,315	1,238,396	31,476,698	478,018
Income tax expense	3.8	(6,497,268)	(12,084)	(6,560,358)	(207,161)
Net profit from continuing operations		25,895,047	1,226,312	24,916,340	270,857
Discontinued operations		0	0	0	0
Net profit from discontinued operations		0	0	0	0
NET PROFIT		25,895,047	1,226,312	24,916,340	270,857
Earnings per share (PLN per share) from continuing operations:		0			
Basic		11.68	0.55	11.24	0.12
Diluted		11.03	0.54	10.61	0.12

	Note	3 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
NET PROFIT		25,895,047	1,226,312	24,916,340	270,857
Other comprehensive income		0	0	0	0
Total other comprehensive income, net		0	0	0	0
TOTAL COMPREHENSIVE INCOME		25,895,047	1,226,312	24,916,340	270,857

2.2. INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (PLN)

ASSETS

	Note	As at Jun 30 2018 (unaudited)	As at Dec 31 2017 (audited)
Non-current assets			
Property, plant and equipment	3.9	715,168	814,332
Intangible assets	3.10	15,893,218	13,067,498
Deferred tax asset		1,249,197	89,993
Other assets		159,777	148,336
Non-current financial assets	3.12	3,074,430	3,053,534
Total non-current assets		21,091,790	17,173,693
Current assets			
Trade and other receivables	3.11	12,662,984	2,679,070
Income tax receivable		0	327,123
Other current assets	3.14	295,754	293,599
Cash and cash equivalents	3.16	32,247,613	28,176,332
Short-term financial assets	3.13	16,000,000	0
Total current assets		61,206,351	31,476,124
TOTAL ASSETS		82,298,141	48,649,817

EQUITY AND LIABILITIES

	Note	As at Jun 30 2018 (unaudited)	As at Dec 31 2017 (audited)
Equity			
Share capital	3.17	228,720	228,720
Share premium		4,870,274	4,870,274
Statutory reserve funds		41,331,887	37,914,547
Share-based payment reserve		2,202,128	0
Retained earnings		24,708,255	3,209,255
Total equity		73,341,264	46,222,796
Non-current liabilities			
Deferred income	3.21	762,772	762,772
Deferred tax liability		0	0
Total non-current liabilities		762,772	762,772
Current liabilities			
Trade and other payables	3.18	7,309,165	1,197,853
Income tax liabilities		648,701	0
Deferred income	3.21	236,239	466,396
Total current liabilities		8,194,105	1,664,249
Total liabilities		8,956,877	2,427,021
TOTAL EQUITY AND LIABILITIES		82,298,141	48,649,817

2.3. INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Exchange differences on translation of foreign operations and other adjustments	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 2018 (audited)	228,720	4,870,274	37,914,547	0	0	3,209,255	0	0	46,222,796
Net profit for the financial year	0	0	0	0	0	24,916,340	0	0	24,916,340
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	24,916,340	0	0	24,916,340
Profit allocated to statutory reserve funds	0	0	3,417,340	0	0	(3,417,340)	0	0	0
Share-based payments	0	0	0	2,202,128	0	0	0	0	2,202,128
As at Jun 30 2018 (unaudited)	228,720	4,870,274	41,331,887	2,202,128	0	24,708,255	0	0	73,341,264

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Foreign exchange differences on translating foreign operations and other adjustments	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 2017 (audited)	221,720	4,285,934	25,405,679	627,623	0	11,673,160	0	0	42,214,116
Net profit for the financial year	0	0	0	0	0	270,857	0	0	270,857
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	270,857	0	0	270,857
Profit allocated to statutory reserve funds	0	0	11,881,245	0	0	(11,881,245)	0	0	0
Share-based payments	7,000	584,340	627,623	(627,623)	0	0	0	0	591,340
As at Jun 30 2017 (unaudited)	228,720	4,870,274	37,914,547	0	0	62,772	0	0	43,076,313

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Exchange differences reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 2017	221,720	4,285,934	25,405,679	627,623	0	11,673,160	0	0	42,214,116
Net profit for the financial year	0	0	0	0	0	3,417,340	0	0	3,417,340
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	3,417,340	0	0	3,417,340
Profit allocated to statutory reserve funds	0	0	11,881,245	0	0	(11,881,245)	0	0	0
Share-based payments	7,000	584,340	627,623	(627,623)		0	0	0	591,340
As at Dec 31 2017	228,720	4,870,274	37,914,547	0	0	3,209,255	0	0	46,222,796

2.4. INTERIM CONDENSED STATEMENT OF CASH FLOWS (PLN)

	Period ended Jun 30 2018 (unaudited)	Period ended Jun 30 2017 (unaudited)
Cash flows from operating activities		
Profit for the financial year	24,916,340	270,857
Adjustments:		
Depreciation and amortisation	1,388,989	938,495
Income tax expense recognised in profit or loss	6,560,358	207,161
Other adjustments	2,299,946	14,693
Changes in working capital:		
Increase/decrease in trade and other receivables	(9,983,915)	1,556,520
Increase/decrease in other assets	(13,596)	(74,082)
Increase/decrease in trade and other payables	6,111,312	(1,085,029)
Increase/decrease in deferred income	(230,157)	324,475
Interest received - discount on settlement of bonds	(27,074)	0
Cash provided by operating activities	31,022,203	2,153,090
Income tax paid	(6,847,659)	(936,299)
Net cash from operating activities	24,174,544	1,216,790
Cash flows from investing activities		
Proceeds from expiry of bonds	6,000,000	0
Payments for financial assets	0	(2,000,000)
Proceeds from sale of financial assets	0	681,759
Bank deposits - over 3 months	(16,000,000)	0
Outflows on recognition/purchase of bonds	(5,972,926)	0
Payments for property, plant and equipment and intangible assets	(4,130,336)	(3,144,614)
Net cash from investing activities	(20,103,262)	(4,462,855)
Cash flows from financing activities		
Proceeds from issue of shares	0	591,340
Other cash provided by financing activities	0	0
Net cash from financing activities	0	591,340
Net increase in cash and cash equivalents	4,071,281	(2,654,725)
Cash and cash equivalents at beginning of reporting period	28,176,332	29,113,971
Cash and cash equivalents at end of reporting period	32,247,613	26,459,246

3. NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A.

3.1. STATEMENT OF ACCOUNTING POLICIES

3.1.1. Going concern

These interim condensed financial statements have been prepared on the assumption that 11 bit studios S.A. will continue as a going concern in the foreseeable future. As at the date of these interim condensed financial statements of 11 bit studios S.A. there were no circumstances which would indicate any threat to the Company continuing as a going concern.

3.1.2. Accounting policies

The accounting policies and calculation methods applied in the preparation of these interim condensed financial statements are consistent with those applied in the preparation of the most recent full-year financial statements, except for new standards and interpretations effective as of January 1st 2018, which are described below. These interim condensed financial statements do not contain any information or disclosures required for full-year financial statements and should be read in conjunction with the Full-Year Financial Statements for the financial year ended December 31st 2017.

The IFRS-based accounting policies applied by the Company are discussed in detail in the Company's financial statements as at December 31st 2017 authorised for issue by the Company's Management Board on March 26th 2018.

3.1.3. Amendments to the existing standards adopted for the first time in the Company's financial statements for 2018

The following amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU were adopted for the first time in the Company's financial statements for 2018:

- **IFRS 9 Financial Instruments** - endorsed by the EU on November 22nd 2016 (effective for annual periods beginning on or after January 1st 2018);

In these financial statements, the Company applied IFRS 9 *Financial Instruments* for the first time. As permitted by the standard, the Company elected not to restate the data relating to prior periods. The new standard includes amended guidance for the classification and measurement of financial assets, contains a new model for determining expected credit losses, and changes the hedge accounting requirements.

As of January 1st 2018, the Company classifies financial assets into one of the following categories:

- measured at amortised cost

The Company measures financial assets at amortised cost, using the effective interest rate method. Long-term receivables subject to IFRS 9 are discounted as at the reporting date. Trade receivables with maturities of less than 12 months are measured at nominal value less expected losses.

- measured at fair value through other comprehensive income

The Company recognises gains/losses on measurement of investments in debt and equity instruments disclosed by the Company on initial recognition in other comprehensive income. Dividends from equity instruments at fair value through other comprehensive income are recognised as income in profit or loss. Interest income from investments in debt instruments is recognised in profit or loss. Upon disposal of debt instruments, cumulative gains and losses on measurement are recognised in profit or loss.

- measured at fair value through profit or loss

Changes in fair value of financial assets classified as financial assets measured at fair value through profit or loss are recognised in profit or loss. Interest income and dividends received from equity instruments traded on an active market are also recognised in profit or loss.

Classification into one of the categories is made at the moment of initial recognition and depends on the business model adopted by the entity with respect to financial asset management as well as on the characteristics of contractual cash flows.

The Company does not apply hedge accounting, therefore the provisions of IFRS 9 in this respect do not apply to it.

IFRS 9 does not change the classification of the Company's financial liabilities. They continue to be measured at amortised cost.

The Company analysed its financial assets and liabilities to reflect changes in their recognition after the introduction of IFRS 9. The tables below present changes in the classification of financial assets and liabilities:

Financial assets:

	Classification by		Carrying amount according to IFRS 9 and IAS 39 as at Jan 1 2018 (PLN)
	IFRS 9	IAS 39	
Non-current financial assets	Financial instruments measured at fair value	Financial instruments measured at fair value	3,053,534
Trade and other receivables	Financial assets measured at amortised cost	Loans and receivables measured at amortised cost	2,679,070
Cash and cash equivalents	Financial assets measured at amortised cost	Loans and receivables measured at amortised cost	28,176,332

Financial liabilities:

	Classification by		Carrying amount according to IFRS 9 and IAS 39 as at Jan 1 2018
	IFRS 9	IAS 39	
Trade and other payables	Financial liabilities measured at amortised cost	Financial liabilities measured at amortised cost	1,197,853

With the introduction of IFRS 9, the Company adjusted its accounting policy; however, the reclassification of instruments had a negligible impact on the measurement of affected items, as the Company cooperates only with reputable financial institutions.

IFRS 9 changes the impairment model and replaces the incurred credit losses model with the expected credit losses model.

The expected credit loss model applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, except for investments in equity instruments.

The Company uses the following approaches to estimate impairment of financial assets:

- General model

The Company applies the general approach to financial assets measured at fair value through other comprehensive income and to financial assets measured at amortised cost, except for trade receivables. In the general approach, the Company estimates the impairment loss on financial assets on the basis of a three-stage model based on the change in credit risk of financial assets since their initial recognition. If credit risk of a given financial asset has not increased significantly since initial recognition (stage 1), the Company recognises 12-month expected credit losses. If the Company identifies a significant increase in credit risk of financial assets (stage 2) or if impairment has been recognised (stage 3), the Company recognises lifetime expected credit losses for the affected financial assets. As at each reporting date, the Company analyses whether there is any indication of a significant increase in credit risk of its financial assets.

- Simplified approach

In the case of trade receivables, the Company applies a simplified approach and therefore does not monitor changes in credit risk during asset life, and measures loss allowance at the amount equal to the receivables' lifetime expected credit losses. An allowance for expected credit losses is remeasured at each reporting date.

- **IFRS 15 Revenue from Contracts with Customers** and amendments to IFRS 15: effective date of IFRS 15 - endorsed by the EU on September 22nd 2016 (effective for annual periods beginning on or after January 1st 2018);

In these financial statements, the Company applied IFRS 15 *Revenue from contracts with customers* for the first time. The new standard contains a five-step model of recognising revenue from contracts with customers. Under IFRS 15, revenue is recognised in an amount that reflects the consideration to which the Company expects to be entitled when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. The new standard replaces all the existing requirements concerning revenue recognition in accordance with IFRS.

- Royalties from sale of licences for the distribution of games

The new regulations provide that entities that grant licences to customers for use of the entities' software (intellectual property) must determine whether the customers have the right to use the licence within a prescribed period of time (throughout the term of the licence) or on a one-off basis at the time of the grant.

A license that is transferred for a prescribed period of time gives the customer access to the intellectual property in the form it occurs during the term of the license. This means that the customer has the right to expect the licensor to undertake activities that significantly affect that intellectual property during that period (i.e. its form and

functionality are subject to continuous change and the benefits to the customer depend on the action taken by the entity). In such a case, the revenue is recognised over a period of time. In the case of revenue in the form of royalties from the sale of licenses for game distribution, the revenue depends on the volume of sales generated by the distributor at a given time in the reporting period. Thus, revenue from the sale of a given product will be recognised in the period not earlier than after the delivery of materials enabling the actual distribution of the completed game to commence.

Licences transferred on a one-off basis give the customer the right to use the licensor's intellectual property in the form in which it was available at the time the licence was granted. In order for the revenue to be recognised at the time the licence is granted, the customer must be able to control the use of the licence and derive substantially all other benefits from the licensed intellectual property.

- Advance payments received from customers

The Company receives short-term advance payments from customers for future sale of games produced or published by the Company. Historically, such amounts of advance payments had no impact on the Company's results. They were recognized in sales revenue for the current reporting period. The Company did not recognise any financing component.

Under the new standard, the Company intends to use the simplified disclosure option provided for in IFRS 15 with respect to short-term advance payments (the period between the moment when the customer pays for the goods or services and the moment when they are delivered does not exceed one year) and will continue not to recognise any financing component.

The Company has adapted its accounting policy to the requirements of IFRS 15, but there have been no differences between amounts disclosed in the previous and current financial statements.

- **Amendments to IFRS 2 *Share-Based Payments*:** classification and measurements of share-based payment transactions - endorsed by the EU on February 27th 2018 (effective for annual periods beginning on or after January 1st 2018);
- **Amendments to IFRS 4 *Insurance Contracts*:** applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* - endorsed by the EU on November 3rd 2017 (effective for annual periods beginning on or after January 1st 2018 or as of the date of first-time adoption of IFRS 9 *Financial Instruments*),
- **Amendments to IFRS 15 *Revenue from Contracts with Customers*:** clarifications to IFRS 15 *Revenue from Contracts with Customers* - endorsed by the EU on October 31st 2017 (effective for annual periods beginning on or after January 1st 2018),
- **Amendments to IAS 40 *Investment Property*:** transfers of investment property - endorsed by the EU on March 14th 2018 (effective for annual periods beginning on or after January 1st 2018);
- **Amendments to IFRS 1 and IAS 28 resulting from Annual Improvements to IFRS Standards 2014-2016 Cycle** - amendments made as part of the annual IFRS improvements project (IFRS 1, IFRS 12 and IAS 28) primarily to correct conflicts and clarify wording - endorsed by the EU on February 7th 2018 (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1st 2018);
- **IFRIC 22 *Foreign Currency Transactions and Advance Consideration Transactions*** - endorsed by the EU on March 28th 2018 (effective for annual periods beginning on or after January 1st 2018).

The amendments listed above have not had a material effect on the Company's financial statements for 2018.

3.1.4. New standards and amendments to the existing standards already issued by the IASB and endorsed by the EU, but not yet effective

As at the date of authorisation of these financial statements, the following new standards were issued by the IASB and endorsed by the EU, but were not yet effective:

- **IFRS 16 *Leases*** - endorsed by the EU on October 31st 2017 (effective for annual periods beginning on or after January 1st 2019);
- **Amendments to IFRS 9 *Financial Instruments*: prepayment features with negative compensation** - endorsed by the EU on March 22nd 2018 (effective for annual periods beginning on or after January 1st 2019).

The Company did not opt for early adoption of those new standards or amendments to the existing standards and interpretations. The Company estimates that none of those new standards, amendments to the existing standards and interpretations would have had a material impact on its financial statements had they been applied by the Company as at the reporting date.

3.1.5. New standards and amendments to the existing standards issued by the IASB, but not yet endorsed by the EU

There are no major differences between the IFRS as endorsed by the EU and the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to standards, and new interpretations, which were not yet endorsed by the EU as at August 30th 2018 (the following effective dates refer to the full versions of respective standards):

- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after January 1st 2016) - the European Commission has decided not to launch the endorsement process of this interim standard until the final IFRS 14 is issued;
- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after January 1st 2021),
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: sale or contribution of assets between an investor and its associate or joint venture**, and further amendments (the effective date of the amendments has been postponed until research into the equity method is completed),
- **Amendments to IAS 19 Employee Benefits: plan amendment, curtailment or settlement** (effective for annual periods beginning on or after January 1st 2019);
- **Amendments to IAS 28 Investments in Associates and Joint Ventures: long-term interests in associates and joint ventures** (effective for annual periods beginning on or after January 1st 2019),
- **Amendments to various standards resulting from Annual Improvements to IFRS Standards 2015-2017 Cycle** - amendments made as part of the annual IFRS improvements project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to correct conflicts and clarify wording (effective for annual periods beginning on or after January 1st 2019);
- **IFRIC 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after January 1st 2019).

The Company estimates that none of those new standards, amendments to the existing standards and interpretations would have had a material impact on its financial statements had they been applied by the Company as at the reporting date.

The scope of regulations endorsed by the EU still does not include hedge accounting for portfolios of financial assets and liabilities with respect to which relevant rules have not been endorsed for use in the EU.

3.1.6. Changes to information presented in previous reporting periods, changes in accounting policies and correction of errors

In these interim condensed financial statements for the first half of 2018, changes were made to the presentation of selected financial data. To ensure comparability of financial data in the reporting period, the presentation of data for the corresponding period of 2017 was changed.

The following adjustments were made:

In the statement of cash flows for the period from January 1st to June 30th 2017, the item *Income tax expense* (PLN 207,161) was added. The amount of *Increase/decrease in other assets* was reduced by PLN 207,161.

The change had no effect on the item *Net cash from operating activities* in the statement of cash flows.

3.1.7. Changes in estimates of amounts presented in prior interim periods of the current financial year or changes in estimates presented in prior financial years, if they have a significant impact on the current interim period.

There were no material changes to the estimates presented by the Company in previous reporting periods that would have a material impact on the reported interim period.

3.2. MATERIAL ACHIEVEMENTS OR FAILURES OF THE COMPANY IN THE REPORTING PERIOD

The most important achievement of the Company in the first half of 2018, which had a decisive impact on the financial results for the period, was the release of *Frostpunk*. The title, whose production took 11 bit studios S.A. over three years to complete at the cost of over PLN 12m (including ca. PLN 10m in development costs, with the balance comprising marketing expenses) premiered on April 24th 2018 (for PCs). Thanks to a very effective promotional campaign, the game was very well received by players, which resulted in strong sales in the post-premiere period. Within 66 hours of the premiere, fans purchased more than 250 thousand copies of *Frostpunk* (see Current Report No. 6/2018 of April 27th 2018), which more than covered all the production costs. *Frostpunk* came to the very top of bestseller lists compiled by the world's leading digital gaming platforms, including Steam, Humble Bundle and GOG.com. The product, developed by 11 bit studios S.A., also enjoyed very high marks for its quality and playability awarded by the industry media (85/100 points by Metacritic) and the users (8.7/10 points). As a result, in the following weeks (also after the reporting date) strong sales of *Frostpunk* continued; all in all, the game was clearly the largest source of revenue in the first half of 2018.

Another factor which had a significant impact on the Company's revenue in the first six months of the year was the release of *Moonlighter*, a game developed by Digital Sun, a Spanish studio. 11 bit studios S.A. was the publisher of the game, whose versions for PCs as well as Xbox One and PS4 consoles premiered on May 29th 2018. Like *Frostpunk*, the title was very well received by the market. Feedback from the industry media and users was positive, and with strong sales the game ranked first on Steam's bestseller list.

Sales of *This War of Mine* also provided an important revenue stream for 11 bit studios S.A. in the first half of 2018, despite the fact that more than three years have passed since the game's release. The unique theme of the game (war

seen through the eyes of civilians), supported by effective promotional and marketing campaigns, allows the Company to reach new users and continue to earn solid revenue from sales of this product.

In the first half of 2018, 11 bit publishing was making preparations for the premiere of *Children of Morta*, expected to be released in several months' time. The title will be released for PCs, Xbox One, and PS4. After the end of the reporting period, the Company also announced (Current Report No. 20/2018 of August 20th 2018) that the game would be released for Nintendo Switch early in 2019. Other releases for this platform will include *This War of Mine* (November 2018), *Moonlighter* and *Beat Cop* (by the end of 2018).

In the first half of 2018, 11 bit studios S.A. continued to work on development of *Project 8* (working title). The production of *Project 8* is progressing on schedule. The game is now at the stage of advanced prototype. The Company intends to complete this stage by the end of 2018 and move on to the production phase, which may take several quarters. The *Project 8* team currently consists of a dozen or so developers and continues to grow, a process which will accelerate once *Project 8* moves into the production phase. The recruitment process has already started.

3.3. REVENUE (PLN)

Analysis of the Company's revenue from continuing operations in the reporting period:

	Period ended Jun 30 2018	Period ended Jun 30 2017
Revenue	45,725,373	8,669,204

The strong year-on-year increase in the Company's revenue in the six months ended June 30th 2018 (by as much as 427.42018), is the result of the very successful launches of *Frostpunk* (April 24th 2018) and *Moonlighter* (a third-party title published by the Company, released on May 29th 2018). The game *This War of Mine* continued to contribute positively to 11 bit studios S.A.'s revenue in the first half of 2018, supported by successful promotional and marketing efforts. Sales of *Beat Cop* (a third-party title published by the Company) and older titles, including in particular the *Anomaly* series games, were less significant for the revenues of 11 bit studios SA.

3.4. OPERATING SEGMENTS

The Company's business is homogenous and focused on the production and sales of computer games. Therefore, the Company does not identify any operating segments.

3.4.1. Geographical information (PLN)

The Company operates in five main geographical areas: Poland, its home market, the European Union, the US, China and other countries (including Canada, Japan, Korea, Brazil, and Australia).

The Company's revenue from sales to third parties broken down by geographical area and information on non-current assets broken down by asset location are presented below:

	Revenue from third parties		Non-current assets	
	Period ended Jun 30 2018	Period ended Jun 30 2017	As at Jun 30 2018	Period ended Dec 31 2017
Poland	1,808,344	63,713	20,806,573	17,173,693
European Union	4,574,835	1,158,138	285,217	0
US	39,040,672	6,944,147	0	0
China	173,939	435,890	0	0
Other	127,583	67,316	0	0
Total	45,725,373	8,669,204	21,091,790	17,173,693

3.4.2. Major clients

Revenue from the sale of computer games of PLN 45,725,373 (H1 2017: PLN 8,669,204) included PLN 43,220,149 (H1 2017: 8,253,702) in revenue from global sales of the Company's products via Steam (Valve Corporation), Google, Apple, GOG.com and Green Man Gaming, the world's leading electronic distribution platforms.

3.5. FINANCE INCOME (PLN)

	Period ended Jun 30 2018	Period ended Jun 30 2017
Interest income:		
Bank deposits	163,595	43,135
Finance income:		
Gains on remeasurement of financial assets	20,896	0
Net foreign exchange gains (losses), including:		
a) Cash	94,631	0
b) Loans and receivables	1,015,896	0
c) Liabilities measured at amortised cost	(539)	0
Total	1,294,479	43,135

3.6. FINANCE COSTS (PLN)

	Period ended Jun 30 2018	Period ended Jun 30 2017
Other interest expense:		
a) Interest on public charges	578	168
b) Other	0	8
Net foreign exchange gains (losses), including:		
a) Cash	0	2,432,777
b) Loans and receivables	0	161,356
c) Liabilities measured at amortised cost	0	(8,939)
Total	578	2,585,370

3.7. OTHER INCOME AND EXPENSES (PLN)

3.7.1. Other income

	Period ended Jun 30 2018	Period ended Jun 30 2017
Grants received	442,608	128,227
Prizes, goods - received free of charge	0	51,672
Other income - rechargeable to Games Republic	0	1,345
Other income	20,784	4,115
Total	463,392	185,359

3.7.2. Other expenses

	Period ended Jun 30 2018	Period ended Jun 30 2017
Donations given	648,755	485,823
Other expenses by nature	305,517	294,042
Total	954,272	779,865

The main item of other expenses in the first half of 2018 was a donation to the War Child Foundation, which helps child victims of war. In the reporting period, the Company donated PLN 648,755 for this purpose. In 2017, the amount of the donation was PLN 485,823. Other expenses by nature include business travel expenses, cost of advertising and insurance. They amounted to PLN 305 5176 in the reporting period vs PLN 294,042 in the same period of 2017.

3.8. INCOME TAX ON CONTINUING OPERATIONS (PLN)

3.8.1. Income tax recognised in profit or loss

	Period ended Jun 30 2018	Period ended Jun 30 2017
Current income tax:		
Attributable to current year	7,719,562	0
Deferred income tax:		
Attributable to current year	(1,159,204)	207,161
Tax expense recognised in current year on continuing operations	6,560,358	207,161

With respect to income tax, the Company is bound by laws and regulations of general application. The Company does not conduct operations in any Special Economic Zone, which would entail the applicability of other rules for calculating taxes payable by the Company.

Reconciliation of the Company's tax and accounting profit

	Period ended Jun 30 2018	Period ended Jun 30 2017
Profit (loss) before tax from continuing operations	31,476,698	478,018
Income tax expense at 19% (2017: 19%)	5,980,573	90,823
Tax effect of income which is not classified as income for tax purposes	(17,098)	(451)
Tax effect of income which is classified as income for tax purposes	(4,381)	178,302
Tax effect of costs which are not deductible for tax purposes	1,857,311	217,120
Tax effect of costs which are deductible for tax purposes	(96,843)	(851,194)
Other changes	(6,174)	0
Total	7,719,562	(365,399)

The tax rate applied in the above reconciliation in 2018 and 2017 is 19%, and it is the corporate income tax rate applicable in Poland in accordance with the tax laws.

3.8.2. Current tax receivable and payable

	As at Jun 30 2018	As at Dec 31 2017
Current tax receivable / payable:		
Tax refund receivable	943,470	550,974
Income tax payable	(1,592,171)	(223,851)
Current tax receivable / payable:	(648,701)	327,123

3.9. PROPERTY, PLANT AND EQUIPMENT (PLN)

Carrying amount:

	As at Jun 30 2018	As at Dec 31 2017
Leasehold improvements (buildings and structures)	291,939	300,264
Plant and equipment	119,279	149,971
Vehicles	282,670	338,541
Other property, plant and equipment	21,280	25,556
Total	715,168	814,332

Gross carrying amount:

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2018	326,849	576,200	558,705	262,161	1,723,915
Increase	8,320	46,296	0	0	54,616
Decrease	0	3,007	0	0	3,007
As at Jun 30 2018	335,169	619,489	558,705	262,161	1,775,524

Accumulated depreciation and impairment:

	Buildings and structures	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2018	26,585	426,229	220,164	236,605	909,583
Depreciation charges	16,646	76,988	55,870	4,276	153,780
Decrease	0	3,007	0	0	3,007
As at Jun 30 2018	43,230	500,210	276,035	240,881	1,060,356

In the first half of 2018, the Company purchased plant and equipment for PLN 46,296. The Company also spent PLN 40,320 to modernise and convert the Company's head office at ul. Brechta 7 in Warsaw. In the first half of 2017, the Company purchased machinery and equipment for PLN 90,932 and spent PLN 31,076 on other property, plant and equipment. The total cost of modernisation and conversion of the office space at ul. Brechta 7 in Warsaw was PLN 102,202.

The amount of depreciation of property, plant and equipment in the first half of 2018 was PLN 153,780. In the corresponding period of 2017, the amount was PLN 144,318.

In the first half of 2018, impairment of property, plant and equipment was PLN 3,077. No such impairment was recognised in the first half of 2017.

3.10. INTANGIBLE ASSETS (PLN)

There were no research and development costs that did not meet the criteria to be capitalised on initial recognition in the reporting period or in the comparative period.

Useful lives of intangible assets used to calculate amortisation:

Completed development work

Completed game engine development work as at June 30st 2018 included capitalised cost of another two work phases with a remaining weighted average amortisation period of 34 months.

As at June 30th 2018, the completed video games development work comprised games with the remaining weighted average amortisation period of 32 months.

Ongoing development work

As at June 30th 2018, expenditures on ongoing development work mainly included development of video games and the game engine (phase five).

Testing ongoing development work for impairment:

As at each reporting date, the Company tests ongoing development work for impairment. As a result of this analysis, as at June 30th 2018, the Company did not recognise any development work for which an impairment risk would be identified. In the same period last year, the Company did not recognise any development work for which an impairment risk would be identified, either.

Carrying amount:

	As at Jun 30 2018	As at Dec 31 2017
Completed development work (game engine)	1,699,406	0
Completed development work (games)	9,987,094	1,471,052
Ongoing development work	4,167,050	11,457,660
Licences	39,668	138,786
Total	15,893,218	13,067,498

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2018	918,342	11,677,125	485,631	11,457,660	24,538,758
Increase due to separate acquisitions		0	5,386	4,070,336	4,075,721
Reclassification of completed development work	1,799,361	9,561,585	0	(11,360,946)	0
Other decrease	0	0	0	0	0
Remeasurement	0	0	0	0	0
Reclassification	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
As at Jun 30 2018	2,717,702	21,238,710	491,017	4,167,050	28,614,479

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2018	918,342	10,206,073	346,846	0	11,471,260
Depreciation charges	99,954	1,045,543	104,504	0	1,250,001
Decrease	0	0	0	0	0
Reclassification	0	0	0	0	0
As at Jun 30 2018	1,018,296	11,251,616	451,349	0	12,721,261

3.11. TRADE AND OTHER RECEIVABLES (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Trade and other receivables, including:	12,731,633	2,837,706
Other	56,317	106,257
Impairment losses on trade receivables	(68,649)	(158,638)
Taxes, grants, customs duties and social security	53,681	110,800
Total	12,662,984	2,679,070

For information on key customers whose balances as at June 30th 2018 represented a material share of total trade receivables, see Note 3.11.1. to the interim condensed financial statements.

3.11.1. Trade receivables (PLN)

The average collection period of trade receivables is 14 days. The Company recognised impairment losses for the full amount of receivables that are over 120 past due as past experience shows that such receivables are virtually unrecoverable.

As at June 30th 2018, the balances of receivables were PLN 12,662,983 (December 31st 2017: PLN 2,679,069). Key customers whose balances as at June 30th 2018 exceeded 5% of total trade receivables are listed in the table below.

Trading partner:

	As at Jun 30 2018	As at Dec 31 2017
Valve Corporation	6,553,554	920,645
Green Man Gaming Ltd	1,360,283	25,054
Apple Inc	251,015	378,803
GOG Sp. z o.o.	200,783	108,786
Koch Media GmbH	157,018	79,576
Google Commerce Ltd	52,129	162,917
Yiwan (Shanghai) Network Technology Co., Ltd	0	133,913
WILDFRAME MEDIA S.L.	0	229,399
Shanghai Kena Information Technology Co., Ltd.	0	121,846

The balances below are shown inclusive of receivables that were past due as at the end of the period but no impairment was recognised for them as their quality had not materially changed and they were still considered recoverable (see the ageing analysis below).

Aging analysis of past due receivables not covered by loss allowances:

	As at Jun 30 2018	As at Dec 31 2017
60-90 days	102,426	24,716
91-120 days	4,948	0
121-360 days	5,263	0
over 360 days	0	6,317
Total	112,637	31,033

Changes in impairment losses on doubtful receivables:

	Period ended Jun 30 2018	Period ended Dec 31 2017
As at beginning of reporting period	158,638	220,673
Recognition	0	0
Reversal	(89,989)	(62,034)
Use	0	0
As at end of reporting period	68,649	158,638

Impairment losses on doubtful debts included impaired trade receivables totalling PLN 68,649 as at June 30th 2018 (December 31st 2017: PLN 158,638). The impairment losses recognised represent the difference between the carrying amount of such trade receivables and the present value of the expected proceeds. The debt is not secured.

Ageing analysis of impaired trade receivables

	As at Jun 30 2018	As at Dec 31 2017
60-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	68,649	158,638
Total	68,649	158,638

3.12. NON-CURRENT FINANCIAL ASSETS (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Investment fund units (PKO BP Płynnościowy SFIO)	3,074,430	3,053,534
Total	3,074,430	3,053,534

3.13. SHORT-TERM FINANCIAL ASSETS (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Bank deposits with maturity over 3 months	16,000,000	0
Total	16,000,000	0

3.14. OTHER CURRENT ASSETS (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Insurance	17,976	25,368
Domain names, licences, subscriptions	113,398	14,412
Prepaid expenses	164,380	250,819
Other	0	3,000
Total	295,754	293,599

3.15. OTHER ASSETS (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Long-term security deposits	152,087	145,116
Long-term prepayments and accrued income	7,690	3,220
Total	159,777	148,336

3.16. CASH AND CASH EQUIVALENTS (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Cash in hand and at banks	24,247,613	13,076,622
Bank deposits	5,000,000	12,099,710
PKO BP Bank Hipoteczny bonds	3,000,000	3,000,000
Total	32,247,613	28,176,332

Cash at banks, cash in hand and bank deposits as at June 30th 2018, by currency:

- PLN 30,742,680,
- USD 173,547 (PLN 649,761),
- EUR 195,448 (PLN 852,642),
- CNY 4,472 (PLN 2,530).

Cash at banks and bank deposits as at December 31st 2017, by currency:

- PLN 17,861,588,
- USD 2,638,428 (PLN 9,185,158),
- EUR 252,297 (PLN 1,052,307),
- CNY 144,472 (PLN 77,278).

The bonds of PKO Bank Hipoteczny are treated as the Company's current liquidity management instruments rather than an investment.

3.17. SHARE CAPITAL (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Share capital	228,720	228,720
Total	228,720	228,720

As at June 30th 2018, the Company's share capital was paid up, amounted to PLN 228,719.90 and was divided into 2,287,199 ordinary shares.

3.18. TRADE AND OTHER PAYABLES (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Trade payables	400,804	551,919
Taxes, customs duties, insurance and other dues	253,908	98,851
Accruals and deferred income	6,651,316	546,284
Amounts payable to employees	3,137	799
Total	7,309,165	1,197,853

The average period of payment to suppliers of goods and services in Poland was 14 days. The Company has financial risk management policies in place to ensure the timely payment of liabilities.

3.19. ACCRUED EMPLOYEE BONUSES AND OTHER ACCRUALS AND DEFERRED INCOME (PLN)

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2018	100,000	159,106	287,178	546,284
Increase:				
Recognition	1,564,335	1,413,121	4,559,145	7,536,601
Decrease:				
Use	100,000	793,862	537,707	1,431,569
As at Jun 30 2018	1,564,335	778,365	4,308,616	6,651,316

Comparative data for the period from January 1st to December 31st 2017

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2017	762,703	51,270	68,753	882,726
Increase:				
Recognition	655,853	212,179	674,289	1,542,321
Decrease:				
Use	1,318,556	104,344	455,863	1,878,763
Reversal	824,504	104,344	417,771	1,346,619
Reclassification	509,958	0	22,187	532,145
As at Dec 31 2017	100,000	159,106	287,178	546,284

3.20. FINANCIAL INSTRUMENTS BY CATEGORY (PLN)

The Company analysed classes of financial instruments and concluded that the carrying amount of the instruments does not differ from their fair value both as at June 30th 2018 and December 31st 2017.

3.20.1. Financial assets and liabilities

Financial assets:

	As at Jun 30 2018	As at Dec 31 2017
Financial assets measured at amortised cost - cash	32,247,613	28,176,332
Financial assets measured at fair value - fund participation units	3,074,430	3,053,534
Financial assets measured at amortised cost - bank deposits over 3 months	16,000,000	0
Financial assets measured at amortised cost - trade and other receivables	12,609,303	2,679,070
Total	63,931,346	33,908,936

Financial liabilities:

	As at Jun 30 2018	As at Dec 31 2017
Liabilities measured at amortised cost - trade and other payables	7,309,165	1,197,853
Total	7,309,165	1,197,853

Ageing analysis of trade and other payables

	As at Jun 30 2018	As at Dec 31 2017
Current	7,309,165	1,181,574
60-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	16,279
Total	7,309,165	1,197,853

3.20.2. Fair value measurement methods

Relative to the prior reporting period, the Company has not changed the methods used to measure financial instruments.

The fair value of financial assets and liabilities listed on active markets is determined based on their quoted prices (Level 1 inputs). The fair value of other items is determined based on either directly or indirectly observable inputs (Level 2 inputs) or unobservable inputs (Level 3 inputs).

The fair value of bonds is measured at cost, plus any outstanding interest and discount determined using the effective interest rate. The fair value of investment fund units is measured at cost equal to their purchase price on an active market.

Financial assets:

	As at Jun 30 2018	As at Dec 31 2017	Fair value hierarchy
Investment fund units	3,074,430	3,053,534	Level 1

No assets were transferred between Level 1 and Level 2 in the reporting period.

Deferred income (PLN)

	As at Jun 30 2018	As at Dec 31 2017
Government grants (a)	996,637	1,068,979
Other (b)	2,374	160,189
Total	999,011	1,229,168
Short-term	236,239	466,396
Long-term	762,772	762,772
Total	999,011	1,229,168

(a) The amount represents the total of:

- Government grant (EU funding) received in 2014 under the INNOTECH programme. Income from the grant was partly accounted for against property, plant and equipment depreciation recognised in 2014-2015 and continues to be accounted for against depreciation charges which have been recognised in 2018 and will continue to be recognised in the future - PLN 49,096 (December 31st 2016: PLN 91,439).
- Government grant (EU funding) received in 2014 under the MEDIA programme for the development of proprietary technology. Income from the grant was partly accounted for against costs of remuneration of the *Frostpunk* development team recognised in 2014-2015 and continues to be accounted for against amortisation charges which have been recognised in 2018 and will continue to be recognised in the future - PLN 509,975 (December 31st 2016: PLN 539,973);
- Government grant (EU funding) received in 2017 under the Creative Media programme for the development of *Project 8*, our new innovative video game. Income from the grant has not been accounted for yet. It will be accounted for against depreciation in the coming years - PLN 437,566 (December 31st 2016: PLN 437,566).

(b) The amount represents settlement of contracts entered into by the Company with two trading partners. The partners, which resell goods made by the Company (games) to end customers, purchased the Company's proprietary games as well as games published by the Company in volumes specified in the respective agreements. The purchased games have been fully paid for. However, software keys to some of the games have not been delivered to the partners yet.

3.21. SHARE-BASED PAYMENTS (PLN)

3.21.1. Employee stock option plan for 2017-2019

Pursuant to Resolution No. 18/05/2017 of the Company's General Meeting of May 10th 2017, the Company operates an Incentive Scheme for Members of the Management Board, employees and associates. Persons who signed Incentive Scheme participation agreements with the Company are entitled to acquire Series B subscription warrants convertible into Series G shares, subject to delivery by the Company of the objectives set out in the Incentive Scheme Rules.

The Incentive Scheme covers the years 2017-2019. Persons who have the right to acquire the warrants will be entitled to exercise them by subscribing for Series G shares by June 30th 2023.

Pursuant to Resolution No. 05/06/2017 of the Extraordinary General Meeting of June 7th 2017, for the purposes of the Incentive Scheme the Company may issue up to 130,000 Series G shares with a par value of PLN 0.10 per share and a total par value of PLN 13,000. By June 30th 2020, the General Meeting, at a motion of the Supervisory Board, will adopt a resolution to grant Series B subscription warrants to the participants of the Incentive Scheme; the number of the warrants will be specified in the motion of the Supervisory Board.

The grant of the warrants is subject to the achievement of the following financial targets (in PLN):

Total revenue of 11 bit studios S.A., 2017-2019	126,414,447
Total pre-tax profit of 11 bit studios S.A., 2017-2019	71,188,803

If the financial targets are not fully met, the pool of shares offered under the Incentive Scheme will be reduced by 10% for each 5% of the underperformance.

According to the parameters of the Scheme, as at June 30th 2018 the number of warrants available under the Scheme and the estimated number of warrants that may be subscribed for were as follows:

	Available number of warrants (maximum)	Estimated number of warrants that may be subscribed for
Total revenue of 11 bit studios S.A., 2017-2019, weight 1/3	43,333	43,333
Total pre-tax profit of 11 bit studios S.A., 2017-2019, weight 2/3	86,667	86,667
Total	130,000	130,000

The issue price of Series G shares in the Incentive Scheme was set at PLN 103.38.

3.21.2. Recognition of the Incentive Scheme as at the reporting date

The fair value of warrants granted under the Incentive Scheme has been estimated using the Damodaran Warrant pricing model, which takes into account, among other things, the Company's share price as at the date of signing the Incentive Scheme participation agreement (the grant date) and the annual volatility of the price of Company shares. This value is charged to profit or loss proportionately throughout the entire period of settlement of the three-year Incentive Scheme, and is recognised as reserve capital. The key parameters of the model used to calculate the fair value of the potential Incentive Scheme premium and the costs to be charged to profit or loss in a given period are presented below:

Grant date (date of signing the participation agreements)	Mar 30 2018
Vesting date	until Jun 30 2020
Price 11 but studios S.A. shares on the grant date (PLN)	209.00
Volatility of 11 bit studios S.A. share price per annum (%)	70.41%
Risk-free rate (%)	2.354%
Number of warrants in the Incentive Scheme	130,000
Valuation of warrants (PLN)	151.53
Cost of the Scheme as at June 30th 2018	2,202,128
Cost of the Scheme as at June 30th 2017	0
Profit and loss account - employee benefits expense (PLN) in 2018	2,202,128
Profit and loss account - employee benefits expense (PLN) in 2017	0

3.22. RELATED-PARTY TRANSACTIONS

Related parties include members of the Management Board and the Supervisory Board and key personnel of the Company (key management).

- Grzegorz Miechowski - President of the Management Board,
- Przemysław Marszał - Member of the Management Board,
- Michał Drozdowski - Member of the Management Board.

Bartosz Brzostek was a Member of the Management Board until May 9th 2018, when he resigned from office for personal reasons.

- Piotr Sulima - Chairman of the Supervisory Board,
- Jacek Czykiel - Deputy Chairman of the Supervisory Board,
- Radosław Marter - Member of the Supervisory Board,
- Agnieszka Maria Kruz - Member of the Supervisory Board,
- Wojciech Ozimek - Member of the Supervisory Board.

The Group's related parties include also the following persons related to members of the key management:

- Paweł Miechowski, a senior writer - brother of Grzegorz Miechowski, President of the Management Board,
- Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek (law office); Agnieszka Rabenda-Ozimek is married to Wojciech Ozimek, Member of the Supervisory Board.

3.22.1. Commercial transactions (PLN)

Apart from the services provided by the Members of the Company's Management Board and Supervisory Board, the Company entered into the following related-party transactions in the first half of 2018 and the first half of 2017:

Services provided	Period ended Jun 30 2018	Period ended Jun 30 2017
Paweł Miechowski	74,096	57,248
Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek	55,118	26,740
Total	129,214	83,988

3.22.2. Loans received from related parties

The Company did not receive any loans from related parties in the first half of 2018 or the first half of 2017.

3.22.3. Remuneration of members of the Management Board, key personnel and members of the Supervisory Board (PLN)

Key management personnel are the Management Board and the Supervisory Board of the Company. The remuneration received by Members of the Company's Management Board in the first half of 2018 and in the comparative period is presented below.

Remuneration for the performance of management functions:

	Period ended Jun 30 2018	Period ended Jun 30 2017
Grzegorz Miechowski	753,591	154,890
Bartosz Brzostek (Member of the Management Board until May 9th 2018)	178,653	154,535
Przemysław Marszał	753,066	54,549
Michał Drozdowski	749,161	50,557
Total	2,434,471	414,531

Supervisory Board: Remuneration for the performance of supervisory functions:

	Period ended Jun 30 2018	Period ended Jun 30 2017
Piotr Sulima	8,903	8,903
Jacek Czykiel	5,935	5,935
Radosław Marter	2,968	2,968
Agnieszka Maria Kruz	2,968	2,968
Wojciech Ozimek	2,968	2,968
Total	23,742	23,742

Remuneration of the members of the Company's Management Board is determined by the Supervisory Board and depends on the performance of individual persons and on market trends.

Members of the Management Board did not receive any other remuneration based on profit distribution for the first half of 2018 or the first half of 2017.

The remuneration of the Management Board members for the first half of 2018 includes provisions for annual bonuses.

Members of the Management Board participate in the Incentive Scheme for 2017-2019, which was approved by the General Meeting on May 10th 2017. The Scheme, which also covers key employees and associates of the Company, is based on the assumption that in 2017-2019 the Group's cumulative pre-tax profit will amount to nearly PLN 71.2m. The target for the Group's total revenue in the same period is PLN 126.4m. If these targets are delivered, the Scheme

participants will receive up to 130 thousand Series G shares at the issue price of PLN 103.38 per share. For a detailed description of the Incentive Scheme, see Note 3.21.

In addition, Members of the Management Board received the following consideration for services under contracts for specific work (*umowa zlecenie*):

	Period ended Jun 30 2018	Period ended Jun 30 2017
Grzegorz Miechowski	5,000	0
Bartosz Brzostek (Member of the Management Board until May 9th 2018)	0	0
Przemysław Marszał	5,000	90,000
Michał Drozdowski	5,000	90,000
Total	15,000	180,000

3.22.4. Other related-party transactions

Apart from the transactions described above, the Company did not enter into any other related-party transactions.

3.23. INFORMATION ON DIVIDEND PAID OR DECLARED

The Company did not pay any dividend in the first half of 2018 or the first half of 2017.

3.24. OFF-BALANCE-SHEET CAPITAL COMMITMENTS

As at the date of issue of the Half-Year Report for the first half of 2018, the Company had off-balance sheet capital commitments of PLN 2,612,525 and EUR 125,000 under publishing contracts concluded with third-party development studios.

3.25. CONTINGENT ASSETS AND LIABILITIES

3.25.1. Contingent liabilities

During the financial year, 11 bit studios S.A. occupied office space for business purposes at ul. Bertolta Brechta 7, Warsaw, under a lease contract of May 25th 2016. Lease costs recognised in profit or loss for the first half of 2018 were PLN 165,597.

Irrevocable lease payments (due within up to 1 year) for the office space at ul. Bertolta Brechta 7, Warsaw, were PLN 248,396.

In the corresponding period of the previous financial year, 11 bit studios S.A. also used the office space at Bertolta Brechta 7 in Warsaw. Lease costs recognised in profit or loss for the first half of 2017 were PLN 290,573.

3.25.2. Contingent assets

As at June 30th 2018 and in the previous comparative period, the Company did not recognise any contingent assets.

3.26. NOTES TO THE INTERIM CONDENSED STATEMENT OF CASH FLOWS (PLN)

The item Other adjustments of the interim condensed financial statements for the first half of 2018 consists of:

	Period ended Jun 30 2018	Period ended Jun 30 2017
Amortisation/depreciation charges allocated to project costs	14,793	14,693
Settlement of withholding tax for 2017 and previous years	103,921	0
Measurement of long-term financial assets	(20,896)	0
Measurement of share-based payments - Incentive Scheme	2,202,128	0
Other adjustments	0	0
Total	2,299,946	14,693

3.27. SEASONAL AND CYCLICAL CHANGES IN THE COMPANY'S BUSINESS DURING THE REPORTING PERIOD

In the first half of 2018, the Company did not record any unusual seasonal or cyclical fluctuations.

3.28. FACTORS AND EVENTS, ESPECIALLY OF A NON-RECURRING NATURE, WITH A BEARING ON THE FINANCIAL RESULTS

In the first half of 2018, there were no unusual factors or events affecting the Company's financial results.

3.29. EVENTS SUBSEQUENT TO THE REPORTING DATE

No events occurred which would have an impact on these interim financial statements for the first half of 2018 by the date of their authorisation for issue by the Parent's Management Board on August 30th 2018.

3.30. FACTORS WITH A BEARING ON THE COMPANY'S FUTURE RESULTS

The Company's results in the coming quarters will be determined primarily by sales of *Frostpunk*. The title, which premiered for the PC platform on April 24th 2018, will be further developed through extensions and paid add-ons (DLC). At the end of May 2018, 11 bit studios S.A. presented a roadmap (schedule) for publishing extensions and add-ons to *Frostpunk* in 2018, to sustain the interest in the game and its further sales. The Company is also working on *Frostpunk* versions for other hardware platforms. 11 bit studios S.A. has also prepared a schedule of marketing and promotional activities, including sale campaigns, aimed at maintaining the monetization of *Frostpunk* at a satisfactory level.

In the future, the sale of games produced by third-party developers to which the Company provides publishing services will also have a significant contribution to the results of 11 bit studios S.A. The strong sales of *Moonlighter* (released on May 29th 2018) in the period around the premiere suggest that the game will enjoy a long-term success. 11 bit studios S.A. intends to actively support sales of *Moonlighter* and, together with the developer (Digital Sun), to work on further development of the game, including through releases of the title's versions for other hardware platforms. In Current Report No. 20/2018 of August 20th 2018, 11 bit studios S.A. announced release of the Nintendo Switch version of *Moonlighter*. The premiere is planned to take place before the end of 2018.

The Company also has high hopes for the upcoming release of *Children of Morta* (title from the publishing house), which has sparked significant interest among the media and players and offers quite good sales outlook. The launch date for PC, Xbox One and PS4 versions of *Children of Morta* has not been set yet. In the same Current Report No. 20/2018 11 bit studios S.A. announced that the game will also be released for the Nintendo Switch console. The release this version of the game is expected in the initial months of 2019.

11 bit studios S.A. also intends to continue earning revenue from the sale *This War of Mine*; however, as the title has been present on the market for almost four years, the significance of this source of revenue will decline. However, the Company intends to take further steps to extend the life of the product. Work is underway on two more add-ons to the *TWoM: Stories* series. The game will also be released for Nintendo Switch by the end of this year.

Beat Cop (title from the publishing house), which premiered in March 2017, will also be released for this platform, and the PS4 version will launch by the end of 2018.

In the long run, the Company's results will be determined by another game which is currently under development by the internal team. *Project 8* (working title) is at the stage of advanced prototype. This phase of the development work should be completed by the end of the year. According to current assumptions, the *Project 8* team should ultimately be comparable in size to the team which produced *Frostpunk* (50-55 people), and the game's budget will be at least similar to *Frostpunk*'s. In the medium term (several years), 11 bit studios S.A. would like to have at least three comparable development teams so that it could increase the number of parallel projects and thus the frequency of new releases; this would help stabilise financial results, which in the computer games industry are highly volatile.

Following the success of *Moonlighter*, the Company also intends to further develop its publishing division. The medium-term strategy of 11 bit studios S.A. in the publishing area assumes that third-party games would be launched every quarter. If the number of new releases in the 11 bit publishing division increases to several a year, this should have a positive effect on the Company's performance in terms of both volume and stability.

3.31. PROCEEDINGS PENDING BEFORE A COURT, ARBITRATION BODY OR PUBLIC ADMINISTRATION AUTHORITY

There are no proceedings pending before courts or public administration bodies against 11 bit studios S.A. concerning the Company's or its subsidiary's liabilities or receivables whose total value would represent 10% of the Company's equity, or which could have a material and foreseeable impact on the Company's future financial performance.

Signed by:



Grzegorz Miechowski
President of the Management Board



Przemysław Marszał
Member of the Management Board



Michał Drozdowski
Member of the Management Board

Warsaw, August 30th 2018

**DIRECTORS' REPORT ON THE OPERATIONS OF 11 BIT STUDIOS
S.A.
IN THE FIRST HALF OF 2018**



4. OVERVIEW

4.1. FACTORS WITH A BEARING ON THE COMPANY'S RESULTS IN THE FIRST HALF OF 2018 AND UNTIL THE DATE OF RELEASE OF THE REPORT

The main factors which affected revenue of 11 bit studios S.A. in the first half of 2018 were the premieres of *Frostpunk* and *Moonlighter* (a title created by a third-party developer), and satisfactory sales of *This War of Mine*.

The PC version of *Frostpunk* was released on April 24th 2018. The game, which tells the story of struggle for survival of a community in the freezing world, proved very popular with fans, which resulted in very good sales in the period around the premiere. Within 66 hours of the premiere, fans purchased more than 250 thousand copies of *Frostpunk*, which more than covered all the production costs. In the very short time from the launch, *Frostpunk* came to the very top of bestseller lists compiled by the world's leading digital gaming platforms, including: Steam, Humble Bundle and GOG.com. The product also enjoyed very high marks for its quality and playability awarded by the industry's media (85/100 points by Metacritic) and the users (8.7/10 points). As a result, in the following weeks (also after the reporting date and as the day of release of the report of the first half of 2018) strong sales of *Frostpunk* continued.

Moonlighter, developed by the Spanish Digital Sun studio, was released on May 29th 2018 (for PCs, Xbox One and PS4). 11 bit studios S.A. was the publisher of the game. Like *Frostpunk*, the title was very well received by the market. Feedback from the industry media and users was positive, and with strong sales the game ranked first on Steam's bestseller list.

This War of Mine continued to contribute very positively to the Company's results in the first half of 2018, despite the fact that more three years have passed since its launch (the PC version of the game was released on November 14th 2014). In the reporting period, 11 bit studios S.A. was actively involved in marketing activities and effectively reached new audiences with the product.

4.2. OVERVIEW OF THE COMPANY'S BUSINESS IN THE FIRST HALF OF 2018

Since its incorporation in 2009, the principal activity of 11 bit studios S.A. has been the development of computer games for various hardware platforms. The company also sells computer games, either on its own or with the support of external publishers. Since spring 2014, as part of business diversification efforts, the Company has been developing the 11-bit publishing division which, apart from publishing games developed by 11 bit studios S.A., also publishes titles created by third-party developers.

4.2.1. Game development

In the first half of 2018, 11 bit studios S.A. focused its game development activities on the production of *Frostpunk*, which included preparation of various language versions of the product and its testing, both internal and external. The



premiere of the game - which in line with expectations became another milestone in the Company's development - took place on 24 April (for PCs). The game was released in seven language versions, including Chinese, and is available both in a digital version and as an expanded physical pack (the 'Victorian Edition'). *Frostpunk*'s budget finally closed at ca. PLN 12m, of which ca. PLN 10m was spent on the game's development. The remaining part of the budget comprised marketing expenses (trailers and advertising films, trade fairs and events, promotional materials, etc.). In the final stages, as many as 50-55 developers (including several external specialists) were involved in the production of *Frostpunk*; most of our employees and associates participated in the process.

The Company intensified its marketing activities in early 2018 in order to build gamers' and industry media's interest in the new game. For instance, *Frostpunk* was shown at Pax South in San Antonio (USA) in January. Successive *Frostpunk* videos (trailers) were made available online, attracting a large audience. On February 28th, in its *Irreversible* video, the Company announced that the retail price of the game would be USD 29.99 (or its equivalent in other currencies) and revealed that *Frostpunk* would be a game showing how to rule the society using totalitarian methods. In a video entitled *Serenity*, released on March 9th, the Company announced that *Frostpunk* would be available starting from April 24th. A campaign that took place in early April was an important part of generating interest in the productions of 11 bit studios S.A. Fans were allowed to play *This War of Mine* on Steam for a few days free of charge and subsequently they could buy the game at a 70% discount. In line with the Company's key intention, the TWoM campaign resulted in a surge on the Steam wish list for *Frostpunk*. On April 9th 2018, i.e. two weeks before the release date, the game was on 300,000 wish lists, several times more than *This War of Mine* on the date of its premiere.

The launch, preceded by a very effective and efficient promotional and marketing campaign, turned out to be a huge success, the biggest in the history of 11 bit studios S.A. *Frostpunk* quickly climbed to the top of bestseller lists of the world's most important digital gaming platforms, including Steam, Humble Bundle and GOG.com, and stayed there for some time. Within 66 hours of the premiere, fans purchased more than 250 thousand copies of *Frostpunk*, and the Company more than recouped all the production costs. The release was accompanied by a rash of very positive reviews in the industry and general media. Within a short period of time, hundreds of articles in the press and electronic media were published about the latest production of 11-bit studios S.A. The high quality and playability of the game was confirmed by high scores from the industry media and the users. According to Metacritic, the average score in the former group was as high as 85/100 points, and in the latter - 8.7/10 points. All this means that *Frostpunk* is one of the best game releases in 2018 (until the publication of the report for the first half of 2018). It also confirms that the *Frostpunk* development team is highly competent and can successfully implement the most complex projects on its own. In the coming quarters, the team will work on further development of *Frostpunk*, including extensions and add-ons, some of which will be marketed as paid software.

In the first half of 2018, the Company also continued its work on the production of a game under the working title of *Project 8*. The title is being developed by another team which the Company has been building for several quarters. The production of *Project 8* is progressing on schedule. The game is now at the stage of advanced prototype. The Company intends to close this stage by the end of 2018 and move on to the production phase, which may take several quarters. The *Project 8* team currently consists of a dozen or so developers and continues to grow, a process which will accelerate once *Project 8* moves into the production phase. The recruitment process has already started. According to current assumptions, the *Project 8* team should ultimately be comparable in size to the team which produced *Frostpunk* (50-55 people), and the game's budget will be at least similar to *Frostpunk*'s.

Parallel to the production of *Frostpunk* and *Project 8*, in the first half of 2018 the Company also worked on the development of *This War of Mine* in order to maintain the interest in the title among players and to further monetize the product. In the coming months, 11 bit studios S.A. intends to complete work on two further additions to the series *TWoM: Stories* (the first supplement from this series was released on November 14th 2017, on the third anniversary of the premiere of *TWoM*). The Company also supports the porting (transfer) of *TWoM* to the Nintendo Switch console, a project currently implemented by Crunching Coalas, a third-party studio. The launch of *TWoM* for this platform is planned to take place before the end of 2018.

4.2.2. Publishing Division

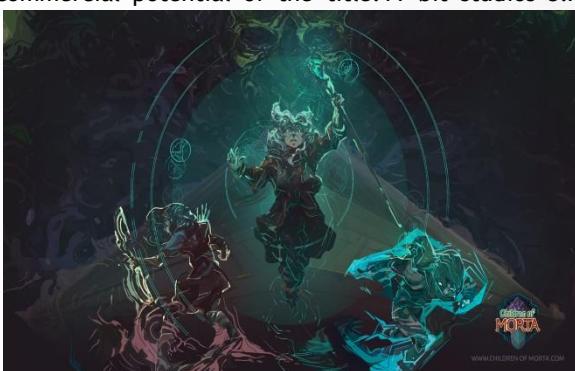
In the 11-bit publishing division, the most important event of the first half of 2018 was the release, on May 29th 2018, of *Moonlighter*, a game produced by the Spanish Digital Sun studio. *Moonlighter* is a roguelike game, in which the player becomes Will - a shop owner during the day and a brave adventurer at night. The title refers to classic 2D games such as *Legend of Zelda* or *Harvest Moon*. The game stands out for its pixel art textures. The game debuted simultaneously for PCs, Xbox One and PS4 and is available in the world's leading digital gaming platforms, including Steam. From day one, *Moonlighter* was available in as many as 10 language versions, including Chinese.



The premiere of *Moonlighter* has been the 11 bit publishing division's most successful release so far. An effective promotional and marketing campaign (the Spanish game has been presented at all of the most important events of the global gaming industry) made *Moonlighter* one of the bestsellers on the Steam platform. In the following weeks, including after the end of the reporting period, the title continued to be very popular with fans all over the world, which translated into solid sales (in volume terms) and a strong revenue stream. 11 bit studios S.A., together with the developer, has planned a number of activities related to the development of *Moonlighter* in order to maintain its further sale and maximize the life cycle of the game. For example, in addition to issuing extensions and add-ons, the title can be transferred to the Nintendo Switch console. The porting the game is done by the developer, i.e. the Digital Sun studio. This version of *Moonlighter* will be available for sale later this year. Players' interest in the Nintendo Switch version of *Moonlighter* is very satisfactory, which, in the Company's opinion, may have a positive impact on sales volumes.

Children of Morta was another strategic to which the 11-bit publishing division devoted its resources and capital in the first half of 2018. The game's developer is Dead Mage, an American-Iranian studio based in Austin, USA. *Children of Morta* represents the Action-RPG genre. It has a rich, hand-drawn world (in the pixel art style) and a number of playable characters. The game tells the story of the Bergson family, guardians of the mystical Mount Morta, who are facing a threat that will put the strength of their arms and family ties to the test. *Children of Morta* will be come in versions for PCs as well as Xbox One and PS4 consoles. The game is planned to be launched within a few months. The titles will also be delivered to the Nintendo Switch consoles sometime in early 2019. The game will be ported by the developer, i.e. Dead Mage.

Children of Morta has sparked significant interest among the trade media and players, which bodes well for the commercial potential of the title. 11 bit studios S.A. has very actively promoted the game at the most important international fairs. Only in the first six months of this year



Children of Morta was presented at such events as PAX South in San Antonio (February), the Game Developers Conference 2018 in San Francisco (March), and E3 in Los Angeles (June). At the second of these events, *Children of Morta* was featured in a small group of titles presented at the ID@Xbox conference, where the most interesting productions for Xbox One consoles created by smaller, independent development studios are shown.

In addition to the release of *Moonlighter* and the preparations for the premiere of *Children of Morta*, in the first half of 2018 the 11-bit publishing team actively supported the sale of *Beat Cop* (released in March 2017) and *Tower 57* (November 2017).

After the reporting period, the Company announced that it was working on porting *Beat Cop* to the Nintendo Switch platform. The premiere (the porting is done by Crunching Coalas) of the game for Sony devices is planned before the end of this year. Crunching Coalas is also responsible for preparing the Xbox One and PS4 versions of *Beat Cop* whose releases are also planned for 2018.

In the first half of 2018, the 11-bit publishing management team also took active steps to expand the publishing portfolio. The Company participated in all major industry events around the world in search for interesting projects and to establish contacts with independent development studios. Results of these efforts should translate into publishing contracts, which the Company will notify to the market in due course.

Other developments

The first half of 2018 was full of important developments which built and consolidated the image of 11 bit studios S.A. as a developer and publisher providing gamers with highest-quality entertainment. The Company also received numerous awards and distinctions for its business achievements.

In January 2018, *Beat Cop* (11 bit studios S.A. was its publisher) was nominated for the Offroadway Award for Best India Game! during the 7th Annual New York Game Award.

In March 2018, *Children of Morta* won an award from Get India Gaming as one of the best indie games presented at the Game Developers Conference 2018 in San Francisco.

Children of Morta also won a similar distinction from Games Radar at the PAX East in Boston in April.

Also in April, the Company took third place in the third edition of the Business Sharks competition organised by Investoryz.tv.

On May 9th 2018, Bartosz Brzostek, Member of the Management Board, resigned from office citing personal reasons.

On May 24th 2018, the General Meeting of 11 bit studios S.A. decided to allocate the entire net profit earned by the Company in 2017, of PLN 3,417,340 to supplementary capital.

In June, at the E3 fairs in Los Angeles, GameInformer highlighted *Children of Morta* as one of the best indie games shown at the event.

Also in June, *Frostpunk* won the title of the best game at the BIG Festival (the most important event of the gaming industry in Brazil).

On June 19th 2018, 11 bit studios S.A. received a notification from NN Investment Partners TFI of the increase in TFI's holding of Company shares and of TFI exceeding 5% of total voting rights in the Company. Following transactions executed on June 15th 2018, the funds managed by NN Investment Partners TFI S.A. held 119,229 shares in 11 bit studios S.A., representing 5.21% of the Company's share capital and conferring the same number of voting rights.

On June 22nd 2018, 11 bit studios S.A. received a notification from Grzegorz Miechowski, President of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Grzegorz Miechowski sold 2,000 shares of 11 bit studios S.A. for PLN 445 per share. Following the transaction, Grzegorz Miechowski holds 160,696 Company shares representing 7.03% of the share capital. On the same day, the Company received a similar notification from Przemysław Marszał, Member of the Management Board, who, having sold (on June 22nd) 4,000 shares of 11 bit studios S.A., at PLN 445 per share, reduced its holding to 118,000 shares, representing 5.16% of

the share capital. On June 22nd 2018, Michał Drozdowski, Member of the Management Board, sold 4,000 shares of 11 bit studios S.A. for PLN 445 per share. Following the transaction, Michał Drozdowski holds 89,630 Company shares representing 3.92% of the share capital.



Source: Parkiet.com

The first half of 2018 was very good for the shareholders of 11 bit studios S.A. in terms of the rate of return on the Company shares. The surge in interest in the Company securities was a result of the successful premieres of *Frostpunk* and *Moonlighter*. Both titles climbed to the top of the Steam bestseller list, which was noted and appreciated by stock market investors. The demand for 11 bit studios S.A. shares temporarily raised the price of the securities to PLN 529 (close on May 15th 2018). At the end of June 2018, the Company shares were traded at PLN 454, i.e. almost 230% more than during the last session of 2017 (PLN 198). The market capitalization of 11 bit studios S.A. at the end of the first half of the year was slightly more than PLN 1bn.

The strong performance of our stock, accompanied by increased trading volumes, was also appreciated by the Warsaw Stock Exchange, whose Management Board decided to include 11-bit studios shares in the mWIG40 index as of June 15th 2018. Previously, the securities were a constituent of sWIG80.

The growing interest in the stock also translated into numerous new recommendations and increased research coverage of 11 bit studios S.A. In February 2018, Dom Maklerski BOŚ released a report with a BUY recommendation and a target price of PLN 253 per share. In March 2018, Pekao IB issued a BUY recommendation with a target price of PLN 250.5 per share. In April 2018, Dom Maklerski BZ WBK recommended buying 11 bit studios S.A. shares, with a target price of PLN 316 per share. In the same month, DM BOŚ raised the target price to PLN 377 per share. The broker continued to recommend buying the stock. In its next report, released in May, DM BOŚ valued the Company's securities at PLN 480, and maintained its BUY recommendation. Also in May, Pekao IB adjusted the target valuation of 11 bit studios shares to PLN 586.1 per share, and maintained the BUY recommendation. In the same month, DM BZ WBK also changed the target price of the stock, raising it to PLN 710 per share. The broker continued to recommend buying the shares. After the reporting period, three more research reports covering 11 bit studios S.A. were published. In July, DM BOŚ valued the shares of 11 bit studios S.A. at PLN 526, with a HOLD recommendation. Vestor DM put a BUY recommendation on the Company shares, with a target price of PLN 511. In its August report, Wood&Co recommended buying the securities of 11 bit studios, with the target price of PLN 560 per share.

After the reporting period, on July 12th 2018, the Company announced that it had signed an agreement with Shenzhen Tencent Computer Systems Company Limited (Tencent) for the distribution of *Moonlighter* in China. The agreement granted Tencent the exclusive right to distribute *Moonlighter* on the Chinese market.

After the reporting period, on July 26th 2018, 11 bit studios S.A. received a notification from Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne S.A. of Warsaw that its holding of the Company shares had decreased and that the number of voting rights fell below the threshold of 5%. After the transactions settled on July 20th 2018, the funds managed by N-N PTE S.A. held 111,832 Company shares, representing 4.89% of the share capital.

Also after the reporting period, on August 20th 2018, 11 bit studios S.A. announced their intention to release *This War of Mine*, *Beat Cop*, *Moonlighter* and *Children of Morta* for the Nintendo Switch console. The first three titles will be launched on the Sony platform before the end in 2018. The premiere of *Children of Morta* for Nintendo Switch is planned for early 2019.

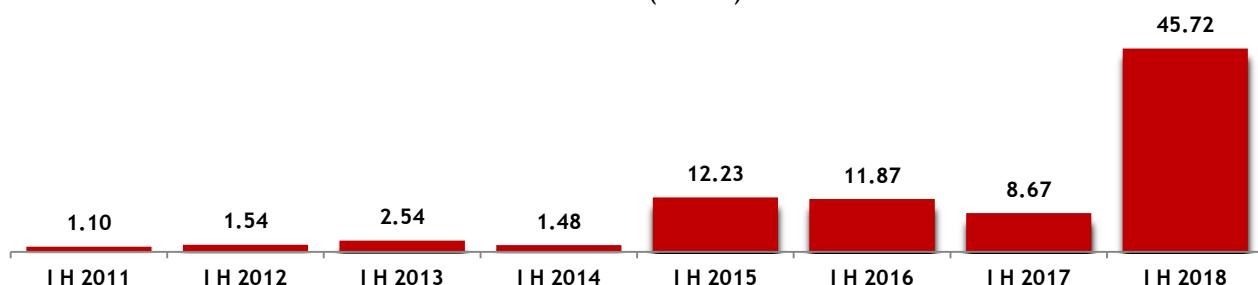
5. FINANCIAL CONDITION OF 11 BIT STUDIOS S.A.

5.1. STATEMENT OF PROFIT OR LOSS (PLN)

	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)	Change y/y (%)
Continuing operations			
Revenue	45,725,373	8,669,204	427.45
Other income	463,392	185,359	150.00
Total operating income	46,188,765	8,854,563	421.64
Depreciation and amortisation	(1,388,989)	(938,495)	48.00
Raw materials and consumables used	(112,711)	(134,661)	-16.30
Services	(6,930,814)	(2,677,097)	158.89
Salaries, wages and employee benefits	(6,430,684)	(1,272,356)	405.42
Taxes and charges	(134,315)	(31,836)	321.90
Other expenses	(954,272)	(779,865)	22.36
(Impairment)/reversal of impairment of financial instruments	(54,183)	0	-
Total operating expenses	(16,005,968)	(5,834,310)	174.34
Operating profit	30,182,797	3,020,253	899.35
Finance income	1,294,479	43,135	2900.99
Finance costs	(578)	(2,585,370)	-99.98
Profit before tax	31,476,698	478,018	6,484.84
Income tax expense	(6,560,358)	(207,161)	3,066.79
Net profit from continuing operations	24,916,340	270,857	9099.08
Discontinued operations	0	0	-
Net profit from discontinued operations	0	0	-
NET PROFIT	24,916,340	270,857	9099.08
Earnings per share (PLN per share) from continuing operations:			
Basic	11.24	0.12	9266.67
Diluted	10.61	0.12	8741.67

In the first half of 2018, 11 bit studios S.A. earned revenue of PLN 45,725,373, which represented a year-on-year increase of 427.45%. The dynamic growth of revenues was the result of the commercial launch of two games in the second quarter of 2018. *Frostpunk* was released on April 24th (PC version), followed by *Moonlighter* and on May 29th (for PCs, and PS4 and Xbox One consoles), the latter produced by the Spanish Digital Sun studio. 11 bit studios S.A. is the publisher of *Moonlighter*. The Company continued to derive revenue from sales of *This War of Mine*, whose version for PCs was launched in November 2014. *Beat Cop* and *Tower 57* (publishing titles) and sales of the *Anomaly* series also had a small share in the Company's revenue.

Revenue (PLNm)



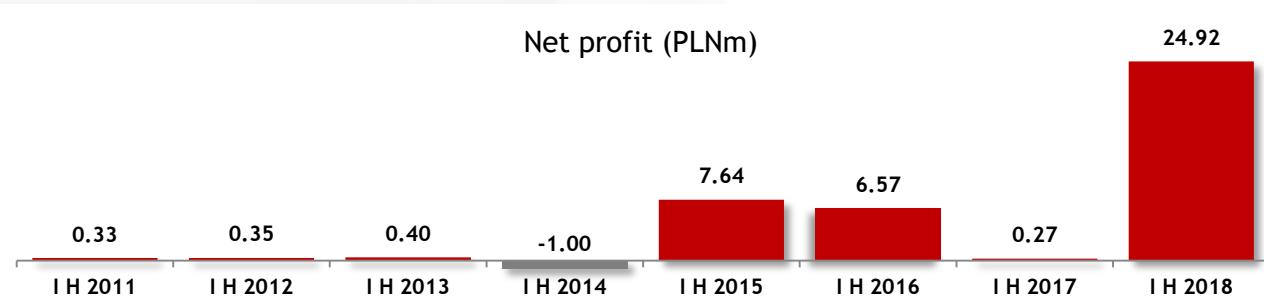
In the first half of 2018, the Company also recognised PLN 463,392 in other income (mainly grants), compared with PLN 185,359 a year earlier. As a result, the Company's total income in the first half of 2018 was PLN 46,188,765, an increase of 421.64% from PLN 8,854,563 in the corresponding period of 2017.

Services were the largest cost item in the first six months of 2018. They amounted to PLN 6,930,814, i.e. 158.89% more than in the first half of 2017. The increase was driven, among other things, by higher headcount. The item also included royalties for the producer of *Moonlighter* on account of sale of the game in the second quarter of 2018 (release on May 29th 2018). Another important item of services were provisions for annual bonuses for the Company's Management Board and associates, as well as costs of the 2017-2019 Incentive Scheme. Salaries were also a significant item of costs in the first half of 2018. Year on year, they increased by 405.42%, to PLN 6,430,684, a result of the Company's continued efforts to develop its human resources and the increase in the number of employees under employment contracts, many of whom previously cooperated with 11 bit studios S.A. on the basis of temporary contracts governed by civil law rather than the labour law. Also in the case of this group of employees, provisions for annual bonuses and the cost of the Incentive Scheme were significant contributors to the overall cost base. Following the release of *Frostpunk* and *Moonlighter* in the second quarter of 2018, the Company started to amortise both investments. The amortisation expense was PLN 1,388,989 in the reporting period vs PLN 938,495 in the same period of 2017, a year-on-year increase of 47%. An increase in other expenses was similar, at 40.85%. In the first half of the year other expenses were PLN 954,272, with the main item being a charitable donation to the War Child Foundation, which supports child victims of wars. In the reporting period, the Company donated PLN 648,755 to the foundation. In 2017, a similar donation of PLN 485,823 was made in the second quarter of the year (the Company has supported the War Child Foundation for several years now by donating part of its revenue from the sale of *This War of Mine*). Total operating expenses incurred by 11 bit studios S.A. in the first six months of 2018 were PLN 16,005,968, i.e. 174.34% more than in the corresponding period of the previous year (PLN 5,834,310).

In the first half of 2018, with operating expenses growing much more slowly than revenue, 11 bit studios S.A. earned operating profit of PLN 30,182,797 (the best result in the Company's history), i.e. 899.35% more than the year before, when operating profit came in at PLN 3,020,253. The operating profit margin in the first half of 2018 amounted was 66%, compared with 34.84% a year before.

Another positive contributor to the Company's results in the reporting period was the positive balance of finance transactions at PLN 1,293,901, supported by changes on currency markets (weakening of PLN against USD and EUR). A year earlier, the balance was negative at PLN -2,542,235. The Company derives almost all of its revenue from foreign sales. In addition, a small part of cash resources is denominated in foreign currencies, which, due to the need to remeasure them at the end of the settlement period, resulted in additional (non-cash) finance income.

The high pre-tax profit earned in the first half of 2018 resulted in a significantly higher income tax expense than in the previous year, of PLN 6,560,358. As a result, the net profit for the period was PLN 24,916,340, i.e. over 90 times more than in the first half of 2017, when it amounted to PLN 270,857. After the first six months of 2018, earnings per ordinary share were PLN 11.24, compared with PLN 0.12 a year ago. The Company's net margin in the first half of this year was 55.49% (3.12% a year earlier).



5.2. STATEMENT OF FINANCIAL POSITION (PLN)

As at June 30th 2018, the Company's total assets were PLN 82,298,141, having increased by 69.2%, from PLN 48,649,817 a year before.

Current assets were the main item of total assets. At the end of the first half of 2018, they stood at PLN 61,206,351, which represented a 94.45% year-on-year increase, from PLN 31,476,124. As at June 30th 2018, current assets accounted for 74.37% of the Company's total assets. At year-end 2017, the ratio was 64.70%. Cash and cash equivalents were the largest item of the current assets. As at June 30th 2018, the Company held PLN 32,247,613 in bank deposits with maturities of less than three months, and in PKO BP Bank Hipoteczny bonds (December 31st 2017: PLN 28,176,332). This amount does not include PLN 3,074,430 invested in units of the PKO BP Płynnościový SFIO fund. Another PLN 16,000,000 was held in bank deposits with maturities over three months. Trade and other receivables constituted a significant part of current assets as at the end of June 2018, and amounted to PLN 12,662,984 (December 31st 2017: PLN 2,679,069). The share rise in trade and other receivables was attributable to the release, in the second quarter of 2018, of *Frostpunk* and *Moonlighter* (the latter title was a third-party production, with the Company providing

publishing services). Both titles are very popular among customers, which has had a positive impact on the revenue earned by 11 bit studios S.A. and, due to the adopted model of settlements with distributors, also on the trade receivables. Receivables are systematically converted into cash in subsequent periods.

As at June 30th 2018, the Company's non-current assets were PLN 21,091,790, and accounted for 25.63% of the total assets. At the end of 2017, this ratio stood at 35.3%. The decrease resulted mainly from the increase in the balance of cash held by the Company. Intangible assets were the main component of non-current assets, and amounted to PLN 15,893,218 (December 31st 2017: PLN 13,067,498). Intangible assets included expenditure on completed and ongoing development works, i.e. computer games produced and released by the Company, as well as on the development of the game engine

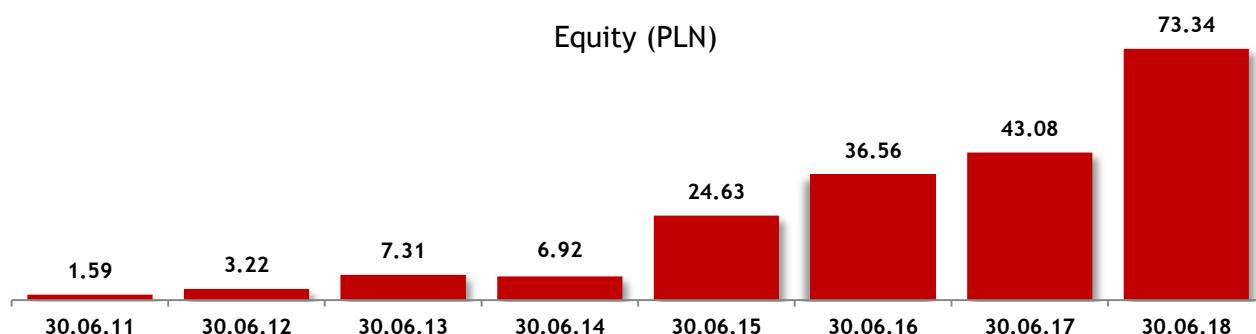
Assets

	As at Jun 30 2018	Share (%)	As at Dec 31 2017	Share (%)
Non-current assets				
Property, plant and equipment	715,168	0.87	814,332	1.67
Intangible assets	15,893,218	19.31	13,067,498	26.86
Deferred tax asset	1,249,197	1.52	89,993	0.18
Other assets	159,777	0.19	148,336	0.30
Non-current financial assets	3,074,430	3.74	3,053,534	6.28
Total non-current assets	21,091,790	25.63	17,173,693	35.30
Trade and other receivables	12,662,984	15.39	2,679,070	5.51
Income tax receivable	0	0.00	327,123	0.67
Other current assets	295,754	0.36	293,599	0.60
Cash and cash equivalents	32,247,613	39.18	28,176,332	57.92
Short-term financial assets	16,000,000	19.44	0	0.00
Total current assets	61,206,351	74.37	31,476,124	64.70
TOTAL ASSETS	82,298,141	100.00	48,649,817	100.00

Equity and liabilities

	As at Jun 30 2018	Share (%)	As at Dec 31 2017	Share (%)
EQUITY AND LIABILITIES				
Equity				
Share capital	228,720	0.28	228,720	0.47
Share premium	4,870,274	5.92	4,870,274	10.01
Statutory reserve funds	41,331,887	50.22	37,914,547	77.93
Share-based payment reserve	2,202,128	2.68	0	0.00
Retained earnings	24,708,255	30.02	3,209,255	6.60
Total equity	73,341,264	89.12	46,222,796	95.01
Non-current liabilities				
Deferred income	762,772	0.93	762,772	1.57
Deferred tax liability	0	0.00	0	0.00
Total non-current liabilities	762,772	0.93	762,772	1.57
Current liabilities				
Trade and other payables	7,309,165	8.88	1,197,853	2.46
Income tax liabilities	648,701	0.79	0	0.00
Deferred income	236,239	0.29	466,396	0.96
Total current liabilities	8,194,105	9.96	1,664,249	3.42
Total liabilities	8,956,877	10.88	2,427,021	4.99
TOTAL EQUITY AND LIABILITIES	82,298,141	100.00	48,649,817	100.00

Equity was the most important item of equity and liabilities, and as at June 30th 2018 amounted to PLN 73,341,264, i.e. 89.12% of total equity and liabilities. This represented a 58.67% increase on December 31st 2017, when equity was PLN 46,222,796. Statutory reserve funds were the most important item of equity. As at the end of June 2018, they amounted to PLN 41,331,887 (December 31st 2017: PLN 37,914,547), with the increase driven by the allocation of the Company's net profit earned in 2017, pursuant to a resolution of the General Meeting held on May 24th 2018.



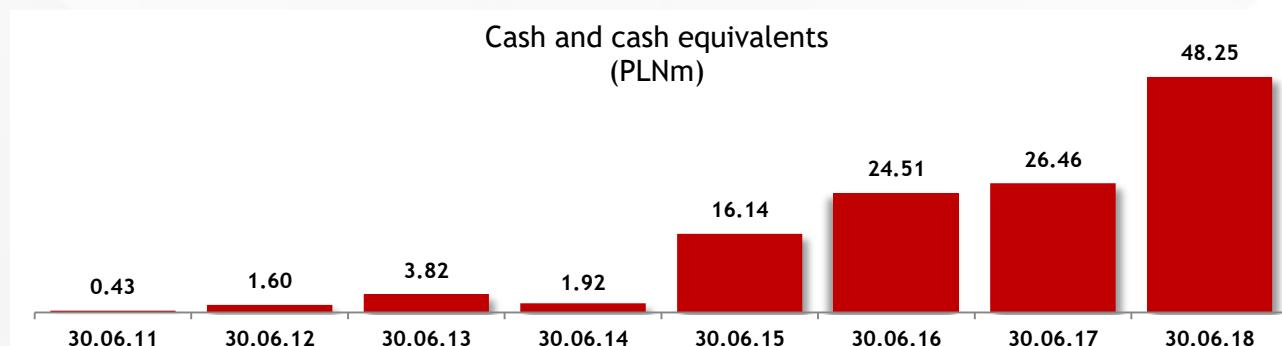
As at June 30th 2018, the amount of the Company's liabilities was PLN 8,956,877, including PLN 762,772 of non-current liabilities related to the co-financing of projects from aid funds. As at June 30th 2018, the Company's current liabilities were PLN 8,194,105 (December 31st 2017: PLN 1,664,249), and represented almost 10% of total equity and liabilities. Trade and other payables were the main item of current liabilities and amounted to PLN 7,309,165 (December 31st 2017: PLN 1,197,853). In addition to short-term trade payables, this amount also includes provisions for royalties due to external developers (in connection with the publishing activities of 11 bit studio S.A.) as well as provisions for annual bonuses for the Management Board, employees and associates.

5.3. STATEMENT OF CASH FLOWS (PLN)

	Period ended Jun 30 2018 (unaudited)	Period ended Jun 30 2017 (unaudited)
Cash flows from operating activities		
Profit for the financial year	24,916,340	270,857
Adjustments:		
Depreciation and amortisation	1,388,989	938,495
Income tax expense recognised in profit or loss	6,560,358	207,161
Other adjustments	2,299,946	14,693
Changes in working capital:		
Increase/decrease in trade and other receivables	(9,983,915)	1,556,520
Increase/decrease in other assets	(13,596)	(74,082)
Increase/decrease in trade and other payables	6,111,312	(1,085,029)
Increase/decrease in deferred income	(230,157)	324,475
Interest received - discount on settlement of bonds	(27,074)	0
Cash provided by operating activities	31,022,203	2,153,090
Income tax paid	(6,847,659)	(936,299)
Net cash from operating activities	24,174,544	1,216,790
Cash flows from investing activities		
Proceeds from expiry of bonds	6,000,000	0
Payments for financial assets	0	(2,000,000)
Proceeds from sale of financial assets	0	681,759
Bank deposits - over 3 months	(16,000,000)	0
Outflows on recognition/purchase of bonds	(5,972,926)	0
Payments for property, plant and equipment and intangible assets	(4,130,336)	(3,144,614)
Net cash from investing activities	(20,103,262)	(4,462,855)
Cash flows from financing activities		

Proceeds from issue of shares	0	591,340
Other cash provided by financing activities	0	0
Net cash from financing activities	0	591,340
Net increase in cash and cash equivalents	4,071,281	(2,654,725)
Cash and cash equivalents at beginning of reporting period	28,176,332	29,113,971
Cash and cash equivalents at end of reporting period	32,247,613	26,459,246

In the first half of 2018, the Company generated PLN 31,022,203 in cash from operating activities (PLN 2,153,089 in the corresponding period of 2017). The change resulted from the very strong good sales *Frostpunk* and *Moonlighter*, both of which were released in the second quarter of 2018. In the first half of 2018, the Company paid PLN 6,847,659 in income tax. A year earlier, the income tax expense was PLN 936,229. As a result, net operating cash flows in the first six months of 2018 were PLN 24,174,544 (PLN 1,216,790 in the first half of 2017). Cash flows from investing activities in the first six months of 2018 were negative at PLN -20,103,262 (PLN -4,462,855 in the first half of 2017). The significant change resulted from investing the cash surplus in bank deposits. As at June 30th, the Company held PLN 16,000,000 on such assets (with maturities exceeding 3 months). In the first half of 2018, 11 bit studios S.A. also invested in property, plant and equipment and intangible assets (production of computer games). The amount of investments was PLN 4,130,336 (PLN 3,144,614 in the first half of 2017). In the first half of 2018, cash flow from financing activities was PLN 0. In the reporting period the Company did not carry out any financing transactions or issue any new shares.



In total, during the first half of 2018, the balance of cash and cash equivalents increased by PLN 20,071,281 over year-end 2017. At June 30th 2018, 11 bit studios S.A. held PLN 48,247,613 in cash (of which PLN 16,000,000 were bank deposits with maturities over 3 months), i.e. 71.23% more than six months before. The amount does not include PLN 3,053,534 invested in units of the PKO BP Płynnościowy SFIO fund, which can be readily converted into cash.

5.4. OTHER INFORMATION

5.4.1. Credit facilities and non-bank borrowings in the first half of 2018

The Group did not use any credit facilities or non-bank borrowings in the first half of 2018.

5.4.2. Loan advanced in the first half of 2018

The Company did not grant any loans in the first half of 2018.

5.4.3. Sureties and guarantees provided in the first half of 2018 and other material off-balance sheet items

The Group did not provide any sureties or guarantees in the first half of 2018. Neither did it carry any material off-balance sheet items.

5.4.4. Current economic and financial standing of the Group and assessment of financial resources management

The current economic and financial condition of 11 bit studios S.A. is stable. The Management Board has not identified any threats to the Company's liquidity position or solvency.

5.4.5. Description and assessment of factors and non-recurring events with a bearing on the results of the Group's operations in the first half of 2018

In the first half of 2018, there were no events of a non-recurring nature which would affect results of the Company's operations.

5.4.6. Explanation of differences between financial results disclosed in the full-year report and previously published financial forecasts for the first half of 2018

The Company did not publish any financial forecasts for the first half of 2018.

6. DEVELOPMENT AND PROSPECTS OF 11 BIT STUDIOS S.A.

6.1. THE COMPANY'S GROWTH PROSPECTS

11 bit studios S.A. is a developer of cross-platform computer games sold all over the world, mainly through specialised Internet platforms, including Steam - the world's largest platform for distribution of digital games over the Internet. In the first half of 2018, due to the very good sales of *Frostpunk* and *Moonlighter* on the Polish market in the period around the games' release dates, international sales accounted for 96.04% of the Company's total revenue. A year earlier, the share was higher, at 99.3%.

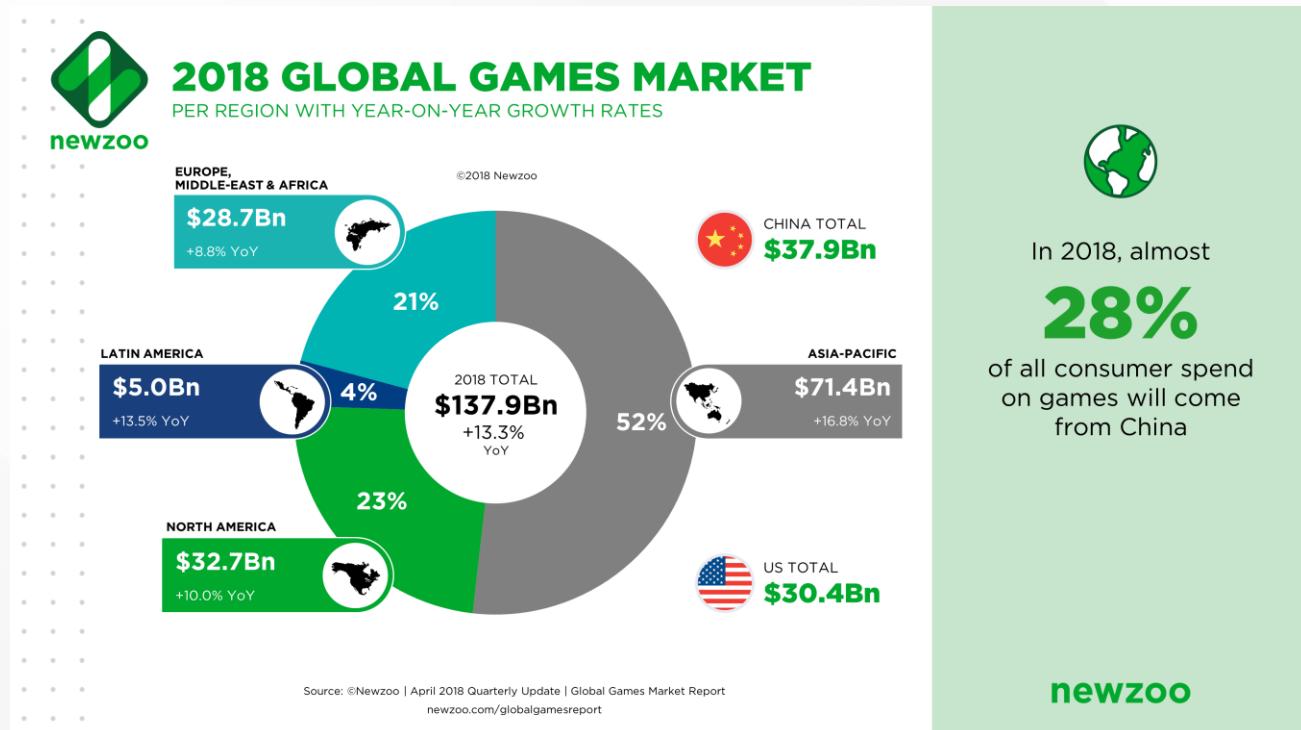


For a few years now, the video gaming market has been the fastest growing part of the global entertainment industry. According to Newzoo, a market research company, the global gaming market was worth USD 121.7bn in 2017. Mobile productions (for tablets and smartphones), which are the fastest growing segment of the video games market, had the largest share (46%) in this market. Games for consoles and for PCs for 27% of the market each. Newzoo predicts strong growth of the computer gaming industry in the coming years. According to experts, in 2012-2021 the market is too expected to develop at CAGR of 11%, to reach USD 180.1bn in 2021. Forecasts for 2018 assume growth of the gaming market to USD 137.9bn, which would represent a 13.3% increase on 2017.

The driving force behind the computer gaming industry in the coming years will be games for mobile devices (as has been the case in recent years as well). According to Newzoo, in 2018 alone this segment will grow by 25.5%, to USD 70.3bn or 50.1% of the entire gaming market. This amount includes games for smartphones (USD 56.4bn, a 29% y/y increase) and tablets (USD 13.9bn, a 13.1% y/y increase). Other segments of the computer gaming industry will grow at a much slower rate. Newzoo predicts that in 2018 the PC gaming market will grow at a rate of only 1.6%, to USD 32.9bn. Thus PC games will account for 24% of the global gaming market, i.e. 3 percentage points less than in 2017. The console games segment is expected to perform slightly better this year than the PC segment, according to Newzoo, with sales predicted at USD 34.6bn, i.e. 4.1% more than in 2017. This will translate into a 25% share in the entire gaming market, i.e. 2 percentage points less than last year.

According to Newzoo, the strongest growth in 2018 will be seen in the Asian market, with mobile games, the most popular form of digital entertainment in the Far East and the fastest growing segment of the gaming market, being the main contributor. In 2018, customers in Asia are expected to spend USD 71.4bn on games, 16.8% more than in 2017. This means that they will have a 52% share in the global video games market. Electronic entertainment spending in Latin America is set to grow at only a slightly slower rate. In 2018, the rate of growth will be 13.5%, which means that the value of the market expand to USD 5bn (4% of the global market). The North American market will also stand out in

terms of the rate of growth. Newzoo expects that in 2018 the market's value will increase to USD 32.7bn, i.e. by 10% year on year. The slowest growth, of 8.8%, will be delivered by Europe, the Middle East and Africa. Players in these regions of the world will spend USD 28.7bn on computer games in 2018.



The objective of 11 bit studios S.A. is to develop much faster than the entire computer games market and to steadily increase its market share. The success of *This War of Mine*, which debuted in autumn 2014, has consolidated the Company's position as one of the leading developers in the indie (independent) segment of the gaming industry. By the end of June 2018, revenue from the sale of *TWoM* (since the premiere of the title) exceeded PLN 85m. The success of *Frostpunk*, which was released only four month ago, has confirmed the Company's position as a significant player in the global computer games industry. This corresponds well with the Company's strategy for the coming years, which assumes production of ever larger games (with greater commercial potential), i.e. gradual exit from the indie segment.

11 bit studios' strategy assumes that the Company's new games will be developed based on a proprietary engine which has been in development for some time. The production, promotion and sales of games are the responsibility of an experienced, stable management team with many years of know-how acquired in major gaming companies in Poland. On the basis of its gradually expanded human resources, for several quarters the Company has been building a second development team, who is responsible for the production of a new game to be released by the Company, with a working title *Project 8*. In 2019, 11 bit studios S.A. plans to start building a third development team based on employees who are currently working on the further development of *This War of Mine*, including add-ons as part of the *TWoM: Stories* series.

The Company expects that its publishing division will become an increasingly important contributor to 11 bit studios' financial results in the coming years. So far, 11 bit studios S.A. has released four titles created by third-party studios: *Spacecom* (2014), *Beat Cop* (March 30th 2017), *Tower* (November 16th 2017) and *Moonlighter* (May 29th 2018). *Children of Morta*, another third-party production, will be released in the coming months. The team of 11 bit publishing is actively working on acquiring further projects for the publishing portfolio, to increase the frequency of new releases premieres to several titles per year.

6.2. EXTERNAL AND INTERNAL DRIVERS OF THE COMPANY'S GROWTH

11 bit studios S.A. operates on international markets, which means that, in addition to local factors, global economic and political developments, including macroeconomic ones, are equally important for its activities. Other important factors include tax regulations and the legal environment, both domestic and international.

Technological and market changes in the computer games industry also have a bearing on the Company's business, and they include rapid development of electronic channels of games distribution or of the market for mobile games.

The Company has been diversifying its revenue sources since 2014. It develops the 11 bit publishing division, which publishes games created by third-party studios. As part of 11 bit publishing, in the first half of 2018 the Company launched *Moonlighter*, which was positively received by the players and has generated revenue streams satisfactory both to the Company and the developer (the Spanish Digital Sun studio). The coming months will see the premiere of *Children of Morta*, a game produced by the American-Iranian studio Dead Mage. The team works on building a portfolio of new publishing contracts with other studios, including foreign ones, to increase the number of new releases to several titles a year.

In the area of games development, the Company intends to build several product lines (brands - IP) to optimise the use of its production resources and stabilise financial performance. Following the success of *Frostpunk*, the Company intends to expand its production resources by building new development teams in increasing the headcount. In a few years time, 11 bit studios S.A. wants to have three parallel teams, each of which will work on a different title, to allow the Company to increase the frequency of releases of its own games.

6.3. FEASIBILITY OF INVESTMENT PLANS

As at June 30th 2018, the total amount of cash and cash equivalents, including bank deposits (short-term financial assets) held by the Company was PLN 32,247,613. In addition, the Company held participation units in the PKO BP Płynnościový SFIO with a total amount of PLN 3,074,430, and bank deposits (with maturities over 3 months) with a total amount of PLN 16,000,000. Trade receivables were PLN 12,662,984. The total amount of liabilities (both current and non-current) as at June 30th 2018 was PLN 8,956,877. In addition to short-term trade payables, this amount also included provisions for royalties due to external developers (in connection with the publishing activities of 11 bit studio S.A.) as well as provisions for annual bonuses for the Management Board, employees and associates. The Company did not have any financial liabilities.

The cash held allow 11 bit studios S.A. to finance current operations and investments (i.e. production of own games and further development of the 11 bit publishing division) without recourse to external funding. Under its spending plans for the foreseeable future the Company will not require any external financing (from the capital market or from business partners, such as game publishers and distributors), although such a scenario would be acceptable. The Company does not plan to use external financing in 2018.

7. CORPORATE GOVERNANCE

7.1. COMPANY OVERVIEW

Business name:	11 bit studios Spółka Akcyjna
Abbreviated name:	11 bit studios S.A.
Registered office:	Warsaw, Poland
Registered address:	03-472 Warsaw, ul. Bertolta Brechta 7
Principal business activity:	computer programming activities (Polish Classification of Business Activities -62.01.Z)
Registry court:	District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division
National Court Register (KRS) No.:	0000350888
Tax Identification Number (NIP):	1182017282
Industry Identification Number (REGON):	142118036

The Company was established for an indefinite period.

The financial year of the Company coincides with the calendar year.

The principal business activities of the Company are:

- production of cross-platform video games,
- sale of cross-platform video games.

The Company does not have any subsidiaries, associates or interests in joint ventures. Until April 11th 2017, 11 bit studios S.A. was the parent of the 11 bit studios S.A. Group consisting of 11 bit studios S.A. and a subsidiary, Games Republic Limited of Malta. On April 11th 2017, the Company announced that it had signed an agreement to sell 100% of shares in Games Republic Limited to Lousva Trading Limited. As of that date, the 11 bit studios Group ceased to exist. Consequently, 11 bit studios S.A. has not published any further consolidated financial statements since 2018.

7.2. GOVERNING BODIES

Management Board

- Grzegorz Miechowski - President of the Management Board,
- Przemysław Marszał - Member of the Management Board,
- Michał Drozdowski - Member of the Management Board.

Supervisory Board

- Piotr Sulima - Chairman of the Supervisory Board,
- Jacek Czykiel - Deputy Chairman of the Supervisory Board,
- Radosław Marter - Member of the Supervisory Board,
- Agnieszka Maria Kruz - Member of the Supervisory Board,
- Wojciech Ozimek - Member of the Supervisory Board.

The composition of the Company's Management Board changed in the reporting period. On May 9th 2018, Bartosz Brzostek, Member of the Management Board, resigned from office for personal reasons. The term of office of the other Management Board members expires on the date the General Meeting approves the Company's financial statements for the financial year ending December 31st 2018. The term of office of the Supervisory Board members ends on June 9th 2019.

7.3. SHARE CAPITAL

As at the date of issue of this report, the Company's share capital amounted to PLN 228,719,90 and was divided into 2,287,199 shares with a par value of PLN 0.10 per share, including:

- 1,000,000 Series A bearer shares,
- 494,200 Series B bearer shares,
- 376,561 Series C bearer shares,
- 40,938 Series D bearer shares,
- 305,500 Series E bearer shares,
- 70,000 Series F bearer shares.

7.4. COMPANY SHARES HELD BY MEMBERS OF ITS MANAGEMENT AND SUPERVISORY STAFF

	Position	Number of shares as at Dec 31 2017 (shares)	Number of shares as at Jun 30 2018 (shares)	Number of shares as at this report date
Grzegorz Miechowski	President of the Management Board	162,696	160,696	160,696
Przemysław Marszał	Member of the Management Board	122,000	118,000	118,000
Michał Drozdowski	Member of the Management Board	93,630	89,630	89,630

According to the submitted declarations, members of the Company's Supervisory Board hold no shares in 11 bit studios S.A.

In the reporting period, there were changes in holdings of Company shares by the management staff of 11 bit studios S.A. For details, see Note 1.5.

7.5. COMPANY'S SHAREHOLDING STRUCTURE AS AT THE HALF-YEAR REPORT

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Bartosz Brzostek	183,696	8.03	183,696	8.03
Grzegorz Miechowski	160,696	7.03	160,696	7.03
Przemysław Marszał	118,000	5.16	118,000	5.16
Michał Drozdowski	89,630	3.92	89,630	3.92
NN TFI	119,229	5.21	119,229	5.21
Other shareholders	1,615,948	70.65	1,615,948	70.65
Total	2,287,199	100.00	2,287,199	100.00

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A., including changes in holdings of Company shares by the management and supervisory staff. For a detailed description of the changes, see Note 1.5.

7.6. RELATED-PARTY TRANSACTIONS

Related parties include members of the Management Board and Supervisory Board and key personnel of the Company (key management). For a detailed description of the related-party transactions, see Note 3.22.

7.7. AUDITORS

Deloitte Audit Sp. z o.o. Sp.k.
ul. Jana Pawła II 22
00-133 Warsaw

In Current Report No. 29/2017 of July 27th 2017, the Company announced that in accordance with the applicable laws and professional standards, on July 26th 2017 the competent body, i.e. the Company's Supervisory Board, appointed Deloitte Polska Sp. z o.o. Sp.k. (currently Deloitte Audit Sp. z o.o. Sp.k.), a qualified auditor of financial statements, to audit full-year financial statements and review half-year financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2017, 2018 and 2019.

7.8. MANAGEMENT OF THE COMPANY'S RISKS

The Company's business, financial position and results of operations have been and may be in the future adversely affected by a number of risks, both specific to the computer games industry and typical for entities conducting business in Poland and worldwide. For a detailed description of the risks, see Note 5.18 to the Directors' Report on the operations of 11 bit studios S.A. in 2017, which is a part of 11 bit studios S.A. report for 2017.

7.9. EVENTS SUBSEQUENT TO THE REPORTING DATE

No events occurred which would have an impact on these interim financial statements for the first half of 2018 by the date of their authorisation for issue by the Parent's Management Board on August 30th 2018.

7.10. DESCRIPTION OF MATERIAL PROCEEDINGS PENDING BEFORE A COURT, ARBITRATION BODY OR STATE ADMINISTRATION AUTHORITY

The Company is neither the subject of nor a party to any material proceedings pending before a court, a competent arbitration body or a state administration authority.

Signed by:



Grzegorz Miechowski
President of the Management Board



Przemysław Marszał
Member of the Management Board



Michał Drozdowski
Member of the Management
Board

Warsaw, August 30th 2018