WARSAW, March 27th 2019

# ANNUAL REPORT OF 11 BIT STUDIOS S.A. FOR 2018

# LETTER FROM THE MANAGEMENT BOARD

Warsaw, March 27th 2019

**Dear Shareholders and Investors**

Please be invited to read the 2018 Annual Report of 11 bit studios S.A. It was an absolutely outstanding year for our Company, both in terms of our business achievements and financial performance.

2018 saw the premieres of *Frostpunk* (April 24th) and *Moonlighter* (May 29th), released by our 11 bit publishing division. Both releases turned out quite impressive. *Frostpunk* quickly moved to top positions on bestseller lists of the world's most important digital platforms, headed by Steam. Also *Moonlighter* climbed right up to the top on Steam, a major achievement for a relatively low-budget game of this size. The market success of *Frostpunk* and *Moonlighter*, backed by a number of awards and distinctions, demonstrated quite clearly that 11 bit studios S.A. has achieved world-class competence in the creation and release of video games. Furthermore, solid sales of both titles after mid-2018, supported by our marketing initiatives such as DLC packs and releases on new hardware platforms or in new language versions, have proved 11 bit studios S.A.'s competence in long-term monetisation of game products.

The excellent sales figures reported for *Frostpunk, Moonlighter* and *This War of Mine* (even though it premiered more than four years ago) translated into record-high financial performance of 11 bit studios S.A. For 2018, the Company reported PLN 82.11m in revenue (up 328.8% on 2017) and PLN 46.95m in operating profit (up 516.1%). Net earnings came in at PLN 37.55m, a nearly ten-fold increase on the figure reported in 2018. They would have come in even higher, had it not been for non-cash provisions recognised in connection with the Company's 2017–2019 Incentive Scheme, of nearly at PLN 6.2m in 2018.

Our cash reserves were also record high. At the end of December 2018, 11 bit studios S.A. held over PLN 56,34m in bank accounts, bank deposits, bonds and units of a conservative investment fund. The amount also included PLN 14.55m in receivables, of which a large portion (PLN 4.14m) was due to the Company as a VAT refund on the acquisition of a property located at ul. Brzeska 2 in Warsaw in late 2018 to be used as a new office, with trade receivables making up the balance. As a result, the total value of 11 bit studios S.A.'s financial assets reported as at December 31st 2018 was PLN 70.88m (2017: PLN 33.91m).

With the rock-solid financial footing, the prospects for the Company are quite bright, and our plans for the coming years very ambitious. In the quarters to come, the major project will be the production of a new game under the working title *Projekt 8,* with an estimated budget of approximately PLN 20m. We will also continue to roll out *Frostpunk* and monetise *This War of Mine*. Two new game products are also in the pipeline for this year. Moreover, our plan is to build three developer teams working in parallel, which will mean a substantial increase in the Company's headcount from around 100 to 200 in the next 2-3 years. As a result, in the medium-term perspective of the next several years, 11 bit studios S.A. will be able to release one proprietary title every 12-18 months.

Equally ambitious are our goals for the 11 bit publishing business. We strongly believe in a successful 2019 premiere of *Children of Morta,* another game to be released by our publishing team. The market success of *Moonlighter* not only boosted the financial performance of 11 bit studios S.A. for 2018, but also considerably reinforced our position as a competent publisher. As a result, we are able to add projects with ever-increasing size and commercial potential to our portfolio. We are already holding a number of promising discussions. In the medium term, our publishing division should release three to four games annually, increasing its contribution to earnings of 11 bit studios S.A.

Thank you once again for the trust you have placed in us. We invite you to read our report.

| | | |
|---|---|---|
| *Grzegorz Miechowski* | *Przemysław Marszał* | *Michał Drozdowski* |
| *President of the Management Board* | *Member of the Management Board* | *Member of the Management Board* |

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# FINANCIAL HIGHLIGHTS

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

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

- Exchange rate as at December 31st 2018 - PLN 4.3000
- Exchange rate as at December 31st 2017 - PLN 4.1709

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

- Exchange rate for 2018 - PLN 4.2669
- Exchange rate for 2017 - PLN 4.2447

## STATEMENT OF FINANCIAL POSITION

| | Dec 31 2018 (PLN) | Dec 31 2017 (PLN) | Dec 31 2018 (EUR) | Dec 31 2017 (EUR) |
|---|---|---|---|---|
| Total assets | 109,262,821 | 48,649,817 | 25,409,959 | 11,664,105 |
| Non-current assets | 41,316,893 | 17,173,693 | 9,608,580 | 4,117,503 |
| Intangible assets | 17,138,011 | 13,067,498 | 3,985,584 | 3,133,016 |
| Current assets | 67,945,928 | 31,476,124 | 15,801,379 | 7,546,602 |
| Non-current financial assets | 5,094,282 | 3,053,534 | 1,184,717 | 732,104 |
| Current financial assets | 27,000,000 | 0 | 6,279,070 | 0 |
| Cash | 24,250,681 | 28,176,332 | 5,639,693 | 6,755,456 |
| Total equity and liabilities | 109,262,821 | 48,649,817 | 25,409,959 | 11,664,105 |
| Equity | 89,911,573 | 46,222,796 | 20,909,668 | 11,082,211 |
| Liabilities and provisions | 19,351,249 | 2,427,021 | 4,500,290 | 581,894 |

## STATEMENT OF PROFIT OR LOSS

| | Period ended Dec 31 2018 (PLN) | Period ended Dec 31 2017 (PLN) | Period ended Dec 31 2018 (EUR) | Period ended Dec 31 2017 (EUR) |
|---|---|---|---|---|
| Revenue | 82,113,506 | 19,151,517 | 19,244,300 | 4,511,866 |
| Depreciation and amortisation | 4,493,003 | 1,713,889 | 1,052,990 | 403,772 |
| Operating profit | 46,948,742 | 7,619,936 | 11,003,010 | 1,795,165 |
| EBITDA | 51,441,745 | 9,333,825 | 12,056,000 | 2,198,936 |
| Profit (loss) before tax | 48,105,776 | 4,389,957 | 11,274,175 | 1,034,221 |
| Net profit (loss) | 37,549,897 | 3,417,340 | 8,800,276 | 805,084 |

## STATEMENT OF CASH FLOWS

| | Period ended Dec 31 2018 (PLN) | Period ended Dec 31 2017 (PLN) | Period ended Dec 31 2018 (EUR) | Period ended Dec 31 2017 (EUR) |
|---|---|---|---|---|
| Net cash from operating activities | 39,046,228 | 7,778,093 | 9,150,959 | 1,832,424 |
| Net cash from investing activities | (55,571,879) | (9,744,638) | (13,023,947) | (2,295,719) |
| Net cash from financing activities | 12,600,000 | 1,028,907 | 2,952,964 | 242,398 |
| Total net cash flows | (3,925,651) | (937,638) | (920,024) | (220,897) |

# FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A. FOR 2018

11 bit studios

# 1. OVERVIEW

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

## 1.1. COMPANY OVERVIEW

| | |
|---|---|
| Business name: | 11 bit studios Spółka Akcyjna |
| Abbreviated name: | 11 bit studios S.A. |
| Registered office: | Warsaw, Poland |
| Registered address: | 03-472 Warsaw, ul. Bertolta Brechta 7 |
| Principal business activity: | 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 Company was established for indefinite time.

The financial year of the Company is the same as the calendar year.

The Company's principal business activity includes:

- Production of cross-platform video games,
- Sale of cross-platform video games.

The Company does not have any subsidiaries, associates or interests in joint ventures. Until April 11th 2017, 11 bit studios S.A. was the parent of the 11 bit studios Group consisting of 11 bit studios S.A. and a subsidiary, Games Republic Limited of Malta. On April 11th 2017, the Company announced that it had sold its entire equity interest in Games Republic Limited to Lousva Trading Limited. As of that date, the 11 bit studios Group ceased to exist, and 11 bit studios S.A. stopped publishing consolidated financial statements.

## 1.2. COVERED PERIODS

The 2018 financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to December 31st 2018 and contain the following comparative data:

- Statement of financial position – as at December 31st 2017,
- Statement of profit or loss and other comprehensive income – for the period of 12 months ended December 31st 2017,
- Statement of changes in equity – for the period of 12 months ended December 31st 2017,
- Statement of cash flows – for the period of 12 months ended December 31st 2017.

## 1.3. COMPOSITION OF THE COMPANY'S GOVERNING BODIES AS AT DECEMBER 31ST 2018

**Management Board**

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

**Supervisory Board**

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

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

## 1.4. AUDITORS

Deloitte 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 full-year financial statements and review the half-year financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2017, 2018 and 2019.

## 1.5. COMPANY'S SHAREHOLDING STRUCTURE AS AT DECEMBER 31ST 2018

| Name | Number of shares | % of share capital held | Number of votes | % of total voting rights at GM |
|---|---|---|---|---|
| Grzegorz Miechowski | 162,000 | 7.08 | 162,000 | 7.08 |
| Przemysław Marszał | 118,000 | 5.16 | 118,000 | 5.16 |
| Michał Drozdowski | 89,630 | 3.92 | 89,630 | 3.92 |
| NN TFI | 119,229 | 5.21 | 119,229 | 5.21 |
| Aviva Investors Polska TFI | 116,038 | 5.07 | 116,038 | 5.07 |
| Other shareholders | 1,683,606 | 73.61 | 1,683,606 | 73.61 |
| **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 holdings of Company shares by management staff and persons related to the Company's supervisory staff.

In Current Report No. 9/2018 of May 16th 2018, 11 bit studios S.A. announced that on that date the Company received notifications under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On May 14th and 15th 2018, Agnieszka Rabenda-Ozimek sold 94 shares in 11 bit studios S.A. (60 shares at PLN 500 per share and 34 shares at PLN 545 per share).

In Current Report No. 13/2018 of June 16th 2018, 11 bit studios S.A. announced that on June 15th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Mr Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On June 5th 2018, Agnieszka Rabenda-Ozimek sold 20 shares in 11 bit studios S.A., at PLN 490 per share.

In Current Report No. 14/2018 of June 19th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by NN Investment Partners TFI S.A. ("NN TFI") of exceeding the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights at the General Meeting of 11 bit studios S.A. changed following purchase of Company shares on June 15th 2018 by NN Fundusz Inwestycyjny Otwarty, NN Specjalistyczny Fundusz Inwestycyjny Otwarty 2, NN (L) Total return Fundusz Inwestycyjny Zamknięty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty. Prior to the change, the investment funds managed by NN TFI held 112,476 shares in 11 bit studios S.A., representing 4.93% of total voting rights in the Company and 4.93% of the share capital. As at the date of exceeding the threshold, the investment funds managed by NN TFI held 119,229 shares in 11 bit studios S.A., representing 4.93% of total voting rights in the Company and 5.21% of the share capital.

In Current Report No. 15/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Grzegorz Miechowski, President of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Grzegorz Miechowski sold 2,000 shares in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Miechowski holds 160,696 Company shares, conferring 7.03% of total voting rights in the Company and representing 7.03% of its share capital.

In Current Report No. 16/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Przemysław Marszał, Member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Przemysław Marszał sold 4,000 shares in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Marszał holds 118,000 Company shares, conferring 5.16% of total voting rights in the Company and representing 5.16% of its share capital.

In Current Report No. 17/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Michał Drozdowski, Member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Michał Drozdowski sold 4,000 shares

in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Marszał holds 89,630 Company shares, conferring 3.92% of total voting rights in the Company and representing 3.92% of its share capital.

In Current Report No. 19/2018 of July 26th 2018, 11 bit studios S.A. announced that on that date the Company received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. of Warsaw, concerning reduction of its holding of Company shares to below 5% of total voting rights in the Company. The share in the total voting rights decreased as a result of disposal of Company shares. The transaction was settled on July 20th 2018.
Prior to the transaction, the funds managed by N-N PTE S.A. held 114,922 Company shares, conferring 5.02% of total voting rights in the Company and representing 5.02% of the share capital. Following the transaction, the funds hold 111,832 Company shares, conferring 4.89% of total voting rights in the Company and representing 4.89% of the share capital.

In Current Report No. 22/2018 of October 5th 2018, 11 bit studios S.A. announced that on October 5th 2018 the Company was notified by Mr Bartosz Brzostek (Member of the Company's Management Board until May 9th 2018) of reduction of his holding of Company shares to below 5% of total voting rights at the General Meeting. The share in the total voting rights decreased as a result of disposal of Company shares.
Prior to the transaction, Mr Bartosz Brzostek held 114,721 Company shares, conferring 5.02% of total voting rights in the Company and representing 5.02% of its share capital. After the transaction, Mr Bartosz Brzostek holds 113,539 Company shares, conferring 4.96% of total voting rights in the Company and representing 4.96% of its share capital.

In Current Report No. 23/2018 of October 8th 2018, 11 bit studios S.A. announced that the Company received a notification under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Mr Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On June 15th 2018, Agnieszka Rabenda-Ozimek sold 20 shares in 11 bit studios S.A., at PLN 500 per share.

In Current Report No. 25/2018 of October 15th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI") of exceeding the threshold of 5% of total voting rights at the General Meeting of 11 bit studios S.A. The percentage of total voting rights in the Company changed following purchase of Company shares on October 11th 2018 by Aviva Investors Fundusz Inwestycyjny Otwarty and Aviva Investors Specjalistyczny Fundusz Inwestycyjny managed by Aviva TFI. Prior to the change, the investment funds managed by Aviva TFI held 113,451 shares in 11 bit studios S.A., representing 4.96% of the Company's share capital. On the day when the threshold was exceeded, the investment funds managed by Aviva TFI held 116,038 shares in 11 bit studios S.A., representing 5.07% of the Company's share capital.

In Current Report No. 28/2018 of November 23rd 2018, 11 bit studios S.A. announced that the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Grzegorz Miechowski, President of the Management Board of 11 bit studios S.A., concerning purchase of shares in 11 bit studios S.A. On November 23rd 2018, Mr Grzegorz Miechowski purchased 1,304 shares in 11 bit studios S.A. at an average price of PLN 264.72 per share.

Subsequent to the reporting period, in Current Report No. 1/2019 of January 2nd 2019, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"). Acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), an investment fund managed by Aviva TFI, Aviva TFI notified the Company of exceeding the threshold of 5% of total voting rights at the General Meeting of 11 bit studios S.A. The percentage of total voting rights in the Company changed following purchase of Company shares on December 20th 2018 by the Fund. Prior to the change, the Fund held 113,709 Company shares, representing 4.97% of the Company's share capital. Following the change, the Fund held 115,839 Company shares, accounting for 5.06% of its share capital.

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

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

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

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

## 1.7. COMMENTARY ON ESTIMATES OF FINANCIAL RESULTS

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

## 1.8. HEADCOUNT

As at the date of issue of these financial statements, 106 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

## 1.9. FUNCTIONAL AND PRESENTATION CURRENCY

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

## 1.10. MANAGEMENT BOARD'S STATEMENT

We hereby represent that this 2018 Annual Report of 11 bit studios S.A. includes: Letter from the President of the Management Board, financial highlights, financial statements, Directors' Report on the operations of 11 bit studios S.A. in 2018, and the corporate governance report.

We represent that, to the best of our knowledge, the financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union and that they give a clear, true and fair view of the Company's assets, financial position and financial performance, and that the Directors' Report on the Company's operations in 2018 gives a fair view of the Company's development, achievements and position, and describes the key risks and threats.

Based on a representation of the Supervisory Board, the Management Board of 11 bit studios S.A. hereby states that:

- The audit firm which audited the financial statements of 11 bit studios S.A. for the year ended December 31st 2018 was appointed in accordance with applicable laws, including regulations governing the selection of an audit firm and the relevant selection procedure,
- The audit firm and members of the audit team met the conditions required to prepare an impartial and independent report from an audit of the full-year financial statements in accordance with applicable laws, professional standards and rules of ethics,
- 11 bit studios S.A. complied with applicable laws and regulations concerning the required rotation of audit firms and lead statutory auditors, as well as the mandatory grace periods,
- 11 bit studios S.A. has a policy in place concerning the selection of an audit firm and the provision of additional non-audit services to the issuer by the audit firm, an entity related to the audit firm or a member of its network, including services conditionally exempted from the prohibition to provide non-audit services by the audit firm.

## 1.11. REPRESENTATIONS OF THE COMPANY'S SUPERVISORY BOARD

### 1.11.1. concerning the Audit Committee

The Supervisory Board of 11 bit studios S.A., pursuant to Par. 70.1.8 and Par. 71.1.8 of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent, hereby represents that:

- The Company meets the requirements stipulated in applicable laws under which the Audit Committee's tasks may be entrusted to the Supervisory Board as a whole, and members of that body meet the legal requirements regarding their independence and the necessary knowledge and skills in the area of the Company's business operations, as well as in accounting or financial auditing; at the same time, the Supervisory Board represents that the Company complies with the provisions governing the assumption by the Supervisory Board of the Audit Committee's role.
- The Supervisory Board performed the tasks of the Audit Committee as provided for in applicable regulations.

Piotr Sulima – Chairman of the Supervisory Board

Jacek Czykiel – Deputy Chairman of the Supervisory Board

Radosław Marter – Member of the Supervisory Board

Agnieszka Maria Kruz – Member of the Supervisory Board

Wojciech Ozimek – Member of the Supervisory Board

The original document bears the relevant signatures

Warsaw March 27th 2019

### 1.11.2. Assessment by the 11 bit studios S.A. Supervisory Board of the financial statements and the Directors' Report on the operations of 11 bit studios S.A. in 2018 in terms of their consistency with the underlying accounting records, documents and facts

The 11 bit studios S.A. Supervisory Board, acting pursuant to Art. 382.3 of the Commercial Companies Code in conjunction with Par. 70.1.14 and Par. 71.1.12 of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent, having read the data and information presented in the financial statements of 11 bit studios S.A. for the year ended December 31st 2018 and the Directors' Report on the operations of 11 bit studios S.A. in the year ended December 31st 2018, hereby represents that, to the best of its knowledge, the said financial statements and the Directors' Report have been prepared in compliance with the applicable accounting policies, give a true, fair and clear view of the Company's assets, financial condition and financial performance, and are consistent with the underlying accounting records, documents and facts.

The Supervisory Board gave a favourable opinion on the financial statements and the Directors' Report, in particular based on: (i) information provided by Deloitte Audyt sp. z o.o. Sp.k., the auditor of the financial statements, to the Supervisory Board (acting as the Company's Audit Committee), (ii) information and data provided by the Company's Management Board to the Supervisory Board (acting as the Company's Audit Committee).

Piotr Sulima – Chairman of the Supervisory Board

Jacek Czykiel – Deputy Chairman of the Supervisory Board

Radosław Marter – Member of the Supervisory Board

Agnieszka Maria Kruz – Member of the Supervisory Board

Wojciech Ozimek – Member of the Supervisory Board

The original document bears the relevant signatures

Warsaw March 27th 2019

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

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

| | Note | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 3.4 | 82,113,506 | 19,151,517 |
| Other income | 3.5.1 | 671,305 | 313,770 |
| **Total operating income** | | **82,784,811** | **19,465,287** |
| Depreciation and amortisation | 3.6 | (4,493,003) | (1,713,889) |
| Raw materials and consumables used | | (233,905) | (347,086) |
| Services | 3.7 | (16,512,347) | (5,856,106) |
| Salaries, wages and employee benefits | 3.8 | (12,965,744) | (2,172,657) |
| Taxes and charges | | (245,515) | (68,391) |
| Other expenses | 3.5.2 | (1,331,361) | (1,687,222) |
| (Impairment)/reversal of impairment of financial instruments | 3.5.3 | (54,194) | 0 |
| **Total operating expenses** | | **(35,836,069)** | **(11,845,351)** |
| **Operating profit** | | **46,948,742** | **7,619,936** |
| Interest income | 3.9 | 392,637 | 122,171 |
| Other finance income | 3.9 | 958,742 | 53,534 |
| Finance costs | 3.10 | (194,345) | (3,405,684) |
| **Profit before tax** | | **48,105,776** | **4,389,957** |
| Income tax expense | 3.11.1 | (10,555,879) | (972,617) |
| **Net profit from continuing operations** | | **37,549,897** | **3,417,340** |
| Discontinued operations | | 0 | 0 |
| Net profit from discontinued operations | | 0 | 0 |
| **NET PROFIT** | | **37,549,897** | **3,417,340** |
| **Earnings per share from continuing operations (PLN per share):** | | | |
| Basic | 3.12.1 | 16.42 | 1.52 |
| Diluted | 3.12.2 | 15.53 | 1.47 |

| | Note | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|---|
| **NET PROFIT** | | **37,549,897** | **3,417,340** |
| Other comprehensive income | | 0 | 0 |
| Total other comprehensive income, net | | 0 | 0 |
| **TOTAL COMPREHENSIVE INCOME** | | **37,549,897** | **3,417,340** |

## 2.2. STATEMENT OF FINANCIAL POSITION (PLN)

**ASSETS**

| | Note | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 3.13 | 18,734,064 | 814,332 |
| Intangible assets | 3.14 | 17,138,011 | 13,067,498 |
| Deferred tax asset | 3.11.3 | 158,033 | 89,993 |
| Other assets | 3.19 | 192,503 | 148,336 |
| Non-current financial assets | 3.16 | 5,094,282 | 3,053,534 |
| **Total non-current assets** | | **41,316,893** | **17,173,693** |
| | | | |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 3.15 | 14,552,625 | 2,679,070 |
| Income tax receivable | 3.11.2 | 1,845,130 | 327,123 |
| Other current assets | 3.18 | 297,492 | 293,599 |
| Current financial assets | 3.17 | 27,000,000 | 0 |
| Cash and cash equivalents | 3.20 | 24,250,681 | 28,176,332 |
| **Total current assets** | | **67,945,928** | **31,476,124** |
| **TOTAL ASSETS** | | **109,262,821** | **48,649,817** |

**EQUITY AND LIABILITIES**

| | Note | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 3.21 | 228,720 | 228,720 |
| Share premium | | 4,870,274 | 4,870,274 |
| Statutory reserve funds | | 41,331,887 | 37,914,547 |
| Share-based payment reserve | 3.31.2 | 6,138,880 | 0 |
| Retained earnings | 3.21.2 | 37,341,812 | 3,209,255 |
| **Total equity** | | **89,911,573** | **46,222,796** |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings and other debt instruments | 3.25 | 11,340,000 | 0 |
| Deferred income | 3.30 | 677,555 | 762,772 |
| **Total non-current liabilities** | | **12,017,555** | **762,772** |
| **Current liabilities** | | | |
| Trade and other payables | 3.26 | 5,122,519 | 1,197,853 |
| Liabilities under contracts with customers | | 557,145 | 0 |
| Short-term borrowings and other debt instruments | 3.25 | 1,452,203 | 0 |
| Deferred income | 3.30 | 201,826 | 466,396 |
| **Total current liabilities** | | **7,333,693** | **1,664,249** |
| **Total liabilities** | | **19,351,248** | **2,427,021** |
| **TOTAL EQUITY AND LIABILITIES** | | **109,262,821** | **48,649,817** |

## 2.3. STATEMENT OF CHANGES IN EQUITY (PLN)

| | Share capital | Share premium | Statutory reserve funds | Share-based payment reserve | Translation reserve | Retained earnings | Attributable to owners of the parent | Attributable to non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at Jan 1 2018** | **228,720** | **4,870,274** | **37,914,547** | **0** | **0** | **3,209,255** | **0** | **0** | **46,222,796** |
| Net profit for the financial year | 0 | 0 | 0 | 0 | 0 | 37,549,897 | 0 | 0 | 37,549,897 |
| Other comprehensive income for the financial year (net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total comprehensive income** | **0** | **0** | **0** | **0** | **0** | **37,549,897** | **0** | **0** | **37,549,897** |
| Profit allocated to statutory reserve funds | 0 | 0 | 3,417,340 | 0 | 0 | (3,417,340) | 0 | 0 | 0 |
| Share-based payments | 0 | 0 | 0 | 6,138,880 | 0 | 0 | 0 | 0 | 6,138,880 |
| **As at Dec 31 2018** | **228,720** | **4,870,274** | **41,331,887** | **6,138,880** | **0** | **37,341,812** | **0** | **0** | **89,911,573** |

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

## 2.4. STATEMENT OF CASH FLOWS (PLN)

| | Note | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the financial year** | | **37,549,897** | **3,417,340** |
| **Adjustments:** | | | |
| (Accumulated) depreciation/amortisation of non-current assets | 3.6 | 4,493,003 | 1,713,889 |
| Income tax expense recognised in profit or loss | 3.11.1 | 10,555,879 | 972,617 |
| Remeasurement of intangible assets | | 17,121 | 445,431 |
| Other adjustments | 3.35 | 6,465,766 | 32,462 |
| **Changes in working capital:** | | | |
| Increase/decrease in trade and other receivables | | (11,873,555) | 2,460,973 |
| Increase/decrease in other assets | | (48,061) | 588,962 |
| Decrease in trade and other payables | | 3,924,665 | (730,951) |
| Increase/decrease in deferred income | | 207,359 | (17,044) |
| **Cash provided by operating activities** | | **51,292,074** | **8,883,679** |
| Income tax paid | | (12,245,846) | (1,105,586) |
| **Net cash from operating activities** | | **39,046,228** | **7,778,093** |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from bank deposits upon maturity – over 3 months | | 16,000,000 | 0 |
| Payments for financial assets | | (2,000,000) | (3,053,534) |
| Proceeds from sale of financial assets | | 0 | 681,759 |
| New bank deposits placed – over 3 months | | (43,000,000) | 0 |
| Payments for property, plant and equipment and intangible assets | | (26,571,879) | (7,372,863) |
| **Net cash from investing activities** | | **(55,571,879)** | **(9,744,638)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 0 | 591,340 |
| Loan proceeds | 3.25 | 12,600,000 | 0 |
| Other cash provided by financing activities | | 0 | 437,567 |
| **Net cash from financing activities** | | **12,600,000** | **1,028,907** |
| | | | |
| Net increase in cash and cash equivalents | | (3,925,651) | (937,638) |
| Cash and cash equivalents at beginning of reporting period | | 28,176,332 | 29,113,971 |
| **CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD** | 3.20 | **24,250,681** | **28,176,332** |

# 3. NOTES TO THE FINANCIAL STATEMENTS

## 3.1. INTERNATIONAL FINANCIAL REPORTING STANDARDS APPLIED BY THE COMPANY

These financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value through profit or loss.

The Company maintains accounting records and prepares financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Union ("IFRSs").

### 3.1.1. Statement of compliance

These 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 Company has applied the IFRSs effective as at December 31st 2018. The accounting policies applied to prepare these financial statements for 2018 are consistent with the policies applied to prepare the Company's full-year financial statements for 2017, 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 applied for the first time in the Company's financial statements for 2018

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

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

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

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

  - measured at amortised cost,

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

  - measured at fair value through other comprehensive income,

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

  - measured at fair value through profit or loss,

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

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

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

  IFRS 9 does not change the classification of the Company's financial liabilities. They continue to be measured at amortised cost or at fair value through profit or loss.

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

**Financial assets:**

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

**Financial liabilities:**

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

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

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

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

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

- general model,

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

- simplified approach;

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

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

  In these financial statements, the Company applied **IFRS 15 *Revenue from Contracts with Customers*** for the first time. As permitted by the standard, the Company elected not to restate comparative period data.

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

  - Royalties from sale of licences for the distribution of games

  The new regulations provide that entities that grant licences to customers for use of the entities' software (intellectual property) must determine whether the customers have the right to use the licence within a prescribed period of time (throughout the term of the licence) or on a one-off basis at the time of the grant.
  A licence that is transferred for a prescribed period of time gives the customer access to the intellectual property in the form it occurs during the term of the licence. This means that the customer has the right to expect the licensor to undertake activities that significantly affect that intellectual property during that period (i.e. its form and functionality are subject to continuous change and the benefits to the customer depend on the action taken by the entity). In such a case, the revenue is recognised over a period of time. In the case of revenue in the form of royalties from the sale of licences for game distribution, the revenue depends on the volume of sales generated by the distributor at a given time in the reporting period. Thus, revenue from the sale of a given product will be recognised

in the period not earlier than after the delivery of materials enabling the actual distribution of the completed game to commence.
Licences transferred on a one-off basis give the customer the right to use the licensor's intellectual property in the form in which it was available at the time the licence was granted. In order for the revenue to be recognised at the time the licence is granted, the customer must be able to control the use of the licence and derive substantially all other benefits from the licensed intellectual property.

- Advance payments received from customers

The Company receives short-term advance payments from customers for future sale of games produced or published by the Company. Historically, such amounts of advance payments had no impact on the Company's results. They were recognised in deferred income. The Company did not recognise any financing component.
Under the new standard, the Company intends to use the simplified disclosure option provided for in IFRS 15 with respect to short-term advance payments (the period between the moment when the customer pays for the goods or services and the moment when they are delivered does not exceed one year) and will continue not to recognise any financing component.

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

- **Amendments to IFRS 2 *Share-Based Payments***: classification and measurements of share-based payment transactions (effective for annual periods beginning on or after January 1st 2018).
- **Amendments to IFRS 4 *Insurance Contracts***: applying IFRS 9 *Financial Instruments* together with IFRS 4 *Insurance Contracts* (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 IAS 40 *Investment Property***: transfers of investment property (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 under the annual IFRS improvements procedure (IFRS 1, IFRS 12 and IAS 28) primarily to eliminate conflicts and clarify wording (amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1st 2018).
- **IFRIC 22 *Foreign Currency Transactions and Advance Consideration Transactions*** (effective for annual periods beginning on or after January 1st 2018).

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

### 3.1.3. 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 authorisation of these 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*** (effective for annual periods beginning on or after January 1st 2019).
  As at the date of issue of these financial statements, the Company had one effective agreement for land perpetual usufruct, relating to the developed property located at ul. Brzeska 2 in Warsaw, as announced by the Company in Current Report No. 30/2018 of December 19th 2018.
  As of January 1st 2019, the right of perpetual usufruct to the property located at ul. Brzeska 2 in Warsaw will be disclosed in the Company's statement of financial position (under lease assets and liabilities). The Company carried the perpetual usufruct right at PLN 347,349.08. It will be amortised over a period for which the right was granted, i.e. until October 27th 2099.
- **IFRS 17 *Insurance Contracts*** (effective for annual periods beginning on or after January 1st 2021).
- **Amendments to IFRS 3 *Business Combinations*** – definition of a business (applying to business combinations with the acquisition date falling on the start of the first annual period beginning on or after January 1st 2020 and in respect of the acquisition of assets which took place on or after the start of that annual period).
- **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 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** – definition of materiality (effective for annual periods beginning on or after January 1st 2020).
- **Amendments to IAS 19 *Employee Benefits***: plan amendment, curtailment or settlement (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IAS 28 *Investments in Associates and Joint Ventures***: long-term interests in associates and joint ventures (effective for annual periods beginning on or after January 1st 2019).

- **Amendments to various standards resulting from Annual Improvements to IFRS Standards 2015–2017 Cycle** – amendments made as part of the annual IFRS improvements project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to correct conflicts and clarify wording (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to references to the conceptual framework in IFRS Standards** (effective for annual periods beginning on or after January 1st 2020).
- **IFRIC 23 *Uncertainty over Income Tax Treatments*** (effective for annual periods beginning on or after January 1st 2019).

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

### 3.1.4. Amendments to existing standards applied for the first time in the Company's financial statements for 2018

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

The new standards, amendments to existing standards and interpretation did not have a material impact on the Company's financial statements for 2018.

### 3.1.5. 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 authorisation of these financial statements, the following new standard, amendment to existing standard and interpretation were issued by the IASB and endorsed by the EU, but were not yet effective:

- **IFRS 16 *Leases*** – endorsed by the EU on October 31st 2017 (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IFRS 9 *Financial Instruments: prepayment features with negative compensation*** – endorsed by the EU on March 22nd 2018 (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IAS 28 *Investments in Associates and Joint Ventures***: long-term interests in associates and joint ventures, endorsed by the EU on February 8th 2019 (effective for annual periods beginning on or after January 1st 2019).
- **IFRIC 23 *Uncertainty over Income Tax Treatments*** endorsed by the EU on October 23rd 2018 (effective for annual periods beginning on or after January 1st 2019).

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

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

There are no major differences between the IFRSs as endorsed by the EU and the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to existing standards, which were not yet endorsed by the EU as at March 27th 2019 (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 3 *Business Combinations*** – definition of a business (applying to business combinations with the acquisition date falling on the start of the first annual period beginning on or after January 1st 2020 and in respect of the acquisition of assets which took place on or after the start of that annual period).
- **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 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies*, *Changes in Accounting Estimates and Errors*** – definition of materiality (effective for annual periods beginning on or after January 1st 2020).
- **Amendments to IAS 19 *Employee Benefits***: plan amendment, curtailment or settlement (effective for annual periods beginning on or after January 1st 2019). **Amendments to various standards resulting from Annual Improvements to IFRS Standards 2015-2017 Cycle** – amendments made as part of the annual IFRS improvements project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to correct conflicts and clarify wording (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to references to the conceptual framework in IFRS Standards** (effective for annual periods beginning on or after January 1st 2020).

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

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

## 3.2. STATEMENT OF ACCOUNTING POLICIES

### 3.2.1. Reporting period and scope of disclosure

The Company's financial statements present data for the reporting period from January 1st 2018 to December 31st 2018 and contain the following comparative data:

- Statement of financial position – as at December 31st 2017,
- Statement of profit or loss and other comprehensive income – for the year ended December 31st 2017,
- Statement of changes in equity – for the year ended December 31st 2017,
- Statement of cash flows – for the year ended December 31st 2017.

### 3.2.2. Going concern

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

### 3.2.3. Recognition of revenue

Revenue from the sale of goods and the rendering of services comprises sales of goods which are produced by the Company and to which it holds exclusive rights as their producer or goods which the Company 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods or has rendered the service,
- The Company 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 Company,
- The costs incurred or to be incurred by the Company 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 Company.

The Company licenses its software (intellectual property) to game distributors.

A licence that is transferred for a prescribed period of time gives distributors access to the intellectual property in the form in which it occurs during the term of the licence. Royalties from the sale of game distribution licences are the basis

for revenue recognition. Such revenue depends on the volume of a distributor's sales to end users (players) at a given time during the reporting period. Thus, revenue from the sale of a given product is recognised in the period not earlier than after the delivery of materials enabling the actual distribution of the completed game to commence, based on sales to end users specified in reports by game distributors.

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.

The Company receives short-term advance payments from customers for future sale of games produced or published by the Company. Since 2018, the Company has disclosed these advance payments as liabilities under contracts with customers, and intends to use the simplified disclosure option provided for in IFRS 15 if the period between the moment when the customer pays for the goods or services and the moment when they are delivered does not exceed one year, and will continue not to recognise any financing component.

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

**Other income**

Other income comprises income not directly related to the Company's operating activities, including in particular:

- Past due, cancelled and unrecoverable liabilities written off,
- Penalties and fines, compensation and awards received,
- Gifts received,
- Travel-for-work grants,
- Accounting for grants against depreciation of property, plant and equipment,
- Re-invoicing.

**Finance income**

Finance income includes primarily interest on free cash deposited in bank accounts, commissions and interest on loans advanced, late payment interest, reversed provisions related to financing activities, income from sale of securities, foreign exchange gains, balance of foreign exchange differences on financing activities, reversal of impairment loss on investments, and the amount of cancelled borrowings. Interest is recognised using the effective interest rate method.

### 3.2.4. Expenses

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

### 3.2.5. 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.

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

### 3.2.6. Government grants

A government grant is not recognised until there is reasonable assurance that the Company 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 Company 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 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 Company with no future related costs are recognised in profit or loss of the period in which they become receivable.

### 3.2.7. 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 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.

### 3.2.8. Intangible assets

The Company's 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 (intangible assets with a value in excess of PLN 1,000) 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 video 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 Company'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 video games are amortised for 36 months and capitalised in the value of developed 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.

### 3.2.9. 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 Company'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 Company's Management Board has made the following useful life estimates depending on the asset category:

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

### 3.2.10. Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company 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.

### 3.2.11. Trade and other receivables

Receivables, including trade receivables, are measured at fair value at the date on which they arise, and subsequently at amortised cost using the effective interest rate method, taking into account an allowance for expected credit losses.

The Company uses simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date for payment is not long.

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.

### 3.2.12. 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.

### 3.2.13. Trade and other payables

After initial recognition, all payables are, as a rule, measured at amortised cost using the effective interest rate method, with the exception of payables measured at fair value through profit or loss. However, in the case of payables due in over 12 months as of the end of the reporting period, any indications which might affect the measurement of such payables at amortised cost (including changes in interest rates, additional cash flows etc.) are analysed. If the difference between the amount arrived at using the amortised cost method and the amount due is not found to materially affect the financial statements, payables are carried at amounts due. 'Payables' also include liabilities which have arisen after the reporting date but pertain to the reporting period.

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.

### 3.2.14. Provisions and contingent liabilities

Provisions are recognised if the Company 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 Company'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 Company does 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 financial statements.

### 3.2.15. 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.

### 3.2.16. Equity

The share capital comprises the share capital of the Company, 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 Company'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 Company's Articles of Association.

Retained earnings/(deficit) include:

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

### 3.2.17. 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.

### 3.2.18. Capital management

The overall purpose of capital management (capital meaning equity for the purposes of the financial statements) is to maintain the optimum capital structure in the long term, as well as to maintain a robust financial standing to support the Company's operations and increase shareholder value. The Company's Management Board monitors the changing economic conditions in which the Company is operating and responds by making appropriate adjustments to its capital management. In the Company's opinion, as at the end of the reporting period and in comparative periods, the debt-to-equity ratio remained at safe levels.

### 3.2.19. 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. For details on the determination of the fair value of equity-settled share-based payments, see **Note 3.31**.

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 Company's estimates regarding equity instruments to be vested. At the end of each reporting period, the Company 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.

### 3.2.20. Financial instruments

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

Financial assets and liabilities are initially measured at fair value. On initial recognition, the Company 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.

### 3.2.21. Financial assets

A financial asset is any of the following:

- Cash,
- Equity instrument of another entity,
- Contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity,
- Contract that will or may be settled by the Company in its own equity instruments and is a non-derivative for which the Company is or may be obliged to receive a variable number of its own equity instruments, or is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

The Company recognises as a financial instrument any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of the other party.

#### Initial recognition of financial instruments

Financial assets or financial liabilities are recognised in the statement of financial position when and only when the Company becomes bound by the contractual provisions of the instrument.

The Company initially recognises a financial asset at fair value, except for:

- Trade receivables, which are measured at the transaction price in accordance with IFRS 15,
- Financial assets not classified as measured at fair value through profit or loss, for which the fair value is increased or reduced by transaction costs directly attributable to the acquisition or issue of a given financial asset.

#### Classification and subsequent measurement of financial assets

After initial recognition, the Company classifies each financial asset as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss, based on:

- The Company's business model for financial asset management,

and

- The profile of contractual cash flows related to a given financial asset.

A financial asset is measured at amortised cost if the following conditions are met:

- The Company holds such financial asset within a business model providing for holding financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if the following conditions are met:

- The Company holds such financial asset within a business model providing for both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured at fair value through profit or loss.

On initial recognition, the Company may irrevocably elect that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through other comprehensive income.

After initial recognition, the Company measures a financial asset, depending on its category, at:

1. Amortised cost,
2. Fair value through other comprehensive income, or
3. Fair value through profit or loss.

**Reclassification**

The Company reclassifies all its financial assets if and only if it changes its business model for the management of financial assets (affected by such change). Such reclassification is recognised by the Company prospectively.

**Impairment of financial assets**

The Company recognises an allowance for expected credit losses on a financial asset measured at amortised cost or fair value through other comprehensive income against lease receivables, contract assets or a loan commitment and financial guarantee contract.

At each reporting date, the Company measures the allowance for expected credit losses on a financial instrument in an amount equal to the lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since its initial recognition.

If, at the reporting date, the credit risk of a financial instrument has not increased significantly since its initial recognition, the Company measures the impairment loss on that financial instrument at 12-month expected credit losses.

The Company recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversed provision) that is required to adjust the expected credit loss allowance at the reporting date to the amount recognisable in accordance with IFRS 9.

**Measurement of expected credit losses**

The Company measures expected credit losses on financial instruments so as to reflect:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- The time value of money,
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**Fair value measurement and measurement procedures**

Certain assets and liabilities are measured at fair value for financial reporting purposes. The Management Board determines appropriate measurement techniques and rules for using fair value measurement inputs.

The measurement is performed at three levels, depending on the available inputs:

- Level 1 – inputs are (unadjusted) prices quoted in active markets for identical assets or liabilities, as such prices are available at the measurement date;
- Level 2 – inputs other than quoted prices considered at Level 1 that are observable for the asset or liability, either indirectly or directly (e.g. prices of similar assets or liabilities quoted on active or inactive markets, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves observable in commonly accepted quotation ranges, assumed volatility and spreads), or inputs confirmed by the market);
- Level 3 – inputs are unobservable input data for the asset or liability (the best information available in the circumstances that may include the entity's own data).

The fair value measurement of assets or liabilities should use observable market data to the maximum extent possible. Where the Level 1 measurement is not feasible, external expert appraisers are mandated to carry out the measurement. The Management Board closely cooperates with external expert appraisers to determine appropriate measurement techniques and model input data. Information on the measurement techniques and input data used to measure the fair value of individual assets and liabilities is disclosed in the relevant notes to the financial statements.

**3.2.22. Financial liabilities**

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, pre-emptive rights, share options and warrants entitling their holders to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the pre-emptive rights, share options and warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. For this purpose the entity's own equity instruments

**Initial recognition**

On initial recognition, the Company measures a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the financial liability.

**Classification and carrying amount**

After initial recognition, the Company classifies all financial liabilities as measured at amortised cost, except for:

- Financial liabilities, including derivatives, measured at fair value through profit or loss,
- Financial liabilities that arise from a transfer of a financial asset – in the cases specified in IFRS 9,
- Financial guarantee contracts,
- Commitments to provide a loan at a below-market interest rate,
- Contingent consideration recognised in accordance with IFRS 3.

The Company may, on initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss on initial recognition or if

- doing so eliminates an accounting mismatch,
- The Company manages a group of financial liabilities or financial assets and financial liabilities, and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Other financial liabilities, primarily including trade payables, borrowings and other liabilities, are measured at amortised cost using the effective interest rate method.

Trade payables, borrowings and other liabilities are measured at amounts due if there is little difference between the amount due and the amount measured at amortised cost.

### 3.2.23. Statement of cash flows

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

### 3.2.24. Segment reporting

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

- That engage in business activities from which they may earn revenues and incur expenses,
- Whose operating results are regularly reviewed by the Company'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 Company'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.

The Company has identified the operating segment of video games production and publishing. As no discrete financial information is available for the publishing division, the latter is not identified as a separate operating and reporting segment.

## 3.3. SIGNIFICANT JUDGEMENTS AND ESTIMATES

When applying the accounting policies adopted by the Company, as described in **Note 3.2**Statement of accounting policiesis 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 Company'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 financial statements.

**Functional currency**

The Company's functional currency is the Polish złoty.

The functional currency was determined by the Company's Management Board based on its judgement concerning the currency in which the Company 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 Company's revenue from the sale of goods (video 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 Company'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 video games sold by the Company 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 video 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 Company'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 Company's functional currency as the Company incurs most of its costs, including game development costs (primarily attributable to salaries and wages), in the Polish złoty.

Moreover, the Company'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 Company 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 Company in bank accounts is denominated in PLN, USD, EUR, and CNY.

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

**Principal versus agent considerations**

IFRS 15 has introduced a new model for assessing whether an entity is acting as a principal or an agent. The Company's Management Board performed a principal/agent assessment based on an analysis of concluded sale contracts. In transactions where the Company acts as an agent, revenue recognised by the Company is the amount of the commission it receives, net of any fees paid to third parties.

### 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 Company's Management Board reviewed the recoverability of internally generated intangible assets, i.e. both completed or ongoing development work related to the development of video games.

As a result of the review, the Company's Management Board is convinced that the carrying amounts of the intangible assets will be fully recovered.

**Amortisation periods for intangible assets**

The Company reviews the expected useful lives of internally generated intangible assets at each year-end.

The amortisation period for intangible assets related to video games development and publication ranges from 12 to 36 months, in line with the standard accounting practice applied by the game development industry worldwide (as a result of the lifecycle of video games) and with the Company's experience with the sale of previously released games.

For the technology required to develop video games (game engine), the Company 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 games.

## 3.4. REVENUE (PLN)

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Revenue | 82,113,506 | 19,151,517 |

In the reporting period, almost all of the Company's revenue was derived from the sale of its own games as well as third-party games released by the Company as part of the 11 bit publishing service.The strong (over four-fold) year-on-year increase in revenue in 2018 was attributable to very good sales of *Frostpunk* and *Moonlighter*, both released in the second quarter of 2018 (April 24th and May 29th, respectively). Sales of *This War of Mine* for PCs , released on November 14th 2014, also had a strong effect on the Company's revenue. Back catalogue titles, which are video games released several years ago but still drawing customers, made a minor contribution to revenue in 2018. This product category includes the

*Anomaly* series (with the individual instalments released between 2011 and 2013) and *Beat Cop*. 11 bit studios S.A. was the publisher of the game, released in the second quarter of 2017.

Both *Frostpunk* and *Moonlighter* (the latter game is a production of the Spanish Digital Sun studio; 11 bit studios S.A. is the publisher) were well received by the market, delivered strong sales in the period around the premiere, and ranked at the top of the bestsellers list on Steam. 11 bit studios S.A. and Digital Sun plan to further develop their top productions by publishing add-ons (DLC packs), including paid ones, releasing new language versions, and porting the titles to other new hardware platforms, which is expected to drive long-term interest in the games. The first large, free add-on to *Frostpunk* were released in June and September. From November 19th fans could download *Endless Mode*, the largest *Frostpunk* DLC scheduled for release in 2018. Another free add-on incorporating Christmas themes into *Frostpunk* came out in the second half of December.

The first free DLC for *Moonlighter*, *The Binding of Will*, was released just five days after the game first launched (on June 2nd). In the following months, Digital Sun released several other expansion packs for *Moonlighter*. Such initiatives are well received by the players, and contribute to a positive image of the Company as a developer and publisher. Releases of add-ons and extensions are typically accompanied by promotional and sales campaigns organised jointly with the largest digital gaming platforms, which has a direct effect on sales volumes and thus on the results of 11 bit studios S.A.

In the case of *This War of Mine*, the Company has been successfully implementing a similar monetisation model (continuous game development and expansion) for years. Although more than four years have passed since its premiere, the title continues to have a significant share in revenue and profits of 11 bit studios S.A. The second of the paid episodes in the *TWoM: Stories - The Last Broadcast* series was released on November 14th 2018. On November 27th 2018, the game premiered on the Nintendo Switch platform. In 2019, the Company plans to launch the third paid episode in the *TWoM: Stories* series.

### 3.4.1. Revenue by geographical regions

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

Revenue from sales to third parties by geographical area and information on non-current assets by asset location are presented below:

| | Revenue from third parties | | Non-current assets | |
|---|---|---|---|---|
| | Period ended Dec 31 2018 | Period ended Dec 31 2017 | As at Dec 31 2018 | As at Dec 31 2017 |
| Poland | 2,875,258 | 568,034 | 40,668,310 | 16,150,099 |
| European Union | 7,408,148 | 2,955,768 | 648,585 | 1,023,594 |
| US | 67,784,368 | 14,243,255 | 0 | 0 |
| Japan | 3,444,566 | 0 | | |
| China | 229,253 | 1,163,980 | 0 | 0 |
| Other | 371,913 | 220,481 | 0 | 0 |
| **Total** | **82,113,506** | **19,151,517** | **41,316,895** | **17,173,693** |

### 3.4.2. Revenue by distribution channel

The Company's revenue from sales of video games, of PLN 82,113,506 (2017: PLN 19,151,517) includes PLN 74,956,156 (2017: PLN 16,806,827) in revenue from sales of the Company's products through Steam (Valve Corporation), Nintendo Co. Ltd, Microsoft Corporation, Google, Apple and Humble Bundle, the world's leading electronic distribution platforms, and revenue from Green Man and Koch Media, which also sell the Company's products.

## 3.5. OTHER INCOME AND EXPENSES (PLN)

### 3.5.1. Other income

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Grants received | 639,946 | 175,643 |
| Awards received | 0 | 60,404 |
| Impairment losses – reversal of impairment losses on receivables | 0 | 62,035 |
| Other income – rechargeable to the subsidiary Games Republic | 0 | 1,344 |
| Other income | 31,359 | 14,344 |
| **Total** | **671,305** | **313,770** |

The growth in other income, by over 113.9% to PLN 671,305 (2017: PLN 313,770) was attributable to grants received by the Company in 2018 for expansion projects, including new game development. The grants totalled PLN 639,946, compared with PLN 175,643 in the previous year.

### 3.5.2. Other expenses

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Cost of written-off expenditure on ongoing development work | 17,121 | 445,431 |
| Donations given | 650,395 | 485,823 |
| Other expenses by nature | 663,845 | 755,968 |
| **Total** | **1,331,361** | **1,687,222** |

In 2018, 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 663,845, compared with PLN 755,968 in 2017. The decrease was attributable to the Company's lower activity (compared with the entire 2017) as regards participation in trade fairs and other industry events. Other major items of other expenses in 2018 included a donation of PLN 650,395 (2017: PLN 485,823) made by the Company to the War Child foundation, which helps child victims of wars. Impairment losses on closed projects represented a small proportion of other expenses. In 2017, such impairment losses were significantly higher, at as much as PLN 445,431, recognised following a decision to close one of the publishing projects.

### 3.5.3. (Impairment)/reversal of impairment of financial instruments

| | Period ended Dec 31 2018 |
|---|---|
| Cost of written-off items brought forward | (156,034) |
| Impairment losses - reversed | 101,840 |
| **Total** | **(54,194)** |

## 3.6. Depreciation and amortisation

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **Depreciation/ amortisation charges made during the year:** | | |
| Depreciation | 384,359 | 357,115 |
| Amortisation | 4,180,154 | 1,389,236 |
| **Total** | **4,564,513** | **1,746,351** |
| Allocation to project costs | (71,510) | (32,462) |
| **Total** | **4,493,003** | **1,713,889** |

## 3.7. Services (PLN)

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Services | (16,512,347) | (5,856,106) |

The year-on-year increase in services in 2018 was attributable to strong sales of *Moonlighter* (published by 11 bit publishing and sold since May 29th 2018), and related royalties paid by the Company to the Spanish Digital Sun studio, the developer of the game. In 2018, total royalties paid to Digital Sun and in a small part to Pixel Crow, which developed *Beat Cop* (published by 11 bit studios S.A. and released in spring 2017), was PLN 10,196,581. In 2017, the Company paid PLN 919,961 in royalties.

## 3.8. Salaries, wages and employee benefits (PLN)

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Salaries, wages and employee benefits | (12,965,744) | (2,172,657) |

The increase in salaries and wages in 2018, compared with 2017, was driven by an increase in 11 bit studios S.A.'s headcount of employees. In the first half of 2018, the Company also changed the form of employment of most employees to full-time positions, which translated into an increase in social security contributions. In 2018, in view of the growing competition for labour, 11 bit studios S.A. decided to increase the average pay, which had remained flat for several previous years. Another item disclosed under salaries, wages and employee benefits are earnings-linked annual bonuses for employees. Given the Company's record-high profit for 2018, the bonus payments were markedly higher than a year

earlier. Salaries, wages and employee benefits also included non-cash provisions recognised in connection with the Company's 2017–2019 Incentive Scheme of nearly PLN 6.2m in 2018.

## 3.9. FINANCE INCOME (PLN)

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **Interest income:** | | |
| Bank deposits | 392,637 | 122,171 |
| **Finance income:** | | |
| Gains on remeasurement of financial assets | 40,748 | 53,534 |
| **Net foreign exchange gains (losses), including:** | | |
| a) Cash | 28,752 | 0 |
| b) Loans and receivables | 820,184 | 0 |
| c) Liabilities | 69,058 | 0 |
| **Total** | **1,351,379** | **175,705** |

The sharp (669.1% year-on-year) increase in 11 bit studios S.A.'s finance income in 2018 (PLN 1,351,379 as at December 31st 2018, compared with PLN 175,705 as at December 31st 2017), was attributable to an increase in the Company's cash (thanks to very strong sales of *Frostpunk*, *Moonlighter* and *This War of Mine* in 2018). Surplus cash was transferred to bank deposits, which in 2018 generated PLN 392,637 in interest income, compared with PLN 122,171 a year earlier. The Company also acquired conservative financial instruments. Upon their revaluation as at the end of 2018, the Company recorded finance income of PLN 40,748, compared with PLN 53,534 in 2017.

In 2018, a material item under 11 bit studios S.A.'s finance income was an amount of PLN 917,994 on remeasurement of monetary assets denominated in currencies other than the Polish złoty. This income was attributable to favourable changes in the international currency markets, as the Polish złoty depreciated both against the US dollar and the euro in 2018. 2017 saw a reverse trend; consequently, the Company recognised no income on remeasurement of foreign currency cash. Instead, it recognised significant finance costs, as described in **Note 3.10** below.

## 3.10. FINANCE COSTS (PLN)

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Other interest expense: | | |
| a) Interest on public charges | 2,141 | 601 |
| b) Other | 1 | 8 |
| Net foreign exchange gains (losses), including: | | |
| a) Cash | 0 | 3,156,085 |
| b) Loans and receivables | 0 | 257,159 |
| c) Liabilities measured at amortised cost | 0 | (8,169) |
| Losses on remeasurement of financial assets | 192,203 | 0 |
| **Total** | **194,345** | **3,405,684** |

Owing to the depreciation of the złoty against foreign currencies, especially in the first half of 2018, 11 bit studios S.A., unlike in 2017, disclosed no finance cost of the remeasurement of its monetary assets denominated in currencies other than Polish złoty in 2018. The key item of finance costs, which had a negative effect on the Company's performance in 2018 but was not recorded a year earlier, was the cost of PLN 192,203 related to the IRS (Interest Rate Swap) revaluation. The instrument is used to hedge the Company against interest rate risk related to its investment facility contracted with PKO BP S.A. for the purchase of new office space. 11 bit studios S.A. announced the details of the facility agreement in Current Report No. 29/2018 of December 19th 2018.

In 2017, the Company incurred finance costs of as much as PLN 3,405,684, mainly due to changes on international currency markets, beyond the Company's control. The appreciation of the Polish złoty against the euro and the US dollar recorded in 2017 had a negative effect on the value of the Company's monetary assets denominated in currencies other than the Polish złoty.

## 3.11. INCOME TAX RELATING TO CONTINUING OPERATIONS (PLN)

### 3.11.1. Income tax recognised in profit or loss

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **Current income tax:** | | |
| Attributable to current year | 10,623,919 | 379,682 |
| **Deferred income tax:** | | |
| Attributable to current year | (68,040) | 592,935 |
| **Tax expense recognised in current year on continuing operations** | **10,555,879** | **972,617** |

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 Company's fiscal and accounting year coincide with the calendar year.

**Reconciliation of the Company's tax and accounting profit**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Profit before tax from continuing operations | 48,105,776 | 4,389,957 |
| Income tax expense at 19% (2017: 19%) | 9,140,098 | 834,092 |
| Tax effect of income which is not classified as income for tax purposes | (19,350) | (11,787) |
| Tax effect of income which is classified as income for tax purposes | (10,649) | 168,506 |
| Tax effect of costs which are not deductible for tax purposes | 1,928,213 | (846,475) |
| Tax effect of costs which are deductible for tax purposes | (414,393) | 235,346 |
| **Total** | **10,623,919** | **379,682** |

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

### 3.11.2. Current tax receivable and payable

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Tax refund receivable | (2,014,760) | 550,974 |
| Income tax payable | 169,630 | (223,851) |
| **Total** | **(1,845,130)** | **327,123** |

### 3.11.3. 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 2018 | As at Dec 31 2017 |
|---|---|---|
| Deferred tax asset | 178,853 | 101,079 |
| Deferred tax liability | (20,820) | (11,086) |
| **Total** | **158,033** | **89,993** |

**Period ended Dec 31 2018**

| | 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 | 55,193 | 43,136 | 0 | 98,329 |
| Prepaid expenses | 45,886 | 34,638 | | 80,524 |
| Unrealised – interest accrued on investments | (11,086) | (9,734) | 0 | (20,820) |
| **Total deferred tax asset (liability)** | **89,993** | **68,040** | **0** | **158,033** |

**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 | 109,183 | (53,990) | 0 | 55,193 |
| Prepaid expenses | 64,319 | (18,433) | 0 | 45,886 |
| 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** |

## 3.12. EARNINGS PER SHARE (PLN)

### 3.12.1. Basic earnings per share

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **Basic earnings per share:** | | |
| From continuing operations | 16.42 | 1.52 |
| **Total basic earnings per share** | **16.42** | **1.52** |
| **Diluted earnings per share:** | | |
| From continuing operations | 15.53 | 1.47 |
| **Total diluted earnings per share:** | **15.53** | **1.47** |

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

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Profit for the financial year attributable to shareholders | 37,549,897 | 3,417,340 |
| Total profit used to calculate basic earnings per share | 37,549,897 | 3,417,340 |
| **Profit used to calculate basic earnings per share from continuing operations** | **37,549,897** | **3,417,340** |

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Weighted average number of ordinary shares used to calculate earnings per share | 2,287,199 | 2,254,214 |

### 3.12.2. Diluted earnings per share

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Profit for the financial year attributable to shareholders | 37,549,897 | 3,417,340 |
| Total profit used to calculate diluted earnings per share | 37,549,897 | 3,417,340 |
| **Profit used to calculate diluted earnings per share from continuing operations** | **37,549,897** | **3,417,340** |

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

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Weighted average number of ordinary shares used to calculate basic earnings per share | 2,287,199 | 2,254,214 |
| **Shares assumed to be issued:** | | |
| Employee stock options | 130,000 | 130,000 |
| **Weighted average number of ordinary shares used to calculate diluted earnings per share** | **2,417,199** | **2 327,940** |

## 3.13. PROPERTY, PLANT AND EQUIPMENT (PLN)

**Carrying amount:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Leasehold improvements | 316,654 | 300,264 |
| Buildings and structures | 18,102,269 | 0 |
| Plant and equipment | 71,336 | 149,971 |
| Vehicles | 226,800 | 338,541 |
| Other property, plant and equipment | 17,005 | 25,556 |
| **Total** | **18,734,064** | **814,332** |

**Gross carrying amount**

| | Leasehold improvements | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|---|---|
| **As at Jan 1 2018** | **326,849** | **0** | **576,200** | **558,705** | **262,161** | **1,723,915** |
| Increase | 56,434 | 18,102,269 | 145,387 | 0 | 0 | 18,304,091 |
| Decrease | 0 | 0 | 3,007 | 0 | 0 | 3,007 |
| **As at Dec 31 2018** | 383,283 | **18,102,269** | **718,580** | **558,705** | **262,161** | **20,024,999** |

**Accumulated depreciation and impairment:**

| | Leasehold improvements | Buildings and structures | Plant and equipment | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|---|---|
| **As at Jan 1 2018** | **26,585** | **0** | **426,229** | **220,164** | **236,605** | **909,583** |
| Depreciation expense | 40,044 | 0 | 224,023 | 111,741 | 8,551 | 384,359 |
| Decrease | 0 | 0 | 3,007 | 0 | 0 | 3,007 |
| **As at Dec 31 2018** | **66,629** | **0** | **647,245** | **331,905** | **245,156** | **1,290,935** |

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

**Gross carrying amount**

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

**Accumulated depreciation and impairment:**

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

## 3.14. INTANGIBLE ASSETS (PLN)

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

Useful lives of intangible assets used to calculate amortisation:

**Completed development work**

Completed game engine development work as at December 31st 2018 included the capitalised cost of the fourth work phase with a remaining weighted average amortisation period of 28 months.

As at December 31st 2018, the completed video games development work comprised games with the remaining weighted average amortisation period of 22 months.

**Ongoing development work**

As at December 31st 2018, expenditures on ongoing development work mainly included development of video games (including *Projekt 8*) and the game engine (phase five).

**Testing ongoing development work for impairment:**

As at each reporting date, the Company tests ongoing development work for impairment. As a result of a test performed in the year ended December 31st 2018, expenditures on discontinued development work of PLN 17,121 were written off under other expenses. In the corresponding period of the previous year, the Company wrote off ongoing development work of PLN 445,431 (expenditure on the design of a game the development of which was discontinued under the Management Board's resolution).

**Carrying amount:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Completed development work (game engine) | 1,399,543 | 0 |
| Completed development work (games) | 10,624,149 | 1,471,052 |
| Ongoing development work | 5,112,644 | 11,457,660 |
| Licences | 1,675 | 138,786 |
| **Total** | **17,138,011** | **13,067,498** |

**Gross carrying amount**

| | Completed development work (game engine) | Completed development work (games) | Licences | Ongoing development work | Total |
|---|---|---|---|---|---|
| **As at Jan 1 2018** | **918,342** | **11,677,125** | **485,631** | **11,457,660** | **24,538,758** |
| Increase | 0 | 0 | 19,920 | 8,247,868 | 8,267,788 |
| Reclassification of completed development work | 1,799,360 | 12,776,403 | 0 | (14,575,763) | 0 |
| Decrease | 0 | 0 | 0 | 0 | 0 |
| Discontinued work written off | 0 | 0 | 0 | (17,121) | (17,121) |
| **As at Dec 31 2018** | **2,717,702** | **24,453,528** | **505,551** | **5,112,644** | **32,789,425** |

**Accumulated amortisation and impairment:**

| | Completed development work (game engine) | Completed development work (games) | Licences | Ongoing development work | Total |
|---|---|---|---|---|---|
| **As at Jan 1 2018** | **918,342** | **10,206,073** | **346,846** | **0** | **11,471,260** |
| Amortisation charges | 399,818 | 3,623,306 | 157,030 | 0 | 4,180,154 |
| Decrease | 0 | 0 | 0 | 0 | 0 |
| **As at Dec 31 2018** | **1,318,159** | **13,829,380** | **503,875** | **0** | **15,651,414** |

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

**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 | 135,838 | (1,579,943) | **0** |
| Decrease | 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 | 94,991 | 1,143,913 | 150,333 | 0 | 1,389,236 |
| Decrease | 0 | 0 | 0 | 0 | 0 |
| **As at Dec 31 2017** | **918,342** | **10,206,073** | **346,846** | **0** | **11,471,260** |

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.

## 3.15. TRADE AND OTHER RECEIVABLES (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| **Trade and other receivables, including:** | **14,609,432** | **2,837,706** |
| Taxes, grants, customs duties and social security | 4,705,311 | 110,800 |
| Other | 59,882 | 106,257 |
| **Impairment loss on trade receivables** | **0** | **(158,638)** |
| **Expected credit loss allowance** | **(56,807)** | **0** |
| **Total** | **14,552,625** | **2,679,070** |

The increase in taxes, customs duties and social security receivable in 2018, compared with 2017, was attributable to the Company's acquisition (for PLN 18,000,000 plus VAT of PLN 4,140,000) of the property for new office space on December 19th 2018. As at the date of issue of these financial statements, the Company did not receive any refund of VAT paid in connection with the transaction.

**Change in expected credit loss allowance**

| | **2018** |
|---|---|
| **Jan 1 2018** | **158,638** |
| Reversal | (101,831) |
| **Dec 31 2018** | **56,807** |

The decrease in the allowance for expected credit losses at the end of 2018 relative to the end of 2017 resulted from the final cancellation of trade receivables from several trading partners. As at the end of 2018, the amount of the loss included receivables under court proceedings (a security deposit related to the lease of office space at ul. Modlińska 6 in Warsaw).

### 3.15.1. Trade receivables

The average collection period for trade receivables is 14 days. The Company recognised impairment losses for the full amount of receivables that are over 90 past due as past experience shows that such receivables are virtually unrecoverable.

The balances disclosed as at December 31st 2018 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

**Receivables by customer:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Valve Corporation | 4,302,492 | 920,645 |
| Apple Inc | 94,586 | 378,803 |
| Nintendo Co. Ltd | 2,655,414 | 0 |
| Yiwan (Shanghai) Network Technology Co., Ltd. | 32,696 | 133,913 |
| WILDFRAME MEDIA S.L. | 0 | 229,399 |

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 2018 | As at Dec 31 2017 |
|---|---|---|
| 60-90 days | 3,435 | 24,716 |
| 91-120 days | 35,416 | 0 |
| 121-360 days | 32,327 | 0 |
| over 360 days | 9,200 | 6,317 |
| **Total** | **80,378** | **31,033** |

**Changes in impairment losses on receivables:**

| | **2017** |
|---|---|
| **Jan 1 2017** | **220,673** |
| Reversal | (62,034) |
| **Dec 31 2017** | **158,638** |

Impairment losses on doubtful receivables included impaired trade receivables (totalling PLN 158,638 as at December 31st 2017). 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 2018 | As at Dec 31 2017 |
|---|---|---|
| 60-90 days | 0 | 0 |
| 91-120 days | 0 | 0 |
| 121-360 days | 0 | 0 |
| over 360 days | 56,807 | 158,638 |
| **Total** | **56,807** | **158,638** |

## 3.16. Non-current financial assets (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Investment fund units (PKO BP Płynnościowy SFIO) | 5,094,282 | 3,053,534 |
| **Total** | **5,094,282** | **3,053,534** |

## 3.17. Current financial assets (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Bank deposits with maturity over 3 months | 27,000,000 | 0 |
| **Total** | **27,000,000** | **0** |

## 3.18. Other current assets (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Insurance | 25,692 | 25,368 |
| Domain names, licences, subscriptions | 122,727 | 14,412 |
| Prepaid expenses | 146,213 | 250,819 |
| Guarantees | 2,860 | 0 |
| Other | 0 | 3,000 |
| **Total** | **297,492** | **293,599** |

## 3.19. Other assets (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Long-term security deposits | 171,729 | 145,116 |
| Long-term prepayments and accrued income | 20,774 | 3,220 |
| **Total** | **192,503** | **148,336** |

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

## 3.20. Cash and cash equivalents (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Cash in hand and at banks | 16,250,681 | 13,076,622 |
| Bank deposits | 0 | 12,099,710 |
| PKO BP Bank Hipoteczny bonds | 8,000,000 | 3,000,000 |
| **Total** | **24,250,681** | **28,176,332** |

Cash at banks and bank deposits as at December 31st 2018, by currency:

- PLN 15,741,025,
- USD 1,210,231 (PLN 4,550,443),
- EUR 916,822 (PLN 3,942,335),
- CNY 30,793 (PLN 16,878).

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

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

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

## 3.21. Share capital (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Share capital | 228,720 | 228,720 |
| **Total** | **228,720** | **228,720** |

As at December 31st 2018, the Company's share capital consisted of 2,287,199 fully paid-up ordinary shares totalling PLN 228,719.90.

### 3.21.1. Ordinary shares fully paid

| | Number of shares | Share capital | Share premium |
|---|---|---|---|
| **As at Dec 31 2017** | **2,287,199** | **228,720** | **4,870,274** |
| Increase/decrease | 0 | 0 | 0 |
| **As at Dec 31 2018** | **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.

### 3.21.2. Retained earnings

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| **Retained earnings** | **37,341,812** | **3,209,255** |

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **As at beginning of reporting period** | **3,209,255** | **11,673,160** |
| Net profit attributable to owners of the Company | 37,549,897 | 3,417,340 |
| Profit allocated to statutory reserve funds | (3,417,340) | (11,881,245) |
| **As at end of reporting period** | **37,341,812** | **3,209,255** |

## 3.22. Information on dividend paid or declared

The Company paid no dividends in 2018 or 2017.

By Resolution No. 07/05/2018 of the Annual General Meeting of 11 bit studios S.A., dated May 24th 2018, the net profit for 2017 of PLN 3,417,340 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 2018 (2017: PLN 76,240).

## 3.23. Recommendation on allocation of 2018 profit

As at the date of issue of these 2018 financial statements, no resolution was passed by the Management Board regarding its recommendation on the allocation of 2018 profit.

## 3.24. Liabilities under contracts with customers

As at December 31st 2018, liabilities under contracts with customers comprised an advance payment of PLN 557,145 received by the Company from one of its partners towards future sales of one of the Company's products (games).

## 3.25. Borrowings

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000.00 investment facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. It bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged by the Company using an Interest Rate Swap. The facility bears interest at 3.4%. Repayment of the facility is secured by a blank promissory note issued by the Company, together with a promissory note declaration, a contractual mortgage of up to PLN 20,223,000.00 established over the perpetual usufruct of the property and the ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP. As at December 31st 2018, the non-current portion of the facility was PLN 11,340,000, while its current portion was PLN 1,452,203.

## 3.26. Trade and other payables (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Trade payables | 187,089 | 551,919 |
| Taxes, customs duties, insurance and other dues | 776,173 | 98,851 |
| Accruals and deferred income | 4,154,023 | 546,284 |
| Amounts payable to employees | 5,236 | 799 |
| **Total** | **5,122,519** | **1,197,853** |

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

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

| | Accrued bonuses for management and employees | Accrued salaries and wages | Other | Total |
|---|---|---|---|---|
| **As at Jan 1 2018** | **100,000** | **159,106** | **287,178** | **546,284** |
| **Increase:** | **2,037,071** | **1,114,765** | **11,218,319** | **14,370,155** |
| Recognition | 2,037,071 | 1,114,765 | 11,218,319 | 14,370,155 |
| **Decrease:** | **1,895,558** | **1,108,030** | **7,758,828** | **10,762,416** |
| Use | 1,895,558 | 1,108,030 | 7,758,828 | 10762416 |
| Reversal | 0 | 0 | 0 | 0 |
| **As at Dec 31 2018** | **241,513** | **165,841** | **3,746,669** | **4,154,023** |

The line item "Other" mainly comprises royalties from the sale of games payable to game developers to whom 11 bit studios S.A. provides publishing services.

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

| | Accrued bonuses for management and employees | Accrued salaries and wages | Other | Total |
|---|---|---|---|---|
| **As at Jan 1 2017** | **762,703** | **51,270** | **68,753** | **882,726** |
| **Increase:** | **655,853** | **212,179** | **674,289** | **1,542,321** |
| Recognition | 655,853 | 212,179 | 674,289 | 1,542,321 |
| **Decrease:** | **1,318,556** | **104,344** | **455,863** | **1,878,763** |
| Use | 824,504 | 104,344 | 417,771 | 1,346,619 |
| Reversal | 509,958 | 0 | 22,187 | 532,145 |
| Reclassification | (15,906) | 0 | 15,906 | 0 |
| **As at Dec 31 2017** | **100,000** | **159,106** | **287,178** | **546,284** |

## 3.28. RETIREMENT BENEFIT PLANS

The employees of the Company are covered by the state pension benefit scheme implemented by the government in Poland through the Social Insurance Institution (ZUS). The Company 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 Company's sole duty is to pay the required contributions.

## 3.29. FINANCIAL INSTRUMENTS (PLN)

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

### 3.29.1. Financial assets and liabilities

**Financial assets:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Financial assets measured at amortised cost – cash | 24,250,681 | 28,176,332 |
| Financial assets at fair value through profit or loss – investment fund units | 5,094,282 | 3,053,534 |
| Financial assets measured at amortised cost – bank deposits over 3 months | 27,000,000 | 0 |
| Financial assets measured at amortised cost – trade and other receivables | 14,552,625 | 2,679,070 |
| **Total** | **70,897,588** | **33,908,936** |

**Financial liabilities:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Liabilities measured at amortised cost – trade and other payables | 5,122,519 | 1,197,853 |
| **Total** | **5,122,519** | **1,197,853** |

**Ageing analysis of trade and other payables**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Current | 5,116,894 | 1,181,574 |
| 0-60 days | 5,625 | |
| 60-90 days | 0 | 0 |
| 91-120 days | 0 | 0 |
| 121-360 days | 0 | 0 |
| over 360 days | 0 | 16,279 |
| **Total** | **5,122,519** | **1,197,853** |

### 3.29.2. Objectives of financial risk management

The Management Board of the Company coordinates access to domestic and foreign financial markets, monitors and manages financial risks associated with the Company'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.

### 3.29.3. Credit risk

The investment facility with PKO BP, 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 Company's management on the basis of past experience and the assessment of current economic conditions.

The repayment date of the investment facility with PKO BP, on which 11 bit studios S.A. reported in Current Report No. 29/2018 of December 19th 2018 (taken out to purchase the property located at ul. Brzeska 2 in Warsaw), is December 11th 2028. The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged by the Company using an Interest Rate Swap. The facility bears interest at a fixed rate of 3.4%.

At present, the Company does not insure its trade receivables. The Company'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 3.15.**

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at December 31st 2018, the Company held cash with two institutions: PayPal (PLN 210,825) and the PKO BP Group (the balance).

### 3.29.4. Currency risk management

The Company's business involves exposure to currency risk. 11 bit studios S.A.'s revenue is primarily denominated in foreign currencies (mainly in USD). Accordingly, depreciation of the złoty has a positive impact on the Company's revenue, whereas its strengthening has a negative impact.

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

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

**Assets:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| **USD-denominated, including:** | **9,743,489** | **10,867,026** |
| Cash | 4,550,443 | 9,185,158 |
| Receivables | 5,193,046 | 1,681,868 |
| **EUR-denominated, including:** | **7,019,657** | **1,500,270** |
| Cash | 3,942,335 | 1,052,307 |
| Receivables | 3,077,322 | 447,963 |

**Liabilities:**

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| USD-denominated | 21,980 | 27,805 |
| EUR-denominated | 20,270 | 118,198 |

### 3.29.5. 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 Company's sensitivity to a 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 Company's receivables and payables denominated in currencies other than the Company's functional currency. A positive figure in the table below indicates an increase in profit 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 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Net profit* | 787,442 | 877,977 |

**EUR impact:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Net profit* | 566,950 | 111,948 |

* 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.

### 3.29.6. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Management Board, which has put in place an appropriate system for managing short-, medium- and long-term financing and liquidity management requirements. The Company 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.

### 3.29.7. 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 Company's Management Board, the carrying amounts of trade receivables and payables and cash in these financial statements approximate their fair values.

### 3.29.8. 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 2018 | As at Dec 31 2017 | Fair value hierarchy |
|---|---|---|---|
| Bonds | 8,000,000 | 3,000,000 | Level 2 |
| Investment fund units | 5,094,282 | 3,053,534 | Level 1 |

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

## 3.30. DEFERRED INCOME (PLN)

| | As at Dec 31 2018 | As at Dec 31 2017 |
|---|---|---|
| Government grants (a) | 864,298 | 1,068,979 |
| Other (b) | 15,083 | 160,189 |
| **Total** | **879,381** | **1,229,168** |
| Short-term | 201,827 | 466,396 |
| Long-term | 677,554 | 762,772 |
| **Total** | **879,381** | **1,229,168** |

(a) The amount represent the total of:

- Government grant (EU funding) received in 2014 under the INNOTECH programme. Income from the grant was partly accounted for against property, plant and equipment depreciation recognised in 2014–2015 and is accounted for against depreciation charges which were recognised in 2014–2018 and will continue to be recognised in the following year. As at December 31st 2018, the balance left to be accounted for was PLN 6,753 (December 31st 2017: PLN 91,439).
- Government grant (EU funding) received in 2014 under the MEDIA programme for the development of proprietary technology. The income began to be recognised in 2018. As at December 31st 2018, the balance to be accounted for was PLN 419,979 (December 31st 2017: PLN 539,973).
- Government grant (EU funding) received in 2017 under the Creative Media programme for the development of *Projekt 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 437,566).

(b) The amount disclosed as at December 31st 2017 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. The codes for the games were handed over to the partners in 2018.

## 3.31. SHARE-BASED PAYMENTS (PLN)

### 3.31.1. Employee stock option plan for 2017-2019

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

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

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

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

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

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

According to the parameters of the Scheme, as at December 31st 2018 the number of warrants available under the Scheme and the estimated number of warrants that may be subscribed for were as follows:

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

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

### 3.31.2. Recognition of the Incentive Scheme as at the reporting date

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

| | |
|---|---|
| Grant date (date of signing the participation agreements) | Mar 30 2018 |
| Vesting date | until Jun 30 2020 |
| Price 11 but studios S.A. shares on the grant date (PLN) | 209.00 |
| Volatility of 11 bit studios S.A. share price per annum (%) | 57.93% |
| Risk-free rate (%) | 2.354% |
| Number of warrants in the Incentive Scheme | 130,000 |
| Valuation of warrants (PLN) | 140.81 |
| Cost of the Scheme as at December 31st 2018 | 6,138,880 |
| Cost of the Scheme as at December 31st 2017 | 0 |
| Profit and loss account – employee benefits expense (PLN) in 2018 | 6,138,880 |
| Profit and loss account – employee benefits expense (PLN) in 2017 | 0 |

## 3.32. RELATED-PARTY TRANSACTIONS (PLN)

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

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

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

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

In addition, the Company'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.

### 3.32.1. Trade transactions

Apart from the services provided by the Members of the Company's Management Board and Supervisory Board discussed in **Note3.32.4**, the Company entered into the following related-party transactions in 2018 and 2017:

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Paweł Miechowski | 190,142 | 114,248 |
| Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek | 79,562 | 46,407 |
| **Total** | **269,704** | **160,655** |

### 3.32.2. Loans advanced to related parties

The Company did not advance any loans to related parties in 2018 or 2017.

### 3.32.3. Borrowings from related parties

The Company did not receive any loans from related parties in 2018 or 2017.

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

The key management personnel are the Management Board Members and other key managers of the Company. In the financial year and the comparative period, the Members of the Company'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 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Grzegorz Miechowski | 1,026,753 | 281,818 |
| Bartosz Brzostek (Member of the Management Board until May 9th 2018) | 178,654 | 281,104 |
| Michał Drozdowski | 1,025,800 | 81,129 |
| Przemysław Marszał | 1,015,992 | 73,000 |
| **Total** | **3,247,199** | **717,051** |

**Short-term benefits – Supervisory Board:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Piotr Sulima | 54,000 | 15,000 |
| Jacek Czykiel | 36,000 | 10,000 |
| Radosław Marter | 19,800 | 5,000 |
| Agnieszka Maria Kruz | 19,800 | 5,000 |
| Wojciech Ozimek | 19,800 | 5,000 |
| **Total** | **149,400** | **40,000** |

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

Pursuant to the Supervisory Board's Resolution No. 3/2018 of March 8th 2018, the Management Board Members are entitled to receive a bonus in respect of profit earned by the Company for a period. Such bonus is calculated for a period from the fourth quarter of the previous year (inclusive) to the third quarter of the current year (inclusive), with the proviso that the 2018 bonus was calculated for the period from the first quarter of 2018 (inclusive) to the third quarter of 2018 (inclusive). Such bonus is equally divided among all Management Board Members. For 2018, the Management Board received a total bonus of PLN 1,711,086, which was paid before the date of authorisation of this report.

The bonus was divided as follows:

Grzegorz Miechowski – PLN 570,362;
Bartosz Brzostek (Member of the Management Board until May 9th 2018) – PLN 0;
Przemysław Marszał – PLN 570,362;
Michał Drozdowski – PLN 570,362.

The Members of the Management Board did not receive any other remuneration for 2018 in the form of profit distributions or stock options. However, they participate in the Incentive Scheme, described in detail (together with its valuation) in **Note 3.31**.

In addition, Members of the Management Board received the following consideration for services under civil-law contracts:

**Short-term benefits – Management Board:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Grzegorz Miechowski | 35,000 | 0 |
| Bartosz Brzostek (Member of the Management Board until May 9th 2018) | 0 | 0 |
| Michał Drozdowski | 35,000 | 180,000 |
| Przemysław Marszał | 35,000 | 180,000 |
| **Total** | **105,000** | **360,000** |

### 3.32.5. Other transactions with related parties

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

## 3.33. OFF-BALANCE-SHEET CAPITAL COMMITMENTS

As at the date of issue of the 2018 Annual Report, the Company had off-balance-sheet capital commitments of EUR 801,750 and PLN 110,930. The commitments are related to publishing agreements executed by the Company with third-party development studios.

## 3.34. Contingent assets and liabilities

### 3.34.1. Contingent liabilities

During the financial year, 11 bit studios S.A. occupied office space for business purposes at ul. Bertolta Brechta 7, Warsaw, under a lease contract of May 25th 2016. The lease costs recognised in profit or loss for 2018 were PLN 353,258 (2017: PLN 301,711).

Irrevocable future payments (due within one year) for the lease of the office space at ul. Bertolta Brechta 7, Warsaw, were PLN 176,629, compared with PLN 452,556 the year before.

Promissory note declaration (blank promissory note) in favour of the Polish Agency for Enterprise Development (PARP) as security for the proper performance of obligations under co-funding agreement No. POIR.03.03.03-14-0104/16-00.

Promissory note declaration (blank promissory note) in favour of the Small and Medium-Sized Enterprises Foundation/Polish Agency for Enterprise Development as security for the proper performance of obligations under co-funding agreement No. UDA-POIG.08.02.00-14-153/13-00/.

Promissory note declaration (blank promissory note) in favour of Powszechna Kasa Oszczędności Bank Polski S.A. as security for repayment of all of the Company's liabilities under the investment facility agreement for the purchase of the developed property located at ul. Brzeska 2 in Warsaw.

## 3.35. Notes to the statement of cash flows (PLN)

Reconciliation of 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 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Change in deferred income in the statement of financial position | 207,359 | (420,522) |
| Effect of grants recognised in other cash provided by financing activities | 0 | 437,567 |
| **Total** | 207,359 | 17,044 |

**Change in other cash provided by financing activities:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Effect of grants | 0 | 437,567 |
| Other cash provided by financing activities | 0 | 0 |
| **Total** | **0** | **437,567** |

**The line item "Other adjustments" in the statement of cash flows comprises the following:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Amortisation/depreciation charges allocated to project costs | 71,510 | 32,462 |
| Settlement of withholding tax for 2017 and previous years | 103,921 | 0 |
| Measurement of long-term financial assets | (40,748) | 0 |
| Measurement of share-based payments – Incentive Scheme | 6,138,880 | 0 |
| Other adjustments | 192,203 | 0 |
| **Total** | **6,465,766** | **32,462** |

## 3.36. Seasonal and cyclical changes in the Company's business during the reporting period

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

## 3.37. Factors and events, especially of a non-recurring nature, with a bearing on the financial results

In the financial year, there were no factors or events of a non-recurring nature that would have had an impact on the Company's financial results for 2018.

## 3.38. Events subsequent to the reporting date

No events occurred which would have had an impact on the financial statements of 11 bit studios S.A. by the date of their authorisation for issue by the Company's Management Board on March 27th 2019.

## 3.39. AUTHORISATION OF FINANCIAL STATEMENTS

The Company's financial statements were authorised for issue by the Management Board on March 27th 2019.

Signed by:

| | | |
|---|---|---|
| *Grzegorz Miechowski* | *Przemysław Marszał* | *Michał Drozdowski* |
| *President of the Management Board* | *Member of the Management Board* | *Member of the Management Board* |

Warsaw, March 27th 2019

# DIRECTORS' REPORT ON THE OPERATIONS OF 11 BIT STUDIOS S.A.

# 4. OVERVIEW

## 4.1. COMPANY'S KEY ACHIEVEMENTS IN 2018

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

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

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

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

### 4.1.1. Game development

In the first few months of 2018, 11 bit studios S.A. focused its game development activities on the production of *Frostpunk*, which included preparation of various language versions of the product (including a Chinese one) and its testing, both internal and external. The premiere of the game – which in line with expectations became another milestone in the Company's development – took place on April 24th (for PCs). The title was published in seven language versions (as at the date of this report, the game is already sold in 12 languages) and is available both in digital form and as an expanded boxed set (Victorian Edition). *Frostpunk*'s budget finally closed at ca. PLN 12m, of which ca. PLN 10m was spent on the game's development. The remaining part of the budget comprised marketing expenses (trailers and advertising films, trade fairs and events, promotional materials, etc.). In the final stages, as many as 50-55 developers (including several external specialists) were involved in the production of *Frostpunk*, most of our employees and associates having participated in the process.


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

The launch, preceded by a very effective and efficient promotional and marketing campaign, turned out to be a huge success, the biggest in the history of 11 bit studios S.A. *Frostpunk* quickly climbed to the top of bestseller lists of the world's most important digital gaming platforms, including Steam, Humble Bundle and GOG.com, and stayed there for some time. Within 66 hours of the premiere, fans purchased more than 250 thousand copies of *Frostpunk*, and the Company more than recouped all the production costs. The release was accompanied by a rash of very positive reviews in the industry and general media. Within a short period of time, hundreds of articles in the press and electronic media were published about the latest production of 11 bit studios S.A. The high quality and playability of the game was confirmed by high scores from the industry media and users. According to Metacritic, in the period around the premiere the average score in the former group was as high as 85/100 points, and in the latter – 8.7/10 points. This means that *Frostpunk* was one of the best games launched on the market in 2018, as further evidenced by numerous awards and

distinctions for this latest production of 11 bit studios S.A. As at the date of this report, *Frostpunk* received more than 80 awards and distinctions, some of them from leading international industry media such as PC Gamer, GameStar and RockPaperShotgun. The list is constantly growing, with the most important awards shown in the graphic.


In the following months of 2018, the Company took a number of steps to maintain the interest in, and the monetisation of, *Frostpunk*. As mentioned above, two other language versions were added: Portuguese (Brazilian) and Turkish. In the first weeks of 2019, the game was put out in Japanese, Korean and Italian, with more language versions soon to follow. The Company also continued to work on the development and expansion of the game, responding to feedback from the community. The first large, free mode (extension), *Survivor Mode*, was released on June 19th 2018. The launch of *Survivor Mode* was combined with a promotional sales campaign on Steam, which resulted in a clear increase in sales of *Frostpunk* in the period. The *Fall of Winterhome*, a much larger expansion (scenario), premiered on September 19th 2018. It was very well received by the market. Following the launch of the add-ons, the game created by 11 bit studios S.A. again topped the list of bestsellers on Steam. An even bigger addition, the *Endless Mode*, which significantly expands and opens the game world, was made available to the gaming community on November 19th 2018. It was equally well received as the previous add-ons and clearly boosted sales of the title (which again ranked among the three bestselling games on Steam), especially that in parallel with its launch 11 bit studios S.A. also significantly intensified its promotional sales efforts with respect to *Frostpunk*. The most important campaign was the "Publisher Sale" on Steam. During the sale, all games marketed by 11 bit studios S.A., including third-party titles with respect to which the Company acts as the publisher, were offered at discounted prices for a period of several days (with marketing support from Steam). The Company also participated in the "Halloween Sale," "Independence Sale" and "Holiday Sale" on Steam, as well as in similar initiatives on other platforms.

In 2018, the Company also continued its work (started a year earlier) on the production of a game under the working title of *Project 8*. The title is being developed by another team, which the Company has been building for several quarters. The team working on *Project 8* currently consists of about 20 people and is due to be strongly expanded. The recruitment process has already started. According to current assumptions, the *Project 8* team should ultimately be comparable in size to the team which produced *Frostpunk* (50-55 people), and the game's budget should be about PLN 20m. The game will be released simultaneously in versions for PCs, PS4 and Xbox One.

Parallel to the production of *Frostpunk* and *Project 8*, in 2018 the Company also worked on further development of *This War of Mine* to maintain the interest in the title among players and to further monetise the product. One of the successful *TWoM* sales enhancement projects included the release (on November 14th 2018) of the second of three planned *TWoM: Stories* paid expansion packs (the first supplement of the series was released on November 14th 2017, on the third anniversary of the *TWoM* premiere). *The Last Broadcast* add-on was very well received by the gaming community and much sought after by buyers. The third and last of the *TWoM: Stories* expansion packs will be available on the market within a few months. Another example of activities to maintain the monetisation of *TWoM* was its premiere for the Nintendo Switch console. The Nintendo Switch edition, including all the add-ons which have been or will be published, was released on November 27th.

### 4.1.2. Publishing division

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

The premiere of *Moonlighter* has been the 11 bit publishing division's most successful release so far. An effective promotional and marketing campaign (for several quarters before its premiere the Spanish game was presented at all

high-profile events of the global gaming industry) made *Moonlighter* climb to the top position among the bestselling titles on Steam. In the following weeks of 2018, the title continued to be very popular with fans all over the world, which translated into solid sales (in volume terms) and a strong revenue stream. 11 bit studios S.A., together with the developer, has planned a number of activities to further develop *Moonlighter* in order to sustain its sales and maximise the life cycle of the game. For example, in addition to issuing extensions and add-ons, the title can be transferred to the Nintendo Switch console. The porting of the game was done by its developer, i.e. Digital Sun. The Nintendo version of the game had its premiere on November 5th and has turned out a great commercial success. The title was listed in top spots of bestseller rankings in the world's major gaming markets, including the US. In the following weeks, including after the end of the reporting period, sales of *Moonlighter*, particularly in its Nintendo Switch version, remained highly satisfying. 11 bit studios S.A. expects that, on the back of activities undertaken jointly with the game's developer, which is working on further (including paid) add-ons to *Moonlighter* and is also preparing its launch for mobile devices (with the iOS and Android operating systems), revenue from sale of this title will remain a significant contributor to the Company's results in 2019.


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


*Children of Morta* has sparked significant interest among the trade media and players, which bodes well for the commercial potential of the title. 11 bit studios S.A. has very actively promoted the game at the most important international fairs. Only in the first half of 2018 *Children of Morta* was presented at such events as PAX South in San Antonio (February), the Game Developers Conference 2018 in San Francisco (March), and E3 in Los Angeles (June). At the second of these events, *Children of Morta* was featured in a small group of titles presented at the ID@Xbox conference, where the most interesting productions for Xbox One consoles created by smaller, independent development studios are shown.

In addition to the release of *Moonlighter* and preparations for the premiere of *Children of Morta*, in 2018 the 11 bit publishing team actively supported the sale of *Beat Cop* (released in March 2017) and *Tower 57* (November 2017). For instance, the Company decided to release *Beat Cop* in versions dedicated to Nintendo Switch, PS4 and Xbox One. The premiere of the game's versions for these platforms took place on March 5th 2019.

In 2018, the 11 bit publishing management team also took active steps to expand the publishing portfolio. The Company participated in all major industry events around the world in search for interesting projects and to establish contacts with independent development studios. These efforts have already translated into publishing contracts, which the Company will announce to the market in due course.

### 4.1.3. Other developments

2018 was a year full of important developments, which built and consolidated the image of 11 bit studios S.A. as a developer and publisher providing gamers with highest-quality entertainment. The Company also received numerous awards and distinctions for its products. For more information, see **Note 4.1.1**.

On the other hand, the Company was awarded a number of distinctions for its business achievements. In April 2018, it came up third in the third edition of the Business Sharks competition organised by Investorzy.tv.

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

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

On June 19th 2018, 11 bit studios S.A. received a notification from NN Investment Partners TFI of an increase in TFI's holding of Company shares and of TFI exceeding 5% of total voting rights in the Company. Following transactions executed

on June 15th 2018, the funds managed by NN Investment Partners TFI S.A. held 119,229 shares in 11 bit studios S.A., representing 5.21% of the Company's share capital and conferring the same percentage of voting rights.

On June 22nd 2018, 11 bit studios S.A. received a notification from Grzegorz Miechowski, President of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Grzegorz Miechowski sold 2,000 shares of 11 bit studios S.A. for PLN 445 per share. Following the transaction, Grzegorz Miechowski holds 160,696 Company shares representing 7.03% of the share capital. On the same day, the Company received a similar notification from Przemysław Marszał, Member of the Management Board, who, having sold (on June 22nd) 4,000 shares of 11 bit studios S.A., at PLN 445 per share, reduced his holding to 118,000 shares, representing 5.16% of the share capital. On June 22nd 2018, Michał Drozdowski, Member of the Management Board, sold 4,000 shares of 11 bit studios S.A. for PLN 445 per share. Following the transaction, Michał Drozdowski holds 89,630 Company shares representing 3.92% of the share capital.

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

The growing interest in the stock also translated into numerous new recommendations and increased research coverage of 11 bit studios S.A. Throughout 2018, analysts produced as many as 16 equity research reports on 11 bit studios S.A., compared with seven in the year before. As many as 12 of them included 'buy' recommendations.

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

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

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

On October 5th 2018, the Company received a notification from Mr Bartosz Brzostek to the effect that his holding of Company shares had been reduced and the percentage of voting rights held by him at the Company's General Meeting had fallen below the threshold of 5%. After the transactions executed on October 5th, Mr Brzostek held 113,539 Company shares, representing 4.96% of the Company's share capital.

On October 15th 2018, the Company announced that it had signed an agreement with Guangzhou NetEase Computer System Co., Ltd. ("NetEase") concerning the distribution of *Children of Morta* in China. The agreement grants NetEase the exclusive right to distribute *Children of Morta* on the Chinese market.

On October 15th 2018, 11 bit studios S.A. received a notification from Aviva Investors Poland TFI S.A. informing the Company that it had increased its holding of Company shares and exceeded 5% of total voting rights in the Company. Following transactions executed on October 11th 2018, the funds managed by Aviva Investors Poland TFI S.A. held 116,229 shares of 11 bit studios S.A., representing 5.07% of the Company's share capital and conferring the same percentage of voting rights.

On November 23rd 2018, the Company received a notification from Mr Grzegorz Miechowski, President of the Management Board of 11 bit studios S.A., to the effect that Mr Miechowski had purchased, in ordinary session trades, 1,304 Company shares at the average price of PLN 264.72 per share.

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000.00 investment facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. It bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged by the Company using an Interest Rate Swap. The facility bears interest at 3.4%.

On December 19th 2018, the Company announced that it had entered into an agreement with PBM Południe for the purchase of the developed property at ul. Brzeska 2 in Warsaw, intended to accommodate the Company's new headquarters. The property consists of a six-storey office building (plus two underground storeys) with a total usable area of 2,657.37 square metres. The transaction value amounted to PLN 22,140,000.00 (including VAT of PLN 4,140,000).

After the reporting period, on March 7th 2019, the Company was notified that the Management Board of the Warsaw Stock Exchange had decided to introduce futures contracts for 11 bit studios shares to stock exchange trading. Since March 18th 2019, three series of futures contracts for 11 bit studios shares have been traded on the stock exchange: the F11BM19 series (expiring on June 21st 2019), the F11BU19 series (September 20th 2019) and the F11BZ19 series (December 20th 2019).

## 4.2. General information about the Company, its products and services

Since its incorporation in 2009, the principal activity of 11 bit studios S.A. has been the development of video 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 a number of steps to maintain the monetisation of *TWoM* (new hardware platforms, new language versions and add-ons, including paid ones), on the back of which revenue from its sale remained a key contributor to 11 bit studios S.A.'s financial performance in 2014–2017. Since 2018, it has been replaced as the Company's main revenue source by *Frostpunk*, which debuted on April 24th 2018 in the PC version. Within 66 hours of the premiere, fans purchased over 250 thousand copies of *Frostpunk*, which more than covered all the production costs.

Since 2014, in an effort to diversify its business, 11 bit studios S.A. has also published games created by external game developer studios, including foreign ones. In 2017, the Company's publishing division made a noticeable contribution, of about 12%, to the Company's revenue, following the release of two games: *Beat Cop* (March 30th 2017) and *Tower 57* (November 16th 2017). In 2018, the publishing revenue already accounted for almost 18% of the Company's overall top line, on the highly successful market launch of *Moonlighter* on May 29th 2018.

## 4.3. Key objectives of the Company's strategy

The strategy of 11 bit studios S.A. for the following years is to be 'an alternative to the mainstream'. The Company intends to maintain full independence from other players in the video gaming sector, so that it can pursue its own, autonomous visions of the games it creates. However, independence will not mean 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 three in-house development teams, capable of working in parallel on three games. New items would be released every few quarters. Ultimately, the Company would like to bring to players one proprietary game per 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. The budget of a single project (11 bit studios S.A.'s contribution) could reach up to PLN 5.5m. In the medium term, 11 bit studios S.A. wants to launch three to four products per year, which would help stabilise its performance.

## 4.4. Company's markets, suppliers and customers

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

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

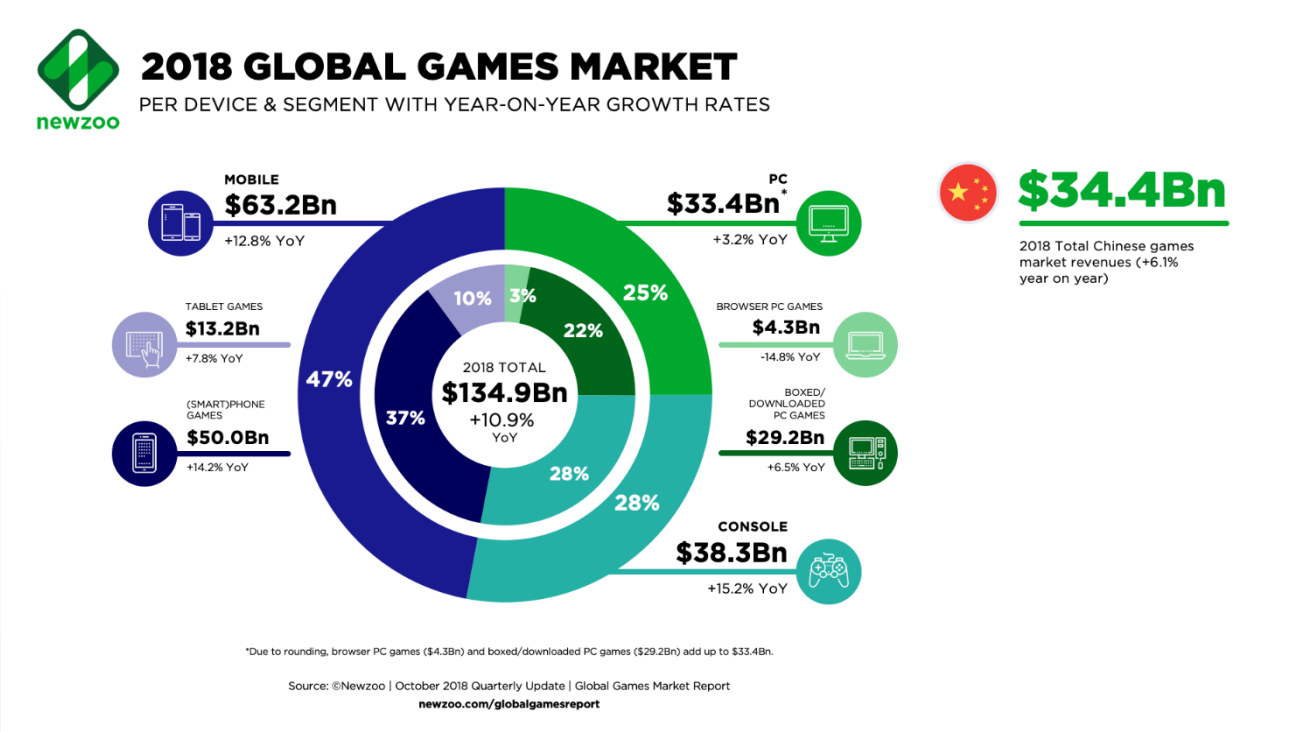
| | Period ended Dec 31 2018 | | Period ended Dec 31 2017 | |
|---|---|---|---|---|
| | PLN | share (%) | PLN | share (%) |
| Poland | 2,875,258 | 3.50 | 568,034 | 2.97 |
| European Union | 7,408,148 | 9.02 | 2,955,768 | 15.43 |
| US | 67,784,368 | 82.55 | 14,243,255 | 74.37 |
| Japan | 3,444,566 | 4.19 | 0 | 0 |
| China | 229,253 | 0.28 | 1,163,980 | 6.08 |
| Other | 371,913 | 0.45 | 220,481 | 1.15 |
| **Total** | **82,113,506** | **100** | **19,151,517** | **100** |

The Company sells its products (video games) based on long-term agreements with publishers and distributors from all over the world. In 2018, the largest customer was Valve Corporation, accounting for more than 10% of the Company's total sales. Other important trading partners included Nintendo Co Ltd., Microsoft Corporation, Google, Apple and Humble Bundle, the world's largest electronic distribution platforms. None of those entities is affiliated with the Company.

In the process of production of video games, the Company collaborates with a number of suppliers, using third-party IT tools and solutions.

## 4.5. Description of the market in which the Company operates

11 bit studios S.A. 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, the value of the gaming market being already greater than that of the film and music markets. In 2018, according to the estimates of Newzoo, a Dutch analytical company, the global video games market was valued at USD 134.9bn, 10.9% more than in the previous year, when it was worth USD 121.7bn (see the chart below).

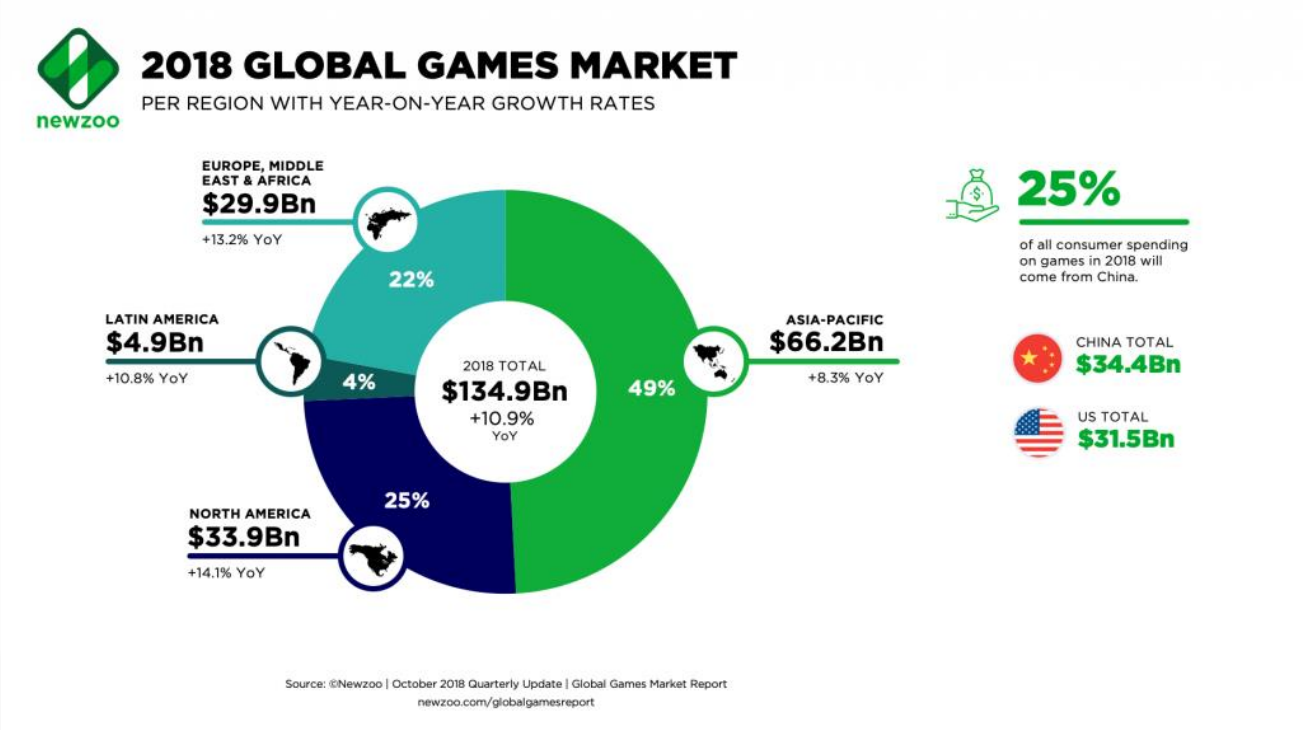



Games for mobile devices (smartphones and – to a lesser extent – tablets) represented the largest share of the global gaming market: 47% (43% in 2017), which means that their sales reached a massive USD 63.2bn. Compared with 2017, the value of this market segment increased by 12.8%. To compare, the value of the console games market amounted to USD 38.3bn in 2018, a change of 15.2% on 2017. The strong growth of the console market is largely driven by the policy followed by some top game developers, who opt for releasing their productions outside of the PC market. A flagship example of such policy was the autumn premiere of *Red Dead Redemption II*, which debuted in the PS4 and Xbox One versions, and will only be available for PCs at some time in the future. In the first three days after its premiere, the title brought its developer, Take-Two, USD 725m in revenue. The PC gaming market was estimated at USD 33.4bn in 2018, which is a small increase of 3.2% compared with 2017. Besides the factor mentioned above, the slow pace of its growth has also been a consequence of waning popularity of browser games. In 2018, fans spent only USD 4.3bn on this entertainment format, 14.8% less than a year earlier. According to forecasts, the segment will continue to shrink in the years to come.

Estimates of the gaming industry growth in the coming years are also promising. Newzoo predicts that the sector will grow at an average annual rate of 9.3% until 2021 (see the chart below), driven mainly by the rapidly developing segment of mobile games. Already in 2019, its value is expected to reach USD 72bn (up by 13.9% on the previous year), and mobile games will account for as much as 49% of the entire gaming market. In 2020, this market share will grow to 51%, and in 2021 – to 52%, reflecting USD 91.2bn spent by fans on mobile productions. According to analysts, in 2021 the entire gaming market will be worth USD 174bn. In addition to mobile games mentioned above, the amount will include money spent by fans on console and PC formats – 27% and 20%, respectively. These percentages translate into nearly USD 47bn and USD 34.8m worth of market shares, respectively, for console games and PC productions in 2021.

In geographical terms, China, which in 2016 for the first time came ahead of the US, was again the world's most important gaming market in 2018 (see the chart below). The Chinese spent USD 34.4bn on games in 2018 vs USD 32.5bn in 2017, which means an increase of 5.8%. To compare, the Americans bought games worth USD 31.5bn in 2018, 24% more than the year before. The reason for narrowing the gap between China and the US could be a slight slowdown on the Chinese gaming market. In 2018, changes were made to the organisational structure of China's Ministry of Culture, which issues licences for local distributors to market video games in that country. As a result, the number of licences declined significantly compared with previous years.

As in 2017, the world's third most important gaming market in 2018 was Japan, followed by Germany, South Korea, Great Britain and France, with Italy as the tenth largest gaming market globally.




In 2018, 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 546m. Year on year, it grew by 11.6%, from the base amount of USD 489.2m. The largest gaming market in our part of the world was still Russia. In 2018, Russian gamers spent USD 1.7bn on new productions, compared with USD 1.5bn in 2017.

The Polish gaming market largely mirrors its global counterpart in terms of gaming platforms embraced by players, their age profile and the amount of time spent on playing. According to the 'Polish Game Research '18' report (its preparation having been coordinated by the Kraków Technology Park in a project co-financed by the Ministry of Culture and National Heritage), almost 80% of Internet users in Poland aged between 15 and 55 said that they had played a video game at least once during the last month, choosing primarily games for mobile devices (nearly 60% of all respondents). Users of games designed for PCs represented 34% of those surveyed. Games run through web browsers were also very popular (with 33% of users), which sets Poland apart from the global market, where this gaming format is quickly losing popularity. Console games were found attractive by 28% of respondents.

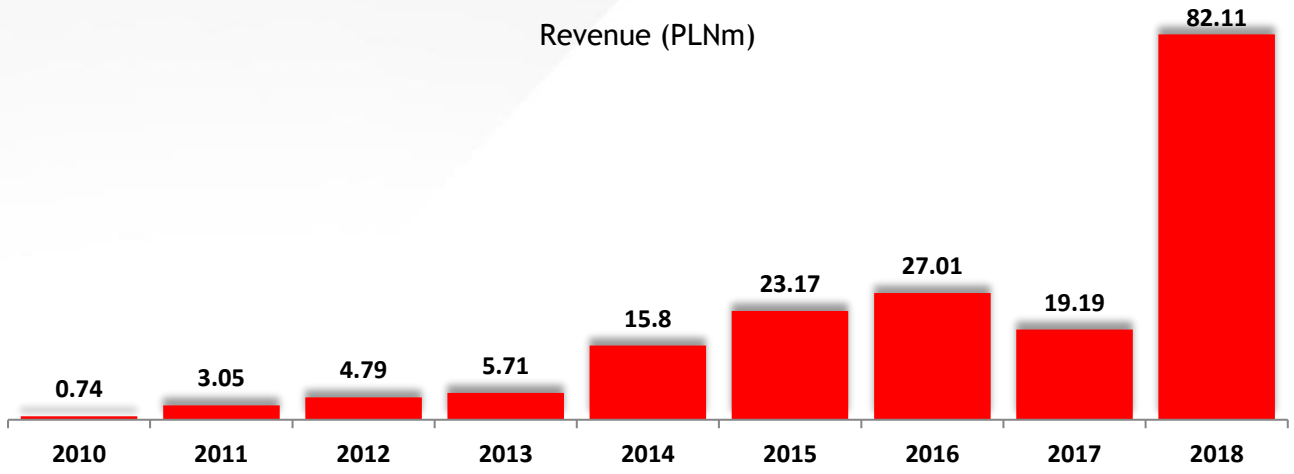
As many as 56% of Poles preferred games available over the Internet for free (under the freemium model), which may explain the high share of mobile games in the overall Polish gaming market. This, however, does not mean that respondents stopped buying games in online or traditional stores – more than a half of those surveyed having made such purchases within the past year. At the same time, 15% of respondents admitted to using pirated games. Steam was hailed as the preferred platform for buying games (49% of all responses). 16% of the respondents bought games in Sony's online store, while Microsoft's competitor store was visited by 12% of those surveyed.

## 4.6. FINANCIAL CONDITION OF 11 BIT STUDIOS S.A. IN 2018

### 4.6.1. Statement of profit or loss

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 | Change y/y (%) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 82,113,506 | 19,151,517 | 328.76 |
| Other income | 671,305 | 313,770 | 113.95 |
| **Total operating income** | **82,784,811** | **19,465,287** | **325.29** |
| Depreciation and amortisation | (4,493,003) | (1,713,889) | 162.15 |
| Raw materials and consumables used | (233,905) | (347,086) | -32.61 |
| Services | (16,512,347) | (5,856,106) | 181.97 |
| Salaries, wages and employee benefits | (12,965,744) | (2,172,657) | 496.77 |
| Taxes and charges | (245,515) | (68,391) | 258.99 |
| Other expenses | (1,331,361) | (1,687,222) | -21.09 |
| (Impairment)/reversal of impairment of financial instruments | (54,194) | 0 | |
| **Total operating expenses** | **(35,836,069)** | **(11,845,351)** | **202.53** |
| **Operating profit** | **46,948,742** | **7,619,936** | **516.13** |
| Interest income | 392,637 | 122,171 | 221.38 |
| Other finance income | 958,742 | 53,534 | 1690.90 |
| Finance costs | (194,345) | (3,405,684) | -94.29 |
| **Profit before tax** | **48,105,776** | **4,389,957** | **995.81** |
| Income tax expense | (10,555,879) | (972,617) | 985.31 |
| **Net profit from continuing operations** | **37,549,897** | **3,417,340** | **998.80** |
| Discontinued operations | 0 | 0 | |
| Net profit from discontinued operations | 0 | 0 | |
| **NET PROFIT** | **37,549,897** | **3,417,340** | **998.80** |
| **Earnings per share from continuing operations (PLN per share):** | | | |
| Basic | 16.42 | 1.52 | 980.26 |
| Diluted | 15.53 | 1.47 | 956.46 |

In 2018, 11 bit studios S.A. earned revenue of PLN 82,113,506, compared with PLN 19,151,517 in the previous year. This represented an increase of 328.76% on 2017. The robust revenue growth, to 11 bit studios S.A.'s record high, was driven by very strong sales of *Frostpunk* and *Moonlighter* (the latter title from the publishing division), released on April 24th and May 29th 2018, respectively. Soon after their release, both games topped the bestseller lists on Steam, the world's largest electronic platform selling digital games. Within just 66 hours of its premiere, fans purchased more than 250 thousand copies of *Frostpunk*, and the Company more than recouped all the game development costs (which had totalled about PLN 12m, including

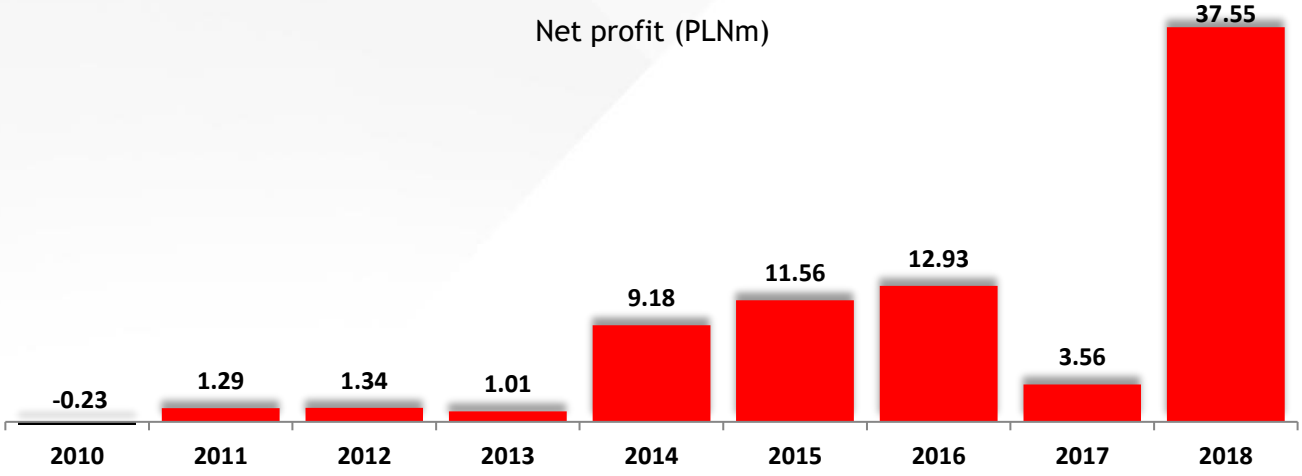


marketing costs). In the following months of 2018, consistent product development efforts (release of add-ons expanding the game world) and initiatives to maintain gamers' interest (promotional campaigns) helped maintain a very satisfying volume of *Frostpunk* sales, delivering solid revenue to 11 bit studios S.A. Similar initiatives (consistent expansion of the game and efforts to enhance sales) were also taken by the Company in the case of *Moonlighter*, developed by the Spanish Digital Sun studio (and published by 11 bit studios S.A.). Additionally, on November 5th 2018 *Moonlighter*, previously available for PCs, PS4 and Xbox One, was launched also for Nintendo Switch, which boosted its sales in the last weeks of 2018. In consequence, revenue earned in 2018 by the publishing division (comprising revenue from *Moonlighter*, *Beat Cop* and several older titles) accounted for almost 18% of 11 bit studios S.A.'s total revenue (up from 12% in 2017). In 2018, sales of *This War of Mine* also had a strong effect on the Company's top line despite the fact that the game had been released more than four years before. The title was further monetised by the second of the paid add-ons in the *TWoM: Stories – The Last Broadcast* series, launched on November 14th 2014. At the end of the year, *TWoM* was also released for Nintendo Switch.

In 2018, a strong focus was maintained on strict discipline in operating expenses, which were reported at PLN 35,836,069 for the whole of 2018, vs PLN 11,845,351 in 2017. This means that operating expenses went up 202.53%, far less than revenue. In addition to their organic growth driven by business expansion (an increase in staffing levels, etc.), operating expenses grew largely on higher amounts spent on services, which in 2018 reached PLN 16,512,347 vs PLN 5,856,106 in 2017. Notably though, the line item "Services" includes royalties paid by 11 bit studios S.A. to external game developers to whom the Company provides publishing services. Accordingly, the strong sales of *Moonlighter* triggered a surge in the cost of services in 2018. In 2017, royalties accounted for a small portion of operating expenses incurred by 11 bit studios S.A. Salaries and wages were another significant component of 11 bit studios S.A.'s operating expenses in 2018. The Company's total spending on salaries and wages was PLN 12,965,744, compared with PLN 2,172,657 in 2017. These amounts include annual bonuses paid in accordance with 11 bit studios S.A.'s bonus scheme put in place several years ago. The amount of annual bonuses is linked on a pro rata basis to the Company's earnings. The higher expenditure on salaries and wages was also attributable to an increase in headcount relative to 2017 and the fact that, following organisational changes undertaken at the Company in the first half of 2018, most employees were now employed under regular employment contracts, leading to higher costs (public charges payable) for 11 bit studios S.A. Starting from the second quarter of 2018, the line items "Services" and "Salaries and wages" were also increased by non-cash provisions (of PLN 2.05m every quarter) recognised in connection with the Company's Incentive Scheme for 2017–2019. These provisions will reduce 11 bit studios S.A.'s operating profit until the second quarter of 2020 (inclusive). Therefore, in 2018 non-cash costs related to the Incentive Scheme exceeded PLN 6m. In 2017, such costs were nil. For full details of the Incentive Scheme, see **Note 3.31.** Another component of operating expenses which in 2018 changed significantly year on year was depreciation and amortisation (PLN 4,493,003 vs PLN 1,713,889 in 2017), reflecting the start of amortisation of development expenses on *Frostpunk* and *Moonlighter* in the second quarter of 2018.

The strong growth of revenue earned by 11 bit studios S.A., coupled with the slower increase in operating expenses, a significant part of which were non-cash provisions, translated into rapid growth of the Company's operating profit in 2018. It came in at an impressive amount of PLN 46,948,742, representing a 516.13% increase on PLN 7,619,936 reported in 2017, with the operating profit margin at 57.15% (2017: 39.78%). The Company's EBITDA reached PLN 51,441,745 (2017: PLN 9,333,825), with the EBITDA margin rising up to 62.65% from 48.73% the year before.

Unlike in 2017, a slight positive contribution to 11 bit studios S.A.'s results for 2018 was made by net finance income of PLN 1,157,034 (2017: net finance costs of PLN 3,229,979). The change resulted from favourable developments on the international currency markets (in 2018 the Polish złoty depreciated both against the US dollar and the euro, which was good for 11 bit studios S.A., as it sells its products mainly outside Poland), but also from higher income on deposits and other safe financial investments, a result of growing cash resources.



Thanks to the positive impact of finance income, 11 bit studios S.A.'s profit before tax reached PLN 48,105,776 in 2018, up 995.81% on 2017. The increase led to a markedly higher income tax expense (PLN 10,555,879, relative to PLN 972,617 a year earlier). As a result, 11 bit studios S.A. posted a net profit of PLN 37,549,897 in 2018, up 998.8% year on year, and the Company's net profit margin grew to 45.7%, from 17.8% in 2017.

### 4.6.2. Statement of financial position

As at December 31st 2018, the Company's total assets amounted to PLN 109,262,821, up by 124.37% from PLN 48,649,817 in the previous year.

**ASSETS**

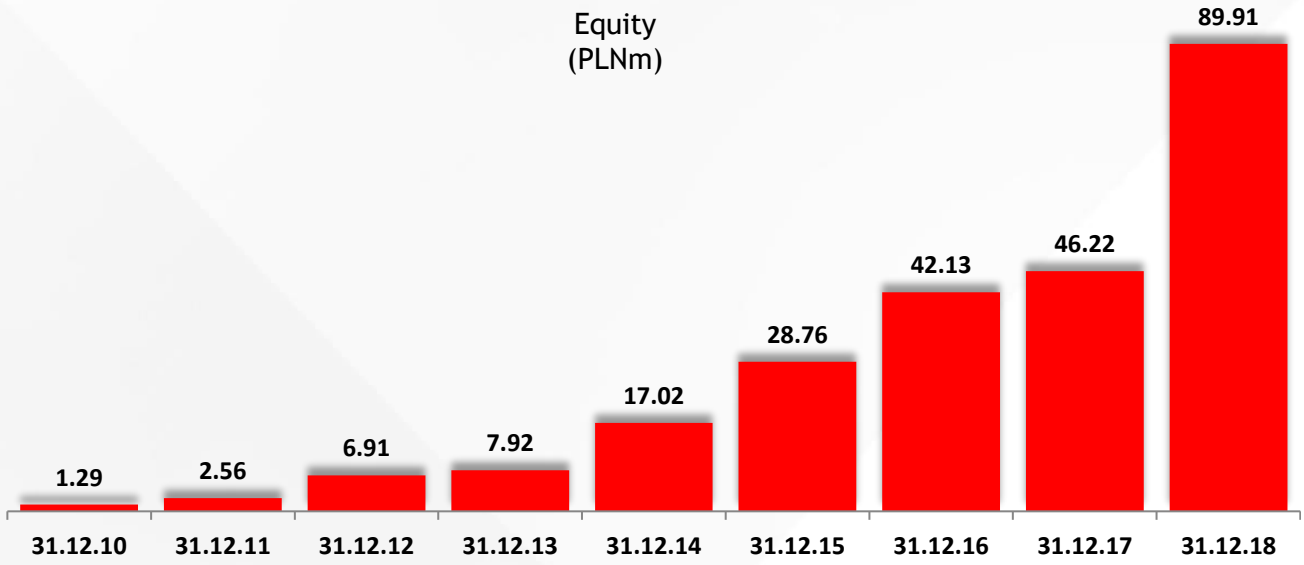
| | As at Dec 31 2018 | Share (%) | As at Dec 31 2017 | Share (%) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 18,734,064 | 17.15 | 814,332 | 1.67 |
| Intangible assets | 17,138,011 | 15.69 | 13,067,498 | 26.86 |
| Deferred tax asset | 158,033 | 0.14 | 89,993 | 0.18 |
| Other assets | 192,503 | 0.18 | 148,336 | 0.30 |
| Non-current financial assets | 5,094,282 | 4.66 | 3,053,534 | 6.28 |
| **Total non-current assets** | **41,316,895** | **37.81** | **17,173,693** | **35.30** |
| **CURRENT ASSETS** | | | | |
| Trade and other receivables | 14,552,625 | 13.32 | 2,679,070 | 5.51 |
| Income tax receivable | 1,845,130 | 1.69 | 327,123 | 0.67 |
| Other current assets | 297,492 | 0.27 | 293,599 | 0.60 |
| Current financial assets | 27,000,000 | 24.71 | 0 | 0.00 |
| Cash and cash equivalents | 24,250,681 | 22.19 | 28,176,332 | 57.92 |
| **Total current assets** | **67,945,928** | **62.19** | **31,476,124** | **64.70** |
| **TOTAL ASSETS** | **109,262,821** | **100.00** | **48,649,817** | **100.00** |

**EQUITY AND LIABILITIES**

| | As at Dec 31 2018 | Share (%) | As at Dec 31 2017 | Share (%) |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | 228,720 | 0.21 | 228,720 | 0.47 |
| Share premium | 4,870,274 | 4.46 | 4,870,274 | 10.01 |
| Statutory reserve funds | 41,331,887 | 37.83 | 37,914,547 | 77.93 |
| Share-based payment reserve | 6,138,880 | 5.62 | 0 | 0.00 |
| Retained earnings | 37,341,812 | 34.18 | 3,209,255 | 6.60 |
| **Total equity** | **89,911,573** | **82.29** | **46,222,796** | **95.01** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Long-term borrowings and other debt instruments | 11,340,000 | 10.38 | 0 | 0.00 |
| Deferred income | 677,555 | 0.62 | 762,772 | 1.57 |
| **Total non-current liabilities** | **12,017,555** | **11.00** | **762,772** | **1.57** |
| **Current liabilities** | | | | |
| Trade and other payables | 5,122,519 | 4.69 | 1,197,853 | 2.46 |
| Liabilities under contracts with customers | 557,145 | 0.51 | 0 | 0.00 |
| Short-term borrowings and other debt instruments | 1,452,203 | 1.33 | 0 | 0.00 |
| Deferred income | 201,826 | 0.18 | 466,396 | 0.96 |
| **Total current liabilities** | **7,333,694** | **6.71** | **1,664,249** | **3.42** |
| **Total liabilities** | **19,351,248** | **17.71** | **2,427,021** | **4.99** |
| **TOTAL EQUITY AND LIABILITIES** | **109,262,821** | **100.00** | **48,649,817** | **100.00** |

As at the end of 2018, current assets represented the majority (62.19%) of the Company's total assets. They stood at PLN 67,945,928, compared with PLN 31,476,124 in the previous year, which represents a year-on-year increase by 115.52%. As in 2017, cash and cash equivalents were the largest item of the Company's current assets, amounting to PLN 24,250,681 vs PLN 28,176,332 as at the end of December 2017. Thus, they accounted for 22.19% of the Company's total assets. The amount should be increased by PLN 27,000,000 of current financial assets (bank deposits), which represented 24.71% of all assets as at the end of 2018. A year earlier, such assets were not carried by 11 bit studios S.A. Moreover, the Company's (non-current) assets included PKO BP Płynnościowy SFIO investment fund units, which should be treated as cash equivalents, although they are classified for accounting purposes as non-current financial assets. These financial assets amounted to PLN 5,094,282 (2017: PLN 3,053,534), representing 4.66% of the Company's total assets (as at the end of December 2018). Trade and other receivables of PLN 14,552,625 were also a significant component of the Company's current assets. Their balance was significantly lower in the previous year, when they amounted to PLN 2,679,070.

As at the end of December 2018, the Company's non-current assets stood at PLN 41,316,893, relative to PLN 17,173,693 in the previous year. They rose 140.58% year on year, accounting for 37.81% of total assets (2017: 35.30%). The main item of non-current assets was property, plant and equipment, which amounted to PLN 18,734,064, whereas in 2017 it was only PLN 814,332. The strong growth resulted from the acquisition by 11 bit studios S.A., in the second half of December 2018, of the developed property located at ul. Brzeska 2 in Warsaw, to be used as a new office. The value of the property disclosed in the Company's statement of financial position as at the end of December 2018 amounted to PLN 18,000,000 and was equal to its purchase price. As in 2017, intangible assets were an equally important item in 11 bit studios S.A.'s statement of financial position. Their value was reported at PLN 17,138,011, up from PLN 13,067,498 in the previous year. Their share in the Company's total assets fell to 15.69% from 26.86% at the end of 2017. Intangible assets comprised mainly partially amortised expenditure on games already on sale (*Frostpunk* and *Moonlighter*), expenditure on ongoing development work (*Project 8* and games of 11 bit publishing), and expenditure on the game engine development.




The most significant item of the Company's equity and liabilities were statutory reserve funds, which amounted to PLN 41,331,887 as at the end of December 2018, i.e. 37.83% of total equity and liabilities. A year earlier, they reached PLN 37,914,547, representing 77.93% of the Company's total equity and liabilities. The change in 2018 followed from allocation of profit earned by the Company in 2017. The shareholders decided to allocate the entire profit for 2017 (PLN 3,417,340) to statutory reserve funds at the General Meeting held on May 24th 2018. As at the end of 2018, retained earnings were a significant component of the Company's equity and liabilities. They amounted to PLN 37,341,812 and accounted for 34.18% of total equity and liabilities. As at the end of 2017, retained earnings amounted to PLN 3,209,255 (6.60% of total equity and liabilities). This considerable growth reflected a strong increase in net profit earned by the Company in 2018 relative to 2017, an effect of high revenues and profits from the sale of *Frostpunk* and *Moonlighter* (released in 2018) and the continued high sales of *This War of Mine*. A new item of equity and liabilities of 11 bit studios S.A. (compared with the end of 2017) was the share-based payment reserve related to the Company's Incentive Scheme for 2017–2019. It amounted to PLN 6,138,880, representing 5.62% of total equity and liabilities.

As at December 31st 2018, the Company's liabilities amounted to PLN 19,351,249, compared with PLN 2,427,021 in 2017. They represented 17.71% of total equity and liabilities, having increased nearly eight-fold relative to the end of 2017. The increase was a consequence of a PLN 12,600,000 investment facility taken out by 11 bit studios S.A. from PKO BP in mid-December 2018 to purchase the property (new office) at ul. Brzeska 2. The second largest item of liabilities were provisions for royalties due to the producer of *Moonlighter* on account of its sale in Q4 2018. The royalties were a component of trade and other payables. At the end of 2018, the item amounted to PLN 5,122,519 (4.69% of total equity and liabilities), whereas in 2017 it reached PLN 1,197,853 (2.46%).

### 4.6.3. Statement of cash flows

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Profit for the financial year** | **37,549,897** | **3,417,340** |
| **Adjustments:** | | |
| (Accumulated) depreciation/amortisation of non-current assets | 4,493,003 | 1,713,889 |
| Income tax expense recognised in profit or loss | 10,555,879 | 972,617 |
| Remeasurement of intangible assets | 17,121 | 445,431 |
| Other adjustments | 6,465,766 | 32,462 |
| **Changes in working capital:** | | |
| Increase/decrease in trade and other receivables | (11,873,555) | 2,460,973 |
| Increase/decrease in other assets | (48,061) | 588,962 |
| Decrease in trade and other payables | 3,924,665 | (730,951) |
| Increase/decrease in deferred income | 207,359 | (17,044) |
| **Cash provided by operating activities** | **51,292,074** | **8,883,679** |
| Income tax paid | (12,245,846) | (1,105,586) |
| **Net cash from operating activities** | **39,046,228** | **7,778,093** |
| | | |
| **Cash flows from investing activities** | | |
| Proceeds from bank deposits upon maturity – over 3 months | 16,000,000 | 0 |
| Payments for financial assets | (2,000,000) | (3,053,534) |
| Proceeds from sale of financial assets | 0 | 681,759 |
| New bank deposits placed – over 3 months | (43,000,000) | 0 |
| Payments for property, plant and equipment and intangible assets | (26,571,879) | (7,372,863) |
| **Net cash from investing activities** | **(55,571,879)** | **(9,744,638)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | 0 | 591,340 |
| Loan proceeds | 12,600,000 | 0 |
| Other cash provided by financing activities | 0 | 437,567 |
| **Net cash from financing activities** | **12,600,000** | **1,028,907** |
| | | |
| Net increase in cash and cash equivalents | (3,925,651) | (937,638) |
| Cash and cash equivalents at beginning of reporting period | 28,176,332 | 29,113,971 |
| **CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD** | **24,250,681** | **28,176,332** |

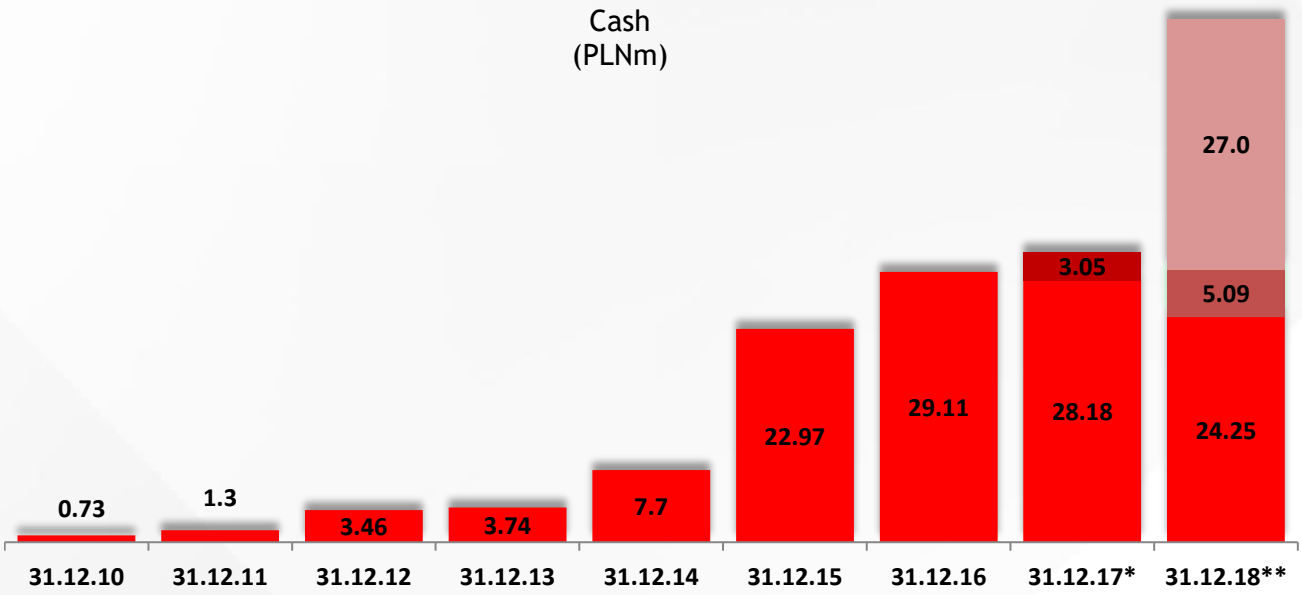
In the whole of 2018, the Company generated cash flows from operating activities of PLN 51,292,074, relative to PLN 7,778,093 in 2017. The dynamic growth was attributable to very good sales of the games marketed by 11 bit studios S.A. last year, mainly *Frostpunk* and *Moonlighter*. Sales of *This War of Mine* were also a significant contributor to top-line performance, although revenue from this source, due to the natural aging of the product, was lower than in 2017. High profit earned by the Company in 2018 materially drove up the income tax expense relative to 2017, to PLN 12,245,846, compared with PLN 725,904 in the previous year. Consequently, net cash provided by the Company's operating activities in 2018 amounted to PLN 39,046,228, compared with PLN 7,778,093 a year earlier, having risen fivefold year on year.

At the same time, the Company allocated as much as PLN 55,571,879 to investments, up from PLN 9,744,638 in 2017. A significant part of that amount was represented by financial investments (bank deposits and other conservative financial instruments), used by 11 bit studios S.A. to manage its cash resources. Another important expense (PLN 18,000,000) was to purchase the property at ul. Brzeska 2 for a new office. In 2018, the Company's expenditure on property, plant and equipment (real property) and intangible assets (primarily for the production of games) totalled PLN 26,571,879, compared with PLN 7,372,863 in 2017.

The only item of cash flows from financing activities in 2018 was the PLN 12,600,000 facility contracted with PKO BP to purchase the property at ul. Brzeska 2 in Warsaw. In 2017, cash flows from financing activities were positive at 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 2018, the Company held cash and cash equivalents of PLN 24,250,681 vs PLN 28,176,332 in 2017. This means a decrease of 13.93% compared with the end of 2017. It is worth noting, however, that as at the end of 2018 the Company also held PLN 5,064,282 (end of December 2017: 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 for accounting purposes as non-current financial assets. The amount may also be increased by PLN 27,000,000 held on bank deposits with maturities over three months. At the end of 2017, the Company did not have such deposits. This means that 11 bit studios S.A.'s total cash held at the end of 2018 amounted to PLN 56,344,963, an increase by as much as 80.42% on the year before.




* – This item includes PLN 3.05m invested in investment fund units of PKO BP Płynnościowy SFIO.
** This item includes PLN 5.09m invested in investment fund units of PKO BP Płynnościowy SFIO and PLN 27.0m invested in bank deposits with maturities over three months.

### 4.6.4. Credit facilities and loans in the financial year 2018

In its Current Report No. 29/2018 of December 19th 2018, 11 bit studios S.A. announced the execution of a PLN 12,600,000.00 investment facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. The facility was used to partially finance the purchase price of the property located at ul. Brzeska 2 in Warsaw for the Company's new office. The facility repayment date is December 11th 2028. It bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged by the Company using an Interest Rate Swap. The facility bears interest at 3.4%.

The Company had no borrowings in 2017.

### 4.6.5. Loan advanced in the financial year 2018

In 2018 and 2017, 11 bit studios S.A. did not advance any loans.

### 4.6.6. Sureties and guarantees issued in the financial year 2018 and other material off-balance sheet items

The Company did not issue any sureties or guarantees in the financial year 2018. Material off-balance sheet items related to 11 bit studios S.A.'s publishing activities are described in **Note 3.33**.

### 4.6.7. Current economic and financial condition of the Company and assessment of financial resources management

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

### 4.6.8. Description and assessment of factors and non-recurring events with a bearing on the results of the Company's operations in the financial year 2018

In 2018, there were no non-recurring factors which could affect the Company's performance in that period.

## 4.7. AGREEMENTS SIGNIFICANT TO THE COMPANY'S OPERATIONS (EXCLUDING CREDIT FACILITY AGREEMENTS AND LOANS) EXECUTED IN 2018 AND BY THE ISSUE DATE OF THIS REPORT

- On July 12th 2018, the Company announced that it had signed an agreement with Shenzhen Tencent Computer Systems Company Limited for the distribution of *Moonlighter* in China. The agreement granted Tencent the exclusive right to distribute *Moonlighter* on the Chinese market. By the date of issue of this report, *Moonlighter* was not yet certified by the Chinese Ministry of Culture, which is a necessary condition for direct sales of the game on the Chinese market.
- On October 15th 2018, 11 bit studios S.A. announced that it had signed an agreement with Guangzhou NetEase Computer System Co., Ltd. concerning the distribution of *Children of Morta* in China. The agreement grants NetEase the exclusive right to distribute *Children of Morta* on the Chinese market. By the date of issue of this report, the launch date for *Children of Morta* was not yet set.
- On December 19th 2018, the Company entered into an agreement with PBM Południe S.A. for the purchase of the property (comprising perpetual usufruct right to land and ownership title to the building erected thereon) located at ul. Brzeska 2 in Warsaw, to be used as the Company's new registered office. The property consists of a six-storey office building (plus two underground storeys) with a total usable area of 2,657.37 square metres. The transaction value amounted to PLN 22,140,000.00 (including VAT of PLN 4,140,000).

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

The Company did not publish any forecasts for 2018.

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

In the reporting period, the Company did not issue any new shares.

In the previous reporting period, the Company 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.

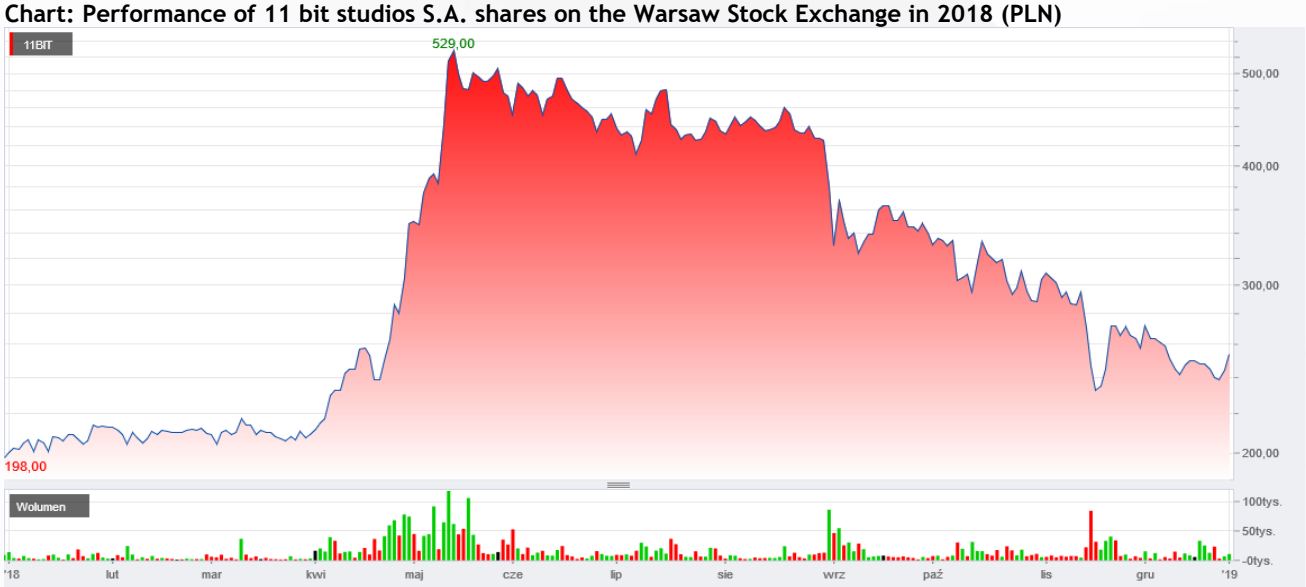
## 4.10. THE COMPANY ON THE CAPITAL MARKET

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, B, C, D and E Company shares were introduced to trading. Since June 22nd 2017, 2,287,199 Series A, B, C, D, E and F Company shares have been traded on the WSE. By a decision of the WSE Management Board, the 11 bit studios stock has been included in the mWIG40 index since June 15th 2018. As at the date of issue of this report, the stock's weight in the index was 0.92%.

The founders of the Company, i.e. Grzegorz Miechowski (President of the Management Board) as well as Przemysław Marszał and Michał Drozdowski (Members of the Management Board) remain its largest shareholders. As at the issue date of the Annual Report for 2018, they controlled jointly 369,630 shares in the Company, representing 16.16% of the share capital and the same proportion of voting rights at the General Meeting.

Throughout 2018, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its price increase. During the period, the Company's share price surged by 23.3%, while the broad-market WIG index rose by 9.5% and the mWIG40 index, which includes 11 bit studios, lost almost 19.35%.

**Chart: Performance of 11 bit studios S.A. shares on the Warsaw Stock Exchange in 2018 (PLN)**




Source: Parkiet.com

In 2018, the price of 11 bit studios shares on the WSE ranged from PLN 198.00 (during the first trading session in 2018) to PLN 529.00 (the closing price on May 15th 2018). The first half of 2018 was particularly good for the Company stock price. For the rest of the year, the price of 11 bit studios shares did a little worse, driven by souring sentiments on global capital markets, including in relation to companies involved in the production and publishing of video games. For all that, at the end of 2018, the market value of 11 bit studios S.A. amounted to nearly PLN 560m, having grown PLN 107m year on year.

The rise in the 11 bit studios S.A. share price, accompanied by a significant improvement in the liquidity of its shares, translated into increased equity research coverage of the Company. Throughout 2018, brokerage analysts published as many as 16 equity research reports on 11 bit studios S.A., compared with seven in the year before. As many as 12 of them included 'buy' recommendations, three recommended investors to 'hold' Company shares, and one was 'neutral'.

Considerable interest from investors in 11 bit studios S.A. shares prompted the Warsaw Stock Exchange, after the reporting period, to introduce futures contracts for Company shares to stock exchange trading. On March 7th 2019, the Management Board of the Warsaw Stock Exchange passed a relevant resolution (No. 152/2019). Since March 18th 2019, three series of futures contracts for 11 bit studios shares have been traded on the stock exchange: the F11BM19 series (expiring on June 21st 2019), the F11BU19 series (September 20th 2019) and the F11BZ19 series (December 20th 2019).

## 4.11. Company's growth prospects

11 bit studios S.A. is a producer of cross-platform video games sold all over the world, mainly through specialised Internet platforms, with Steam in the lead. In 2018, export sales accounted for nearly 96.5% of the Company's total revenue, slightly below the previous year's figure. For a few years now, video gaming has been the fastest growing sector of the global entertainment market. In 2018, according to the estimates of Newzoo, a Dutch analytical company, the global video games market was valued at USD 134.9bn, 10.9% more than in the previous year, when it was worth USD 121.7bn (see the chart below). The outlook for this sector in the coming years is very promising. Newzoo predicts that it will grow at an average annual rate of 9.3% until 2021, driven mainly by the rapidly developing segment of mobile games. Newzoo experts believe that in 2021 the entire gaming market will be worth USD 174bn. The Polish gaming market is growing even faster than the global one. In 2018, it was valued at USD 546m, up by 11.6% from 2017 (USD 489.2m). This pace of growth should not weaken in the coming years.

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. 11 bit studios S.A.'s technological capability and business acumen were also confirmed by the launch of *Frostpunk* on April 24th 2018. Thanks to the commercial success of both games, the 11 bit studios brand became recognisable worldwide, not only among gamers. The Company's products are associated with high quality and receive very good reviews.

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.

The Company's performance in future periods, particularly in 2019, will mostly be determined by the sales of *Frostpunk*, whose version for PCs was released on April 24th 2018. The Company's strategy is to maximise the title's life cycle, which should stimulate its monetisation and thus positively contribute to the Company's bottom line. *Frostpunk*, whose production and marketing costs came close to PLN 12m, generated well over PLN 50m in revenue by the end of 2018. The

Company will seek to multiply revenue generated by this game over its entire life cycle. To this end, it has taken a number of initiatives to maintain the players' interest in *Frostpunk* and win over new customers. According to the road map published several weeks after the release of *Frostpunk*, in 2018 11 bit studios S.A. launched several free DLC and expansion packs, with significant new additions to the game. The largest add-on, *Endless Mode,* was made available to the gaming community on November 19th 2018 and was very well received. 11 bit studios S.A. also intends to further develop *Frostpunk* by launching new language versions of the game. Currently, the title is available in twelve languages, with more to follow by the end of 2019. Work is also well under way on the development of *Frostpunk* versions for Xbox One and PS4 , scheduled for release in 2019. This year, the Company is also planning to release other large add-ons (including paid ones) to *Frostpunk,* which have been developed for several months now by a team of about 40 people.

Similarly to 2018, continued sales of *This War of Mine* should also have a noticeable impact on the Company's performance in 2019. 11 bit studios S.A. is developing the third of the paid add-ons in the *TWoM: Stories* series, launched in November 2017. It will be available on the market within a few months. The two earlier add-ons were very popular with gamers, successfully keeping up the product's monetisation. In consequence, revenue from the sales of *TWoM* and add-ons to this game throughout its entire life cycle have already reached approximately PLN 90m.

Alongside the monetisation of *Frostpunk* and *TWoM*, in the long run the results of 11 bit studios S.A. will also be impacted by sales of the game which is currently being developed under the working title of *Project 8*. The Company has completed the prototyping phase and moved on to the production phase. At present, the team responsible for developing the game consists of about 20 people, but an intensive recruitment process to expand it has been under way since early 2019. The Company plans to release *Project 8* simultaneously for PCs and for PS4 and Xbox One consoles, which should boost the game's commercial potential.

Based on the medium-term strategy of 11 bit studios S.A. for the game production area, the Company will have ultimately built three development teams working independently of one another, each developing its own game. As a result, within the next several years, the Company will be able to release one in-house developed game per year. A larger portfolio of proprietary games should help stabilise the Company's financial results, which in the video games industry are typically highly volatile.

The publishing division (11 bit publishing), developed since 2014, should also make an increasingly large contribution to 11 bit studios S.A.'s results in the coming years. In 2018, sales of games released by the publishing division, mainly *Moonlighter,* developed by Spain's Digital Sun, accounted for nearly 18% of the Company's total revenue (2017: 12%). In 2019, the Company plans to focus on the continued monetisation of *Moonlighter,* enhancing the game to include new (including paid) add-ons. It will also be available for mobile devices running on iOS or Android. 11 bit studios S.A. is also preparing the release of *Children of Morta,* developed by the American–Iranian studio Dead Mage, which will simultaneously come to PCs, PS4, Xbox One and Nintendo Switch. The release date will be announced in the coming months. In the Company's opinion, the commercial potential of *Children of Morta* should at least equal that of *Moonlighter*. Revenue generated by the publishing division will be supplemented by sales of the games released some time ago, especially *Beat Cop,* whose PC version premiered in April 2017. In the first quarter of 2019, *Beat Cop* was released for the PS4, Xbox One and Nintendo Switch platforms. The game is also available for mobile devices running on iOS or Android.

The 11 bit publishing management team is actively engaged in acquisition efforts to build a publishing pipeline for the coming years. Strong results, including the financial success of *Moonlighter*, have impelled the Company to seek new projects more aggressively and to reach for topics that so far have been beyond its capability due to budgetary reasons. The previous conservative strategy of 11 bit studios S.A. for the publishing area assumed that a single project could not consume more than PLN 2m. After the amendment, this cap was increased to PLN 5m, which has considerably expanded the Company's ability to obtain valuable (from the commercial perspective) projects for its publishing portfolio.

The medium-term strategy of 11 bit studios S.A. for the publishing area assumes that third-party games would be launched every quarter. If the number of new releases in the 11 bit publishing division increases to a few per year, this should have a positive effect on the Company's performance in terms of both volume and stability.

## 4.12. External and internal drivers of the Company's growth

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 video 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. An important trend, closely monitored by the Company, involves initiatives to develop the game streaming market, pursued by major IT equipment manufacturers and technology firms. Another significant factor for the development of 11 bit studios S.A. is the growing competition between electronic platforms which distribute digital games, as demonstrated by lower commission fees charged from game producers and publishers for sales through this channel, which is positive for 11 bit studios S.A.

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 2018, thanks to which it expects to ultimately own more than one product line (brands – IP). In the coming quarters, the Company intends to form a third development team based on people now working on *This War of Mine*. With three development teams and several product lines, it will be able to optimise and better utilise its production resources and stabilise its performance.

## 4.13. FEASIBILITY OF INVESTMENT PLANS

As at December 31st 2018, the Company's cash in hand and at banks amounted to PLN 24,250,681 (2017: PLN 28,176,332). The amount did not include PLN 5,094,282 invested in units of the PKO BP Płynnościowy SFIO investment fund (December 31st 2017: PLN 3,053,534). As at the end of 2018, 11 bit studios S.A. also held PLN 27,000,000 in bank deposits with maturities over three months. This means that the total cash resources available to the Company at the end of 2018 amounted to PLN 56,344,963, almost twice as high as a year earlier, when they stood at PLN 31,229,866. The amount does not include receivables of PLN 14,552,625 (end of 2017: PLN 2,679,070), a substantial part of which was a VAT refund due to the Company on settlement of the purchase (at the end of the year) of the property intended to accommodate its new office, with trade receivables making up the balance. The total value of 11 bit studios S.A.'s financial assets reported as at December 31st 2018 was PLN 70,897,588 (2017: PLN 33,908,936). The total value of (current and non-current) liabilities was PLN 19,351,249 as at December 31st 2018. PLN 12,600,000 of that amount related to the facility taken out by the Company from PKO BP to purchase the property mentioned above. As at the end of 2017, liabilities of 11 bit studios S.A. totalled PLN 2,427,021.

The Company's large cash resources, far exceeding its liabilities, mean that the Company 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 funds raised on the capital market) 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 2019.

# 5. OVERVIEW OF 11 BIT STUDIOS S.A.'S OPERATIONS AND RESOURCES

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. COMPANY OVERVIEW

| | |
|---|---|
| Business name: | 11 bit studios Spółka Akcyjna |
| Abbreviated name: | 11 bit studios S.A. |
| Registered office: | Warsaw, Poland |
| Registered address: | 03-472 Warsaw, ul. Bertolta Brechta 7 |
| Principal business activity: | 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 Company was established for indefinite time.

The financial year of the Company is the same as the calendar year.

The Company's principal business activity includes:

- Production of cross-platform video games,
- Sale of cross-platform video games.

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

## 5.2. GOVERNING BODIES

### 5.2.1. MANAGEMENT BOARD

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

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

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

**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 video games since the early 1990s, when he founded Metropolis Software House, one of the first game development studios in Poland. He headed it from 1999 to 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. Co-author of the *Frostpunk* concept.

**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 video gaming sector as a graphic designer. 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*. He was one of the key authors of *Frostpunk*.

**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*, *This War of Mine* and *Frostpunk*.

### 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 full-year financial statements and review the half-year financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2017, 2018 and 2019. The auditor's fees were agreed at PLN 33,000 (for the audit of each set of full-year financial statements) and PLN 12,000 (for the review of each set of interim financial statements of the Company). In 2017, when the Company still prepared consolidated and separate financial statements and interim financial statements (the Company's consolidated financial statements have not been published since 2018), the respective fees for Deloitte Audyt sp. z o.o. Sp.k. were PLN 37,000 and PLN 16,000.

## 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. COMPANY'S SHAREHOLDING STRUCTURE AS AT THE DATE OF THIS REPORT

| Name | Number of shares | % of share capital held | Number of votes | % of total voting rights at GM |
|---|---|---|---|---|
| Grzegorz Miechowski | 162,000 | 7.08 | 162,000 | 7.08 |
| Przemysław Marszał | 118,000 | 5.16 | 118,000 | 5.16 |
| Michał Drozdowski | 89,630 | 3.92 | 89,630 | 3.92 |
| NN TFI | 119,229 | 5.21 | 119,229 | 5.21 |
| Aviva Investors Polska TFI | 116,038 | 5.07 | 116,038 | 5.07 |
| Other shareholders | 1,683,606 | 73.61 | 1,683,606 | 73.61 |
| **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 holdings of Company shares by management staff and persons related to the Company's supervisory staff.

In Current Report No. 9/2018 of May 16th 2018, 11 bit studios S.A. announced that on that date the Company received notifications under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On May 14th and 15th 2018, Agnieszka Rabenda-Ozimek sold 94 shares in 11 bit studios S.A. (60 shares at PLN 500 per share and 34 shares at PLN 545 per share).

In Current Report No. 13/2018 of June 16th 2018, 11 bit studios S.A. announced that on June 15th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Mr Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On June 5th 2018, Agnieszka Rabenda-Ozimek sold 20 shares in 11 bit studios S.A., at PLN 490 per share.

In Current Report No. 14/2018 of June 19th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by NN Investment Partners TFI S.A. ("NN TFI") of exceeding the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights at the General Meeting of 11 bit studios S.A. changed following purchase of Company shares on June 15th 2018 by NN Fundusz Inwestycyjny Otwarty, NN Specjalistyczny Fundusz Inwestycyjny Otwarty 2, NN (L) Total return Fundusz Inwestycyjny Zamknięty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty. Prior to the change, the investment funds managed by NN TFI held 112,476 shares in 11 bit studios S.A., representing 4.93% of total voting rights in the Company and 4.93% of the share capital. As at the date of exceeding the threshold, the investment funds managed by NN TFI held 119,229 shares in 11 bit studios S.A., representing 4.93% of total voting rights in the Company and 5.21% of the share capital.

In Current Report No. 15/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Grzegorz Miechowski, President of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Grzegorz Miechowski sold 2,000 shares in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Miechowski holds 160,696 Company shares, conferring 7.03% of total voting rights in the Company and representing 7.03% of its share capital.

In Current Report No. 16/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Przemysław Marszał, Member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Przemysław Marszał sold 4,000 shares in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Marszał holds 118,000 Company shares, conferring 7.03% of total voting rights in the Company and representing 5.16% of its share capital.

In Current Report No. 17/2018 of June 22nd 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Michał Drozdowski, Member of the Company's Management Board, concerning sale of 11 bit studios S.A. shares. On June 22nd 2018, Michał Drozdowski sold 4,000 shares in 11 bit studios S.A., at PLN 445 per share. Following the transaction, Mr Drozdowski holds 89,630 Company shares, conferring 7.03% of total voting rights in the Company and representing 3.92% of its share capital.

In Current Report No. 19/2018 of July 26th 2018, 11 bit studios S.A. announced that on that date the Company received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. of Warsaw, concerning reduction of its holding of Company shares to below 5% of total voting rights in the Company. The share in the total voting rights decreased as a result of disposal of Company shares. The transaction was settled on July 20th 2018.
Prior to the transaction, the funds managed by N-N PTE S.A. held 114,922 Company shares, conferring 5.02% of total voting rights in the Company and representing 5.02% of the share capital. Following the transaction, the funds hold 111,832 Company shares, conferring 4.89% of total voting rights in the Company and representing 4.89% of the share capital.

In Current Report No. 22/2018 of October 5th 2018, 11 bit studios S.A. announced that on October 5th 2018 the Company was notified by Mr Bartosz Brzostek (Member of the Company's Management Board until May 9th 2018) of reduction of his holding of Company shares to below 5% of total voting rights at the General Meeting. The share in the total voting rights decreased as a result of disposal of Company shares.
Prior to the transaction, Mr Bartosz Brzostek held 114,721 Company shares, conferring 5.02% of total voting rights in the Company and representing 5.02% of its share capital. After the transaction, Mr Bartosz Brzostek holds 113,539 Company shares, conferring 4.96% of total voting rights in the Company and representing 4.96% of its share capital.

In Current Report No. 23/2018 of October 8th 2018, 11 bit studios S.A. announced that the Company received a notification under Article 19(1) of the Market Abuse Regulation from Ms Agnieszka Rabenda-Ozimek, a person closely associated with Mr Wojciech Ozimek, Member of the Company's Supervisory Board, concerning sale of 11 bit studios S.A. shares. On June 15th 2018, Agnieszka Rabenda-Ozimek sold 20 shares in 11 bit studios S.A., at PLN 500 per share.

In Current Report No. 25/2018 of October 15th 2018, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI") of exceeding the threshold of 5% of total voting rights at the

General Meeting of 11 bit studios S.A. The percentage of total voting rights in the Company changed following purchase of Company shares on October 11th 2018 by Aviva Investors Fundusz Inwestycyjny Otwarty and Aviva Investors Specjalistyczny Fundusz Inwestycyjny managed by Aviva TFI. Prior to the change, the investment funds managed by Aviva TFI held 113,451 shares in 11 bit studios S.A., representing 4.96% of the Company's share capital. On the day when the threshold was exceeded, the investment funds managed by Aviva TFI held 116,038 shares in 11 bit studios S.A., representing 5.07% of the Company's share capital.

In Current Report No. 28/2018 of November 23rd 2018, 11 bit studios S.A. announced that the Company received a notification under Article 19(1) of the Market Abuse Regulation from Mr Grzegorz Miechowski, President of the Management Board of 11 bit studios S.A., concerning purchase of shares in 11 bit studios S.A. On November 23rd 2018, Mr Grzegorz Miechowski purchased 1,304 shares in 11 bit studios S.A. at an average price of PLN 264.72 per share.

Subsequent to the reporting period, in Current Report No. 1/2019 of January 2nd 2019, 11 bit studios S.A. announced that on that date the Company received a notification under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies submitted by Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"). Acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), an investment fund managed by Aviva TFI, Aviva TFI notified the Company of exceeding the threshold of 5% of total voting rights at the General Meeting of 11 bit studios S.A. The percentage of total voting rights in the Company changed following purchase of Company shares on December 20th 2018 by the Fund. Prior to the change, the Fund held 113,709 Company shares, representing 4.97% of the Company's share capital. Following the change, the Fund held 115,839 Company shares, accounting for 5.06% of its share capital.

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

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

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

## 5.7. REMUNERATION, AWARDS OR BENEFITS RECEIVED BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY (PLN)

**Management Board:**

**Remuneration for the performance of management functions:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Grzegorz Miechowski | 1,026,753 | 281,818 |
| Bartosz Brzostek (Member of the Management Board until May 9th 2018) | 178,654 | 281,104 |
| Michał Drozdowski | 1,025,800 | 81,129 |
| Przemysław Marszał | 1,015,992 | 73,000 |
| **Total** | **3,247,199** | **717,051** |

**Remuneration for the provision of services under civil-law contracts:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Grzegorz Miechowski | 35,000 | 0 |
| Bartosz Brzostek (Member of the Management Board until May 9th 2018) | 0 | 0 |
| Michał Drozdowski | 35,000 | 180,000 |
| Przemysław Marszał | 35,000 | 180,000 |
| **Total** | **105,000** | **360,000** |

Pursuant to the Supervisory Board's Resolution No. 3/2018 of March 8th 2018, the Management Board Members are entitled to receive a bonus in respect of profit earned by the Company for a period. Such bonus is calculated for a period from the fourth quarter of the previous year (inclusive) to the third quarter of the current year (inclusive), with the proviso that the 2018 bonus was calculated for the period from the first quarter of 2018 (inclusive) to the third quarter of 2018 (inclusive). Such bonus is equally divided among all Management Board Members. For 2018, the Management Board received a total bonus of PLN 1,711,086, which was paid before the date of authorisation of this report.

The bonus was divided as follows:

| | |
|---|---|
| Grzegorz Miechowski | – PLN 570,362; |
| Bartosz Brzostek<br>(Member of the Management Board until May 9th 2018) | – PLN 0; |
| Przemysław Marszał | – PLN 570,362; |
| Michał Drozdowski | – PLN 570,362. |

The Members of the Management Board did not receive any other remuneration for 2018 in the form of profit distributions or stock options. However, they participate in the Incentive Scheme, described in detail (together with its valuation) in **Note 3.31**.

**Supervisory Board**

**Remuneration for the performance of supervisory functions:**

| | Period ended Dec 31 2018 | Period ended Dec 31 2017 |
|---|---|---|
| Piotr Sulima | 54,000 | 15,000 |
| Jacek Czykiel | 36,000 | 10,000 |
| Radosław Marter | 19,800 | 5,000 |
| Agnieszka Maria Kruz | 19,800 | 5,000 |
| Wojciech Ozimek | 19,800 | 5,000 |
| **Total** | **149,400** | **40,000** |

## 5.8. 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 3.32.1.**

## 5.9. AGREEMENTS ENTERED INTO BY THE COMPANY WITH MEMBERS OF THE MANAGEMENT STAFF PROVIDING FOR COMPENSATION IN THE EVENT OF RESIGNATION OR REMOVAL FROM POSITION

As at December 31st 2018 and as at the date of this report, members of the Company's management and supervisory staff provide their services on the basis of an appointment under a relevant resolution and there are no agreements providing for compensation in the event of their resignation or removal.

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

As described in **Note 3.31**, the Company 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%).

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

The Company did not and does not hold any treasury shares.

## 5.13. Changes in the Company's principal governance rules

In 2018, there were changes in the Company's principal governance rules. On May 9th 2018, Bartosz Brzostek, who was responsible for the technology division, including development of the game engine, resigned from his position on the Management Board of 11 bit studios S.A. His duties were taken over by the Director of the Technology Division. Following Mr Brzostek's resignation, the Management Board of 11 bit studios S.A. has been composed of three members.

## 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 2018, they amounted to PLN 24,250,681. The Company invested cash surpluses (in PLN) in bank deposits with different maturities. The total value of bank deposits with maturities of over three months was PLN 27,000,000 as at the end of 2018. In total, the Company's current assets as at the end of 2018 amounted to PLN 67,945,928 (2017: PLN 31,476,124).
Non-current assets of 11 bit studios S.A. as at the end of 2018 stood at PLN 41,316,893 (2017: PLN 17,173,693). The largest item of non-current assets was property, plant and equipment (PLN 18,734,064) comprising the property at ul. Brzeska 2 in Warsaw, purchased by the Company in December 2018 with the aim of establishing its new office there. Another significant item of non-current assets were intangibles, which included expenditure on ongoing development work (*Project 8* and games from 11 bit publishing), amortised expenditure on games already on sale (*Frostpunk* and *Moonlighter*) and expenditure on the game engine development. As at the end of 2018, intangible assets totalled PLN 17,138,011 (2017: PLN 13,067,496). Units of the PKO BP Płynnościowy SFIO investment fund were a non-current financial asset which represented another major item of non-current assets, amounting to PLN 5,094,282 (2017: PLN 3,053,534).

Holding a considerable cash surplus, the Company was able to finance its day-to-day operations and investment projects with its own funds. The only exception was the purchase of the property at ul. Brzeska 2 in Warsaw, which was co-financed with a credit facility (of PLN 12,600,000) from PKO BP.

## 5.15. Equity and organisational links between the Company and other entities

As at December 31st 2018, 11 bit studios S.A. did not hold any shares in other entities.

## 5.16. Management of the Company's risks

The Company's activities, 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 Company'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 Company is currently not aware of or which it considers immaterial, may also have a material adverse effect on the Company's financial position and results of its operations, and may bring a loss of some or all of the capital invested.

### 5.16.1. Risk factors related to the Company's operating activities

**Risk of the Company 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 video 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 video 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.

**Risk of varied and unpredictable demand for the Company'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 competitor 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 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. The work of 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 manufacturers 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, Microsoft and Nintendo. 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 a closed platform manufacturer's acceptance of its product.

**Risk related to the launch and continuation of publishing activities by the Company**

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 Company'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 video 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 civil-law contracts for specific work or specific tasks (*umowa o dzieło, umowa zlecenie*). 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 video 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 Company**

In connection with the nature 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, a 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 Company**

As at the date of this report, the founding shareholders held a total of 369,630 shares in the Company, representing 16.16% of the share capital and conferring the right to 16.16% 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 licence 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. 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.

### 5.16.2. Risk factors related to the environment in which the Company operates

**Risk related to macroeconomic conditions in the Company'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 the 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 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 businesses, 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 a 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 business entities 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 that 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 interpretative 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 the 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 złoty. Strengthening of the Polish currency means deterioration of the Company's revenue from sale of video 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.

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

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

Yours faithfully

| | | |
|---|---|---|
| *Grzegorz Miechowski* | *Przemysław Marszał* | *Michał Drozdowski* |
| *President of the Management Board* | *Member of the Management Board* | *Member of the Management Board* |

Warsaw, March 27th 2019

# STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY 11 BIT STUDIOS S.A. IN 2018

11 bit studios

# 6. OVERVIEW

In 2018, 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://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.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 COMPANY DEPARTED FROM THE ADOPTED SET OF CORPORATE GOVERNANCE PRINCIPLES

The Company 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 and the fact that the market still has little experience in the 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.

**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 and the fact that the market still has little experience in the area, the Company does not currently 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 on 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 within 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 at least 5% of voting rights at the General Meeting as at December 31st 2018:

| Name | Number of shares | % of share capital held | Number of votes | % of total voting rights at GM |
|---|---|---|---|---|
| Grzegorz Miechowski | 162,000 | 7.08 | 162,000 | 7.08 |
| Przemysław Marszał | 118,000 | 5.16 | 118,000 | 5.16 |
| Michał Drozdowski | 89,630 | 3.92 | 89,630 | 3.92 |
| NN TFI | 119,229 | 5.21 | 119,229 | 5.21 |
| Aviva Investors Polska TFI | 116,038 | 5.07 | 116,038 | 5.07 |
| Other shareholders | 1,683,606 | 73.61 | 1,683,606 | 73.61 |
| **Total** | **2,287,199** | **100.00** | **2,287,199** | **100.00** |

## 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 amendments 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: http://ir.11bitstudios.com/dokumenty-korporacyjne .

## 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 http://ir.11bitstudios.com/dokumenty-korporacyjne.

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 2018

### 6.9.1. MANAGEMENT BOARD

**Management Board**

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

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

**The 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

**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 5.2.2.**

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 http://ir.11bitstudios.com/dokumenty-korporacyjne.

By way of a 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 11 BIT STUDIOS S.A. AND INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Company has 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 2018, the accounting books of 11 bit studios S.A. were kept by internal accounting services.

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. 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 Company supports the War Child foundation (39-51 Highgate Road, London, UK), helping child victims of wars across the world. The foundation receives a part of revenue from sales of the expansion pack (DLC) for *This War of Mine* ('War Child Charity DLC'). In 2018, the Company transferred PLN 648,755 to the War Child foundation's account. In 2017, the amount was PLN 485,823.

Signed by:

| | | |
|---|---|---|
| *Grzegorz Miechowski* | *Przemysław Marszał* | *Michał Drozdowski* |
| *President of the Management Board* | *Member of the Management Board* | *Member of the Management Board* |

Warsaw, March 27th 2019