WARSAW, MARCH 26th 2018

CONSOLIDATED FULL-YEAR REPORT

11 BIT STUDIOS S.A.

FOR 2017

11 bit studios

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL HINGHLIGHTS

The selected financial data included 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 December 31st 2017 PLN - 4.1709
- Exchange rate as at December 31st 2016 PLN - 4.4240

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 2017 PLN - 4.2447
- Exchange rate for 2016 PLN - 4.3757

STATEMENT OF FINANCIAL POSITION

	Dec 31 2017 (PLN)	Dec 31 2016 (PLN)	Dec 31 2017 (EUR)	Dec 31 2016 (EUR)
Total assets	48,649,817	45,649,448	11,664,105	10,318,591
Non-current assets	17,173,693	9,489,996	4,117,503	2,145,117
Intangible assets	13,067,498	7,921,210	3,133,016	1,790,509
Current assets	31,476,124	36,159,452	7,546,602	8,173,475
Other financial assets	3,053,534	0	732,104	0
Cash	28,176,332	29,113,971	6,755,456	6,580,916
Total equity and liabilities	48,649,817	45,649,448	11,664,105	10,318,591
Equity	46,222,796	42,125,553	11,082,211	9,522,051
Liabilities and provisions	2,427,021	3,523,895	581,894	796,540

STATEMENT OF PROFIT OR LOSS

	Period ended Dec 31 2017 (PLN)	Period ended Dec 31 2016 (PLN)	Period ended Dec 31 2017 (EUR)	Period ended Dec 31 2016 (EUR)
Revenue	19,186,268	27,015,796	4,520,053	6,174,051
Depreciation and amortisation	1,713,889	2,568,974	403,772	587,100
Operating profit	7,524,756	14,134,508	1,772,742	3,230,228
EBITDA	9,238,645	16,703,482	2,176,513	3,817,328
Profit (loss) before tax	4,530,494	15,730,809	1,067,330	3,595,038
Net profit (loss)	3,557,877	12,929,336	838,193	2,954,804

STATEMENT OF CASH FLOWS

	Period ended Dec 31 2017 (PLN)	Period ended Dec 31 2016 (PLN)	Period ended Dec 31 2017 (EUR)	Period ended Dec 31 2016 (EUR)
Net cash from operating activities	8,067,754	12,146,459	1,900,665	2,775,889
Net cash from investing activities	(10,034,300)	(5,407,999)	(2,363,960)	(1,235,916)
Net cash from financing activities	1,028,907	(595,891)	242,398	(136,182)
Total net cash flows	(937,639)	6,142,569	(220,896)	1,403,791

CONSOLIDATED FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A. FOR 2017

11 bit studios

1. OVERVIEW

The Parent of the Group, 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. GENERAL INFORMATION ABOUT THE PARENT

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:	in accordance with the Polish Classification of Business Activities – computer programming 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 Parent and the subsidiary were established for indefinite time.

The financial year of the Parent and the subsidiary is the same as the calendar year.

The principal business activities of the 11 bit studios Group comprise:
- Development and sale of cross-platform video games,
- Global digital distribution of video games.

Until April 11th 2017, 11 bit studios S.A. was the Parent of the 11 bit studios Group consisting of 11 bit studios S.A. and a subsidiary, Games Republic Limited of Malta. Games Republic Limited operated a global electronic game distribution platform and was a wholly-owned subsidiary of 11 bit studios S.A. The financial year of Games Republic Limited was the same as the calendar year.

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.

1.2. COVERED PERIODS

The consolidated financial statements of 11 bit studios S.A. for 2017 present data for the reporting period from January 1st to December 31st 2017 and contain the following comparative data:

- Consolidated statement of financial position – as at December 31st 2016,
- Consolidated statement of profit or loss and other comprehensive income – for the period of 12 months ended December 31st 2016,
- Consolidated statement of changes in equity – for the period of 12 months ended December 31st 2016,
- Consolidated statement of cash flows – for the period of 12 months ended December 31st 2016.

1.3. COMPOSITION OF THE PARENT'S GOVERNING BODIES AS AT DECEMBER 31ST 2017

Management Board
- Grzegorz Miechowski – President of the Management Board
- Bartosz Brzostek – Member 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

In the reporting period, there were no changes in the composition of the Company's Management or Supervisory Boards. The term of office of the Management Board members ends on the date of approval by the General Meeting of 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.

1.4. AUDITORS

Deloitte Audyt 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 Audyt Sp. z o.o. Sp.k.), a qualified auditor of financial statements, to audit the consolidated financial statements of the 11 bit studios Group for the financial year 2017 and to review the half-year consolidated financial statements of the 11 bit studios Group for the six months ended June 30th 2017.

1.5. PARENT'S SHAREHOLDING STRUCTURE AS AT DECEMBER 31ST 2017

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	162,696	7.11	162,696	7.11
NN PTE	135,500	5.92	135,500	5.92
Przemysław Marszał	122,000	5.33	122,000	5.33
Michał Drozdowski	93,630	4.09	93,630	4.09
Other shareholders	1,589,677	69.50	1,589,677	69.50
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 the size of the Company's management and supervisory staff's holdings.

In Current Report No. 21/2017 of May 19th 2017, 11 bit studios S.A. announced that on that date the Company received notifications under Art. 19.1 of the Market Abuse Regulation from:

1. Grzegorz Miechowski – President of the Company's Management Board,
2. Bartosz Brzostek – Member of the Company's Management Board,
3. Przemysław Marszał – Member of the Company's Management Board,
4. Michał Drozdowski – Member of the Company's Management Board,

i.e. persons discharging managerial responsibilities at 11 bit studios S.A., to the effect that on May 18th 2017 they acquired Company shares outside the trading system, through the exercise of rights attached to Series A subscription warrants as part of the 2014–2016 Incentive Scheme. Each of the abovementioned managers subscribed for 10,000 Series F shares. Following subscription for Series F shares, Grzegorz Miechowski, President of the Company's Management Board, holds a total of 162,696 shares in 11 bit studios S.A., representing 7.11% of the Company's share capital and conferring the right to the same number of votes at its General Meeting. Bartosz Brzostek, Member of the Company's Management Board, holds 183,696 shares in 11 bit studios S.A., representing 8.03% of the Company's share capital and conferring the same number of votes at its General Meeting. Przemysław Marszał, Member of the Company's Management Board, holds 122,000 shares in 11 bit studios S.A., representing 5.33% of the Company's share capital and conferring the right to the same number of votes at its General Meeting. Michał Drozdowski, Member of the Company's Management Board, holds 93,630 shares in 11 bit studios S.A., representing 4.09% of the Company's share capital and conferring the right to the same number of votes at its General Meeting.
Series F shares (for the purposes of the 2014–2016 Incentive Scheme, the Company issued a total of 70,000 Series F shares) were admitted to stock-exchange trading on June 22nd 2017, as announced by the Company in Current Report No. 28/2017 of June 22nd 2017. After the increase, the Company's share capital comprises 2,287,199 shares with a par value of PLN 0.1 per share. The total number of votes carried by the shares is 2,287,199.

In Current Report No. 23/2017 of June 2nd 2017, 11 bit studios S.A. announced that on June 2nd 2017 the Company received a notification from NN Investment Partners TFI S.A. to the effect that the investment funds managed by NN Investment Partners TFI S.A. held Company shares conferring less than 5% of total voting rights at the Company's General Meeting.
The percentage of total voting rights at the Company's GM held by the funds changed following the disposal of Company shares on May 30th 2017 by NN Specjalistyczny Fundusz Inwestycyjny Otwarty Akcji 2, Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty and by the subfunds of NN Parasol Funduszu Inwestycyjnego Otwartego. Prior to the change, the investment funds held 111,740 shares in 11 bit studios S.A., representing 5.04% of the Company's share capital and conferring in aggregate 111,740 voting rights, that is 5.04% of total voting rights at the General Meeting of 11 bit studios S.A.
As at the date of reduction of their holdings, the investment funds managed by NN Investment Partners TFI S.A. held in aggregate 108,940 shares in 11 bit studios S.A., representing 4.91% of the Company's share capital and conferring in aggregate 108,940 voting rights, that is 4.91% of total voting rights at the General Meeting of 11 bit studios S.A.

In Current Report No. 30/2017 of August 3rd 2017, 11 bit studios S.A. announced that on that date the Company received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. of Warsaw, acting on behalf of Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (jointly the "Funds"), to the effect that the Funds increased their holding of Company shares above the threshold of 5% of voting rights at the General Meeting of 11 bit studios S.A. The holding was increased through the purchase of Company shares by the Funds in a transaction settled on July 28th 2017.
Prior to the transaction, the Funds held 96,561 Company shares, conferring 4.22% of total voting rights at the Company's General Meeting and representing 4.22% of the Company's share capital. After the transaction, the Funds hold 135,500 Company shares, conferring 5.92% of total voting rights at the Company's General Meeting and representing 5.92% of its share capital.

1.6. PARENT SHARES HELD BY MEMBERS OF ITS MANAGEMENT AND SUPERVISORY STAFF

	Position	Number of shares as at Dec 31 2016	Number of shares as at Dec 31 2017	Number of shares as at this report date
Grzegorz Miechowski	President of the Management Board	152,696	162,696	162,696
Bartosz Brzostek	Member of the Management Board	173,696	183,696	183,696
Przemysław Marszał	Member of the Management Board	112,000	122,000	122,000
Michał Drozdowski	Member of the Management Board	83,630	93,630	93,630

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 the ownership of the Company shares by the management staff of 11 bit studios S.A. For a detailed description of the changes, see **Note 1.5.**

1.7. REFERENCE TO PUBLISHED ESTIMATES

The Company did not publish any estimates, including consolidated data estimates, for the reporting period.

1.8. HEADCOUNT

As at the issue date of these financial statements, 101 persons are employed at the Group under employment contracts or provide services to the Group on the basis of agreements under civil law.

1.9. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in the Polish złoty (PLN). The Management Board of the Parent resolved that the Polish złoty is the functional and presentation currency of the Parent. 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 Parent monitors its economic environment for any material changes that could affect its choice of the functional currency. The functional currency of the subsidiary is the euro (EUR). The subsidiary's financial data has been restated for the purposes of these consolidated financial statements as described in **Note 3.2.**

1.10. REPRESENTATION BY THE MANAGEMENT BOARD OF THE PARENT

We hereby represent that this consolidated full-year report of 11 bit studios S.A. for 2017 includes: Letter from the Management Board, consolidated financial highlights, consolidated financial statements, directors' report on the operations of the 11 bit studios Group in 2017, and the corporate governance report.

We represent that, to the best of our knowledge, the consolidated financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRS) as endorsed by the European Union and that they give a clear, true and fair view of the Group's assets, financial position and financial performance, and that the Directors' Report on the Group's operations in 2017 gives a fair view of the Group's development, achievements and position, and describes the key risks and threats.

We represent that the qualified auditor that audited the consolidated financial statements has been appointed in compliance with the applicable laws, and that both the auditing firm and the auditors who performed the review met the conditions necessary to issue an impartial and independent auditor's opinion on the audited full-year financial statements, in accordance with the applicable laws.

2. CONSOLIDATED FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A.

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

	Note	Period ended Dec 31 2017	Period ended Dec 31 2016
Continuing operations			
Revenue	3.4.	19,186,268	27,015,796
Other income	3.8.1.	312,425	486,268
Total operating income		**19,498,693**	**27,502,064**
Depreciation and amortisation	3.10.	(1,713,889)	(2,568,974)
Raw materials and consumables used		(347,086)	(179,629)
Services		(5,895,053)	(6,719,137)
Salaries, wages and employee benefits		(2,172,657)	(2,432,486)
Taxes and charges		(68,391)	(74,908)
Other expenses	3.8.2.	(1,776,861)	(1,392,422)
Total operating expenses		**(11,973,937)**	**(13,367,556)**
Operating profit		**7,524,756**	**14,134,508**
Finance income	3.6.	176,768	1,604,939
Finance costs	3.7.	(3,408,574)	(8,639)
Gain (loss) on disposal of all or part of shares in subordinated entities	3.15.2.	237,544	**0**
Profit before tax		**4,530,494**	**15,730,808**
Income tax expense	3.9.1.	(972,617)	(2,801,473)
Net profit from continuing operations		**3,557,877**	**12,929,336**
Discontinued operations		0	0
Net profit from discontinued operations		0	0
NET PROFIT		**3,557,877**	**12,929,336**
Earnings per share from continuing operations (PLN per share):			
Basic	3.11.1	1.58	5.83
Diluted	3.11.2.	1.53	5.65

	Note	Period ended Dec 31 2017	Period ended Dec 31 2016
NET PROFIT		**3,557,877**	**12,929,336**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations which arose in the reported year		(49,295)	38,891
Total other comprehensive income, net		**(49,295)**	**38,891**
TOTAL COMPREHENSIVE INCOME		**3,508,582**	**12,968,227**
Total comprehensive income attributable to:		0	0
Owners of the parent		**3,508,582**	**12,968,227**
Non-controlling interests		0	0

2.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION (PLN)

ASSETS

	Note	As at Dec 31 2017	As at Dec 31 2016
Non-current assets			
Property, plant and equipment	3.12.	814,332	779,540
Intangible assets	3.13.	13,067,498	7,921,210
Deferred tax asset	3.9.3.	89,993	682,928
Other assets	3.19.	148,336	106,318
Non-current financial assets	3.16.	3,053,534	0
Total non-current assets		**17,173,693**	**9,489,996**
Current assets			
Trade and other receivables	3.14.	2,679,070	5,452,603
Income tax receivable		327,123	0
Other current assets	3.17.	293,599	331,644
Cash and cash equivalents	3.18.	28,176,332	29,113,971
Assets held for sale	3.5.3.	0	1,261,233
Total current assets		**31,476,124**	**36,159,452**
TOTAL ASSETS		**48,649,817**	**45,649,448**

EQUITY AND LIABILITIES

	Note	As at Dec 31 2017	As at Dec 31 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	3.20.	228,720	221,720
Share premium		4,870,274	4,285,934
Statutory reserve funds		37,914,547	25,405,679
Share-based payment reserve		0	627,623
Exchange differences on translation of foreign operations		0	49,295
Retained earnings	3.20.2.	3,209,255	11,535,302
Equity attributable to owners of the parent		**46,222,796**	**42,125,553**
Equity attributable to non-controlling interests		0	0
Total equity		**46,222,796**	**42,125,553**
Non-current liabilities			
Deferred income	3.25.	762,772	444,187
Deferred income taxes		0	0
Total non-current liabilities		**762,772**	**444,187**
Current liabilities			
Trade and other payables	3.21.	1,197,853	1,928,803
Income tax liabilities	3.9.2.	0	398,781
Deferred income	3.25.	466,396	364,460
Liabilities related to assets held for sale	3.5.4.	0	387,664
Total current liabilities		**1,664,249**	**3,079,708**
Total liabilities		**2,427,021**	**3,523,895**
TOTAL EQUITY AND LIABILITIES		**48,649,817**	**45,649,448**

2.3. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 2017	**221,720**	**4,285,934**	**25,405,679**	**627,623**	**49,295**	**11,535,302**	**42,125,553**	**0**	**42,125,553**
Net profit for the financial year	0	0	0	0	0	3,557,877	**3,557,877**	0	3,557,877
Other income for the financial year (net)	0	0	0	0	(49,295)	0	**(49,295)**	0	(49,295)
Total comprehensive income	**0**	**0**	**0**	**0**	**(49,295)**	**3,557,877**	**3,508,582**	**0**	**3,508,582**
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	**591,340**	0	591,340
Other changes						(2,679)	**(2,679)**		(2,679)
As at Dec 31 2017	**228,720**	**4,870,274**	**37,914,547**	**0**	**0**	**3,209,255**	**46,222,796**	**0**	**46,222,796**

	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 2016	**221,720**	**4,285,934**	**12,650,309**	**146,565**	**10,404**	**11,361,336**	**28,676,267**	**0**	**28,676,267**
Net profit for the financial year	0	0	0	0	0	12,929,336	12,929,336	0	12,929,336
Other income for the financial year (net)	0	0	0	0	38,891	0	38,891	0	38,891
Total comprehensive income	**0**	**0**	**0**	**0**	**38,891**	**12,929,336**	**12,968,227**	**0**	**12,968,227**
Profit allocated to statutory reserve funds	0	0	12,755,370	0	0	(12,755,370)	0	0	0
Share-based payments	0	0	0	481,058	0	0	481,058	0	481,058
As at Dec 31 2016	**221,720**	**4,285,934**	**25,405,679**	**627,623**	**49,295**	**11,535,302**	**42,125,553**	**0**	**42,125,553**

2.4. CONSOLIDATED STATEMENT OF CASH FLOWS (PLN)

		Period ended Dec 31 2017	Period ended Dec 31 2016
Cash flows from operating activities			
Profit for the financial year		**3,557,877**	**12,929,336**
Adjustments:			
Depreciation and amortisation		1,713,889	2,568,973
Revaluation of non-financial assets		445,431	642,409
Other adjustments		849,625	610,115
Changes in working capital:			
Increase/decrease in trade and other receivables		2,773,534	(2,735,647)
Increase/decrease in assets held for sale		0	(1,029,474)
Increase/decrease in other assets		588,963	(817,292)
Decrease in trade and other payables		(730,951)	296,105
Increase/(decrease) in deferred income		(17,045)	(190,801)
Increase/decrease in other liabilities		(387,664)	387,664
Cash provided by operating activities		**8,793,659**	**12,661,388**
Income tax paid		(725,905)	(514,929)
Net cash from operating activities		**8,067,754**	**12,146,459**
Cash flows from investing activities			
Payments for financial assets		(3,053,534)	0
Proceeds from sale of financial assets		392,097	0
Payments for property, plant and equipment and intangible assets		(7,372,863)	(5,407,999)
Net cash from investing activities		**(10,034,300)**	**(5,407,999)**
Cash flows from financing activities			
Proceeds from issue of shares		591,340	0
Other cash provided by financing activities	3.26	437,567	(595,891)
Net cash from financing activities		**1,028,907**	**(595,891)**
Net increase in cash and cash equivalents		(937,639)	6,142,569
Cash and cash equivalents at beginning of reporting period		29,113,971	22,971,403
CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD		**28,176,332**	**29,113,972**

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.1. INTERNATIONAL FINANCIAL REPORTING STANDARDS APPLIED BY THE COMPANY

These consolidated financial statements have been prepared on a historical cost basis.

The Parent maintains accounting records and prepares financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Union ("IFRS"). The subsidiary Games Republic Limited maintained accounting records and prepared financial statements in accordance with the IFRSs (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). These consolidated financial statements have been prepared in accordance with the IFRSs.

3.1.1. Statement of compliance

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards ("IFRSs") as endorsed by the European Union and related interpretations issued in the form of the European Commission's regulations.

The Parent has applied the IFRSs as effective as at December 31st 2017. The accounting policies applied to prepare these financial statements of the Group for 2017 are consistent with the policies applied to prepare the Group's full-year financial statements for 2016, except for the changes described below. The same policies have been applied for the current and comparative periods.

3.1.2. Amendments to existing standards adopted for the first time in the Company's financial statements for 2017

The following amendments to existing standards 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 2017:

- **Amendments to IAS 7 *Statement of Cash Flows*:** *disclosure initiative* – endorsed by the EU on November 6th 2017 (effective for annual periods beginning on or after January 1st 2017),
- **Amendments to IAS 12 *Income Tax*:** *recognition of deferred tax assets for unrealised losses* – endorsed by the EU on November 6th 2017 (effective for annual periods beginning on or after January 1st 2017),
- **Amendments to IFRS 12 resulting from Annual Improvements to IFRS Standards 2014-2016 Cycle** – amendments made as part of the annual IFRS (IFRS 1, IFRS 12 and IAS 28) improvements project primarily to correct conflicts and clarify wording – endorsed by the EU on February 7th 2018 (amendments to IFRS 12 are effective for annual periods beginning on or after January 1st 2017).

The amendments listed above did not have a material impact on the Group's financial statements for 2017.

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

As at the date of approval of these consolidated financial statements, the following new standards and amendments to existing 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 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 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),
- **Amendments to IFRS 2 *Share-Based Payments*:** *classification and measurements of share-based payment transactions* (effective for annual periods beginning on or after January 1st 2018).

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

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

To assess the impact of IFRS 9 on its financial statements, the Group reviewed its business model and financial assets, including trade receivables, bank deposits, and cash and cash equivalents. As a result, it was concluded that in view of the Group's business model, including settlements with trading partners, and its partnership with leading financial institutions, adoption of IFRS 9 would not change the Group's current financial asset measurement model. Therefore, in the Group's opinion, implementation of the standard will not affect the Group's equity as at January 1st 2018.

- **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 view of the Group's business model, including settlements with trading partners and revenue categories, no differences were identified between the IFRS 15 and the standards applicable to revenue and currently in effect, which could have a material impact on revenue recognition. Therefore, the Group does not expect the new standard to affect its equity as at January 1st 2018.

3.1.4. New standards and amendments to 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 March 26th 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 9 *Financial Instruments***: *prepayment features with negative compensation* (effective for annual periods beginning on or after January 1st 2019),
- **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 IAS 40 *Investment Property***: *transfers of investment property* (effective for annual periods beginning on or after January 1st 2018),
- **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 22 *Foreign Currency Transactions and Advance Consideration Transactions*** (effective for annual periods beginning on or after January 1st 2018),
- **IFRIC 23 *Uncertainty over Income Tax Treatments*** (effective for annual periods beginning on or after January 1st 2019).

The Group estimates that none of those new standards or amendments to existing standards would have had a material impact on its financial statements had they been applied by the Group 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.

3.2. STATEMENT OF ACCOUNTING POLICIES

3.2.1. Reporting period and scope of disclosure

These consolidated financial statements present data for the reporting period from January 1st 2017 to December 31st 2017 and contain the following comparative data:

- Consolidated statement of financial position – as at December 31st 2016,
- Consolidated statement of profit or loss and other comprehensive income – for the year ended December 31st 2016,
- Consolidated statement of changes in equity – for the year ended December 31st 2016,
- Consolidated statement of cash flows – for the year ended December 31st 2016.

3.2.2. Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of these consolidated financial statements, there were no circumstances indicating any threat to the Group continuing as a going concern (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).

3.2.3. Basis of consolidation

These consolidated financial statements comprise the financial statements of the Parent and of its subsidiary. The Parent controls an entity if:

- It has power over the entity,
- It is exposed, or has rights, to variable returns from its involvement with the entity,
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

Consolidation of a subsidiary begins from the date the Parent obtains control of the subsidiary and ceases when the control is lost. The income and expenses of a subsidiary acquired or disposed of during the year are recognised in the consolidated statement of profit or loss and other comprehensive income from the date the Parent gains control until the date when the Parent ceases to control the subsidiary.

Where necessary, appropriate adjustments are made to the subsidiary's financial statements to ensure consistency with the Group's accounting policies.

In preparing the consolidated financial statements, all intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group members are eliminated in full.

3.2.4. Recognition of revenue

Revenue from the sale of goods and the rendering of services comprises sales of goods which are produced by the Group and to which it holds exclusive rights as their producer or goods which the Group is licensed to release and distribute, and sales of services to third parties.

Revenue from the sale of goods and the rendering of services is recognised when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods or has rendered the service,
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- The amount of revenue can be measured reliably,
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred by the Group in respect of the transaction can be measured reliably.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue is recognised at the fair value of the consideration received or receivable, net of the amount of any expected trade discounts, goods returned by customers, and other similar decreases, including VAT and other taxes relating to sales.

In transactions where the Group acts as an agent, revenue recognised by the Group is the amount of the commission it receives, net of any fees paid to third parties.

Interest income from a financial asset is recognised if it is probable that economic benefits will flow to the Group, and the amount of the income can be measured reliably. Interest income is accounted for over time in relation to the remaining principal amount, using the effective interest rate, i.e. the rate that discounts the cash receipts expected over the useful life of the financial asset to the carrying amount of that asset on initial recognition.

Dividends are recognised when the shareholder's right to receive dividend is established (provided that it is probable that economic benefits will flow to the Group and that the amount of revenue can be measured reliably).

3.2.5. Expenses

In the statement of comprehensive income prepared by the Group, expensed are classified by nature.

3.2.6. Foreign currency transactions

Transactions carried out in a currency other than the functional currency (foreign currency transactions) are reported using the exchange rate effective at the date of the transaction. As at the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate effective at that date. Non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rate effective at the date of the fair value measurement. Non-monetary items are measured at historical cost.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise, except for exchange differences arising on monetary items that are receivables from or payables to a foreign operation. If settlement is neither planned nor likely to occur for such an item, the item forms part of net investment in the foreign

operation and is recognised initially in other comprehensive income and taken from equity to profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of a foreign operation are translated into PLN using the exchange rate effective at the reporting date. Income and expenses are translated using the average exchange rate for a given reporting period, unless the exchange rate fluctuates significantly (in which case exchange rates effective at the transaction dates are applied). All exchange differences are recognised in other comprehensive income and accumulated in equity.

Most exchange differences arising as part of the Group's activities are related to export sales and the resultant trade receivables. The Group presents exchange differences in finance income or cost, which allows a more thorough review of the Company's results as well as the sources of its income and expenses.

3.2.7. Government grants

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants whose primary condition is purchase, construction or other form of acquisition of non-current assets are recognised as deferred income in the consolidated statement of financial position and released, in reasonably determined amounts, to profit or loss on a systematic basis over the useful life of the asset

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss of the period in which they become receivable.

3.2.8. Tax

The entity's income tax comprises current tax and deferred tax.

Current tax

Current tax expense is calculated based on tax profit or loss (taxable income) for a given reporting period. Tax profit (loss) differs from accounting profit (loss) in that it does not include temporarily non-taxable income, temporarily non-deductible expenses, or income or cost items that will never be taxable or deductible. Tax expenses are calculated based on tax rates applicable in a given financial year.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date; where expected tax profit is insufficient to recover a deferred tax asset in whole or in part, the asset is written down accordingly.

Deferred tax is calculated at tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax liabilities and deferred tax assets are measured so as to account for the tax consequences of expected recovery (settlement) of the carrying amount of assets (liabilities) as at the reporting date.

Current and deferred tax for the current period

Current and deferred tax is recognised in profit or loss, except for tax arising on items recognised in other comprehensive income or directly in equity. For such items, current and deferred tax is also recognised in other comprehensive income or equity, as appropriate.

3.2.9. Intangible assets

Intangible assets comprise acquired intangible assets and internally generated intangible assets.

Acquired intangible assets

Acquired intangible assets with a definite useful life are carried at cost less accumulated amortisation and impairment losses. Such assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, and the effects of any changes in estimates are accounted for prospectively. Acquired intangible assets with an indefinite useful life are carried at cost less accumulated impairment losses.

Licences are recognised at cost less accumulated amortisation charges and impairment losses. Licences are amortised on a straight-line basis over their expected useful lives (2–5 years).

Internally generated intangible assets – research and development costs

Research costs are recognised as an expense as incurred.

Intangible assets arising from development are recognised in the statement of financial positions only if all of the following conditions are met:

- Completion of the intangible asset for use or sale is technically feasible;
- The intention to complete the intangible asset and use or sell it can be demonstrated;
- The asset can be used or sold;
- It can be demonstrated how the intangible asset will generate future economic benefits;
- Adequate technical and financial resources will be available to complete the development work and to use or sell the intangible asset;
- The development expenditure can be reliably estimated.

The initial value of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria as described above. If internal development expenditure cannot be recognised in the statement of financial position, it is charged to expenses when incurred.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortisation and impairment losses on the same basis as acquired intangible assets.

Amortisation

Intangible assets arising from development comprise ongoing development work and completed development work.

Completed development work related to the development of computer games is amortised on a straight-line basis over a period of 36 months based on the future economic benefits from capitalised costs and future revenue as estimated by the Parent's Management Board.

Ongoing development work is not amortised and is tested for impairment at least once a year.

The costs of the game engine used to develop computer games are amortised for 36 months and capitalised in the value of developed computer games.

Derecognition of intangible assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their further use or disposal. The gain or loss arising from the derecognition of an intangible asset (determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is recognised in profit or loss for the period when the asset is derecognised.

3.2.10. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated impairment. Items of property, plant and equipment are depreciated from the moment they are brought into use, in accordance with the policies applicable to the Group's other non-current assets.

An asset is depreciated on a straight-line basis so as to write down its cost or measured value to its residual value. Expected useful lives, residual values and depreciation methods are reviewed at the end of each reporting period (with any changes in estimates accounted for prospectively).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use. Any gains or losses arising from the disposal or retirement of an item of property, plant and equipment (determined as the difference between the disposal proceeds, if any, and the carrying amount of the asset) are recognised in profit or loss for the period when the item is derecognised.

The Parent's Management Board has made the following estimates of useful life depending on the asset category:

- Leasehold improvements (10 years),
- Plant and equipment (1–5 years),
- Vehicles (5 years).

3.2.11. Impairment of property, plant and equipment and intangible assets, except goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to identify any indications of impairment. If such indications are found, the recoverable amount of a given asset is estimated in order to determine a potential impairment loss.

Intangible assets with an indefinite useful life or ones not yet available for use are tested for impairment on an annual basis and, additionally, if there are indications of impairment.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The latter is the present value of estimated future cash flows, discounted using a pre-tax discount rate reflecting the current market assessment of the time value of money and the risks specific to the asset.

The Management Board of 11 bit studios S.A. monitors on a continuous basis, and particularly closely at year-end, development of all of its products (games) to review progress made on them against the adopted schedule as well as their programming quality, gameplay quality, and sales potential.

If the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in the period it which it occurs.

3.2.12. Trade and other receivables

Trade and other receivables are disclosed at amounts initially invoiced, less impairment losses on doubtful receivables.

Where the effect of the time value of money is material, the value of receivables is determined by discounting forecast future cash flows to their present value, with the use of a discount rate reflecting the current market assessments of the time value of money.

Where discounting is used, an increase in the receivables amount with the passage of time is recognised as finance income.

Other receivables include in particular advance payments made for future purchases of property, plant and equipment and intangible assets.

Receivables from the state budget are presented under trade and other receivables, except corporate income tax receivable, which is disclosed as a separate item of the statement of financial position.

Impairment losses on receivables are charged to other expenses in the statement of profit or loss. Impairment loss percentages are determined by reference to historical data, and reflect the risk of non-recovery. The carrying amount of short-term receivables approximates their fair value.

3.2.13. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits with banks, and other highly liquid short-term investments with original maturities of up to three months.

3.2.14. Assets held for sale and related liabilities

Non-current assets are reclassified as held for sale when the Company intends to recover their carrying amount through sale. Assets are reclassified as held for sale if they are readily available for sale in their present condition subject only to terms that are usual and customary for sale of such assets and their sale is highly probable. The sale is highly probable if the appropriate level of management is committed to a plan to sell the assets, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value, an active programme to locate a buyer has been initiated, and the sale is expected to be completed within one year.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities related to assets held for sale are reclassified as current liabilities.

3.2.15. Trade and other payables

Short-term trade and other payables are reported at amounts payable. Where the effect of the time value of money is material, the value of a liability is determined by discounting forecast future cash flows to their present value, with the use of a discount rate reflecting the current market assessments of the time value of money.

Employee benefit obligations comprising wages and salaries, paid annual leaves and sick leaves are recognised in the period in which an employee renders the related service, at the undiscounted amount of benefits expected to be paid in exchange for that service.

3.2.16. Provisions and contingent liabilities

Provisions are recognised if the Group has a legal or constructive obligation resulting from a past event, the amount of such obligation can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group's contingent liabilities represent potential future obligations to make a payment or provide a service which may arise upon the occurrence or non-occurrence of one or more uncertain future events that the Group entities do not fully control, as well as present obligations which have not been recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. The amounts of contingent liabilities are presented in the notes to these consolidated financial statements.

3.2.17. Operating leases

Lease payments under an operating lease are recognised in the statement of profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3.2.18. Equity

The share capital comprises the share capital of the Parent, that is 11 bit studios S.A., which is governed by the regulations contained in the Commercial Companies Code and reflects the par value of shares paid up with cash. The share capital is recognised at par value of the shares (as stated in the Parent's Articles of Association and the relevant entry in the National Court Register).

Statutory reserve funds are created out of profit and are used as provided for in the Articles of Association of the Group entities.

Retained earnings/(deficit) include:

- Retained earnings/accumulated losses of the Group entities,
- Profit or loss for the current year.

3.2.19. Earnings and diluted earnings per share

Earnings per share for each reporting period are calculated as quotient of the net profit for the given period and the weighted average number of shares outstanding in the given period.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares for the effects of conversion of all dilutive potential ordinary shares. As the Company holds dilutive instruments (subscription warrants), it presents diluted earnings per share.

3.2.20. Capital management

The overall purpose of capital management (capital meaning equity for the purposes of the consolidated financial statements) is to maintain the optimum capital structure in the long term, as well as to maintain robust financial standing to support the Group's operations and increase shareholder value. The Parent's Management Board monitors the changing economic conditions the Group is operating in on an ongoing basis and responds by making appropriate adjustments to its capital management. As the Group had no debt as at the end of the reporting period or in comparative periods, it did not monitor debt to equity ratios. Credit analysis is based on the size of share capital.

3.2.21. Share-based payments

Equity-settled share-based payments to employees and other persons providing similar services are measured at the fair value of equity instruments as at the grant date.

The fair value of equity-settled share-based payments measured as at the grant date is recognised as an expense with the straight-line method during the vesting period, based on the Group's estimates regarding equity instruments to be vested. At the end of each reporting period the Group reviews its estimates of the number of equity instruments to be granted. The effects of a revision to previous estimates, if any, are recognised in the statement of profit or loss over the remainder of the vesting period, with a corresponding adjustment made to the share-based payment reserve.

3.2.22. Financial instruments

A financial asset or financial liability is recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. On initial recognition, the Group measures a financial asset or a financial liability at its fair value plus or minus (in the case of a financial asset or a financial liability other than measured at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. Transactions costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.2.23. Financial assets

The only categories of financial assets identified by the Group are loans and receivables and financial assets held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses.

Interest income is recognised at the effective interest rate, save for short-term receivables if the effect of discounting is immaterial.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received and points being an integral part of the effective interest rate,

transaction costs and other premiums or discounts) over the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of financial assets

At the end of a reporting period, the Group analyses financial assets to identify indications of impairment, if any. A financial asset is impaired only if there is objective evidence that as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows from the investment have decreased.

Certain categories of financial assets, such as trade receivables and assets that are not impaired at the individual level, are also assessed for impairment collectively. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of payments over 60 days past due, as well as observable changes in economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when the Group transfers the asset and substantially all the risks and rewards of ownership of the asset to another entity.

3.2.24. Financial liabilities

The Group has identified financial liabilities classified as other financial liabilities.

Other financial liabilities

Subsequent to the initial recognition, other financial liabilities (including trade and other payables) are measured at amortised cost using the effective interest rate, unless the effect of discounting is immaterial.

Derecognition of financial liabilities

The Group derecognises financial liabilities only when they are discharged, cancelled or have expired. The difference between the carrying amount of a derecognised financial liability and the amount paid or payable is recognised in profit or loss.

3.2.25. Statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method.

3.2.26. Segment reporting

For reporting purposes, the Group has identified operating segments corresponding to the Group's components:

- That engage in business activities from which they may earn revenues and incur expenses,
- Whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

The Group's chief operating decision maker that makes decisions about allocation of resources and assesses segment performance is the Management Board of 11 bit studios S.A.

Although the quantitative thresholds for reportable segments were not met, the Parent's Management Board identified two operating segments:

- Game development (11 bit studios S.A.)
- Global digital games distribution (Games Republic Limited).

The decision to identify separate operating segments was made following the establishment on April 8th 2014 of a subsidiary Games Republic Limited, whose principal business activity was retail sale of proprietary games developed by 11 bit studios S.A. and of third-party titles from developers around the world. This business differed from the activities carried out by 11 bit studios S.A., which is a video game developer.

The performance of operating segments is assessed based on operating profit from continuing operations for a period, which is sourced directly from the financial statements of the consolidated companies.

The Group applies uniform accounting policies for its two operating segments, which are the same as the accounting policies used to prepare these consolidated financial statements. Intersegment transactions are concluded on an arm's length basis and are eliminated from the consolidated financial statements.

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. The Parent represents one operating segment (game development).

3.3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

When applying the accounting policies adopted by the Group, as described in **Note 3.2.**, the Parent's Management Board is required to make judgements, estimates and assumptions in the process of measuring assets and liabilities. Estimates and their underlying assumptions are based on historical experience and other factors considered material. Actual results may differ from those estimates.

3.3.1. Professional judgement in accounting

Below are presented principal judgements, other than those involving estimates (see **Note 3.3.2.**), which the Parent's Management Board made in the process of applying the adopted accounting policies and which have the most significant effect on the amounts recognised in these consolidated financial statements.

Functional currency

The Parent's functional currency is the Polish złoty.

The functional currency was determined by the Parent's' Management Board based on its judgement concerning the currency in which the Parent generates revenue and incurs costs. In accordance with IAS 21.9., an entity considers the following factors in determining its functional currency:

a) The currency:
   (i) that mainly influences selling prices for goods and services (this will often be the currency in which selling prices for its goods and services are denominated and settled); and
   (ii) of the country whose competitive forces and regulations mainly determine the selling prices of its goods and services;
b) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The Parent's revenue from the sale of goods (computer games) is generated in USD and EUR (from sales in Europe). This would suggest, in accordance with IAS 21.9.a.i. alone, that the Parent's functional currency is the US dollar or euro. However, upon consideration of IAS 21.9a.ii., the functional currency seems less obvious – the prices of computer games sold by the Parent are not affected by the competitive forces or regulations in the United States or Europe. Our selling prices are denominated in the US dollar or euro because the computer games market is a global market, with prices set at the same levels for players from across the globe. Accordingly, the selling prices of the Parent's games are the same for players, regardless of whether a player comes from Europe (including Poland), Asia or the United States.

From the cost perspective, if construed independently of the other rules laid down in the standard, IAS 21.9.b. indicates that PLN is the Parent's functional currency as the Parent incurs most of its costs, including game development costs (primarily attributable to salaries and wages), in the Polish złoty.

Moreover, the Parent's Management Board also considered IAS 21.10:

The following factors may also provide evidence of an entity's functional currency:

a) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated;
b) The currency in which receipts from operating activities are usually retained.

The Parent does not owe any debt under credit facilities, loans or bonds in issue. The proceeds from its share issue were denominated in PLN. Cash held by the Parent in bank accounts is denominated in PLN, USD and EUR.

Taking into account the foregoing, the Parent's Management Board has determined that the Parent's functional currency is the Polish złoty. The reporting currency of the Group is the Polish złoty.

3.3.2. Uncertainty of estimates

Discussed below are critical assumptions concerning the future and other key sources of estimation uncertainty at the reporting date which entail a significant risk that material adjustments may be required to the carrying amounts of assets and liabilities in the next financial year.

Recoverability of internally generated intangible assets

During the year, the Parent's Management Board reviewed the recoverability of internally generated intangible assets, i.e. both completed or ongoing development work related to the development of computer games.
As a result of the review, the Parent's Management Board is convinced that the carrying amounts of the intangible assets will be fully recovered.

Amortisation periods for intangible assets

As described in **Note 3.12.**, the Group reviews the expected useful lives of internally generated intangible assets at each year-end.

For intangible assets related to the development of computer games, the Group has adopted an amortisation period of 24 months in line with the standard accounting practice applied by the game development industry worldwide (as a result of the lifecycle of computer games) and with the Group's experience with the sale of previously released games.
For the technology required to develop computer games (game engine), the Group adopted an amortisation period of 36 months because of the rapid pace at which technological innovations are introduced in the game development industry, leading to regular shifts (on average, every 36 months) in technologies used to develop computer games.

3.4. REVENUE (PLN)

	Period ended Dec 31 2017	Period ended Dec 31 2016
Revenue	19,186,268	27,015,796

In the period ended December 31st 2017, the Group's revenue came mainly from sales of the *This War of Mine* video game. Despite having been released more than three years ago (the PC version was launched on November 14th 2014), *TWoM* still enjoys a strong fandom, primarily because of its unique theme and excellent playability. In 2017, 11 bit studios S.A. carried out a range of promotional and marketing projects (which peaked in Q4 2017) to keep up *TWoM* sales volumes. However, given the progressing market saturation with the Group's product, these efforts proved less effective than in the periods immediately following its release. Successful *TWoM* sales enhancement projects included the release (November 14th 2017) of the *Father's Promise*, the first of the three *TWoM: Stories* expansion packs, which was very well received by the *TWoM* player base. The release of the other two expansion packs is scheduled for 2018.

The year-on-year decline in the Group's revenue in 2017 was partly due to the high base effect. In early 2016, the PS4 and Xbox One ports of *TWoM* as well as its Chinese version were released, boosting the Group's performance in Q1 2016. The comparative data also includes the revenue of Games Republic Limited, a subsidiary which discontinued its operating activities in December 2016 and was disposed of on April 11th 2017. For details of the sale transaction, see **Note 3.15.**

Another factor driving the Group's revenue in 2017 was the expansion of its game publishing business, which accounted for more than 10% of the Group,s total revenue. In 2017, 11 bit publishing released two games created by third-party developers: *Beat Cop* and *Tower 57*. The first one, a creation of Warsaw-based Pixel Crow, was launched for PCs on March 30th 2017. Although initially *Beat Cop* sales slightly underperformed, they later stabilised at a satisfactory level, largely as a result of the Company's successful promotional and other initiatives. As a consequence, within a few months following the release, the Parent managed to recover its total investment in the product. *Tower 57*, from Pixwerk, a Germany-based game developer, was released for PCs on November 16th 2017. As was the case for *Beat Cop*, the Company recouped the development costs of *Tower 57* just a few months after its release.

3.5. OPERATING SEGMENTS (PLN)

The key business segments of the 11 bit studios Group (as of April 11th 2017, following disposal by the Parent of 100% of shares in Games Republic Limited to Lousva Trading Limited, the 11 bit studios Group ceased to exist) are:

- Game development and sales (development of video games and sale of licences for their distribution), and
- Global digital distribution of games (retailing of internally developed and third-party video games through a proprietary online platform).

3.5.1. Segment revenue and profits

The following table presents the Group's revenue and profits by reporting segment:

	Revenue		Segment operating profit	
	Period ended Dec 31 2017	Period ended Dec 31 2016	Period ended Dec 31 2017	Period ended Dec 31 2016
Game development:	**19,151,518**	**26,151,979**	**7,619,936**	**15,454,560**
including sales to third parties	19,116,767	26,095,176		
including sales to other segments	34,750	56,803		
Global digital distribution of games	**34,750**	**863,815**	**(95,179)**	**(1,320,052)**
including sales to third parties	34,750	863,815		
including sales to other segments	0	0		
Eliminations between segments	(34,750)	(56,803)		
Total (continuing operations)	**19,186,268**	**27,015,796**	**7,524,756**	**14,134,508**
Finance income			176,768	1,604,939
Finance costs			(3,408,574)	(8,639)
Gain (loss) on disposal of shares			**237,544**	**0**
*** Profit before tax (continuing operations)**			**4,530,494**	**15,730,808**

The accounting policies applied to the reporting segments are consistent with the Group's accounting policies as described in **Note 3.2.** The segments' operating profit from continuing operations is the profit earned by the individual segments. This information is provided to persons who decide on the allocation of resources and assess the segments' financial performance.

3.5.2. Segment assets and liabilities

Segment assets

	As at Dec 31 2017	As at Dec 31 2016
Game development	48,649,817	44,388,225
Global digital distribution of games	0	1,261,233
Total segment assets	**48,649,817**	**45,649,448**
Total consolidated assets	**48,649,817**	**45,649,448**

Segment liabilities

	As at Dec 31 2017	As at Dec 31 2016
Game development	2,427,021	3,136,231
Global digital distribution of games	0	387,664
Total segment liabilities	**2,427,021**	**3,523,895**
Total consolidated liabilities	**2,427,021**	**3,523,895**

In order to monitor each segment's performance and allocate resources:

- All assets are allocated to the reporting segments; Assets shared by the reporting segments are allocated based on revenue generated by each reporting segment;
- All liabilities are allocated to the reporting segments.

3.5.3. Assets held for sale (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Assets held for sale	0	231,759
Receivables	0	157,021
Cash	0	872,453
Total	**0**	**1,261,233**

As at December 31st 2017, the total value of assets held for sale was PLN 0, compared with PLN 1,261,233 as at December 31st 2016. The change followed as a result of the sale by the Parent of 100% of shares in its subsidiary Games

Republic Limited to Lousva Trading Limited. The Company announced the signing of the sale agreement on April 11th 2017.

3.5.4. Liabilities directly associated with assets held for sale (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Trade payables	0	109,226
Taxes and charges	0	19,709
Other liabilities	0	7,481
Short-term accruals and deferred income	0	251,248
Total	**0**	**387,664**

The total value of liabilities directly associated with assets held for sale as at December 31st 2017 was PLN 0, compared with PLN 387,664 as at December 31st 2016.

3.5.5. Other segment information

	Depreciation/amortisation of non-current assets		Increase in non-current assets	
	Period ended Dec 31 2017	Period ended Dec 31 2016	Period ended Dec 31 2017	Period ended Dec 31 2016
Game development	1,713,889	2,268,605	7,372,863	3,554,253
Global digital distribution of games	0	300,369	0	1,074,537
Total (continuing operations)	**1,713,889**	**2,568,974**	**7,372,863**	**4,728,790**

3.5.6. Revenue from main products and services

For information on the Group's revenue from the sale of its main products and services, see **Note 3.5.1.**

3.5.7. Geographical information

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

Below is presented the Group's revenue from sales to third parties broken down by geographical area and information on non-current assets broken down by location:

	Revenue from third parties		Non-current assets	
	Period ended Dec 31 2017	Period ended Dec 31 2016	As at Dec 31 2017	As at Dec 31 2016
Poland	568,034	361,287	17,173,693	9,721,755
European Union	2,990,518	3,952,346	0	0
USA	14,243,255	21,024,546	0	0
China	1,163,980	1,490,862	0	0
Other	220,481	186,754	0	0
Total	**19,186,268**	**27,015,796**	**17,173,693**	**9,721,755**

3.5.8. Major clients

The Group's revenue from the sale of computer games, of PLN 19,186,268 (2016: PLN 27,015,796) includes revenue of PLN 16,806,827 (2016: PLN 22,911,273) from sales of the Company's products via Steam (Valve Corporation), Google, Apple and Humble Bundle, the world's leading electronic distribution platforms, and revenue from Entropy, East2West Network Tech and Koch Media, which also sell the Company's products.

3.6. FINANCE INCOME (PLN)

	Period ended Dec 31 2017	Period ended Dec 31 2016
Interest income:		
Bank deposits	123,234	83,332
Gains on remeasurement of financial assets	53,534	0
Net foreign exchange gains (losses), including:		
a) Cash	0	1,457,449
b) Loans and receivables	0	98,690
c) Liabilities	0	(13,070)
d) Other	0	(21,462)
Total	**176,768**	**1,604,939**

The year-on-year decrease in the 11 bit studios Group's finance income in 2017 (despite higher interest income from bank deposits) was attributable to unfavourable changes in the international currency markets, over which the Group has no control. Given the high share of exports in the Group's total revenue (98% in 2017 and similar levels in previous years) and the large amounts of cash held by the Group, including cash denominated in foreign currencies, the Group is exposed to currency risk. In 2016, the Polish złoty depreciated against the US dollar and the euro, which translated into high finance income for the Group on remeasurement of cash and cash equivalents denominated in other currencies. In 2017, the trend reversed, and the Group reported no finance income from this source and its finance costs increased as described in **Note 3.7.** below.

3.7. FINANCE COSTS (PLN)

	Period ended Dec 31 2017	Period ended Dec 31 2016
Other interest expense		
a) Interest on public charges	601	0
b) Other	2,898	0
Net foreign exchange gains (losses), including:		
a) Cash	3,156,085	0
b) Loans and receivables	257,159	0
c) Liabilities measured at amortised cost	(8,169)	8,639
Losses on remeasurement of financial assets	**0**	**0**
Total	**3,408,574**	**8,639**

The marked appreciation of the złoty against foreign currencies, particularly strong in the first half of 2017, had a negative effect on the Group's financial performance in the reporting period due to the need to remeasure the Group's cash and cash equivalents denominated in currencies other than the złoty. The remeasurement resulted in finance costs of PLN 3,408,574 (interest expense represented a negligible part of this amount), which weighed heavily on the Group's results for 2017. The finance costs were a consequence of changes in the international currency markets over which the Group has no control.

Given the strong exposure of the Group's financial results to the currency risk, in the third quarter of 2017 the 11 bit studios S.A. Management Board made a decision to reduce the share of cash denominated in foreign currencies in the Group's total assets. As at the end of 2017, such cash amounted to PLN 10,314,473 and accounted for 21.23% of the Group's total assets. As at the end of 2016, the Group's cash denominated in foreign currencies was PLN 18,577,115, representing as much as 40.7% of the total assets. The reduction was made by converting most of the cash denominated in the US dollar into the złoty.

In 2016, the main item of the Group's finance costs was an impairment loss recognised following remeasurement of financial assets. The impairment loss related to the shares held by the Parent in its subsidiary Games Republic Limited, and was recognised in connection with the planned sale of the shares and bringing the subsidiary's value down to realisable levels. The transaction in which the Parent sold 100% of shares in Games Republic Limited to Lousva Trading Limited was finalised on April 11th 2017.

3.8. OTHER INCOME AND EXPENSES (PLN)

3.8.1. Other income

	Period ended Dec 31 2017	Period ended Dec 31 2016
Grants received	175,643	206,764
Awards received	60,404	45,544
Impairment losses – reversal of impairment losses on receivables	62,035	231,414
Gain on disposal of non-financial non-current assets	0	520
Other income	14,343	2,026
Total	**312,425**	**486,268**

3.8.2. Other expenses

	Period ended Dec 31 2017	Period ended Dec 31 2016
Impairment losses recognised on:		
Trade receivables	0	56,808
Other expenses:		
Cost of written-off expenditure on ongoing development work	445,431	725
Donations given	485,823	299,288
Liquidation of non-financial non-current assets	0	6,067
Impairment losses on non-financial assets reclassified as assets held for sale	0	642,409
Other costs	845,607	387,125
Total	**1,776,861**	**1,392,422**

In the period ended December 31st 2017, the main item of other expenses was represented by other expenses by nature (travel-for-work, business travel, advertising and insurance costs), which amounted to PLN 845,607, compared with PLN 387,125 in 2016. The growth was attributable to the Group's increased activity with respect to participation in trade fairs and industry events, where the Group presented *Frostpunk* and games created by third-party developers for whom the Parent provides publishing services. In 2016, the main item of other expenses was represented by impairment losses on non-financial non-current assets, of PLN 642,409, relating to a sales platform and recognised in order to bring the asset's carrying amount to fair value in connection with reclassification of the expenditure made on the platform to assets held for sale. Other major items of other expenses in 2017 included a donation of PLN 485,823 (2016: PLN 299,288) made by the Group to the War Child foundation which helps child victims of wars, and an impairment loss of PLN 445,431 recognised following a decision to close one of the publishing projects.

3.9. INCOME TAX RELATING TO CONTINUING OPERATIONS (PLN)

3.9.1. Income tax recognised in profit or loss

	Period ended Dec 31 2017	Period ended Dec 31 2016
Current income tax:		
Attributable to current year	379,682	3,301,441
Deferred income tax:		
Attributable to current year	592,935	(499,968)
Tax expense recognised in current year on continuing operations	**972,617**	**2,801,473**

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. The Group's fiscal and accounting year coincide with the calendar year.

Reconciliation of the Group's tax and accounting profit

	Period ended Dec 31 2017	Period ended Dec 31 2016
Profit before tax from continuing operations	4,530,494	15,730,809
Income tax expense at the 19% rate (2015: 19%)	860,794	2,988,854
Tax effect of income which is not classified as income for tax purposes	(11,787)	(44,814)
Tax effect of income which is classified as income for tax purposes	168,506	0
Tax effect of costs which are not deductible for tax purposes	(846,475)	903,328
Tax effect of costs which are deductible for tax purposes	235,346	(346,790)
Effect of different tax rates applicable to subsidiaries operating in other jurisdictions	**0**	253,720
Other exchange differences from translation of subsidiary's USD/EUR denominated accounts, not recognised in the subsidiary's profit or loss	**0**	(452,857)
Other changes – reconciliation of income tax in connection with the loss reported by the subsidiary	(26,702)	0
Total	**379,682**	**3,301,441**

The tax rate applied in the above reconciliation in 2017 and 2016 is 19%, and it is the corporate income tax rate applicable in Poland in accordance with the tax laws.
The tax rate applied with respect to the subsidiary is 35%. The subsidiary reported a tax loss in both periods.

3.9.2. Current tax receivable and payable

	As at Dec 31 2017	As at Dec 31 2016
Current tax receivable / payable:		
Tax refund receivable	550,974	0
Income tax payable	(223,851)	(398,781)
Total current tax receivable / payable	**327,123**	**(398,781)**

3.9.3. Deferred tax (net)

Below is presented an analysis of the deferred tax asset / (liability) shown in the statement of financial position:

	As at Dec 31 2017	As at Dec 31 2016
Deferred tax asset	101,079	866,612
Deferred tax liability	(11,086)	(183,684)
Total	**89,993**	**682,928**

Period ended Dec 31 2017

	Balance at beginning of period	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of period
Deferred tax asset/ (liability):				
Accruals and deferred income	173,502	(94,595)	0	78,907
Incentive plans	119,248	(119,248)	0	0
Impairment losses on assets reclassified as held for sale	573,862	(573,862)	0	0
Unrealised – interest accrued on investments	0	11,086	0	11,086
Unrealised foreign exchange differences	(183,684)	183,684	0	0
Total deferred tax asset (liability)	**682,928**	**(592,935)**	**0**	**89,993**

Period ended Dec 31 2016

	Balance at beginning of period	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of period
Deferred tax asset/ (liability):				
Accruals and deferred income	233,952	(60,450)	0	173,502
Incentive plans	0	119,248	0	119,248
Impairment losses on assets reclassified as held for sale	0	573,862	0	573,862
Unrealised foreign exchange differences	(50,992)	(132,692)	0	(183,684)
Total deferred tax asset (liability)	**182,960**	**499,968**	**0**	**682,928**

3.10. DEPRECIATION AND AMORTISATION

Profit from continuing operations for the financial year, attributable to:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Depreciation/ amortisation charges made during the year:		
Depreciation	357,115	331,609
Amortisation	1,389,236	2,320,737
Total	**1,746,351**	**2,652,346**
Allocation to project costs	(32,462)	(83,372)
Total depreciation and amortisation in statement of profit or loss and other comprehensive income:	**1,713,889**	**2,568,974**

3.11. EARNINGS PER SHARE (PLN)

3.11.1. Basic earnings per share

	Period ended Dec 31 2017	Period ended Dec 31 2016
Basic earnings per share:		
From continuing operations	1.58	5.83
Total basic earnings per share	**1.58**	**5.83**
Diluted earnings per share:		
From continuing operations	1.53	5.65
Total diluted earnings per share:	**1.53**	**5.65**

Profit and weighted average number of ordinary shares used to calculate basic earnings per share:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Profit for the financial year attributable to shareholders	3,557,877	12,929,336
Total profit used to calculate basic earnings per share	3,557,877	12,929,336
Profit used to calculate basic earnings per share from continuing operations	**3,557,877**	**12,929,336**

	Period ended Dec 31 2017	Period ended Dec 31 2016
Weighted average number of ordinary shares used to calculate earnings per share	2,254,214	2,217,199

3.11.2. Diluted earnings per share

	Period ended Dec 31 2017	Period ended Dec 31 2016
Profit for the financial year attributable to shareholders	3,557,877	12,929,336
Total profit used to calculate diluted earnings per share	3,557,877	12,929,336
Profit used to calculate diluted earnings per share from continuing operations	**3,557,877**	**12,929,336**

The weighted average number of shares used to calculate diluted earnings per share is reconcilable with the average used to calculate the basic earnings per share in the following manner:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Weighted average number of ordinary shares used to calculate basic earnings per share	2,254,214	2,217,199
Shares assumed to be issued without receipt of payment:		
Employee stock options	130,000	70,000
Weighted average number of ordinary shares used to calculate diluted earnings per share	**2,327,940**	**2,287,199**

3.12. PROPERTY, PLANT AND EQUIPMENT (PLN)

Carrying amount:

	As at Dec 31 2017	As at Dec 31 2016
Leasehold improvements	300,264	224,647
Plant and equipment	149,971	93,655
Vehicles	338,541	450,282
Other property, plant and equipment	25,556	10,956
Total	**814,332**	**779,540**

Gross carrying amount:

	Leasehold improvements	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2017	**224,647**	**346,103**	**558,705**	**202,552**	**1,332,007**
Increase	102,202	230,097	0	59,609	**391,908**
Decrease	0	0	0	0	**0**
As at Dec 31 2017	**326,849**	**576,200**	**558,705**	**262,161**	**1,723,915**

Accumulated depreciation and impairment:

	Leasehold improvements	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2017	**0**	**252,448**	108,423	191,597	**552,467**
Depreciation charges	26,585	173,781	111,741	45,009	**357,115**
Decrease	0	0	0	0	**0**
As at Dec 31 2017	**26,585**	**426,229**	**220,164**	**236,605**	**909,583**

Comparative data for the period from January 1st to December 31st 2016

Gross carrying amount:

	Leasehold improvements	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2016	**0**	**295,787**	**369,749**	**106,684**	**772,219**
Increase	224,647	126,440	188,956	139,166	679,210
Decrease	0	76,124	0	43,298	119,422
As at Dec 31 2016	**224,647**	**346,103**	**558,705**	**202,552**	**1,332,007**

Accumulated depreciation and impairment:

	Leasehold improvements	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2016	**0**	**238,392**	6129.92	89691	**334,213**
Depreciation charges	0	90,179	102,293	139,137	331,609
Decrease	0	76,124	0	37,231	113,355
As at Dec 31 2016	**0**	**252,448**	**108,423**	**191,597**	**552,467**

3.13. INTANGIBLE ASSETS

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

As at December 31st 2017, the completed development work on the game engine comprised capitalised costs of three stages of work with the remaining weighted average amortisation period of 0 months.

As at December 31st 2017, the completed video games development work comprised games with the remaining weighted average amortisation period of 20.3 months.

Ongoing development work

As at December 31st 2017, expenditures on ongoing development work mainly included development of video games and the game engine (phase four).

Testing ongoing development work for impairment:

As at each reporting date, the Company tests ongoing development work for impairment. As a result of a test performed in the year ended December 31st 2017, expenditures on a game design of PLN 445,431 were written off under other expenses as the development of the game was discontinued pursuant to the Management Board's resolution. In the corresponding period of the prior year, the Company wrote off ongoing development work of PLN 725.

Carrying amount:

	As at Dec 31 2017	As at Dec 31 2016
Completed development work (game engine)	0	94,990
Completed development work (games)	1,471,052	1,170,861
Ongoing development work	11,457,660	6,577,350
Licences	138,786	78,010
Total	**13,067,498**	**7,921,210**

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2017	**918,342**	**10,233,021**	**274,522**	**6,577,350**	**18,003,234**
Increase	0	0	75,271	6,905,684	**6,980,955**
Reclassification of completed development work	0	1,444,104	135,839	(1,579,942)	**0**
Decrease	0	0	0	0	**0**
Remeasurement	0	0	0	0	**0**
Reclassification as assets held for sale	0	0	0	0	**0**
Discontinued work written off	0	0	0	(445,431)	**(445,431)**
As at Dec 31 2017	**918,342**	**11,677,125**	**485,631**	**11,457,660**	**24,538,758**

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2017	**823,351**	**9,062,160**	**196,513**	**0**	**10,082,024**
Amortisation charges	94,990	1,143,913	150,333	0	1,389,236
Decrease	0	0	0	0	0
Reclassification as assets held for sale	0	0	0	0	0
As at Dec 31 2017	**918,342**	**10,206,073**	**346,846**	**0**	**11,471,260**

Comparative data for the period from January 1st to December 31st 2016

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2016	**918,342**	**8,447,131**	**185,924**	**4,918,360**	**14,469,757**
Increase	0	(48)	99,883	4,628,955	4,728,789
Reclassification of completed development work	0	2,969,240	0	(2,969,240)	0
Decrease	0	(8,765)	(11,285)	0	(20,050)
Remeasurement	0	0	0	0	0
Reclassification as assets held for sale	0	(1,174,537)	0	0	(1,174,537)
Discontinued work written off	0	0	0	(725)	(725)
As at Dec 31 2016	**918,342**	**10,233,021**	**274,522**	**6,577,350**	**18,003,234**

Accumulated depreciation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2016	**656,595**	**7,281,077**	**144,034**	**0**	**8,081,706**
Amortisation charges	166,757	2,090,217	63,763	0	2,320,737
Decrease	0	(8,765)	(11,285)	0	(20,050)
Reclassification as assets held for sale	0	(300,369)	0	0	(300,369)
As at Dec 31 2016	**823,351**	**9,062,160**	**196,513**	**0**	**10,082,024**

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

3.14. TRADE AND OTHER RECEIVABLES (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Trade and other receivables, including:	2,520,431	5,253,539
taxes, subsidies, customs duties and social security	110,800	312,092
other	106,257	107,646
Impairment loss on trade receivables	**(158,638)**	**(220,673)**
Total	**2,679,070**	**5,452,603**

3.14.1. Trade receivables

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.

The balances disclosed as at December 31st 2017 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Dec 31 2017	As at Dec 31 2016
Koch Media GmbH	79,576	362,768
Valve Corporation	920,645	1,639,180
Apple Inc	378,803	341,817
Google Commerce Ltd	162,917	158,187
Entropy Game Global Ltd	0	1,107,322
Amazon Corporate LLC	0	1,253,790
Yiwan (Shanghai) Network Technology Co., Ltd	133,913	0
WILDFRAME MEDIA S.L.	229,399	0

These balances are shown exclusive of receivables that were past due but unimpaired as at the end of the reporting period (see the ageing analysis below).

Ageing analysis of past due receivables

	As at Dec 31 2017	As at Dec 31 2016
60-90 days	24,716	0
91-120 days	0	0
121-360 days	0	0
over 360 days	6,317	4,844
Total	**31,033**	**4,844**

Changes in impairment losses on doubtful receivables:

	Period ended Dec 31 2017	Period ended Dec 31 2016
As at beginning of reporting period	**220,673**	**395,279**
Recognition	0	56,808
Reversal	(62,034)	(214,242)
Use	0	(17,173)
As at end of reporting period	**158,638**	**220,673**

Impairment losses on doubtful receivables included impaired trade receivables totalling PLN 158,638 as at December 31st 2017 (December 31st 2016: PLN 220,673m). In making the decision to recognise the impairment losses, the outcomes of past collection efforts, the legal status and financial position of debtors and potential costs of the debt recovery procedure were taken into account. The debt is not secured.

Ageing analysis of impaired trade receivables:

	As at Dec 31 2017	As at Dec 31 2016
60-90 days	0	56,808
91-120 days	0	0
121-360 days	0	0
over 360 days	158,638	163,865
Total	**158,638**	**220,673**

3.15. DISPOSAL OF THE SUBSIDIARY (PLN)

Following the decisions made in 2016, as discussed in detail in **Note 5.22** to the full-year report of 11 bit studios S.A. for 2016, as at December 31st 2016 the Group classified shares in the subsidiary Games Republic Limited and expenditures incurred on the Games Republic sales platform as assets held for sale.

The value of assets held for sale totalled PLN 1,261,233 as at December 31st 2016. On March 6th 2017, the Company signed an agreement with Games Republic Limited (amended on March 15th 2017) whereby it sold the Games Republic platform to Games Republic Limited. The value of the transaction was PLN 231,659. On April 11th 2017, the Company finalised an agreement for the sale of 100% of shares in Games Republic Limited to Lousva Trading Limited. The value of the transaction was PLN 450,000. The sale of the entire shareholding in Games Republic Limited had a positive impact on the Group's performance. The result of the transaction was a gain of PLN 237,544.

	Period ended Dec 31 2017
Cash proceeds from sale	392,097
Deferred income	57,903
Total	**450,000**

3.15.1. NET ASSETS OF THE SUBSIDIARY AS AT THE DATE OF LOSS OF CONTROL

	As at Apr 11 2017
Intangible assets	227,657
Short-term receivables	1,194
Cash	88,991
Current liabilities and provisions	(68,639)
Total	**249,203**

3.15.2. GAIN ON DISPOSAL OF THE SUBSIDIARY

	Period ended Dec 31 2017
Proceeds from sale of shares	450,000
Net assets of subordinated entity disposed of	(249,203)
Total effect of exchange differences on translation of foreign operations	36,747
Total	**237,544**

3.15.3. NET PROCEEDS FROM DISPOSAL OF THE SUBSIDIARY

	Period ended Dec 31 2017
Cash proceeds from sale	392,097
Net of cash disposed of	(88,991)
Total	**303,106**

3.15.4. EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS

Exchange differences on translation of foreign operations (as at Dec 31 2016)	**49,295**
Exchange differences on translation of foreign operations	(12,548)
Exchange differences reclassified to profit or loss on disposal of foreign operation	(36,747)
Exchange differences on translation of foreign operations (as at Dec 31 2017)	**0**

3.16. NON-CURRENT FINANCIAL ASSETS (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Investment fund units (PKO BP Płynnościowy SFIO)	3,053,534	0
Total	**3,053,534**	**0**

3.17. OTHER CURRENT ASSETS (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Insurance	25,368	17,174
Domain names, licences, subscriptions	14,412	4,913
Prepaid expenses	250,819	309,558
Other	3,000	0
Total	**293,599**	**331,644**

Prepayments and accrued income comprised prepaid domain fees, property insurance, subscriptions, stock exchange fees and trade conferences accreditation fees.

3.18. CASH AND CASH EQUIVALENTS (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Cash in hand and at banks	13,076,622	27,013,273
Bank deposits	12,099,711	100,698
PKO BP Bank Hipoteczny bonds	3,000,000	2,000,000
Total	**28,176,332**	**29,113,971**

	As at Dec 31 2017	As at Dec 31 2016
Cash and cash equivalents	0	872,453
Total	**0**	**872,453**

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).

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

- PLN 10,536,856,
- USD 4,146,136 (PLN 17,327,947),
- EUR 282,362 (PLN 1,249,168).

The bonds of PKO Bank Hipoteczny are treated as current liquidity management instruments within the Group, not as investment.

3.19. OTHER ASSETS (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Long-term security deposits	145,116	106,017
Long-term prepayments and accrued income	3,220	302
Total	**148,336**	**106,318**

The largest item of other assets was a security deposit in favour of Mazovia Capital Sp. z o.o. under a lease of a property housing the Company's registered office, located at ul. Brechta 7 in Warsaw.

3.20. SHARE CAPITAL (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Share capital	228,720	221,720
Total	**228,720**	**221,720**

As at December 31st 2017, the Company's share capital amounted to PLN 228,719.90, comprised 2,287,199 ordinary shares and was paid in full.

3.20.1. Ordinary shares fully paid

	Number of shares	Share capital	Share premium
As at Dec 31 2016	**2,217,199**	**221,720**	**4,285,934**
Increase/decrease	70,000	7000	584,340
As at Dec 31 2017	**2,287,199**	**228,720**	**4,870,274**

The fully paid ordinary shares, with a par value of PLN 0.10 per share, confer one vote at the General Meeting and pay dividends.

3.20.2. Retained earnings

	As at Dec 31 2017	As at Dec 31 2016
Retained earnings	**3,209,255**	**11,535,302**

	Period ended Dec 31 2017	Period ended Dec 31 2016
As at beginning of reporting period	**11,535,302**	**11,361,336**
Net profit attributable to owners of the parent	3,557,877	12,929,336
Profit allocated to statutory reserve funds	(11,881,245)	(12,755,370)
Other changes	(2,679)	0
As at end of reporting period	**3,209,255**	**11,535,302**

No dividends were distributed in 2017 or 2016.

By Resolution No. 07/05/2017 of the Annual General Meeting of 11 bit studios S.A., dated May 10th 2017, the net profit for 2016 of PLN 11,881,245 was allocated to statutory reserve funds.

Pursuant to Art. 396.1 of the Commercial Companies Code, which is binding on the Company, at least 8% of net profit for a financial year should be contributed to statutory reserve funds held for the purpose of covering losses, until the funds reach at least one-third of the Company's share capital. That part of statutory reserve funds (retained earnings) is not available for distribution to shareholders, and it amounted to PLN 76,240 as at December 31st 2017 (2016: PLN 73,906.67).

3.21. TRADE AND OTHER PAYABLES (PLN)

	As at Dec 31 2017	As at Dec 31 2016
Trade payables	551,919	928,076
Taxes, customs duties, insurance and other dues	98,851	177,471
Accrued employee bonuses and other accruals and deferred income	546,284	882,726
Amounts payable to employees	799	530
Total	**1,197,853**	**1,928,803**

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

3.22. 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 2017	**762,976**	**51,270**	**68,480**	**882,726**
Increase:	**655,853**	**212,179**	**674,289**	**1,542,321**
Recognition	655,853	212,179	674,289	1,542,321
Decrease:	**1,318,829**	**104,344**	**455,590**	**1,878,763**
Use	824,504	104,344	417,771	1,346,619
Reversal	509,958	0	22,187	532,145
Reclassification	(15,633)	0	15,633	0
As at Dec 31 2017	**100,000**	**159,106**	**287,178**	**546,284**

Comparative data for the period from January 1st to December 31st 2016:

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2016	**1,030,790**	**140,282**	**153,626**	**1,324,698**
Increase:	**778,166**	**51,270**	**29,015**	**858,452**
Recognition	778,166	51,270	29,015	858,452
Decrease:	**1,045,980**	**140,282**	**114,162**	**1,300,424**
Use	959,617	140,282	113,668	1,213,567
Reversal	86,363	0	494	86,857
As at Dec 31 2016	**762,976**	**51,270**	**68,480**	**882,726**

3.23. RETIREMENT BENEFIT PLANS

The employees of the Parent are covered by the state pension benefit scheme implemented by the government in Poland through the Social Insurance Institution (ZUS). The Parent is required to contribute a percentage of salaries to the old-age insurance fund to cover the cost of retirement benefits. As regards the retirement benefits scheme, the Parent's sole duty is to pay the required contributions.

3.24. FINANCIAL INSTRUMENTS (PLN)

3.24.1. Financial instruments by category

Financial assets:

	As at Dec 31 2017	As at Dec 31 2016
Cash	28,176,332	29,113,971
Investment fund units	3,053,534	0
Loans and receivables	2,679,070	5,452,603
Total	**33,908,936**	**34,566,574**

In the reporting period, the Parent resolved to reclassify investment fund units from current to non-current assets.

For information on changes in impairment losses on loans and receivables, made to reflect changes in credit risk, see **Note 3.14.1.**

Financial liabilities:

	As at Dec 31 2017	As at Dec 31 2016
Trade and other payables	1,197,853	1,928,803
Total	**1,197,853**	**1,928,803**

Ageing analysis of trade and other payables:

	As at Dec 31 2017	As at Dec 31 2016
Current	1,181,574	1,906,743
60-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	16,279	22,060
Total	**1,197,853**	**1,928,803**

3.24.2. Objectives of financial risk management

The Management Board of the Parent coordinates access to domestic and foreign financial markets, monitors and manages financial risks associated with the Group's operations through internal risk reports containing an analysis of exposures by risk level and size. The risks covered include currency risk, credit risk and liquidity risk.

3.24.3. Credit risk

Trade receivables and cash are the key categories of assets exposed to credit risk. The amounts disclosed in the statement of financial position are presented net of impairment losses, which are estimated by the Group's management on the basis of past experience and the assessment of current economic conditions.

At present, the Group does not insure its trade receivables. The Group's trading partners are leading global corporations, including Valve Corporation, Apple and Google, which have a robust financial standing. Amounts due from platforms in respect of games sold are collected in 30 days or less.

For information on the concentration of credit risk related to trade receivables, see **Note 3.14.1.**

The Parent has established relationships with reputable financial institutions. As at December 31st 2017, the Company held cash with three institutions, with funds allocated among them in the following proportions: PLN 27,841,810, PLN 196,937 and PLN 133,156.

3.24.4. Currency risk management

The Group's business involves exposure to currency risk. 11 bit studios S.A.'s revenue is primarily denominated in foreign currencies (mainly in USD). As a consequence, depreciation and appreciation of the Polish złoty have, respectively, a positive and negative impact on the Group's revenue.

As the Group conducts sales transactions in foreign currencies, it is exposed to exchange rate fluctuations. The currency risk is managed in line with dedicated policies. The Group monitors the foreign exchange market on an ongoing basis and, accordingly, takes decisions to sell foreign currencies to raise cash towards future liabilities. The Group does not enter into any forward contracts or currency options.

As at the reporting date, the carrying amount of the Group's monetary assets and liabilities denominated in foreign currencies, as translated into PLN, was as follows:

Assets:

	As at Dec 31 2017	As at Dec 31 2016
USD-denominated, including:	**10,867,026**	**21,469,525**
Cash	9,185,158	17,327,947
Receivables	1,681,868	4,141,578
EUR-denominated, including:	**1,500,270**	**2,949,953**
Cash	1,052,307	2,121,621
Receivables	447,963	828,332

As at December 31st 2017, the Group recorded a year-on-year decline in USD- and EUR-denominated assets, resulting from a decision made by the Management Board in the third quarter of 2017 to reduce the percentage share of foreign-currency-denominated cash in the Group's total assets.

Liabilities:

	As at Dec 31 2017	As at Dec 31 2016
USD-denominated	27,805	213,667
EUR-denominated	118,198	162,777

3.24.5. Sensitivity to currency risk

11 bit studios S.A.'s revenue is primarily denominated in foreign currencies (mainly in USD).

The table below presents the Group's sensitivity to 10% appreciation or depreciation of the Polish złoty against the relevant foreign currencies. The 10% sensitivity rate is the rate used to report currency risk internally to key management personnel and reflects the Management Board's assessment of possible exchange rate movements. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the financial period end for a 10% change in foreign exchange rates. The analysis includes cash held in bank accounts as well as the Group's receivables and payables denominated in currencies other than the Group companies' functional currency. A positive figure in the table below indicates an increase in profit and equity resulting from a 10% depreciation of the Polish złoty against the relevant foreign currencies. For a 10% appreciation of the Polish złoty, the figure would be negative, and there would be a corresponding decrease in net profit.

USD impact:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Net profit*	877,977	1,721,724

EUR impact:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Net profit*	105,502	225,761

* Attributable primarily to exposure to risk related to cash held in bank accounts and the Company's USD- and EUR-denominated trade receivables at year-end.

3.24.6. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Parent's Management Board, which has put in place an appropriate system for managing short-, medium- and long-term financing and liquidity management requirements. The Group manages liquidity risk by maintaining adequate statutory reserve funds, continuously monitoring projected and actual cash flows, and adjusting the maturity profiles of financial assets and liabilities.

3.24.7. Fair value of the Company's financial assets and liabilities that are not measured at fair value but required to be disclosed at fair value

In the opinion of the Parent's Management Board, the carrying amounts of trade receivables and payables and cash in these consolidated financial statements approximate their fair values.

3.24.8. 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 Dec 31 2017	As at Dec 31 2016	Fair value hierarchy
Bonds	3,000,000	2,000,000	Level 2
Investment fund units	3,053,534	0	Level 1

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

3.25. DEFERRED INCOME

	As at Dec 31 2017	As at Dec 31 2016
Government grants (a)	1,068,979	807,056
Other (b)	160,189	1,591
Total	**1,229,168**	**808,647**
Short-term	466,396	364,461
Long-term	762,772	444,186
Total	**1,229,168**	**808,647**

(a) The amount represents the total of:

- Government grant (EU funding) received in 2013, 2014 and H1 2015 under the Innovative Economy Operational Programme, Measure 8.2, for the development of a B2B platform to integrate the Parent's IT systems with the IT systems of its partners. Income from the grant was partly accounted for against property, plant and equipment depreciation recognised in 2013–2015, and fully against depreciation recognised in 2016 and 2017 – PLN 0 (December 31st 2016: PLN 80,811);
- 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 recognised in 2016 and later – PLN 91,439 (December 31st 2016: PLN 186,271);
- Government grant (EU funding) received in 2014 under the MEDIA programme for the development of proprietary technology. Income from the grant has not been accounted for yet. It will be recognised against depreciation in the coming years – PLN 539,973 (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 recognised against depreciation in the coming years – PLN 437,566 (December 31st 2016: PLN 0).

(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.

3.26. EXPLANATORY INFORMATION FOR THE STATEMENT OF CASH FLOWS (PLN)

Information explaining the significant differences between changes in certain items in the statement of financial position and changes in the same items in the statement of cash flows:

Change in deferred income:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Change in other assets in the statement of financial position	0	0
Change in deferred tax asset in the statement of financial position	0	0
Change in deferred income in the statement of financial position	420,522	(687,227)
Effect of grants recognised in other cash provided by financing activities	(437,567)	496,426
Total	**(17,045)**	**(190,801)**

Change in other cash provided by financing activities:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Effect of grants	437,567	0
Other cash provided by financing activities	0	(496,426)
Total	**437,567**	**(496,426)**

3.27. SHARE-BASED PAYMENTS (PLN)

3.27.1. Employee stock option plan for 2017-2019

In 2017, the Parent decided to launch a stock-option-based Incentive Scheme for the management, employees, and senior associates. Pursuant to Resolution No. 18/05/2017 of the Annual General Meeting of May 10th 2017, certain employees and associates of the Company will be entitled to receive Series B subscription warrants convertible into Series G shares, subject to conclusion of an agreement to participate in the Incentive Scheme and achievement by the Company of specific targets in accordance with the Terms and Conditions of the Incentive Scheme. Under the Scheme, the target for cumulative profit before tax to be achieved by 11 bit studios S.A. in 2017–2019 was set at PLN 71,188,803. The total revenue target for the same period is PLN 126,414,447. If the target is not met, the number of warrants will be reduced by 10% for every 5% of underperformance against the target.

The Incentive Scheme will be carried out in 2017–2019. Persons who will be vested with the right to acquire warrants will be entitled to exercise them by subscribing for Series G shares by June 30th 2023. Series B subscription warrants convertible into Series G shares will be allotted by the Company's General Meeting at the Supervisory Board's request, in quantities specified in the request.

The Annual General Meeting's resolution of May 10th 2017 provides for subscription for up to 130,000 Series G bearer shares with a par value of PLN 0.10 per share and a total par value of PLN 13,000. The issue price of the Series G shares will be PLN 103.38 (average trading price of Company shares in the third and fourth quarter of 2016 less 10%).

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

As at the reporting date, the Incentive Scheme was not measured as it had not come into effect yet. An analysis is being conducted to determine the final number of warrants to be granted to the Company employees covered by the Incentive Scheme. The Company has not yet signed any agreements with employees eligible to participate in the Incentive Scheme.

3.27.3. Employee stock option plan for 2014-2016

In 2014–2016, the Company operated a stock-option-based Incentive Scheme for the management and senior staff, described in detail in **Note 5.29** to the full-year report of 11 bit studios S.A. for 2016. The Incentive Scheme was settled in the reporting period. The relevant options were exercised, resulting in the issue of 70,000 Series F shares, which were acquired at an issue price of PLN 8.59 per share.

Changes in stock options in the reporting period (quantity)

	Period ended Dec 31 2017
Quantity as at beginning of reporting period	70,000
Granted in the reporting period	0
Cancelled in the reporting period	0
Exercised in the reporting period	70,000
Expired in the reporting period	0
Quantity as at end of reporting period	0

Exercised in the reporting period

	Number of exercised options	Date exercised	Share price as at exercise date (PLN)
Granted on Jul 9 2014	25,000	May 18 2017	190.7
Granted on Jul 10 2014	40,000	May 18 2017	190.7
Granted on Feb 18 2016	5,000	May 18 2017	190.7
Total	**70,000**		

3.28. RELATED-PARTY TRANSACTIONS (PLN)

Transactions between the Parent and its subsidiaries (Games Republic Limited of Valletta, Malta), i.e. its related parties, were eliminated in the process of consolidation and are not disclosed in this Note. Transactions between the Group and other related parties are detailed below.

Related parties include members of the Management Board and Supervisory Board and key personnel of the Parent (key management):

- Grzegorz Miechowski – President of the Management Board
- Bartosz Brzostek – Member of the Management Board
- Przemysław Marszał – Member of the Management Board
- Michał Drozdowski – Member of the Management 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

In addition, 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.

3.28.1. Trade transactions

Apart from using services of Members of the Management Board and Supervisory Board as described in **Note 3.28.4.**, the Company entered into the following related-party transactions in 2017 and 2016:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Paweł Miechowski	114,248	141,831
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	46,407	58,238
Total	**160,655**	**200,069**

3.28.2. Loans advanced to related parties

In 2017, the Parent did not advance any loans to related parties. In 2016, 11 bit studios S.A. granted two loans to the subsidiary Games Republic. The first one, amounting to EUR 20 thousand, was advanced on January 22nd 2016 at an interest rate of 4%. The second loan, of EUR 30 thousand, was advanced on July 12th 2016, also at a 4% interest rate. Both loans were converted into new shares in Games Republic Limited.

3.28.3. Loans received from related parties

The Group did not take out any loans from related parties in 2017 or 2016.

3.28.4. Remuneration of members of the Management Board, key personnel and members of the Supervisory Board

The key management personnel of the Group consists of members of the Parent's Management Board. In the financial year and the comparative period, the members of the Parent's Management Board and Supervisory Board were remunerated as follows for discharging managerial and supervisory responsibilities:

Short-term benefits - Management Board:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Grzegorz Miechowski	281,818	343,862
Bartosz Brzostek	281,104	244,863
Michał Drozdowski	81,129	144,751
Przemysław Marszał	73,000	134,918
Total	**717,051**	**868,393**

Short-term benefits - Supervisory Board:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Piotr Sulima	15,000	13,355
Jacek Czykiel	10,000	8,903
Radosław Marter	5,000	4,452
Agnieszka Maria Kruz	5,000	4,452
Wojciech Ozimek	5,000	4,452
Total	**40,000**	**35,614**

Pursuant to the Supervisory Board's Resolution No. 6/2016 of January 21st 2016, members of the Management Board are entitled to bonuses contingent on the Company's profit growth and payable to all members in equal parts. For 2017, the Management Board received a total bonus of PLN 100,000, which was paid before the date of authorisation of this report.

The total bonus was divided as follows:

Grzegorz Miechowski - PLN 25,000
Bartosz Brzostek - PLN 25,000
Przemysław Marszał - PLN 25,000
Michał Drozdowski - PLN 25,000

The members of the Management Board did not receive any other remuneration for 2017 in the form of profit distributions or stock options. They are, however, covered by the Incentive Scheme as detailed in **Note 3.26.1.** As at the reporting date, the Incentive Scheme was not measured as it had not come into effect yet.

No members of the Management Board or Supervisory Board of 11 bit studios S.A. received any remuneration from the Company's subsidiaries.

In addition, members of the Management Board and Supervisory Board received the following consideration for services under contracts for specific work (*umowa o dzieło*):

Short-term benefits - Management Board (under contracts for specific work):

	Period ended Dec 31 2017	Period ended Dec 31 2016
Grzegorz Miechowski	0	0
Bartosz Brzostek	0	90,000
Michał Drozdowski	180,000	180,000
Przemysław Marszał	180,000	180,000
Total	**360,000**	**450,000**

Short-term benefits – other key managers (under contracts for specific work):

	Period ended Dec 31 2017	Period ended Dec 31 2016
Remuneration of Games Republic Limited management	0	245,975
Total	**0**	**245,975**

3.28.5. Other transactions with related parties

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

3.29. CAPITAL COMMITMENTS

Neither as at December 31st 2017 nor in prior periods did the Group take on any contractual commitments to purchase any property, plant or equipment.

3.30. CONTINGENT ASSETS AND LIABILITIES (PLN)

3.30.1. Group as a lessee

In 2017, the Parent used office space at Bertolta Brechta 7, Warsaw, for business purposes under a lease contract of May 25th 2016. Lease costs recognised in profit or loss for 2017 totalled PLN 301,711, down from PLN 386,307 in 2016.

Irrevocable lease payments for the office space at Bertolta Brechta 7, Warsaw, amounted to PLN 452,556 (within 1 year).

3.30.2. Contingent liabilities

Neither as at December 31st 2017 nor in prior periods did the Group recognise any contingent liabilities.

3.30.3. Contingent assets

Neither as at December 31st 2017 nor in prior periods did the Group recognise any contingent assets.

3.31. SEASONAL AND CYCLICAL CHANGES IN THE GROUP'S BUSINESS

In the reporting period, the Group did not record any unusual seasonal or cyclical fluctuations.

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

The marked appreciation of the Polish złoty, in particular in the first half of 2017, had a negative effect on the Group's financial performance in the reporting period as its foreign-currency-denominated cash and cash equivalents had to be remeasured, resulting in finance costs of PLN 3,408,574 (including negligible interest expenses), which weighed heavily on the Group's results. The finance costs were a consequence of changes in the international currency markets over which the Group has no control. In 2016, the Polish złoty weakened against foreign currencies, and the Group posted high finance income of PLN 1,604,939, of which only a small part, PLN 83,332, was attributable to interest on bank deposits.

Given the strong exposure of the Group's financial results to the currency risk, in the third quarter of 2017 the 11 bit studios S.A. Management Board made a decision to reduce the share of cash denominated in foreign currencies in the Group's total assets. As at the end of 2017, such cash amounted to PLN 10,314,473 and accounted for 21.23% of the Group's total assets, down from PLN 18,577,115, i.e. 38,20%, a year earlier. The reduction was made by converting most of the cash denominated in the US dollar into the złoty.

3.33. EVENTS SUBSEQUENT TO THE REPORTING DATE

No events occurred which would have an impact on these consolidated financial statements of 11 bit studios S.A. by the date of their authorisation for issue by the Parent's Management Board on March 26th 2018.

3.34. AUTHORISATION OF FINANCIAL STATEMENTS

These consolidated financial statements of the Company were authorised for issue by the Management Board on March 26th 2018.

Signed by:

Grzegorz Miechowski	*Bartosz Brzostek*	*Przemysław Marszał*	*Michał Drozdowski*
President of the Management Board	*Member of the Management Board*	*Member of the Management Board*	*Member of the Management Board*

Warsaw, March 26th 2018

DIRECTORS' REPORT ON THE OPERATIONS OF THE 11 BIT STUDIOS GROUP

11 bit studios

4. OVERVIEW

4.1. KEY FACTORS AFFECTING THE GROUP'S PERFORMANCE AND MATERIAL EVENTS IN 2017 AND UNTIL THE DATE OF PUBLICATION OF THE REPORT

Game development

In 2017, the Company's activities in game development focused on the game *Frostpunk*, which is scheduled for release for PCs on April 24th 2018. Almost 50 people are involved in its production in house as well as a number of third-party developers. The project is at its final stage of implementation: the game is being optimised and translated (on the day of its release it will be available in seven languages, including Chinese). It is also undergoing internal and external tests to remove any remaining bugs. *Frostpunk* will be the largest and most expensive production in the Company's history. The total expenditure on the project, together with marketing expenses, will exceed PLN 10m. Therefore, the Company's Management Board believes that its commercial potential should be higher than that of *This War of Mine*.

In preparation for the release of *Frostpunk*, the Company intensified its marketing activities from the beginning of 2017 in order to build interest in the title among gamers and industry media. As part of these efforts, 11 bit studios S.A. took part in all major global trade fairs, including PAX South in San Antonio, PAX East in Boston, GDC in San Francisco, E3 in Los Angeles, ChinaJoy in Shanghai, Gamescom in Cologne and PAX West in Seattle. The promotion of *Frostpunk* was also continued in the first quarter of 2018.

Frostpunk was very well received by fans wherever it was presented, which was also confirmed by positive coverage in the industry media. Given the significant interest among players, the Company decided to make the game available in key markets, in cooperation with local distributors, also in a box version, although initially it was planned to be marketed only in the digital version. An important part of marketing efforts related to the upcoming release was also videos and game trailers published on the Internet. These materials attracted a lot of viewers.

Another project in the game development area, initiated by the Company at the end of 2016, is the establishment of a second development team. The team is headed by Artur Ganszyniec and as at the date of issue of this report already consisted of nearly 20 members. It has been tasked with creating a game under a working title *Project 8*, to be released after *Frostpunk*. The production of *Project 8* is progressing on schedule. Further information on this product will be presented in subsequent quarters.

During the reporting period, the Company also worked on further development of *This War of Mine* to keep up its monetisation. As a result, *Father's Promise*, the first DLC of the *TWoM: Stories* series was released on November 14th 2017, i.e. on the third anniversary of the launch of *TWoM* for Pcs.

Throughout 2017, the Company engaged in a range of marketing activities to keep up *TWoM* sales, including the very successful June sales campaign ('Midweek Madness') on Steam, preceding the 'Summer Sale' campaign held by the same platform. According to estimates, Steam accounts for over 80% of global on-line sales of digital games. With strong buyer interest, *TWoM* remained in the top ten of the most popular games purchased on Steam for a few days, which had a significant impact on the Group's revenue in the second quarter and the first half of 2017. Similar positive effects were also achieved through promotional campaigns held in autumn, before the third anniversary of the *TWoM* release for PCs, which took place on November 14th 2014. They culminated with the release of *Father's Promise* (on November 14th 2017) – the first DLC of the *TWoM: Stories* series. The expansion pack was very well received by gamers and the expenditure on its development was recouped several dozen hours after the release. Two further DLCs of the same series will be placed on the market in 2018.

Publishing (11 bit publishing)

On March 30th 2017, the Company released *Beat Cop* for PCs, produced by the Warsaw-based Pixel Crow studio. The game attracted positive feedback from players, winning high ratings from reviewers and users. However, this did not have a linear impact on its sales volumes, which were lower than expected immediately after the release. In subsequent periods, following steps taken by the Company, including primarily promotional activities, sales of *Beat Cop* stabilised at a decent level. As a result, just a few months after its premiere, the Company more than recouped the money invested in the production.

On November 16th 2017, *Tower 57* (PC version), produced by the German Pixwerk studio, was placed on the market. As was the case for *Beat Cop*, the Company recovered its investment in this project just a few months after the release.

With decent sales of *Beat Cop* and *Tower 57*, the revenue earned by the publishing division had a significant contribution to the Group's performance in 2017. Revenue from marketing of third-party developers' games accounted for over 10% of the Group's total revenue.

In February 2017, the Company announced that it had signed an agreement with the Spanish Digital Sun studio to release *Moonlighter*. This Spanish production 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. It will be marketed in a PC, PS4, Xbox One and Nintendo Switch versions, with the release scheduled for 2018.

In August 2017, the Company initialled an agreement with Dead Mage Studio (based in Austin, USA) to release *Children of Morta*. This American-Iranian game of the Action-RPG genre is distinguished by its rich, hand-drawn world (in the pixel art style) and a number of playable characters. It will provide several dozen hours of gameplay. 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 and latest-generation consoles. The release is scheduled for 2018.

In the third quarter of 2017, the Company decided to discontinue one of its publishing projects. The expenditure incurred on the project (PLN 445 thousand) was charged against the Group's results for the third quarter of 2017 (other expenses – liquidation of non-financial non-current assets).

In 2017, the management team of 11 bit publishing made intense efforts to acquire new projects for the publishing portfolio. To this end, the Company's representatives visited most of the most important trade events worldwide, including GDC in San Francisco, E3 in Los Angeles and Gamescom in Cologne, Germany. As a result, the team is now engaged in a number of promising negotiations on further publishing contracts.

Market and other developments

Throughout 2017, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its steady price increase. During this period, the Company share price surged by nearly 34.9%, while the broad-market WIG index rose by 23.2% and the sWIG80 index, which includes 11 bit studios stock, climbed a mere 2.8%.

In June 2017, 11 bit studios S.A. received a notification from NN Investment Partners TFI S.A. of the reduction of its interest in the Company below the threshold of 5% of votes at the General Meeting. Following transactions executed on May 30th 2017, the funds managed by NN Investment Partners TFI S.A. held 108,940 shares in 11 bit studios S.A., representing 4.91% of the Company's share capital and conferring the same number of votes at its General Meeting.

In August 2017, 11 bit studios S.A. received a notification that funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. held a total of 135,500 Company shares, conferring 5.92% of votes and representing 5.92% of the Company's share capital.

In January 2017, the Company received a valuable distinction – it was included in the prestigious group of 'Forbes Diamonds 2017'. The winners of the award, granted by 'Forbes', a high-profile business monthly, are the fastest growing and at the same time the most valuable companies in Poland.

Also in January 2017, *This War of Mine: The Board Game* (created under a licence from the Company) was nominated in five categories for the 'Most Anticipated Games of 2017' award by the BoardGameGeek website.

In March 2017, 11 bit studios S.A. won as many as three awards in the 'Listed Company of the Year 2016' competition organised by the editorial team of 'Puls Biznesu'. The Company came in second in the main category of the ranking. It was also ranked third both in the 'Success in 2016' category and in the 'Development Prospects' category.

April 2017 saw the release of *War on Cancer*, with 11 bit studios S.A. as the publisher. The game has a unique mechanism for synchronising micropayments with the accounts of specific beneficiaries of the Alivia Cancer Foundation. *War on Cancer* was produced by Saatchi&Saatchu IS, one of the best advertising agencies, and Platige Image. All parties participating in the initiative agreed to contribute to the project on a pro-bono basis.

In the second quarter of 2017, the Company issued 70,000 Series F shares for the purposes of the 2014–2016 Incentive Scheme. The issue price was PLN 8.59. On June 22nd 2017, Series F shares were introduced to stock-exchange trading. After the increase, the Company's share capital comprises 2,287,199 Series A-F shares.

In the second quarter of 2017, the Company's Annual General Meeting resolved to launch another incentive scheme, covering the period 2017–2019. Its beneficiaries will acquire warrants, in exchange for which they will then be able to acquire a total of 130,000 Series G shares, provided that in 2017–2019 the 11 bit studios Group generates cumulative profit before tax of nearly PLN 71.2m and revenue of PLN 126.4m. The issue price of the new Series G shares was set at PLN 103.38 (average trading price of Company shares in the third and fourth quarter of 2016 less 10%). The 2017–2019 Incentive Scheme has not come into effect yet. An analysis is being conducted to determine the final number of warrants to be granted to the Company employees covered by the programme. The Company has not yet signed any agreements with employees eligible for participation in the Incentive Scheme.

In 2017, the Company continued its charity efforts by supporting the War Child foundation. The amount donated to the Foundation in 2017 was PLN 485,823. In 2016, the donation amounted to PLN 299,288.

On April 11th 2017, the Parent finalised an agreement for the sale of 100% of shares in Games Republic Limited to Lousva Trading Limited. The transaction was valued at PLN 450,000. The arrangement between the Company and Lousva Trading Limited also included an agreement for the sale and pre-sale of the Company's products, for the amount of PLN 300,000. Games Republic Limited operated the Games Republic sales platform. In December 2016, 11 bit studios S.A. decided to exit the distribution business and close down the platform. As of the date of disposal of Games Republic Limited, the 11 bit studios Group ceased to exist.

4.2. General information about the Group, its products and services

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 is an indie game developer, handling every stage of the game creation process – from production, through marketing, to distribution in digital stores. In 2010, 11 bit studios S.A. released the first game in the *Anomaly* series, the subsequent versions of which quickly gained a place among the world's most popular 'tower offense' games. The next big step was *This War of Mine*, which reached the market on November 14th 2014 (PC version). It proved a great success, with its production costs recouped already at the first weekend after the release. For a number of weeks, the game occupied top positions on the bestseller lists of Steam and other digital distribution platforms. In the following quarters, the Company took steps to keep up its sales. *TWoM* was released in a version for PS4 and Xbox One, as well as for mobile devices. At the beginning of 2016, the Chinese version was also launched, which boosted sales in this region.

As a result, for a few quarters after the premiere, also throughout 2017, sales of *TWoM* remained the main source of revenue for 11 bit studios S.A. The Company also earned minor revenue from the *Anomaly* series and *Spececom*, a game released in 2014 by the 11 bit publishing division. In 2017, revenue from publishing reached a noticeable, more than 10% share of the Company's revenue, after the release of another two third-party games: *Beat Cop* (March 30th 2017) and *Tower 57* (November 16th 2017).

The 11 bit publishing division has been developed since 2014 to diversify the Company's operations. Apart from publishing games developed by 11 bit studios S.A., it also publishes titles created by third-party developers.

4.3. Key objectives of the Group's strategy

The strategy of 11 bit studios S.A. (on April 11th 2017, the disposal of the subsidiary, Games Republic Limited, by the Parent, the 11 bit studios Group ceased to exist) for the following years assumes being an "alternative to the mainstream". The Company intends to maintain full independence from other players in the computer gaming sector, so that it can pursue its own, autonomous visions of the games it creates. However, independence will not mean a poorer quality of the games. The Company's Management Board wants its titles to stand out in terms of quality and provide a meaningful entertainment. The Company's intention is to gradually increase both the production and marketing budgets of subsequent games, so as to develop products that can be sold at higher prices. In the medium term, the Company wants to have at least two in-house development teams capable of working on two games at the same time. New items would be released every few quarters. The target is to publish one proprietary game each year.

At the same time, 11 bit studios S.A. is expanding its publishing activities through the 11 bit publishing division, which, in addition to the Company's own games, also markets titles produced by third-party development studios. Also in this area, the Company's strategy is to release increasingly complex and higher priced games. In the medium term, 11 bit studios S.A. wants to launch 3-4 products a year, which would contribute to the stabilisation of its performance.

4.4. Markets, suppliers and customers (PLN)

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

Below is presented the Group's revenue from third-party customers by geographical area:

	Period ended Dec 31 2017		Period ended Dec 31 2016	
	PLN	share (%)	PLN	share (%)
Poland	568,034	2.96	361,287	1.34
European Union	2,990,518	15.59	3,952,346	14.63
US	14,243,255	74.24	21,024,546	77.82
China	1,163,980	6.07	1,490,862	5.52
Other	220,481	1.15	186,754	0.69
Total	**19,186,268**	**100.00**	**27,015,796**	**100**

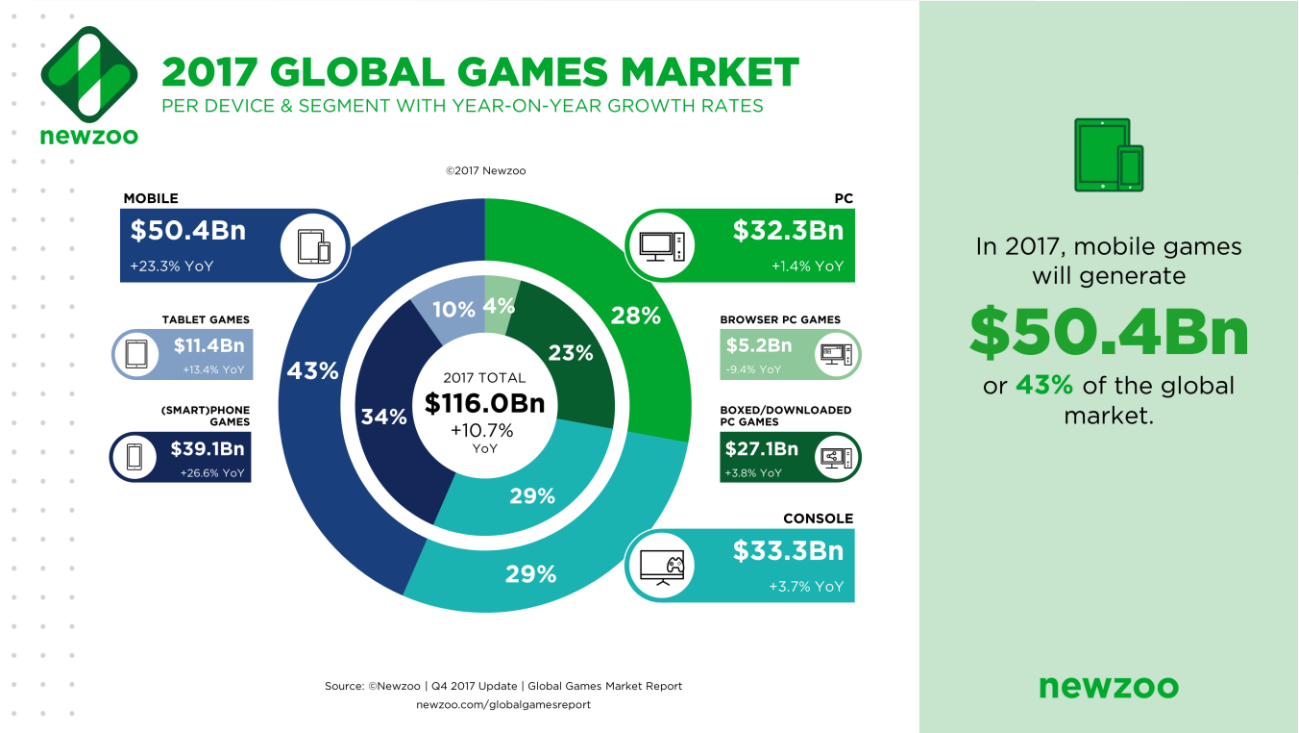
The Company sells its products (computer games) based on long-term agreements with publishers and distributors from all over the world. In 2017, the largest customer was Valve Corporation, accounting for more than 10% of the Company's total sales. Google, Apple, Humble Bundle, Entropy, East2West Network Tech. and Koch Media were also important trading partners distributing the Company's products. None of those entities is affiliated with the Company.

In the process of production of computer games, the Company collaborates with a number of suppliers, using third-party IT tools and solutions. However, none of the supplier contracts exceeded the materiality level.

4.5. Description of the market in which the Group operates

The 11 bit studios Group is a part of the global video game market. For a number of years now, video games have been the fastest growing segment of the entertainment industry, and the value of the gaming market is greater than that of the film or music market. In 2017, according to the estimates of Newzoo, a Dutch analytical company, the global

computer games market was valued at USD 116bn, 10.7% more than in the previous year when it was worth USD 99.6bn (see the chart below).



Source: Newzoo.

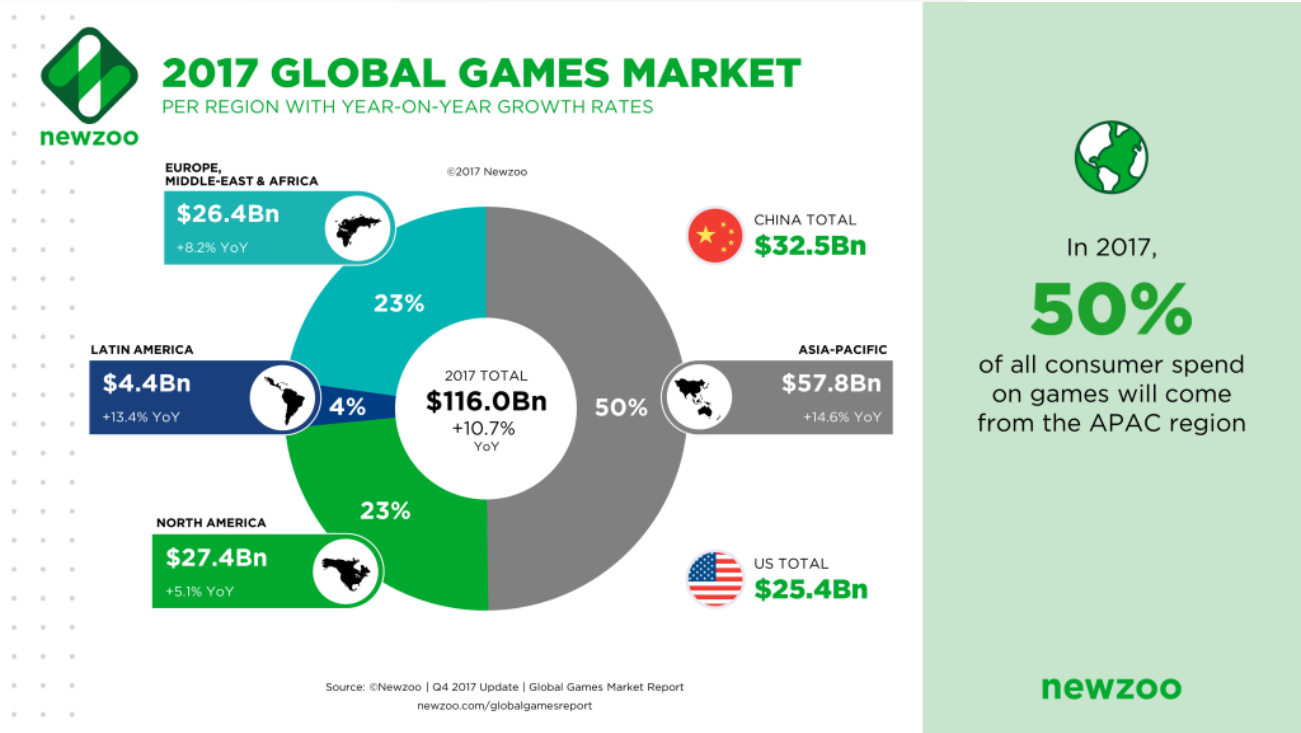
Mobile games represented the largest share of the global gaming market: 43%, which means that their sales reached as much as USD 50.4bn. Compared with 2016, the value of this market segment increased by 23.3%. To compare, the value of the console games market amounted to USD 33.3bn in 2017, a change of 3.7% on 2016. The PC gaming market was estimated at USD 32.3bn in 2017, which means a small increase of 1.4% compared with 2016.

The outlook for the gaming industry growth in the coming years is equally promising. Newzoo predicts that the sector will grow at an average annual rate of 8.2% until 2020, driven mainly by the rapidly developing segment of mobile games. Analysts report that this segment was worth USD 50.4bn already in 2017. It is expected to grow to USD 57.9bn in 2018, to reach USD 72.3bn in 2020. Newzoo experts believe that at that time the entire gaming market will be worth USD 143.5bn. Accordingly, games for mobile devices (smartphones and tablets) will account for more than half of the gaming market in 2020. Other segments of the market will grow at a much slower rate, which means that they will lose market share to mobile games. In 2020, console games will account for 26% of the market (29% in 2017), and games for PCs will have a 24% market share, as compared with 27% in 2017.

In geographical terms, China was again the most important gaming market in the world in 2017 (see chart on the following page), ahead of the US for the first time in history. The Chinese spent USD 32.5bn on games in 2017 vs USD 24.37bn in 2016. To compare, in 2017 the Americans purchased games worth USD 25.4bn, i.e. 7.6% more than in the previous year (USD 23.6bn). The third largest market was Japan, with USD 12.5bn spent on games. The amount spent by the Japanese in 2016 was not much smaller. Those largest markets were followed by Germany, South Korea, Great Britain and France.

In 2017, Poland did not make it to the top 20 of the world's key gaming markets, despite the fact that, according to Newzoo experts, the value of its gaming market reached USD 489.2m. It ranked 23rd. However, the value of the Polish gaming market in 2017 was by as much as 11.4% higher than in 2016 (USD 439m), which means that it grew faster than the global gaming market. According to Newzoo, 16 million Poles played computer games in 2017.

The largest gaming market in our part of the world was still Russia. In 2017, more than 71 million gamers spent USD 1.5bn on new titles in that country. Based on Newzoo data, the value of the Russian gaming market in 2016 was estimated at USD 1.41bn.



Source: Newzoo.

The Polish gaming market differed considerably from the global market in terms of the types of hardware for which computer games were purchased. According to the report 'State of Polish Video Game Industry 2017' (its preparation was coordinated by the Kraków Technology Park; the project was co-financed by the Ministry of Culture and National Heritage), games for mobile devices accounted for as little as some 20% of the whole Polish gaming market in 2017. Traditionally, the largest share, as much as 37%, was held by PC games. Console games accounted for only 4% of the market. Projections for the coming years do not show any significant changes in the structure of the Polish gaming market. According to the same report, in 2020 Poles will still prefer products for PCs, which will represent 43% of the entire market. Mobile games will have a market share of 29%. The share of console games will increase to 6%. The authors of 'State of Polish Video Game Industry 2017' estimate that the Polish gaming market will reach USD 560m in 2020.

According to the report, there were around 160 development studios in Poland in 2017, with the total headcount of about 6,000 employees. The vast majority of their productions were marketed globally, which was facilitated by digital (electronic) distribution channels. 11 bit studios S.A. also followed this trend. In 2017, export sales accounted for nearly 97% of the Company's total revenue. In the past years, since the beginning of the Company's operations, this ratio had not fallen below that level.

11 bit studios S.A. positions itself as an indie game developer. This segment, due to relatively small entry barriers (production budgets of indie games are not high) is strongly competitive. The Company focuses on the development of high-quality, paid games for PCs and consoles which can also be adapted (ported) for mobile devices. The Company's products reach customers electronically via the world's leading digital gaming platforms, including Steam (Valve Corporation). This policy is in line with the main trend on the gaming market, i.e. the abandonment of physical (boxed) distribution of games in favour of digital channels, which is particularly strong in the case of indie games.

4.6. FINANCIAL STANDING OF THE 11 BIT STUDIOS GROUP IN 2017

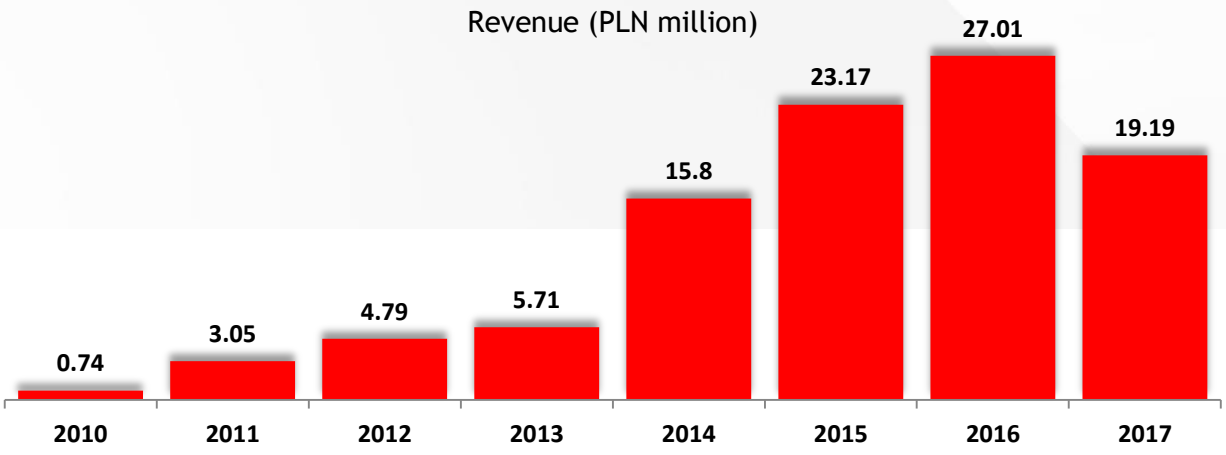
4.6.1. Statement of profit or loss

	Period ended Dec 31 2017	Period ended Dec 31 2016	Change y/y (%)
Continuing operations			
Revenue	19,186,268	27,015,796	-28.98
Other income	312,425	486,268	-35.75
Total operating income	**19,498,693**	**27,502,064**	-29.10
Depreciation and amortisation	(1,713,889)	(2,568,974)	-33.29
Raw materials and consumables used	(347,086)	(179,629)	93.22
Services	(5,895,053)	(6,719,137)	-12.26
Salaries, wages and employee benefits	(2,172,657)	(2,432,486)	-10.68
Taxes and charges	(68,391)	(74,908)	-8.70
Other expenses	(1,776,861)	(1,392,422)	27.61
Total operating expenses	**(11,973,937)**	**(13,367,556)**	-10.43
Operating profit	**7,524,756**	**14,134,508**	-46.76
Finance income	176,768	1,604,939	-88.99
Finance costs	(3,408,574)	(8,639)	39355.65
Gain (loss) on disposal of all or part of shares in subordinated entities	237,544	0	
Profit before tax	**4,530,494**	**15,730,808**	-71.20
Income tax expense	(972,617)	(2,801,473)	-65.28
Net profit from continuing operations	**3,557,877**	**12,929,336**	-72.48
Discontinued operations	0	0	
Net profit from discontinued operations	0	0	
NET PROFIT	**3,557,877**	**12,929,336**	-72.48
Earnings per share from continuing operations (PLN per share):			
Basic	1.58	5.83	-72.90
Diluted	1.53	5.65	-72.92

In 2017, the 11 bit studios Group earned revenue of PLN 19,186,268, compared with PLN 27,015,796 in the previous year. This represents a decrease of 28.98% on 2016, due mainly to the rescheduling of the release of *Frostpunk* to 2018 in order to further refine the product, which, according to the Parent's Management Board, enhanced its commercial potential. Originally, the game was scheduled for release in 2017. The year-on-year decline in the Group's revenue was partly attributable to the high base effect. In early 2016, the PS4 and Xbox One ports of *TWoM* as well as its Chinese version were released, boosting the Group's full-year results for 2016.

In 2017, the Group's revenue came mainly from sales of *This War of Mine,* launched in the PC version in November 2014. The game still enjoys a strong fandom, primarily because of its unique theme and excellent playability. In 2017, 11 bit studios S.A. carried out a range of promotional and marketing projects to keep up *TWoM* sales. However, given the given the progressing market saturation with the Group's product, these efforts proved less effective than in the periods immediately following its release. An example of successful activities which convinced new fans to purchase *This War of Mine* was the June sales campaign on Steam ('Midweek Madness'), preceding the 'Summer Sale' campaign held by the same platform. Similar positive effects were also achieved through promotional campaigns related to the third anniversary of the *TWoM* release. They culminated with the release of *Father's Promise* (on November 14th 2017) – the first DLC of the *TWoM: Stories* series. The expansion pack was very well received by gamers and the expenditure on its development was recouped several dozen hours after the release. Two further DLCs of the same series will be placed on the market in 2018.

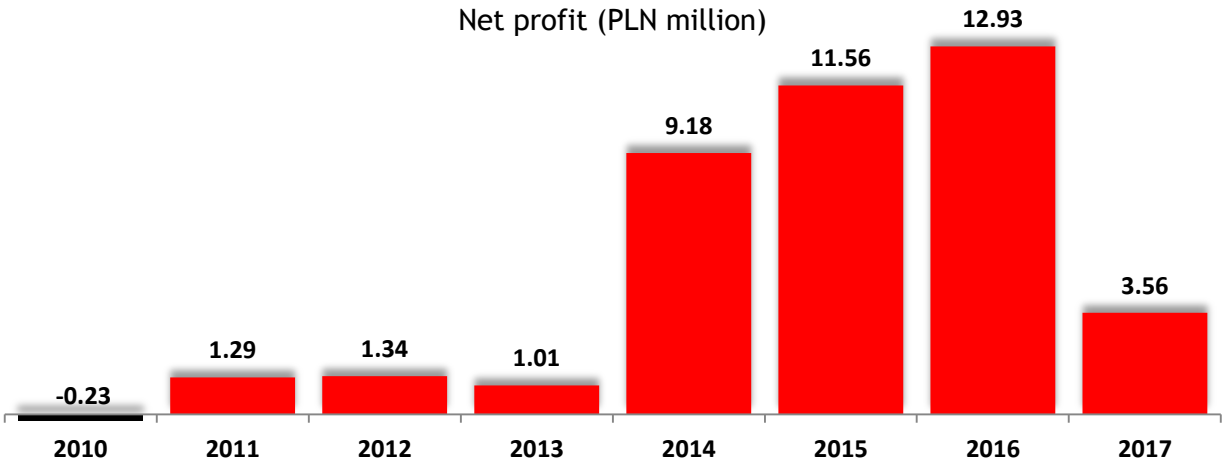
In 2017, the publishing division had a positive contribution to the Group's revenue. On March 30th 2017, the Company released *Beat Cop* for PCs, produced by the Warsaw-based Pixel Crow studio. On November 16th 2017, *Tower 57* (PC version), produced by the German Pixwerk studio, was placed on the market. In both cases, 11 bit publishing more than recouped the invested money within a few months from the launch of sales. Revenue from the sale of third-party developers' games accounted for over 10% of the Group's total revenue in 2017.



In 2017, the Group consistently put great emphasis on strict control of operating expenses. They were reported at PLN 11,973,937 for the whole of 2017, vs PLN 13,367,556 in 2016. This means a reduction of 10.43%, which is a very good indicator given the fast growth of the Parent, including a significant increase in headcount. In 2017, the Parent also incurred considerable expenses to promote both its own games and games created by third-party developers (including primarily costs related to participation in fairs and other industry events). A significant item of other expenses in 2017 was a donation to the War Child foundation. In 2017, the Parent donated as much as PLN 485,823 for this charitable purpose. In 2016, the donation amounted to PLN 299,288. As a result, the Group's operating profit in 2017 was PLN 7,524,756, down by 46.76% from PLN 14,134,508 in 2016, with operating profit margin at 39.21%, compared with 52.32% in 2016.

The Group's financial performance in 2017 was adversely affected by net finance costs, which reached PLN 3,231,806. In 2016, the Group reported net finance income of PLN 1,596,300. Net finance costs in 2017 resulted mainly from the need to remeasure the Parent's large balances of cash and cash equivalents denominated in currencies other than the złoty. Due to the appreciation of the złoty in 2017, the Group incurred as much as PLN 3,408,574 of finance costs throughout the year. These were largely non-cash costs. In 2016, finance costs were marginal and amounted to only PLN 8,639. In 2017, the Group earned finance income of PLN 176,768, including mainly interest on bank deposits. In 2016, finance income was reported at as much as PLN 1,604,939 as a consequence of the weakening of the złoty, and paper gains posted by the Group on remeasurement of its foreign-currency cash and cash equivalents.

Due to the very unfavourable balance of finance costs and finance income, the Group's profit before tax in 2017 fell to PLN 4,530,494, i.e. by 71.2% year on year (PLN 15,730,809). In 2017, the Group paid PLN 972,617 in income tax, i.e. 65.28% less than in 2016 (PLN 2,801,473). As a result, the Group's net profit declined by 72.48% year on year, to PLN 3,557,877 from PLN 12,929,336 in 2016, and net profit margin fell to 18.54%, from 47.86% in the previous year.



4.6.2. Statement of financial position

ASSETS

	As at Dec 31 2017	Share (%)	As at Dec 31 2016	Share (%)
Non-current assets				
Property, plant and equipment	814,332	1.67	779,540	1.71
Intangible assets	13,067,498	26.86	7,921,210	17.35
Deferred tax asset	89,993	0.18	682,928	1.50
Other assets	148,335	0.30	106,318	0.23
Non-current financial assets	3,053,534	6.28	0	0.00
Total non-current assets	**17,173,693**	**35.30**	**9,489,996**	**20.79**
Current assets				
Trade and other receivables	2,679,070	5.51	5,452,603	11.94
Income tax receivable	327,123	0.67	0	0.00
Other current assets	293,599	0.60	331,644	0.73
Cash and cash equivalents	28,176,332	57.92	29,113,971	63.78
Assets held for sale	0	0.00	1,261,233	2.76
Total current assets	**31,476,124**	**64.70**	**36,159,452**	**79.21**
TOTAL ASSETS	**48,649,817**	**100.00**	**45,649,448**	**100**

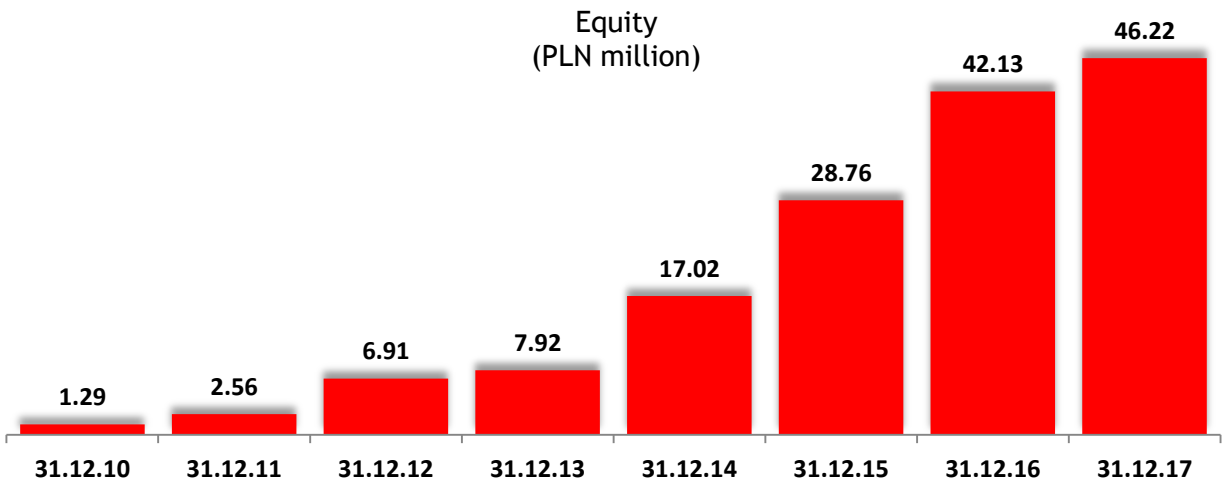
EQUITY AND LIABILITIES

	As at Dec 31 2017	Share (%)	As at Dec 31 2016	Share (%)
EQUITY AND LIABILITIES				
Equity				
Share capital	228,720	0.47	221,720	0.49
Share premium	4,870,274	10.01	4,285,934	9.39
Statutory reserve funds	37,914,547	77.93	25,405,679	55.65
Share-based payment reserve	0	0.00	627,623	1.37
Exchange differences on translation of foreign operations	0	0.00	49,295	0.11
Retained earnings	3,209,255	6.60	11,535,302	25.27
Equity attributable to owners of the parent	**46,222,796**	**95.01**	**42,125,553**	**92.28**
Equity attributable to non-controlling interests	**0**	0.00	0	0.00
Total equity	**46,222,796**	**95.01**	**42,125,553**	**92.28**
Non-current liabilities		0.00		0.00
Deferred income	762,772	1.57	444,187	0.97
Deferred tax liability	0	0.00	0	0.00
Total non-current liabilities	**762,772**	**1.57**	**444,187**	**0.97**
Current liabilities		0.00		0.00
Trade and other payables	1,197,853	2.46	1,928,803	4.23
Income tax liabilities	0	0.00	398,781	0.87
Deferred income	466,396	0.96	364,460	0.80
Liabilities associated with assets held for sale	0	0.00	387,664	0.85
Total current liabilities	**1,664,249**	**3.42**	**3,079,708**	**6.75**
Total liabilities	**2,427,021**	**4.99**	**3,523,895**	**7.72**
TOTAL EQUITY AND LIABILITIES	**48,649,817**	**100.00**	**45,649,448**	**100**

As at December 31st 2017, the Group's total assets amounted to PLN 48,649,817, up by 6.57% from PLN 45,649,448 in the previous year.

Current assets accounted for the majority (64.69%) of the Group's assets (i.e. the Parent's assets) as at the end of 2017. They stood at PLN 31,476,124, compared with PLN 36,159,452 in the previous year, which represents a year-on-year decrease by 12.95%. As in 2016, cash and cash equivalents were the largest item of the Company's current assets, amounting to PLN 28,176,332 vs PLN 29,113,971 as at the end of December 2016. Thus, they accounted for 57.92% of the Group's total assets. This figure does not include PLN 3,053,534 worth of units in the PKO BP Płynnościowy SFIO investment fund, which should be treated as cash equivalents although they are classified as non-current financial assets for accounting purposes. These financial assets accounted for 6.28% of the Group's total assets (as at the end of December 2017). Trade and other receivables of PLN 2,679,070 also represented a significant component of the Group's current assets. Their balance was significantly higher in the previous year and amounted to PLN 5,452,603.

As at the end of December 2017, the Company's non-current assets amounted to PLN 17,178,835, relative to PLN 9,489,996 in the previous year. They represented 35.31% of total assets. At the end of 2016, this ratio stood at 20.79%. Other intangible assets constituted the main component of non-current assets. They amounted to PLN 13,067,496, up from PLN 7,921,210 in the previous year. Their share in the Company's total assets increased to 26.86% from 17.35% at the end of 2016. This item included primarily ongoing development work, i.e. expenditure on computer games (*Frostpunk* and *Project 8*, as well as games published by 11 bit publishing) and on development of the game engine.



The most significant item of the Group's equity and liabilities was statutory reserve funds which amounted to PLN 37,914,547 as at the end of December 2017, i.e. 77.93% of total equity and liabilities. A year earlier, the ratio stood at 55.65% and the Group's statutory reserve funds amounted to PLN 25,405,679. Their strong growth in 2017 followed from allocation of profit earned by the Parent in 2016. The shareholders decided to allocate the entire profit for 2016 (PLN 11,881,245) to the statutory reserve funds at the General Meeting held on May 10th 2017. As at the end of 2017, retained earnings were a significant component of the Group's equity and liabilities. They amounted to PLN 3,209,255 and accounted for 6.6% of total equity and liabilities. As at the end of 2016, retained earnings amounted to PLN 11,535,302 (25.27% of total equity and liabilities). The decrease resulted from lower net profit generated by the Parent in 2017 relative to 2016, which in turn was due to lower revenue from sale of computer games and the rescheduling of the release of *Frostpunk* to 2018. Profits earned by the 11 bit studios Group were also adversely affected by high finance costs, caused by remeasurement of the Parent's significant balances of cash and cash equivalents denominated in currencies other than the złoty. Due to the appreciation of the złoty in 2017, the Group incurred as much as PLN 3,408,574 of finance costs throughout the year.

As at December 31st 2017, the Group's liabilities amounted to PLN 2,427,021, compared with PLN 3,523,895 in 2016. They accounted for only 4.99% of total equity and liabilities. In 2016, this ratio stood at 7.72%. The drop in total liabilities was driven by a decrease in trade and other payables of PLN 1,197,853, from PLN 1,928,804 as at the end of 2016. Their share in the Company's total equity and liabilities was 2.46% vs 4.23% as at the end of 2016. As at the end of December 2017, the Company's total current liabilities amounted to PLN 1,664,249 (3.42% of total equity and liabilities), compared with PLN 3,079,708 (6.75%) in the previous year. As at the end of 2017, the Group's non-current liabilities stood at PLN 762,772 vs PLN 444,187 a year earlier, accounting for, respectively, 1.57% and 0.97% of the Group's total equity and liabilities. The Group's non-current liabilities consisted exclusively of deferred income, i.e. EU and government grants obtained by the Parent.

4.6.3. Statement of cash flows

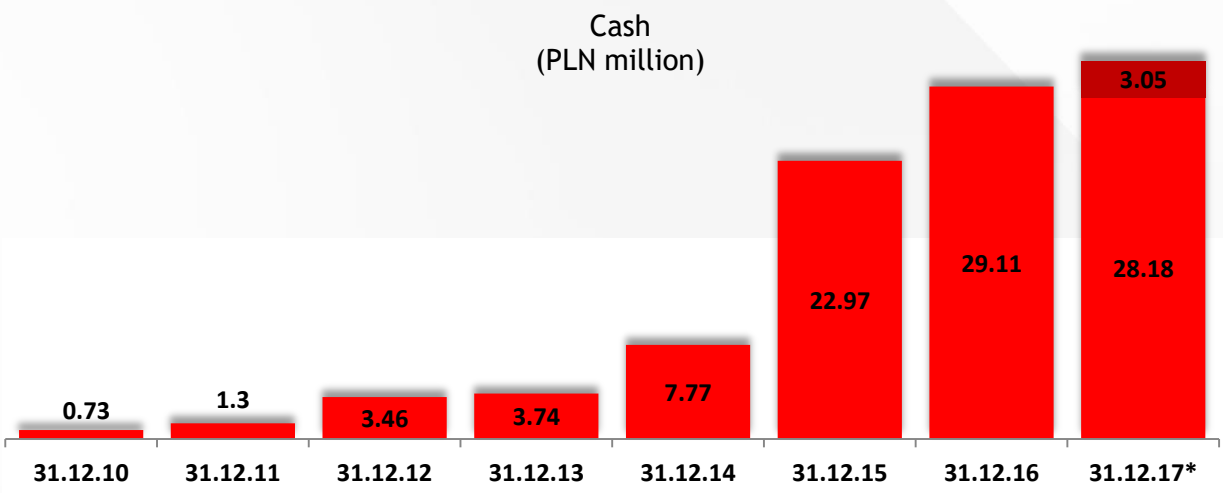
	Period ended Dec 31 2017	Period ended Dec 31 2016
Cash flows from operating activities		
Profit for the financial year	**3,557,877**	**12,929,336**
Adjustments:		
Depreciation and amortisation	1,713,889	2,568,973
Revaluation of non-financial assets	0	642,409
Revaluation of intangible assets	445,431	0
Other adjustments	849,625	610,115
Changes in working capital:		
Increase/decrease in trade and other receivables	2,773,534	(2,735,647)
Increase/decrease in assets held for sale	0	(1,029,474)
Increase/decrease in other assets	588,963	(817,292)
Decrease in trade and other payables	(730,951)	296,105
Increase/(decrease) in deferred income	(17,045)	(190,801)
Increase/decrease in other liabilities	(387,664)	387,664
Cash provided by operating activities	**8,793,659**	**12,661,388**
Income tax paid	(725,905)	(514,929)
Net cash from operating activities	**8,067,754**	**12,146,459**
Cash flows from investing activities		
Payments for financial assets	(3,053,534)	0
Proceeds from sale of financial assets	392,097	0
Payments for property, plant and equipment and intangible assets	(7,372,863)	(5,407,999)
Net cash from investing activities	**(10,034,300)**	**(5,407,999)**
Cash flows from financing activities		
Proceeds from issue of shares	**591,340**	0
Other cash provided by financing activities	437,567	(595,891)
Net cash from financing activities	**1,028,907**	**(595,891)**
Net increase in cash and cash equivalents	(937,639)	6,142,569
Cash and cash equivalents at beginning of reporting period	29,113,972	22,971,403
CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD	**28,176,332**	**29,113,972**

In the whole of 2017, the Group generated cash flows from operating activities of PLN 8,793,659, relative to PLN 12,661,388 in 2016. The decrease was a consequence of lower total revenue, which in turn resulted from weaker sales of *This War of Mine* due to natural obsolescence of this product and from rescheduling the release of *Frostpunk* to 2018. In 2017, the Group also paid PLN 725,905 in income tax vs PLN 514,929 in 2016. Consequently, net cash provided by the Group's operating activities in 2017 amounted to PLN 8,067,754, compared with PLN 12,146,459 a year earlier.

At the same time, the Group spent PLN 7,372,863 on investments, mainly in game development, i.e. 36.3% more than in 2016 (PLN 5,407,999). In addition, the Company paid PLN 3,053,534 for acquisition of financial assets – units of the PKO BP Płynnościowy SFIO investment fund. It also received proceeds of PLN 392,097 from the sale of financial assets – shares in its subsidiary, Games Republic Limited. As a result, the Group's total net cash from investing activities was negative and amounted to PLN 10,034,300, relative to PLN 5,407,999 in 2016.

Net cash from financing activities was positive in 2017 (after a negative balance in 2016) and amounted to PLN 1,028,907. The amount included proceeds from the issue of Series F shares (in the second quarter of 2017, the Company issued 70,000 Series F shares at PLN 8.59 per share, for the purposes of the 2014–2016 Incentive Scheme).

As a result, as at December 31st 2017, the Company held cash and cash equivalents of PLN 28,176,332 vs PLN 29,113,972 in 2016. This means that its cash resources decreased by 3.2% from the end of 2016. It is worth noting, however, that as at the end of 2017 the Company also held PLN 3,053,534 invested in units of the PKO BP Płynnościowy SFIO investment fund. These instruments may be treated as cash equivalents although they are classified as non-current financial assets for accounting purposes.



* - This item includes PLN 3.05 million invested in investment fund units of PKO BP Płynnościowy SFIO.

4.6.4. Credit facilities and loans in the financial year 2017

The Group did not owe any debt under credit facilities or loans in 2017.

4.6.5. Loan advanced in the financial year 2017

The Group did not advance any loans to related parties.

In 2016, 11 bit studios granted two loans to Games Republic, its subsidiary. The first one, amounting to EUR 20 thousand, was advanced on January 22nd 2016 at an interest rate of 4%. The second loan, of EUR 30 thousand, was advanced on July 12th 2016, also at a 4% interest rate. Both loans were converted into new shares in Games Republic Limited.

4.6.6. Sureties and guarantees issued in the financial year 2017 and other material off-balance sheet items

The Group did not issue any sureties or guarantees in the financial year 2017. Neither did it carry any material off-balance sheet items.

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

The Group's current economic and financial standing is stable. The Management Board has not identified any threats to the Group's or the Parent's liquidity or solvency.

4.6.8. Description and assessment of factors and non-recurring events with a bearing on the results of the Group's operations in the financial year 2017

Given high share of export sales in the Group's total revenue (over 97% in 2017) and the fact of holding a significant portion of free cash in foreign currencies (mainly in USD), the Parent is exposed do currency risk. Appreciation of the Polish złoty, in particular in the first half of 2017, had a negative effect on the Company's financial performance in the reporting period as the Group's foreign-currency-denominated cash and cash equivalents had to be remeasured, resulting in finance costs of PLN 3,408,574 (including negligible interest expenses), which weighed heavily on the Group's results. The finance costs were a consequence of changes in the international currency markets over which the Group has no control.

Given the strong exposure of the Group's financial results to the currency risk, in the third quarter of 2017 the 11 bit studios S.A. Management Board made a decision to reduce the share of cash denominated in foreign currencies in the Group's total assets. As at the end of 2017, such cash amounted to PLN 10,314,473 and accounted for 21.23% of the Group's total assets, down from PLN 18,577,115, i.e. 38,20%, a year earlier. The reduction was made by converting most of the cash denominated in the US dollar into the złoty.

4.7. AGREEMENTS SIGNIFICANT TO THE GROUP'S OPERATIONS (EXCLUDING CREDIT FACILITY AGREEMENTS AND LOANS) EXECUTED IN 2017 AND BY THE ISSUE DATE OF THIS REPORT

- On February 24th 2017, the Parent announced that it had signed an agreement with the Spanish Digital Sun studio to publish *Moonlighter*, a game developed by Digital Sun. The game is to be released for PCs, PS4 and Xbox One in 2018.
- On August 16th 2017, the Parent announced that it had signed an agreement with Dead Mage Studio (based in Austin, USA) to release *Children of Morta,* produced by Dead Mage. The game's release for PCs, PS4 and Xbox One is scheduled for 2018.

4.8. EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS DISCLOSED IN THE FULL-YEAR REPORT AND PREVIOUSLY PUBLISHED FINANCIAL FORECASTS FOR THE YEAR

11 bit studios S.A. did not publish any forecasts, including forecasts concerning consolidated results for 2017.

4.9. USE OF PROCEEDS FROM THE COMPANY'S SHARE ISSUE AS AT THE RELEASE DATE OF THIS REPORT

In the reporting period, the Parent issued 70,000 Series F shares for the purposes of the 2014–2016 Incentive Scheme, at an issue price of PLN 8.59. The total value of the issue was PLN 601,300. Of that amount, PLN 7,000 was used to increase the Company's share capital. The remaining amount, less brokerage fees, was allocated to the share premium in the Company's statement of financial position.

4.10. 11 BIT STUDIOS S.A. ON THE CAPITAL MARKET

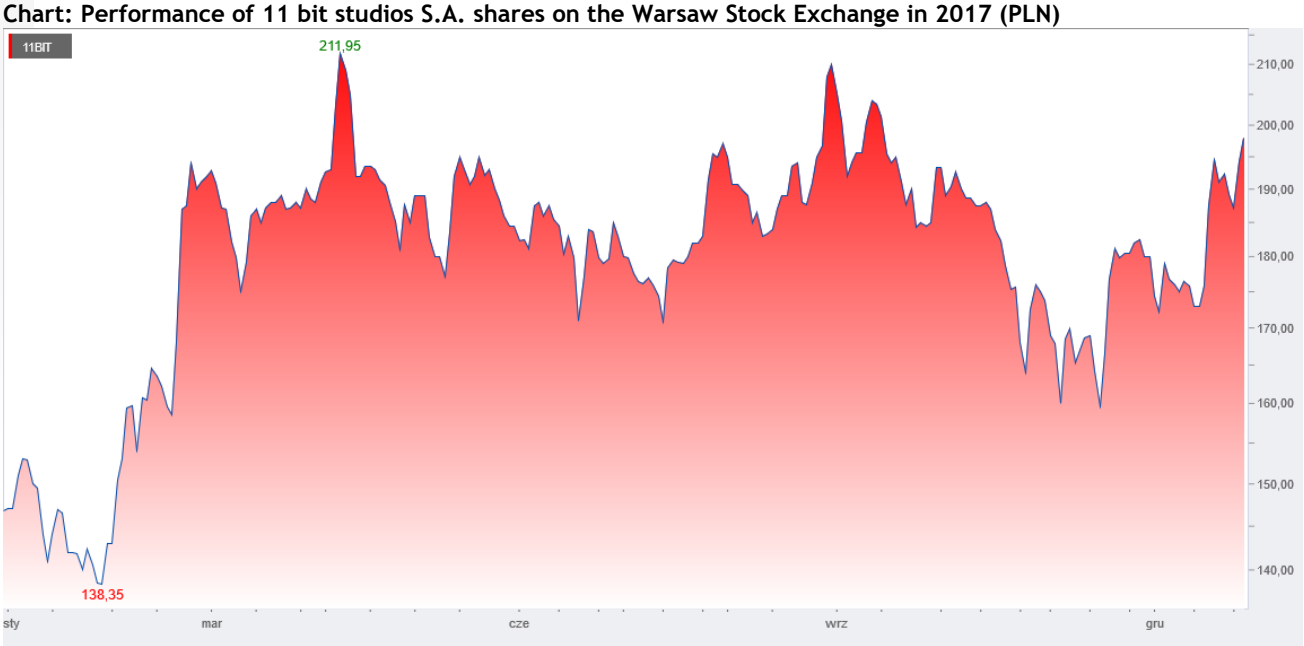
11 bit studios S.A. has been present on the Warsaw Stock Exchange since October 28th, 2010, when Company shares were floated on the NewConnect market. In 2015, the Company's shareholders decided to change the listing market on the WSE. The shares were first listed on the main trading floor on December 18th 2015. At the start of the first trading session, they traded at PLN 68.1. At that time, 2,217,199 Series A-E shares were floated on the WSE.

The founders of the Company, i.e. Grzegorz Miechowski (President of the Management Board) as well as Bartosz Brzostek, Przemysław Marszał and Michał Drozdowski (Members of the Management Board) remain its largest shareholders. As at the issue date of the consolidated full-year report for 2017, they controlled jointly 562,022 shares in the Company, representing 24.56% of the share capital and the same proportion of votes at the General Meeting.

By the decision of the WSE Management Board, the Company's stock has been included in the sWIG80 index since June 17th 2016. Initially, its share in the index was 0.53%, but it grew steadily upon each quarterly index revision. After another (annual) revision of the index composition made by the WSE on March 17th 2018, the share of 11 bit studios S.A. in the sWIG80 index increased to 1.61%.

Throughout 2017, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its steady price increase. During this period, the Company's share price surged by nearly 34.9%, while the broad-market WIG index rose by 23.2% and the sWIG80 index, which includes 11 bit studios stock, climbed a mere 2.8%.

Chart: Performance of 11 bit studios S.A. shares on the Warsaw Stock Exchange in 2017 (PLN)



Source: Parkiet.com

In 2017, the price of 11 bit studios S.A. shares on the WSE moved within the range from PLN 138.35 (January 30th 2017) to PLN 211.95 (April 6th 2017). After the last trading session in 2017, the Company's market capitalisation was PLN 441,183,402, compared with PLN 325,484,813 as at the end of 2016, which means an increase of 35.5%. It should be noted, however, that as at December 31st 2017, the Company's share capital was divided into 2,287,199 shares, whereas as at December 31st 2016 it comprised 2,217,199 shares. This growth in the share number followed from the share capital increase by 70,000 Series F shares, issued in 2017 for the purposes of the 2014-2016 Incentive Scheme. Series F shares were admitted to stock-exchange trading on June 22nd 2017, as announced by the Company in Current Report No. 28/2017.

4.11. THE GROUP'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, with Steam in the lead. In 2017, export sales accounted for nearly 97% of the Company's total revenue. A year earlier, this ratio was at a similar level. For a few years now, the computer gaming market has been the fastest growing part of the global entertainment market. In 2017, according to the estimates of Newzoo, a Dutch analytical company, the global video games market was valued at USD 116bn, 10.7% more than in the previous year, when it was worth USD 99.6bn (see the chart below). The outlook for this sector in the coming years is very promising. Newzoo predicts that the sector will grow at an average annual rate of 8.2% until 2020, driven mainly by the rapidly developing segment of mobile games. Newzoo experts believe that in 2020 the entire gaming market will be worth USD 143.5bn. The Polish gaming market is growing even faster than the global one. In 2017, it was valued at USD 489.2m, up by 11.4% from 2016 (USD 439m). In 2020, Poles are expected to spend USD 560m on video games.

Since the beginning of its operations, 11 bit studios S.A. has been growing much faster than the gaming sector as a whole (in Poland and globally) and with the release of each title it has been steadily consolidating its position, not only on the domestic market, but also worldwide. *This War of Mine*, released in autumn 2014 (PC version), was a milestone in the Company's development. Since its launch, sales of *TWoM* have already exceeded PLN 80m, ensuring the comfort of operation to the Company and a great deal of freedom in planning further investments, including in new titles. The game's success made the 11 bit studios brand recognisable worldwide, and not only among gamers. The Company's products are associated with high quality and receive very good reviews.

The most important game project developed by 11 bit studios S.A. in the last quarters and involving most of the Company's human resources is *Frostpunk*. The game production team counts about 50 members. Its release is scheduled for April 24th 2018. *Frostpunk* is a much larger game than *TWoM*, both in terms of production budget (it will ultimately amount to about PLN 8m) and marketing budget (over PLN 2m), which, in the opinion of the Company's Management Board, should boost the title's sales potential. The sales potential of *Frostpunk* may also be higher than that of *TWoM* because it will represent a more popular game genre and it may become a basis for a whole series of games. With an effective promotional and marketing campaign, the title is attracting a great deal of attention from the media and gamers around the world.

The 11 bit studios' strategy assumes that the Company's new games will be developed based on a proprietary engine that has been systematically developed. 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, headed by Artur Ganszyniec. The team will be responsible for the production of the next game, to be released after *Frostpunk*, under a working title *Project 8*. Ultimately, the new team's headcount may be at least the same as the number of people working on *Frostpunk*.

The Company's strategy for the production area assumes that after the second development team is built, the two teams will work simultaneously on two games, with new products launched every few quarters. In the long run, the Company wants to release one own game every year, which should stabilise its financial performance on a year-on-year basis.

Publishing activities carried out under the 11 bit publishing brand are expected to be an increasingly important part of the 11 bit studios S.A. business in the coming years. The publishing division has been developed since 2014. The first game created by a third-party development studio and released by 11 bit studios S.A., i.e. *Spacecom*, yielded profits for both the producer and the publisher. In 2017, the Company marketed another two titles: *Beat Cop* (PC version released on March 30th 2017) and *Tower 57* (PC version released on November 16th). Both projects yielded profits a few months after the release of the games, resulting in a noticeable, over 10% share of the revenue generated by the 11 bit publishing division in 2017 in the Company's total revenue. In 2018, 11 bit studios S.A. plans to release at least two games created by third-party developers. The Company's Management Board believes that *Moonlighter* and *Children of Morta* have greater commercial potential than the games released in 2017, which warrants expectations that the revenues earned by the 11 bit publishing division will have a significant impact on the Company's performance in 2018.

The 11 bit publishing management team is actively looking for new titles and is engaged in a number of promising negotiations with game developers. In the medium term, 11 bit publishing should place from three to four new titles on the market each year, which will make its revenue an important contributor to the Company's total revenue.

4.12. External and internal growth drivers for the Group

11 bit studios S.A. operates on international markets. Therefore, in addition to local factors, its strategy and financial performance are influenced by global economic and political developments, including macroeconomic ones, as well as tax regulations and the legal environment. For a detailed discussion of major external and internal factors that may adversely affect the Company's operations, see the risk section.

The ongoing technological and market changes in the computer gaming industry are also of key importance to the Company. This applies to the production, distribution and sales of games. The Company believes that the most significant trend is the growth in sales of games via electronic channels (replacing sales via traditional channels) and the rapidly developing segment of mobile games.

Among the internal factors relevant to the development of 11 bit studios S.A. one should point to the diversification of activities and sources of income. In addition to the production of games, since 2014 the Company has also been engaged in their publishing (the 11-bit publishing division). Publishing activities should increasingly contribute to the Company's financial performance by the year. In the game development area, the Company continued to build a second development team in 2017, thanks to which it expects to ultimately own more than one product line (brand). With two development teams and a few product lines, it will be able to optimise the utilisation of its production resources and stabilise its performance.

4.13. Feasibility of investment plans

As at December 31st 2017, the Parent held cash in hand and at banks as well as bonds issued by PKO BP Bank Hipoteczny, totalling PLN 28,176,332. The figure does not include PLN 3,053,534 invested in units of the PKO BP Płynnościowy SFIO investment fund. This means that the total cash resources available to the Company as at the end of 2017 amounted to PLN 31,229,866, up by almost 7.3% from PLN 29,113,971 in the previous year. At the same time, the total value of (non-current and current) liabilities as at December 31st 2017 was PLN 2,427,021, having dropped by 31.1% from PLN 3,523,895 in the previous year.

In the absence of bank debt, the large cash resources held by the Company mean that it is able to finance its day-to-day operations and planned growth investments (development of games and expansion of the 11 bit publishing division) using its own funds within at least the next few quarters, and does not need to draw on external funding (including capital market funds) or funds provided by business partners (game publishers and distributors). However, the Company does not rule out such an option. The Company does not plan to use external financing in 2018.

5. OVERVIEW OF THE 11BIT STUDIOS GROUP'S OPERATIONS AND RESOURCES

The Parent of the Group, 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.

5.1. GENERAL INFORMATION ABOUT THE PARENT

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:	in accordance with the Polish Classification of Business Activities – computer programming 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 Parent and the subsidiary were established for indefinite time.

The financial year of the Parent and the subsidiary is the same as the calendar year.

The principal business activities of the 11 bit studios Group comprise:
- Development and sale of cross-platform video games,
- Global digital distribution of video games.

Until April 11th 2017, 11 bit studios S.A. was the Parent of the 11 bit studios Group consisting of 11 bit studios S.A. and a subsidiary, Games Republic Limited of Malta. Games Republic Limited operated a global electronic game distribution platform and was a wholly-owned subsidiary of 11 bit studios S.A. The financial year of Games Republic Limited was the same as the calendar year.

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.

5.2. GOVERNING BODIES OF THE PARENT

5.2.1. MANAGEMENT BOARD

Throughout the reporting period, the Management Board of 11 bit studios S.A. consisted of:

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

The three-year term of office of the Management Board members ends on the date of approval by the General Meeting of the Company's financial statements for the financial year ending December 31st 2018.

Experience and competences of the Management Board members

Grzegorz Miechowski, President of the Management Board

Graduate of the Faculty of Information Technology and Management at the Wrocław University of Technology. He has been involved in developing computer games since the early 1990s, when he founded Metropolis Software House, one of the first game development studios in Poland, which he successfully headed in 1999–2009. One of the founders of 11 bit studios S.A. and the author of the original concept of *This War of Mine*, a game which proved to be a worldwide success.

Bartosz Brzostek, Member of the Management Board

Graduate of the University of Warsaw. Member of the Management Board of Metropolis Software in 2001–2009. Creator of the innovative Liquid Engine, a game engine used in all games developed by 11 bit studios S.A., including *This War of Mine*. The main programmer of most of the game development tools used by the Company. He has an extensive programming knowledge on various platforms, which is of key importance for the development of 11 bit studios S.A.'s projects.

Przemysław Marszał, Member of the Management Board

Graduate of the Faculty of Architecture at the University of Ecology and Management. Member of the Management Board of Metropolis Software in 2005–2009. He started his career in the computer gaming sector as a graphic designer, and quickly became head of team. As the chief artist, he is responsible for the final appearance of all 11 bit studios S.A. games, from the first sketch to the day of their release. He designed the entire 'charcoal drawing' appearance, which became one of the most distinctive features of *This War of Mine*.

Michał Drozdowski, Member of the Management Board

Graduate of the Faculty of Economics and Management at the Higher School of Commerce and Law. He worked as a designer for Lead 3D in 2002–2005. In 2006, he joined Metropolis Software, where he served as the Design Director from 2007. At 11 bit studios S.A., Michał Drozdowski was responsible for the design of all 11 bit studios S.A. games, including titles from the *Anomaly* series, *Funky Smugglers* and *This War of Mine*.

5.2.2. SUPERVISORY BOARD:

Throughout the reporting period, the Company's Supervisory Board consisted of:

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

The term of office of the Supervisory Board members ends on June 9th 2019.

Experience and competences of the Supervisory Board members

Piotr Sulima, Chairman of the Supervisory Board

He has many years' experience in selling B2B services, gained both in Poland and abroad, as well as experience in IT consulting and outsourcing. Until recently, he was the Head of Development of a Polish branch of an international consultancy and currently owns a consulting firm. He graduated from the University of Warsaw and the Warsaw School of Economics, where he is a PhD student at the College of World Economy. He holds an MBA diploma (University of Illinois). He is authorised by the Minister of State Treasury to serve on supervisory boards of state-owned companies.

Jacek Czykiel – Deputy Chairman of the Supervisory Board

In 1996, he graduated from the Social Economy department of the Faculty of Economics at the University of Warsaw Branch in Rzeszów (major in Labour Economics and Social Policy). In 1997, he completed post-graduate courses in corporate finance and accounting at the University of Warsaw. In 1998, he received the qualification certificate authorising him to provide bookkeeping services. In 1999–2000, he worked as an accountant for Ernst & Young Usługi Księgowe Sp. z o.o. Since 2000, he has been the Chief Financial Officer at Beijer Re Polska.

Agnieszka Kruz, Member of the Supervisory Board

She is a graduate of the Łódź University of Technology (Faculty of Organisation and Management) and University of Warsaw (European Institute of Regional and Local Development EUROREG). Her professional track record includes experience as a PR & Marketing Manager, CEO and Managing Director (at Performance Marketing Group and other companies).

Radosław Marter – Member of the Supervisory Board

Involved in the pharmaceutical and medical industry for 18 years. From 2000 to 2007, he was involved in managing Media Vision's Sales Department. Between 2007 and 2017, he was a co-founder and Vice-President of the Management Board of Active Pharm, a company which he managed for over 10 years, implementing projects in the area of multi-channel marketing, clinical trials, CRM and CLM systems, as well as marketing strategies. Speaker at conferences organised for pharmaceutical companies. In addition to his work in the pharmaceutical sector, he has gained experience in supporting non-profit organisations by implementing strategies for image building, management and execution of social and image campaigns.
At present, he is Managing Partner at the one2tribe Group and the founder of the Neuron+ Foundation.

Wojciech Ozimek, Member of the Supervisory Board

President of the Management Board of one2tribe Sp. z o.o. for over 10 years. Graduate of the Faculty of Mathematics, Computer Science and Mechanics at the University of Warsaw. Co-creator of over a dozen mobile and Internet services and a number of online games available in Poland and around the world, designer of games for business, gamification solutions and educational games. Among other things, he developed a business model for iTVP interactive television and advised on community building and mobile content distribution (P4/Play, Heyah/PTC Era, Polkomtel S.A.). In 1998–2006, he was the head of the e-business Competence Group and then served as the Development Director at Infovide (currently Infovide-Matrix). He was involved in projects for the company's largest clients (Nordea Bank Polska, Telekomunikacja Polska S.A., PTC Era, Onet.pl, PTK Centertel, Kredyt Bank S.A.), developing concepts of project architecture (including Nordea Solo which was distinguished with the 'IT System of the Year 2001' award) and strategies at the interface of business and IT.

5.3. AUDITORS

Deloitte Audyt 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 Audyt Sp. z o.o. Sp.k.), a qualified auditor of financial statements, to audit the separate and consolidated financial statements of 11 bit studios S.A. for the financial year 2017 and to review the half-year separate and consolidated financial statements of 11 bit studios S.A. for the six months ended June 30th 2017. The relevant agreement was executed on August 10th 2017. The parties agreed that the respective fees would be PLN 37,000 and PLN 16,000.
Under an agreement of February 29th 2016, Deloitte Polska Sp. z o.o. Sp.k. (currently Deloitte Audyt Sp. z o.o. Sp.k.) was also responsible for the audit of separate and consolidated financial statements of 11 bit studios S.A. for the financial year 2016 and for the review of the half-year separate and consolidated financial statements of 11 bit studios S.A. for the six months ended June 30th 2016. The respective fees were PLN 20,000 and PLN 9,000.

5.4. SHARE CAPITAL

As at the issue date of this report, the Company's share capital amounted to PLN 228,719,90 and comprised 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.

The shares have been fully paid-up.

5.5. SHAREHOLDING STRUCTURE OF 11 BIT STUDIOS S.A. AS AT THE DATE OF THIS 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	162,696	7.11	162,696	7.11
NN PTE	135,500	5.92	135,500	5.92
Przemysław Marszał	122,000	5.33	122,000	5.33
Michał Drozdowski	93,630	4.09	93,630	4.09
Other shareholders	1,589,677	69.50	1,589,677	69.50
Total	**2,287,199**	**100**	**2,287,199**	**100**

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A., including changes in the size of the Company's management staff's holdings.

In Current Report No. 21/2017 of May 19th 2017, 11 bit studios S.A. announced that on that date the Company received notifications under Art. 19.1 of the Market Abuse Regulation from:

1. Grzegorz Miechowski – President of the Company's Management Board,
2. Bartosz Brzostek – Member of the Company's Management Board,
3. Przemysław Marszał – Member of the Company's Management Board,
4. Michał Drozdowski – Member of the Company's Management Board,

i.e. persons discharging managerial responsibilities at 11 bit studios S.A., to the effect that on May 18th 2017 they acquired Company shares outside the trading system, through the exercise of rights attached to Series A subscription warrants as part of the 2014–2016 Incentive Scheme. Each of the abovementioned managers subscribed for 10,000 Series F shares. Following subscription for Series F shares, Grzegorz Miechowski, President of the Company's Management Board, holds a total of 162,696 shares in 11 bit studios S.A., representing 7.11% of the Company's share capital and conferring the right to the same number of votes at its General Meeting. Bartosz Brzostek, Member of the Company's Management Board, holds 183,696 shares in 11 bit studios S.A., representing 8.03% of the Company's share capital and conferring the same number of votes at its General Meeting. Przemysław Marszał, Member of the Company's Management Board, holds 122,000 shares in 11 bit studios S.A., representing 5.33% of the Company's share capital and conferring the right to the same number of votes at its General Meeting. Michał Drozdowski, Member of the Company's Management Board, holds 93,630 shares in 11 bit studios S.A., representing 4.09% of the Company's share capital and conferring the right to the same number of votes at its General Meeting.
Series F shares (for the purposes of the 2014–2016 Incentive Scheme, the Company issued a total of 70,000 Series F shares) were admitted to stock-exchange trading on June 22nd 2017, as announced by the Company in Current Report No. 28/2017 of June 22nd 2017. After the increase, the Company's share capital comprises 2,287,199 shares with a par value of PLN 0.1 per share. The total number of votes carried by the shares is 2,287,199.

In Current Report No. 23/2017 of June 2nd 2017, 11 bit studios S.A. announced that on June 2nd 2017 the Company received a notification from NN Investment Partners TFI S.A. to the effect that the investment funds managed by NN Investment Partners TFI S.A. held Company shares conferring less than 5% of total voting rights at the Company's General Meeting.
The percentage of total voting rights at the Company's GM held by the funds changed following the disposal of Company shares on May 30th 2017 by NN Specjalistyczny Fundusz Inwestycyjny Otwarty Akcji 2, Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty and by the subfunds of NN Parasol Funduszu Inwestycyjnego Otwartego. Prior to the change, the investment funds held 111,740 shares in 11 bit studios S.A., representing 5.04% of the Company's share capital and conferring in aggregate 111,740 voting rights, that is 5.04% of total voting rights at the General Meeting of 11 bit studios S.A.
As at the date of reduction of their holdings, the investment funds managed by NN Investment Partners TFI S.A. held in aggregate 108,940 shares in 11 bit studios S.A., representing 4.91% of the Company's share capital and conferring in aggregate 108,940 voting rights, that is 4.91% of total voting rights at the General Meeting of 11 bit studios S.A.

In Current Report No. 30/2017 of August 3rd 2017, 11 bit studios S.A. announced that on that date the Company received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. of Warsaw, acting on behalf of Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (jointly the "Funds"), to the effect that the Funds increased their holding of Company shares above the threshold of 5% of voting rights at the General Meeting of 11 bit studios S.A. The holding was increased through the purchase of Company shares by the Funds in a transaction settled on July 28th 2017.

Prior to the transaction, the Funds held 96,561 Company shares, conferring 4.22% of total voting rights at the Company's General Meeting and representing 4.22% of the Company's share capital. After the transaction, the Funds hold 135,500 Company shares, conferring 5.92% of total voting rights at the Company's General Meeting and representing 5.92% of its share capital.

5.6. REMUNERATION, AWARDS OR BENEFITS RECEIVED BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF 11 BIT STUDIOS S.A. (PLN)

Management Board:

Remuneration for the performance of management functions:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Grzegorz Miechowski	281,818	343,862
Bartosz Brzostek	281,104	244,863
Michał Drozdowski	81,129	144,751
Przemysław Marszał	73,000	134,918
Total	**717,051**	**868,393**

Remuneration for the provision of services under contracts for specific work:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Grzegorz Miechowski	0	0
Bartosz Brzostek	0	90,000
Michał Drozdowski	180,000	180,000
Przemysław Marszał	180,000	180,000
Total	**360,000**	**450,000**

Pursuant to the Supervisory Board's Resolution No. 6/2016 of January 21st 2016, members of the Management Board are entitled to bonuses contingent on the Company's profit growth and payable to all members in equal parts. For 2017, the Management Board received a total bonus of PLN 100,000, which was paid before the date of authorisation of this report.

The total bonus was divided as follows:

Grzegorz Miechowski - PLN 25,000
Bartosz Brzostek - PLN 25,000
Przemysław Marszał - PLN 25,000
Michał Drozdowski - PLN 25,000

The members of the Management Board did not receive any other remuneration for 2017 in the form of profit distributions or stock options. They are, however, covered by the Incentive Scheme as detailed in **Note 3.26.1.** As at the reporting date, the Incentive Scheme was not measured as it had not come into effect yet.

No members of the Management Board or Supervisory Board of 11 bit studios S.A. received any remuneration from the Company's subsidiaries.

Supervisory Board

Remuneration for the performance of supervisory functions:

	Period ended Dec 31 2017	Period ended Dec 31 2016
Piotr Sulima	15,000	13,355
Jacek Czykiel	10,000	8,903
Radosław Marter	5,000	4,452
Agnieszka Maria Kruz	5,000	4,452
Wojciech Ozimek	5,000	4,452
Total	**40,000**	**35,614**

5.7. OTHER RELATED-PARTY TRANSACTIONS

In addition to the transactions described above, the Company also entered into transactions with entities related to key personnel of the Company (key management). For detailed information on transactions with those persons, see **Note 3.24.4.**

5.8. AGREEMENTS ENTERED INTO BY 11 BIT STUDIOS S.A. WITH MEMBERS OF THE MANAGEMENT STAFF, PROVIDING FOR COMPENSATION IN THE EVENT OF RESIGNATION OR REMOVAL FROM POSITION

As at December 31st 2017 and as at the date of this report, the members of the Company's management and supervisory staff provide their services on the basis of an appointment under a relevan resolution and there are no agreements providing for compensation in the event of their resignation or removal.

5.9. 11 BIT STUDIOS S.A. SHARES HELD BY MEMBERS OF ITS MANAGEMENT AND SUPERVISORY STAFF

	Position	Number of shares as at Dec 31 2016	Number of shares as at Dec 31 2017	Number of shares as at this report date
Grzegorz Miechowski	President of the Management Board	152,696	162,696	162,696
Bartosz Brzostek	Member of the Management Board	173,696	183,696	183,696
Przemysław Marszał	Member of the Management Board	112,000	122,000	122,000
Michał Drozdowski	Member of the Management Board	83,630	93,630	93,630

According to the submitted declarations, members of the Company's Supervisory Board hold no shares in 11 bit studios S.A. Members of the Company's management and supervisory staff do not hold, directly or indirectly, any shares in entities related to 11 bit studios S.A.

5.10. AGREEMENTS THAT MAY RESULT IN FUTURE CHANGES IN PERCENTAGES OF SHARES HELD BY SHAREHOLDERS AND BONDHOLDERS

As described in **Note 3.26.1.**, the Parent introduced an incentive scheme for key employees and associates. Following implementation of the scheme, there may be a change in the percentages of shares held by the shareholders.

5.11. CONTROL SYSTEM FOR EMPLOYEE SHARE OWNERSHIP SCHEMES

On May 10th 2017, the Company's Annual General Meeting passed a resolution to launch the Incentive Scheme at the Company. The persons covered by the Incentive Scheme (the Company's management and key employees and associates) will be able to subscribe for up to 130,000 Series B warrants convertible into the same number of Series G shares if the Company achieves specific business targets set for 2017–2019. The issue price of Series F shares was set at PLN 103.38 per share (average trading price of Company shares in the third and fourth quarter of 2016 less 10%). As at the date of issue of this report, the Incentive Scheme did not come into effect yet.

Achievement of the targets will be finally verified by the Supervisory Board no later than on May 31st in the year following the end of the Incentive Scheme. After the verification, the Supervisory Board will prepare a list of the Incentive Scheme participants eligible to subscribe for Series B subscription warrants, specifying the number of warrants for each participant. Eligible persons who acquire the right to subscribe for Series F shares will be able to exercise those rights until June 30th 2023.

5.12. PURCHASE OF OWN SHARES

11 bit studios S.A. did not hold and does not hold its own shares.

5.13. CHANGES IN THE GROUP'S PRINCIPAL GOVERNANCE RULES

In 2017, there were no material changes in the Group's principal governance rules.

5.14. MAJOR DOMESTIC AND FOREIGN INVESTMENTS; STRUCTURE OF MAJOR CAPITAL INVESTMENTS

Cash and cash equivalents were the largest item under the Company's assets. As at December 31st 2017, they amounted to PLN 28,176,332. The Company invested cash surpluses (in PLN) in bank deposits with different maturities. Some cash was also invested in bonds issued by PKO BP Hipoteczny. In total, the Company's current assets as at the end of 2017 amounted to PLN 31,476,124. Non-current assets as at the end of 2017 stood at PLN 17,173,693 against PLN 9,489,996 a year before, and included primarily ongoing development work (expenditure on the development of computer games, i.e. *Frostpunk*, *Project 8* and games published by 11 bit publishing, and of the game engine). Their value was reported at PLN 13,067,498, up from PLN 7,921,210 in the previous year. An essential item under non-current assets (PLN 3,053,534) was financial assets – units of the PKO BP Płynnościowy SFIO investment fund.

In 2017, the large amounts of surplus cash allowed the Company to finance its current operations and investment projects from its own funds.

5.15. EQUITY AND ORGANISATIONAL LINKS BETWEEN THE PARENT AND OTHER ENTITIES

Until April 11th 2017, the Company owned 100% of shares in Games Republic Limited of Valletta (Malta). The shares were sold to Lousva Trading Limited. As at December 31st 2017, the Company did not hold any shares in other entities.

5.16. COMPANIES COVERED BY THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of 11 bit studios S.A. for the period from January 1st to December 31st 2017 include, in addition to the results of 11 bit studios S.A., also the results of Games Republic Limited (until April 11th 2017, when the company was sold to Lousva Trading Limited). The results of Games Republic Limited, in which the Company controlled over 100% of votes at the General Meeting, were consolidated with the full method.

5.17. RELATED-PARTY TRANSACTIONS

Until April 11th 2017, one of the Company's related parties was its subsidiary Games Republic Limited of Valletta (Malta).

As at December 31st 2017, the Parent did not carry any receivables from or liabilities to Games Republic Limited.

Related parties include members of the Management Board and Supervisory Board and key personnel of the Company (key management). For detailed information on transactions with those persons, see **Note 3.26.4.**

5.18. RISK MANAGEMENT IN THE GROUP'S ACTIVITIES

The Group's activities, its financial position and results of operations have been, and may be in the future, subject to the risks described below. The occurrence of even some of the following risks may have a material adverse effect on the Group's operations, financial position and financial results, and may bring a loss of some or all of the capital invested. Risk factors and uncertainties other than described below, including factors and uncertainties that the Group is currently not aware of or which it considers immaterial, may also have a material adverse effect on the Group's financial position and results of its operations, and may bring a loss of some or all of the capital invested.

5.18.1. Risk factors related to the Group's operating activities

Risk of the Parent failing to achieve its strategic objectives

The strategic objective of the Company for the coming years is to increase the scale of its operations by continuing to build a diversified portfolio of high-quality computer games and by further developing its publishing business. The Company's Management Board warrants that they will make every effort to ensure that the Company achieves the key strategic objectives in the coming years. Nevertheless, the Management Board can give no assurance that all the strategic objectives will be effectively reached. The Company's future position on the computer games market, which has a direct impact on its revenues and profits, depends on the ability to develop and implement a growth strategy that proves successful in the long-term perspective.

Risk of varied and unpredictable demand for the Parent's products

Work on the Company's individual products takes from 12 to 36 months, depending on the size of the project. The market success of a product, measured by the size of demand and sales revenue, allows the Company to recover the expenses incurred during the game's production process and to earn profits, if any. The popularity of a product and, as a consequence, the amount of revenue it generates depend to a large extent on the changing tastes of consumers, hardly predictable trends on the gaming market, and existing competitive products. Therefore, there is a high risk of an 'unsuccessful' product, i.e. one that prospective customers are not interested in because it does not suit their preferences. This may be due to a poor quality or wrong targeting. For this reason, when launching a new product, the Company is not able to predict customer reactions and, consequently, to foresee with a high degree of probability the expected amount of revenues.

Risk related to possible delays in game production

The video game production process includes many stages, which entails the risk of delays in individual stages and in the entire project. The individual stages take place one after another and depend on the outcome or successful completion of the preceding stages. Some stages of the production process depend on the development team only while others are dependent on third parties such as service providers, partners and licensors. The Company's Management Board has a limited influence on the timeliness of such third parties' activities. Also, the work of the project teams may be delayed as well, as a result of unforeseen difficulties in working on a demanding product such as a video game.

Delayed completion of the production work on video games may have an adverse effect on the Company's financial results in a given financial period.

Risk related to the required acceptance of a project by manufacturrs of closed platforms

Due to the nature of the Company's operations, one of the main distribution channels for its products, i.e. games for electronic distribution, are closed platforms. 11 bit studios S.A. develops games for closed platforms (consoles) from Sony and Microsoft. The said manufacturers reserve the right to check the product that is to be installed on their platform. As a consequence, the Company bears the risk of the closed platform manufacturer's acceptance of its product.

Risk related to the launch and continuation of publishing activities by the Parent

In March 2014, a new publishing division called 11 bit publishing was established. Its purpose is the production and distribution of independent video games manufactured by 11 bit studios S.A. or third-party developers from Poland and abroad. The Company's engagement in those activities may bring the following risks:

- Risk of the lack of attractive titles to be acquired by the publishing division

The supply of attractive external projects is limited. It may happen that for a long time the Company will not be able to find a product that would meet all expectations.

- Risk of strong competition from other publishers

In the Company's immediate environment there are at least a few companies looking for similar products that satisfy the same evaluation criteria. The more limited the supply of attractive projects, the more difficult it is to stand out from the competition and offer something unique to developers.

- Risk of missing significant market trends

The gaming market is changing dynamically. New technological trends are emerging, VR (Virtual Reality) being one of the examples. Failure to identify a trend early enough and adapt accordingly may result in losses if the Company markets products which are not trendy.

- Risk associated with higher prices of software used to create games

A more limited availability (due to changes in pricing policies or other reasons) of popular 3D engines used to develop independent games may complicate the manufacturing process and indirectly extend the time required to create a game, resulting in a reduction in the number of new products.

- Risk related to the growing popularity of crowd-sourcing portals and self-publishing

As a result of the growing popularity of crowd-sourcing portals, the demand for publishing services, one of the most important advantages of which was financing or co-financing of production, is diminishing. The projects that have the biggest chance of success in crowd-sourcing campaigns are those with high market potential, that is those that are also interesting from the perspective of publishing activities. As a result, the Company loses many potentially profitable projects.

- Growing number of entities providing publishing services for small and medium-sized developers

The increase in the number of companies offering publishing services consisting in co-financing production and supporting marketing activities may bring about a drop in prices/commissions charged for publishing services and difficulties in acquiring new projects.

- Risk of limited effectiveness of PR activities

The declining reach of industry media may significantly reduce the effectiveness of PR activities and make it impossible to use the existing know-how. In such conditions, the Company may be required to undertake costly promotional activities to effectively inform potential customers about the products it offers.

Risk related to the Parent's key human resources

The Company is still a business relatively small in size, in particular as regards the structure of resources in managerial and specialist positions. Most tasks, especially in the area of commercial cooperation with trading partners, are performed by individual people. The most qualified managerial staff are the Company's founders. Any loss of key resources who have the largest knowledge and experience in management and operating activities could cause a deterioration in the quality and timeliness of the Company's services in the short term. If this situation continues in a medium or long term, it may affect the Company's expected profits. The Company's business consists in creating computer games. The quality of its services and products depends on the experience and skills of its personnel. Loss of employees involves the need for the Company to recruit, train and on-board new people.

The employment contracts concluded by the Company with its personnel contain no clauses prohibiting provision of services to the Company's service providers or other entities after the end of cooperation with the Company.

Risk related to difficulties in finding experienced employees

The education system in Poland does not prepare university graduates for the profession of a video game developer. Therefore, the gaming industry is affected by shortages of qualified and experienced employees on the local labour market. It is difficult to find specialists who satisfy the Company's requirements. This risk is related to insufficient number of qualified employees to satisfy the needs of a dynamically growing company.

Copyright-related risks related to contracts for specific work concluded by the Company

When signing contracts with employees, including in particular with members of the Management Board, who are the most qualified management staff at the Company, the Company largely relies on flexible forms of work, in particular by entering into contracts for specific work (*umowa o dzieło*) as well as mandate contracts (*umowa license*). The contracts for specific work concluded by the Company contain description of the work, provisions regarding the transfer to the Company of copyrights to the work, and confidentiality clauses binding the contractor in relation to materials and documents made available by the Company.

When referring to the provisions of contracts for specific work, it should be pointed out that in accordance with the applicable copyright laws, for the transfer of copyrights to be effective the contract must enumerate the specific fields of use to which copyrights are being transferred. Importantly, it is not possible to transfer copyrights to all fields of use that are yet to emerge in the future because such a contractual clause is invalid (Art. 41.2 of the Act on Copyright and Neighbouring Rights of February 4th 1994 contains a rule of significant importance to the sale of copyrights, according to which the provisions of a contract for copyrights apply only to the fields of use that are expressly enumerated in the contract).

In the light of the rapid technological progress, also in computer game development, there is a risk that the Company may use the acquired works in a field of use other than those specified in the copyright transfer contract and, consequently, may be required to pay additional remuneration to the authors.

Risk related to licence agreements concluded by the Parent

In connection with the characteristics of its business, the Company has signed a number of licence agreements for the use of specific software which is necessary in the course of its operations. The agreements are not based on a single model form but on the standards contract forms used by the licensors. Some of them provide for short termination notice periods. In addition, in many cases the licensor is entitled to terminate the agreement without notice, i.e. with immediate effect. Frequently, the licence agreement does not entitle the Company to distribute its in-house developed computer programs as part of its business activities in its own name. Under the Polish laws, the Company's use of software made available by licensors is governed by the provisions of the Act on Copyright and Neighbouring Rights of February 4th 1994 (consolidated text in Dz.U. of 2006, No. 90, item 631, as amended). In addition, the majority of the agreements are governed by laws other than the laws of Poland, e.g. the laws of the state of Washington, which significantly hinders correct assessment of the contractual obligations for the Company and the scope of its liability.

Risk related to contracts concluded with foreign partners

The contracts entered into by the Company with foreign trading partners are also governed by foreign laws or contain no provisions specifying the governing law, which makes it necessary to determine the applicable law for the contract on a case by case basis. In some cases, the applicable law turns out to be a foreign law of which the Company has limited knowledge. In addition, the Company has also entered into agreements with jurisdiction clauses indicating foreign courts or with no provisions specifying the competent courts. This creates a risk that in the event of a dispute with a trading partner the Company will be required to conduct the dispute before foreign courts. Given the Company's limited knowledge of foreign laws (both material and procedural), this entails the risk of incurring increased legal costs in Poland and abroad.

Due to the lack of the choice of law provisions, it is not possible to unambiguously assess the validity of individual contractual clauses, e.g. regarding the liability of the parties for non-performance or improper performance of the obligations.

Risk related to the shareholding structure of the Parent

As at the date of the financial statements, the founding shareholders held a total of 562,022 shares in the Company, representing 24.57% of the share capital and conferring the right to 24.57% of total voting rights at the General Meeting. In the case of concerted actions of the abovementioned shareholders, they will have a significant impact on the activities of the Company. In addition, considering the fact that the said shareholders are also members of the Company's governing bodies, they can effectively decide on resolutions adopted by the General Meeting in all matters relevant to the Company.

Risk related to distribution agreements and licence agreements

The Company has concluded a number of distribution and license agreements regarding the rules for distribution or sharing of games developed by the Company through various types of platforms or data carriers. A significant part of these agreements have been subjected to a regime of and are governed by regulations other than Polish laws (e.g. laws of England, Germany, or the state of Texas).

Subjecting contractual relations to regulations of a country other than Poland entails the risk of incorrect or insufficient assessment of the legal effects of an agreement and incorrect interpretation of its individual provisions. In the event of a dispute with trading partners with whom the Company has signed the aforementioned agreements, it will be necessary to use the services of advisers and professional attorneys from foreign countries, which may expose the Company to significant costs.

In addition, each of these agreements contains provisions limiting the possibility of providing information to third parties to the extent such information may be deemed confidential information. The Company is obliged to ensure

protection of confidential information received from its partners at a level at least not worse than the protection afforded to its own confidential information. The Company's default on this obligation may result in the Company's liability for damages caused by the default.

Risk factors related to the environment in which the Parent operates

Risk related to macroeconomic conditions in the Parent's sales markets

The Company's business depends on macroeconomic conditions prevailing in the markets where the Company distributes or intends to distribute its products. The effectiveness, and in particular profitability of the Company's operations, depends on such factors as the rate of economic growth, the level of public consumption, fiscal and monetary policies of the state, or the inflation rate. All these factors indirectly affect the Company's revenues and other financial results. They may also influence implementation of the growth strategy adopted by the Company.

Risk of a changes in the legal environment

Laws in Poland are subject to quite frequent changes. Interpretations of the law and the practice of its application change as well. The changes may be favourable to entrepreneurs, but may also bring adverse effects. Changing laws or their differing interpretations, in particular in relation to tax laws, as well as business laws, labour and social security laws, securities laws (especially relating to financial market supervision), or laws on investment funds, may have negative consequences for the Company. Changes in the interpretations of tax regulations are particularly frequent and involve particular risks. There is no uniformity in the practice of their application by tax authorities and in judicial decisions in the area of taxation. If tax authorities adopt an interpretation of tax laws which is different from the interpretation applied by the Company, this may result in the deterioration of the Company's financial position and thus adversely affect its performance and growth prospects.

Regulations in the abovementioned branches of law are subject to frequent changes and thus treatment of entrepreneurs by administrative bodies and courts is sometimes inconsistent and unpredictable. The laws also contain contradictory and conflicting provisions and ambiguities which cause differences of opinion as to their legal interpretations both between state authorities and between state authorities and companies.

For example, tax settlements may be subject to inspection by the authorities, which, if irregularities are found, are entitled to assess tax arrears with interest. Corporate tax returns may be subject to inspection by the tax authorities for a period of five years, and some transactions carried out during this period, including transactions with related parties, may be questioned for tax purposes by the competent tax authorities. As a result, the amounts disclosed in the financial statements may change at a later date after their amount is finally determined by the tax authorities.

The following branches of law are of particular relevance because changes in their current regulations may have a material effect on the Company's business:

- Laws on copyright and neighbouring rights,
- Commercial law,
- Private business law,
- Tax law,
- Labour law,
- Social security law,
- Securities law.

Undoubtedly, many of those laws are subject to frequent changes. The Company's activities are particularly affected by the laws on copyright and neighbouring rights, whose provisions are strictly dependent on EU regulations and their amendments made by the European Parliament or the European Commission, but also on Polish laws, which differ in some respects from the legal norms of other Member States. Also, due to the nature of the Company's activities, its operations may be affected by regulatory changes in the United States.

There is a significant risk of changes to regulations in each of those areas of law given that some of them are still in the process of being adapted to EU requirements. Possible regulatory changes will always have an impact on the Company's legal environment, triggering the obligation to take measures to ensure compliance. Any change to normative regulations causes problems, in particular related to interpretation doubts concerning new laws, which creates a risk of discrepancies in the practice of public authorities, including courts. Differences in the interpretation of the laws by public authorities and by courts (including the EU courts) complicate operation of businesses in the Polish legal system which is not fully harmonised with the EU system.

Risk of currency exchange rate fluctuations

In its operations the Company is exposed to the risk of fluctuations of foreign exchange rates. As the Company sells its products in foreign markets (North America, Western Europe, Central and Eastern Europe, including Russia and China), the main settlement currencies in foreign transactions are the US dollar (90% share) and the euro (10% share). Consequently, the amount of the Company's revenue is negatively correlated with the value of the Polish zloty. Strengthening of the Polish currency means deterioration of the Company's revenue from sale of computer games in the złoty.

Risk related to competition

For the Company, the risk related to competition results primarily from significant difficulties in defining and describing the competitors due to significant fragmentation of the industry. In the event that any competition stronger than expected appears on the market, this may affect customers' interest in the products offered by the Company. In addition, as the number of entities offering similar products for the same platforms is increasing, there may be growing difficulties in obtaining authorisations from platform manufacturers for the production of games for a given platform.

Risk related to the development of the industry in which the Company operates

The Company operates on the market of video games for direct distribution to mobile and fixed hardware platforms. The conditions and demand for products in the video games industry are driven by many factors, such as economic growth and, consequently, rising wealth of the societies and increasing consumption levels, the pace and directions of the IT market growth, competition and the development of new innovative technologies and services. Ale of those factors are beyond the Company's control.

Risk of unpredictable events

Due to the possibility of unpredictable events, such as disasters or armed conflicts, there is a risk of deterioration of the economic conditions on the global and Polish market. Such an event may have a material effect on the Company's economic position.

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

The Parent 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	*Bartosz Brzostek*	*Przemysław Marszał*	*Michał Drozdowski*
President of the Management Board	*Member of the Management Board*	*Member of the Management Board*	*Member of the Management Board*

Warsaw, March 26th 2018

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY THE 11 BIT STUDIOS GROUP IN 2017

11 bit studios

6. OVERVIEW

In 2017, 11 bit studios S.A. was subject to the corporate governance standards contained in the document 'Best Practice for GPW Listed Companies 2016', which were adopted by resolution of the Stock Exchange Supervisory Board No. 26/1413/2015 of October 13th 2015 and which came into force on January 1st 2016.

The text of 'Best Practice for GPW Listed Companies 2016' is publicly available at: https://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf and at the registered office of the Warsaw Stock Exchange.

In fulfilling disclosure requirements regarding the application of corporate governance standards, 11 bit studios S.A. is guided by the principles of an effective and transparent information policy and communication with the market and investors. In Current Report No. 1/2016 (EBI) of January 11th 2016, the Company reported on the scope of application of corporate governance standards resulting from 'Best Practice for GPW Listed Companies 2016' effective from January 1st 2016. All information resulting from the corporate governance standards adopted by the Company is published at http://ir.11bitstudios.com/dokumenty/dobre_praktyki_2016.pdf.

6.1. EXTENT TO WHICH THE PARENT DEPARTED FROM THE ADOPTED SET OF CORPORATE GOVERNANCE PRINCIPLES

The Parent undertook to apply all corporate governance principles contained in 'Best Practice for GPW Listed Companies 2016', except for the following:

I. Disclosure policy and investor communications

Detailed principles

IZ1.15. *"information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website"*

The Company's comments: The Company has not drafted a diversity policy yet. Nevertheless, the Company strives to ensure that its governing bodies and personnel are diversified in terms of gender, education, age, professional experience, etc. With respect to the governing bodies and key managers, the decisive selection criterion for each position is the nature and scope of a candidate's skills and competences.

IZ1.16. *"information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting"*

The Company's comments: Given the required technical and organisational effort, the related costs and risks as well as small market experience in this area, currently the Company does not broadcast its General Meetings and does not publish recordings of its General Meetings on its website. Thus, it is not possible to publish information on planned transmission of the General Meetings or video recordings of the General Meetings on the Company's corporate website.

IZ1.20. *"video recording of a general meeting"*

The Company's comments: The Company has not so far recorded any of its General Meetings in audio or video form. In the event that the Company decides to record the course of a particular General Meeting, the recording will be published on the Company's website.

I.Z.2. *"A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity."*

The Company's comments: Given its shareholding structure, the Company does not plan to operate a full-fledged website in English. As a consequence, the costs the Company would have to incur to prepare and then update a website in English would be disproportionate to the benefits.

IV. General Meeting and shareholder relations

Recommendations

IV.R.2. *"If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed*

efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1) real-life broadcast of the general meeting,
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary."

The Company's comments: Given the required technical and organisational effort, the related costs and risks as well as small market experience in this area, currently the Company does not broadcast its General Meetings in real time, does not provide its shareholders with real-time bilateral communication, and does not enable the exercise of voting rights in the course of the General Meetings. Market experience with the use of this method of communication, measured by the current assessment of the manner in which shareholders participate in General Meetings, leads to a conclusion that this method of communication for the General Meetings is not adequate in terms of functionality and costs. As the use of this technical solution becomes more widespread and the security of its application is ensured, the Company will consider implementing this principle. In the Company's opinion, compliance with the above principles is not required given its shareholding structure and such need has never been reported by the Company's shareholders.

VI. Remuneration

Recommendations

VI.R.1. *"The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy."*

The Company's comments: Members of the Company's Management Board receive remuneration for their functions and its amount is negotiated with the Company's Supervisory Board. In addition, they receive remuneration under contracts for specific work. The remuneration of the Company's Supervisory Board is a single item only, depends on the function held in the Supervisory Board, and is proportional to the time in office during a given calendar year. The Company does not have and does not apply a uniform remuneration policy for key managers.

VI.R.3. *"If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations."*

The Company's comments: There is no separate remuneration committee in the Company's Supervisory Board.

Detailed principles

VI.Z.4. *"In this activity report, the company should report on the remuneration policy including at least the following:*

1) general information about the company's remuneration system,

2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group,

3) information about non-financial remuneration components due to each management board member and key manager,

4) significant amendments of the remuneration policy in the last financial year or information about their absence,

5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability."

The Company's comments: The Company does not apply a uniform remuneration policy. With reference to the disclosure of information on the remuneration of the Management Board and Supervisory Board members, the Company follows applicable laws.

6.2. SHAREHOLDERS WITH MAJOR HOLDINGS

In accordance with the statements received by the Company under applicable laws, the table below presents shareholders holding, directly or indirectly, at least 5% of total voting rights at the General Meeting as at December 31st 2017:

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	162,696	7.11	162,696	7.11
NN PTE	135,500	5.92	135,500	5.92
Przemysław Marszał	122,000	5.33	122,000	5.33
Michał Drozdowski	93,630	4.09	93,630	4.09
Other shareholders	1,589,677	69.50	1,589,677	69.50
Total	**2,287,199**	**100**	**2,287,199**	**100**

6.3. HOLDERS OF SECURITIES THAT GIVE SPECIAL CONTROL POWERS AND DESCRIPTION OF THOSE POWERS

All 11 bit studios S.A. shares are ordinary bearer shares which carry no preference, and in particular confer no special control powers.

6.4. RESTRICTIONS ON VOTING RIGHTS

Pursuant to the Articles of Association of 11 bit studios S.A., there are no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

6.5. RESTRICTIONS ON TRANSFERABILITY OF TITLE TO THE COMPANY'S SECURITIES

In accordance with the Articles of Association of 11 bit studios S.A., there are no restrictions on transferability of title to the Company's securities.

6.6. RULES GOVERNING APPOINTMENT AND REMOVAL OF MEMBERS OF THE MANAGEMENT STAFF AND THEIR RIGHTS

Members of the Management Board of 11 bit studios S.A. are appointed and removed from office in accordance with the provisions of the Commercial Companies Code and the Company's Articles of Association. The Company's Management Board consists of one or more members. The number of the Management Board members is determined by a resolution of the Supervisory Board. Members of the Management Board are appointed and removed from office by the Supervisory Board. Members of the Management Board are appointed for a joint term of office which lasts three years. At the same time, the Supervisory Board decides which of the persons appointed to the Management Board is entrusted with the function of President of the Management Board; members of the first Management Board are appointed by the founders and in this case the founders decide which member of the first Management Board will be entrusted with the function of President of the Management Board.

The powers and responsibilities of the Management Board include all Company matters which are not expressly reserved for the General Meeting or the Supervisory Board. In the case of a one-person Management Board, the President of the Management Board is authorised to make statements on behalf of the Company. In the case of a Management Board consisting of two or more members, statements on behalf of the Company may be made by two members acting jointly or one member of the Management Board acting with a commercial proxy. Resolutions of the Management Board are passed by an absolute majority of votes present, however, in case of an equal number of votes, the President of the Management Board, who votes last, has a decisive vote. The Management Board may adopt its Rules of Procedure. The Rules of Procedure for the Management Board may not be in conflict with the provisions of the Commercial Companies Code or the Articles of Association.

The Management Board of 11 bit studios S.A. is not authorised to make independent decisions regarding the issuance of shares. Pursuant to the applicable laws and the Company's Articles of Association, issuing shares and increasing the share capital by the Company requires a relevant resolution of the General Meeting.

The Management Board may acquire Company shares subject to the rules regarding the acquisition of own shares set out in the Commercial Companies Code.

6.7. RULES GOVERNING AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

According to the provisions of Art. 430.1 of the Commercial Companies Code, amendments to the Articles of Association require a resolution of the General Meeting and entry in the register.
Under Art. 402.2 of the Commercial Companies Code, the notice convening a General Meeting whose agenda includes amendment to the Articles of Association should contain existing provisions of the Articles of Association and the proposed amendments. Where justified by a significant scope of the intended amendments, the notice may include a draft of a new consolidated text of the Articles of Association together with a list of its new or amended provisions.
The rules governing amendments to the Company's Articles of Association are specified in the Commercial Companies Code and the Company's Articles of Association. A change of the object of the Company may take place without repurchasing shares of those shareholders who do not agree to the change if the resolution on changing the object of the Company is passed by a two-thirds majority of votes with shareholders representing at least half of the share capital present.
The text of the Articles of Association is available on the Company's website at: www.11bitstudios.com under the 'IR' tab.

6.8. PROCEEDINGS OF THE GENERAL MEETING AND ITS POWERS

The General Meetings of the Company are held in accordance with the rules set out in the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the General Meeting.
The texts of the Articles of Association and of the Rules of Procedure for the General Meeting are available on the Company's website at www.11bitstudios.com under the 'IR' tab.
The rights and obligations of the Company's shareholders with respect to participation in the General Meetings and exercising voting rights are specified in the Commercial Companies Code, the Company's Articles of Association, and the applicable capital market laws.

6.9. COMPOSITION OF THE MANAGEMENT BOARD AND DESCRIPTION OF THE OPERATIONS OF THE COMPANY'S MANAGEMENT AND SUPERVISORY BODIES AND COMMITTEES IN 2017

6.9.1. MANAGEMENT BOARD

Throughout the reporting period, the Company's Management Board consisted of:

- Grzegorz Miechowski – President of the Management Board
- Bartosz Brzostek – Member of the Management Board
- Przemysław Marszał – Member of the Management Board
- Michał Drozdowski – Member of the Management Board

The three-year term of office of the Management Board members ends on the date of approval by the General Meeting of the Company's financial statements for the financial year ending December 31st 2018.

The scope of responsibilities of individual members of the Company's Management Board is as follows:

Grzegorz Miechowski, President of the Management Board

- Strategy, planning
- Finance, accounting
- Risk management

Bartosz Brzostek, Member of the Management Board

- Technology Director
- Supervision over development of the game engine

Przemysław Marszał, Member of the Management Board

- Art Director
- Supervision over the game development studio

Michał Drozdowski, Member of the Management Board

- Creative Director
- Supervision over the game development studio

6.9.2. SUPERVISORY BOARD

Throughout the reporting period, the Company's Supervisory Board consisted of:

- Piotr Sulima – Chairman of the Supervisory Board *(independent Member of the Supervisory Board *)*
- Jacek Czykiel – Deputy Chairman of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Agnieszka Maria Kruz – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Radosław Marter – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Wojciech Ozimek – Member of the Supervisory Board

* – *Independence criteria for members of supervisory boards are set out in Detailed Principle II.Z.4 of 'Best Practice for GPW Listed Companies 2016'.*

The term of office of the Supervisory Board members ends on June 9th 2019. For detailed information on the members of the Supervisory Board and a description of their experience and competences, see **Note 5.2.**

The rules of operation of the Company's management and supervisory bodies are specified in the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. The texts of the Articles of Association and of the Rules of Procedure for the Supervisory Board are available on the Company's website at www.11bitstudios.com under the 'IR' tab.

By way of resolution of the Company's General Meeting of June 26th 2015, the function of the Audit Committee was entrusted to the Supervisory Board. In particular, the Supervisory Board was entrusted with the following duties:

- Monitoring the financial reporting process,
- Monitoring the effectiveness of internal control, internal audit and risk management systems,
- Monitoring the financial auditing activities,
- Monitoring the independence of the statutory auditor and the entity authorised to audit financial statements (auditing firm), including in the case of services referred to in Art. 48.2 of the Act on Statutory Auditors.

When performing the tasks of the Audit Committee, the Supervisory Board reviews the written information of the entity authorised to audit financial statements on material issues related to financial auditing activities, in particular about significant irregularities in the Company's internal control system in relation to the financial reporting process, any threats to the independence of the entity authorised to audit financial statements and measures taken to limit those threats.

The Company did not appoint members of a remuneration committee as remuneration at the Company is defined in the contracts concluded by the Company with persons holding managerial and governance functions (the remuneration amounts vary depending on the function or position held). The remuneration received by the Company's management and senior management includes share-based payments, stock options or other rights to acquire shares, as well as forms of remuneration that is not determined by reference to share price movements.

6.10. PRINCIPAL RULES IN PLACE AT THE 11 BIT STUDIOS GROUP AND INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Company and its subsidiary Games Republic Limited (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 and as of that date the 11 bit studios Group ceased to exist) have in place internal control systems required to keep accounting records and prepare financial statements and reports. Substantive supervision over the process of preparing the Company's financial statements and periodic reports is exercised directly by the Management Board. In 2017, the accounting books of 11 bit studios S.A. were kept by internal accounting services. The accounting books of Games Republic Limited were kept by an external accounting office.

The financial data being the basis for the financial statements comes from the accounting and financial system, in which transactions are recorded in accordance with the Company's accounting policies based on International Accounting Standards. For the consolidated financial statements, the data comes directly from the subsidiary. The Company has implemented and applies appropriate methods to secure access to data and the computer system for their processing, including the storage and protection of accounting books and accounting documents.
The Company's financial statements are submitted to the Management Board for final verification. The financial statements adopted by the Management Board are submitted to the Supervisory Board in order to take actions stipulated in the Commercial Companies Code, i.e. to perform assessment of the financial statements. Full-year and half-year financial statements are audited by the independent statutory auditor appointed by the Company's Supervisory Board. The results of the audit are delivered to the Management Board and the Supervisory Board, and the opinion and report from the audit of the full-year financial statements is additionally presented to the General Meeting.

6.11. SPONSORSHIP, CHARITY OR OTHER SIMILAR ACTIVITIES CARRIED OUT BY 11 BIT STUDIOS S.A.

Based on an agreement of October 6th 2014, the Parent supports the War Child foundation (39-51 Highgate Road, London, UK), helping child victims of wars across the world. The foundation receives a part revenue from sales of the expansion pack (DLC) for *This War of Mine* ('War Child Charity DLC'). In 2017, the Company transferred PLN 485,823 to the War Child foundation's account. In 2016, the amount was PLN 299,288.

Signed by:

Grzegorz Miechowski	*Bartosz Brzostek*	*Przemysław Marszał*	*Michał Drozdowski*
President of the Management Board	*Member of the Management Board*	*Member of the Management Board*	*Member of the Management Board*

Warsaw, March 26th 2018