Warsaw, March 25th 2020

ANNUAL REPORT OF 11 BIT STUDIOS S.A. FOR 2019

Make your mark 11bit studios

LETTER FROM THE MANAGEMENT BOARD

Warsaw, March 25th 2020

Dear Shareholders and Investors,

Please be invited to read 11 bit studios S.A.'s Annual Report for 2019. It was a very good year for us, both in terms of business and financials. We delivered revenue of PLN 71.2m, EBITDA of PLN 30.3m, operating profit of nearly PLN 23.9m and net profit in excess of PLN 21.7m. The net profit would have been even higher but for non-cash provisions of more than PLN 8.1m recognised in 2019 in connection with our 2017−2019 Incentive Scheme. On the other hand, it was positively influenced by the tax reliefs we used, totalling approximately PLN 2.9m and including the IP Box and an R&D tax relief (adjustment for 2018), which brought the effective tax rate of 11 bit studios S.A. in 2019 down to 13.26%, compared with 21.94% a year earlier. We are particularly proud of the consistent growth in our cash resources. As at the end of December 2019, the Company held over PLN 82.21m in bank accounts, term deposits and low-risk corporate bonds, meaning a year-on-year increase of 45.9% (PLN 56.34m). With PLN 17.75m in trade receivables, 11 bit studios S.A.'s financial assets totalled PLN 99.96m as at December 31st 2019 relative to PLN 70.88m a year earlier, a 41% growth in 12 months.

Our robust financial performance in 2019 was due to effective monetisation of the entire game portfolio, which is steadily growing and includes our own productions and the titles marketed as part of our publishing activities, in particular *Frostpunk* and *Moonlighter*. We also saw a positive contribution from *This War of Mine* although it had been first placed on the market more than five years ago, and *Children of Morta*, i.e. the most recent title marketed as part of our publishing programme and launched in autumn 2019. We strongly believe that with the initiatives planned for the upcoming periods, such as DCL releases (including paid DCLs) as well as game releases for new hardware platforms and in new language versions, the titles listed above will continue to generate solid revenue streams for a long time.

Considering the Company's excellent financial condition we can comfortably plan further investments, likely to give even more momentum to our growth. We do not expect those plans to be jeopardised by transient perturbations such as the COVID-19 epidemic, which has had no effect on our day-to-day operations, financial liquidity or revenues to date. We boldly look to the future. We are currently working on three new proprietary games planned to reach the market in the coming years, including *Project 8*. This brings us much closer to our main medium-term strategic goal of releasing one proprietary game every 12–18 months. In the past, we did that every 3 or 4 years.

On an equally grand scale we plan to develop 11 bit publishing, whose contribution to our overall performance is steadily increasing. In 2019, it already accounted for 40% of our revenue. We have three more titles in the publishing portfolio now, one of which is being developed in

Poland. Each has a far larger budget, and thus greater commercial potential than the productions we have released so far. This by no means satisfies our appetite for the development of the publishing business which, with the tailwind from the success of *Moonlighter* and *Children of Morta,* is looking at projects that had previously seemed completely out of our reach.

To be able to face these challenges, 11 bit studios S.A. plans to significantly expand its staffing levels in 2020, as it did last year. By the end of 2020, the headcount should rise to 190–200, and there is more to come. At our own new office at Brzeska 2 in Warsaw, to which we moved a month ago, we will offer jobs and ambitious tasks for more than 300 people. This clearly shows that we intend to continue growing strongly and increasing our Company value for the Shareholders.

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

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

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

The selected financial data presented in the tables below was translated 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 for the last day of the reporting period

- Exchange rate as at December 31st 2019 - PLN 4.2585
- Exchange rate as at December 31st 2018 - PLN 4.3000

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

- Exchange rate for 2019 - PLN 4.3018
- Exchange rate for 2018 - PLN 4.2669

Statement of financial position

	Dec 31 2019 (PLN)	Dec 31 2019 (EUR)	Dec 31 2018 (PLN)	Dec 31 2018 (EUR)
Total assets	155,668,388	36,554,747	109,262,822	25,409,959
Non-current assets	49,815,126	11,697,810	41,316,894	9,608,580
Intangible assets	24,870,505	5,840,203	17,138,011	3,985,584
Current assets	105,853,262	24,856,936	67,945,928	15,801,379
Other financial assets (TFI)	0	0	5,094,282	1,184,717
Cash	14,882,519	3,494,780	24,250,681	5,639,693
Bank deposits with maturities of more than 3 months	67,328,563	15,810,394	27,000,000	6,279,070
Total equity and liabilities	155,668,388	36,554,747	109,262,822	25,409,959
Equity	119,740,299	28,117,952	89,911,573	20,909,668
Liabilities and provisions	35,928,089	8,436,794	19,351,249	4,500,290

Statement of profit or loss

	Period ended Dec 31 2019 (PLN)	Period ended Dec 31 2019 (EUR)	Period ended Dec 31 2018 (PLN)	Period ended Dec 31 2018 (EUR)
Revenue	71,221,248	16,556,150	82,113,505	19,244,300
Depreciation and amortisation	6,424,309	1,493,400	4,493,003	1,052,990
Operating profit	23,871,321	5,549,147	46,948,742	11,003,010
EBITDA	30,295,630	7,042,547	51,441,745	12,056,000
Profit (loss) before tax	25,030,143	5,818,528	48,105,776	11,274,175
Net profit (loss)	21,710,280	5,046,790	37,549,897	8,800,276

Statement of cash flows

	Period ended Dec 31 2019 (PLN)	Period ended Dec 31 2019 (EUR)	Period ended Dec 31 2018 (PLN)	Period ended Dec 31 2018 (EUR)
Net cash from operating activities	41,643,258	10,847,613	39,046,228	9,150,959
Net cash from investing activities	(49,342,348)	(12,637,349)	(55,571,879)	(13,023,947)
Net cash from financing activities	(1,669,073)	(387,994)	12,600,000	2,952,964
Total net cash flows	(9,368,162)	(2,177,730)	(3,925,651)	(920,024)

FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A.
FOR 2019

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:	ul. Brzeska 2, 03-737 Warsaw, Poland
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.

1.2. Covered periods

The 2019 Financial Statements of 11 bit studios S.A. present data for the reporting period from January 1st to December 31st 2019 and contain the following comparative data:

- Statement of financial position – as at December 31st 2018,
- Statement of profit or loss and other comprehensive income – for the period of 12 months ended December 31st 2018,
- Statement of changes in equity – for the period of 12 months ended December 31st 2018,
- Statement of cash flows – for the period of 12 months ended December 31st 2018.

1.3. Composition of the Company's governing bodies as at December 31st 2019

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

- Wojciech Ozimek – Chairman of the Supervisory Board
- Jacek Czykiel– Deputy Chairman of the Supervisory Board
- Radosław Marter– Member of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board

In the reporting period, there were no changes in the composition of the Management Board of 11 bit studios S.A. The Supervisory Board reappointed its members for another three-year term of office at a meeting held on May 23rd 2019. The term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021.

The composition of the Supervisory Board of 11 bit studios S.A. changed in the reporting period. The Annual General Meeting held on May 23rd 2019 appointed the Company's Supervisory Board for a new three-year term of office, with the following composition: Wojciech Ozimek, Jacek Czykiel and Radosław Marter (members of the Company's Supervisory Board of the previous term of office), as well as Marcin Kuciapski and Piotr Wierzbicki. At its meeting held on June 18th 2019, the Supervisory Board passed a resolution to appoint Wojciech Ozimek as Chairman and Jacek Czykiel as Deputy Chairman of the Supervisory Board. The term of office of the current Supervisory Board expires on May 23rd 2022. At its meeting held on September 3rd 2019, the Supervisory Board appointed an Audit Committee consisting of Jacek Czykiel (Chairman), Radosław Marter, and Piotr Wierzbicki.

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. Shareholding structure as at December 31st 2019

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*	137,771	6.02	137,771	6.02
Aviva Investors Poland TFI*	204,225	8.93	204,225	8.93
Other shareholders	1,575,573	68.89	1,575,573	68.89
Total	**2,287,199**	**100.00**	**2,287,199**	**100.00**

* Number of shares registered at the Annual General Meeting held on May 23rd 2019.

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A.

In Current Report No. 1/2019 of January 2nd 2019, 11 bit studios S.A. reported that on January 2nd 2019 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 from Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"), acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), of exceeding the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights held by the Fund changed following the purchase of Company shares by the Fund on December 20th 2018. Prior to the change, the Fund had held 113,709 shares in 11 bit studios S.A., representing 4.97% of the Company's share capital. Upon the transaction, the Fund held 115,839 shares, representing 5.06% of the share capital.

In Current Report No. 18/2019 of August 19th 2019, 11 bit studios S.A. announced that on August 19th 2019 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 from Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"), acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), of going below the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights in the Company changed following the sale of some of the Company shares by the Fund on August 13th 2019. Prior to the change, the Fund had held 120,771 shares in 11 bit studios S.A., representing 5.28% of the Company's share capital. As at the date of going below the 5% threshold, the Fund held 101,146 shares, representing 4.42% of the share capital. At the same time, Aviva TFI reported that the Aviva Investors Fundusz Inwestycyjny Otwarty and Aviva Investors Specjalistyczny Fundusz Inwestycyjny Otwarty funds continue to hold in aggregate more than 5% of total voting rights at the Company's General Meeting.

In the reporting period, there were also changes in the number of Company shares held by the management and supervisory staff.

In Current Report No. 23/2019 of November 22nd 2019, 11 bit studios S.A. announced that on November 22nd 2019 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Marcin Kuciapski, member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On November 22nd 2019, Marcin Kuciapski purchased a total of 300 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 349.25 per share.

In Current Report No. 24/2019 of December 3rd 2019, 11 bit studios S.A. announced that on December 3rd 2019 the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Marcin Kuciapski, member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On December 2nd and December 3rd 2019, Mr Kuciapski purchased a total of 100 shares in 11 bit studios S.A. in trades on the WSE, at an average price of PLN 347 (2 shares on December 2nd 2019) and PLN 348 (98 shares on December 3rd 2019) per share.

After the reporting period, there were changes in the shareholding structure of 11 bit studios S.A. associated with the number of Company shares held by the management staff.

In Current Report No. 4/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, President of the Company's Management Board, concerning his disposal of 11 bit studios S.A. shares. On February 20th 2020, Grzegorz Miechowski sold 3,000 shares in a block transaction on the WSE at an average price of PLN 460 per share.

In Current Report No. 5/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, member of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On February 20th 2020, Przemysław Marszał sold 7,700 shares in 11 bit studios S.A. in a block transaction on the WSE at an average price of PLN 460 per share.

In Current Report No. 6/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Michał Drozdowski, member of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On February 20th 2020, Michał Drozdowski sold 5,000 shares in 11 bit studios S.A. in a block transaction on the WSE at an average price of PLN 460 per share.

Furthermore, in Current Report No. 7/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 21st 2020 the Company received a notification under Art. 69.1.2 in conjunction with Art. 87.1.2 of the Act on Public Offering , Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz. U. of 2009, item 623; the "Act") from Przemysław Marszał, member of the Company's Management Board, to the effect that his interest in total voting rights at the Company's General Meeting fell below 5% as a result of disposal of 11 bit studios S.A. shares in a block transaction executed on the Warsaw Stock Exchange on February 20th 2020. Prior to the reduction, Mr Marszał held 118,000

shares, representing 5.16% of the Company's share capital and conferring the right to 118,000 votes, or 5.16% of total voting rights, at the Company's General Meeting. Following the sale transaction of February 20th 2020, he holds 110,300 shares, representing 4.82% of the Company's share capital and conferring the right to 110,300 votes, or 4.82% of total voting rights, at the Company's General Meeting.

1.6. Company shares held by members of its management and supervisory staff

	Position	Number of shares as at this report date	Number of shares as at Dec 31 2019	Number of shares as at Dec 31 2018
Grzegorz Miechowski	President of the Management Board	159,000	162,000	162,000
Przemysław Marszał	Member of the Management Board	110,300	118,000	118,000
Michał Drozdowski	Member of the Management Board	84,630	89,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	400	400	0

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

In the reporting period, there were changes in holdings of Company shares by the supervisory staff. For details, see **Note 1.5**.

After the reporting period, there were changes in holdings of Company shares by the management staff. 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, 135 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 decided 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 representation

We hereby represent that this 2019 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 2019, 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 2019 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 2019 had been 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 for 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.

Signed by:

Grzegorz Miechowski
President of the Management Board

Przemysław Marszał
Member of the Management Board

Michał Drozdowski
Member of the Management Board

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 2019	Period ended Dec 31 2018
Continuing operations			
Revenue	3.4	71,221,248	82,113,506
Other income	3.5.1	461,634	671,306
Total operating income		**71,682,882**	**82,784,811**
Depreciation and amortisation	3.6	(6,424,309)	(4,493,003)
Raw materials and consumables used		(438,947)	(233,905)
Services	3.7	(26,394,183)	(16,512,347)
Salaries, wages and employee benefits	3.8	(12,291,040)	(12,965,744)
Taxes and charges		(247,777)	(245,515)
Other expenses	3.5.2	(1,915,407)	(1,331,360)
(Impairment)/reversal of impairment of financial instruments	3.5.3	(99,898)	(54,194)
Total operating expenses		**(47,811,561)**	**(35,836,069)**
Operating profit		**23,871,321**	**46,948,742**
Interest income	3.9	1,089,576	392,637
Other finance income	3.9	273,796	958,742
Finance costs	3.10	(204,550)	(194,345)
Profit before tax		**25,030,143**	**48,105,776**
Income tax expense	3.11	3,319,863	10,555,879
Net profit from continuing operations	3.12.1	**21,710,280**	**37,549,897**
Discontinued operations		0	0
Net profit from discontinued operations		0	0
NET PROFIT	3.12.1	**21,710,280**	**37,549,897**
Earnings per share (PLN):			
Basic	3.12.1	9.49	16.42
Diluted	3.12.2	8.98	15.53
NET PROFIT	3.12.1	**21,710,280**	**37,549,897**
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME	3.12.1	**21,710,280**	**37,549,897**

2.2. Statement of financial position (PLN)

ASSETS

	Note	As at Dec 31 2019	As at Dec 31 2018
Non-current assets			
Property, plant and equipment	3.13	24,043,839	18,734,064
Intangible assets	3.14	24,870,505	17,138,011
Right-of-use assets		344,065	0
Deferred tax asset	3.11.3	542,022	158,033
Other assets	3.20	14,695	192,503
Non-current financial assets	3.17	0	5,094,282
Total non-current assets		**49,815,126**	**41,316,894**
Current assets			
Trade and other receivables	3.15	17,750,932	14,552,625
Inventories - prepaid deliveries of goods and services		11,829	0
Income tax receivable	3.11.2	5,441,189	1,845,130
Other current assets	3.19	438,230	297,492
Cash and cash equivalents	3.21	14,882,519	24,250,681
Current financial assets	3.18	67,328,563	27,000,000
Total current assets	3.17	**105,853,262**	**67,945,928**
TOTAL ASSETS		**155,668,388**	**109,262,821**

EQUITY AND LIABILITIES

	Note	As at Dec 31 2019	As at Dec 31 2018
Equity			
Share capital	3.22	228,720	228,720
Share premium		4,870,274	4,870,274
Statutory reserve funds		78,881,784	41,331,887
Share-based payment reserve		14,257,326	6,138,880
Retained earnings	3.22.2	21,502,195	37,341,812
Total equity		**119,740,299**	**89,911,573**
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.26	10,429,732	11,340,000
Deferred income	3.31	497,564	677,555
Lease liabilities – perpetual usufruct of land		334,891	0
Total non-current liabilities		**11,262,187**	**12,017,555**
Current liabilities			
Trade and other payables	3.27	11,429,892	5,122,519
Liabilities under contracts with customers	3.25	11,730,526	557,145
Short-term borrowings and other debt instruments	3.26	1,303,717	1,452,203
Lease liabilities – perpetual usufruct of land		12,653	0
Deferred income	3.31	189,114	201,826
Total current liabilities		**24,665,902**	**7,333,693**
Total liabilities		**35,928,089**	**19,351,248**
TOTAL EQUITY AND LIABILITIES		**155,668,388**	**109,262,821**

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 2019	**228,720**	**4,870,274**	**41,331,887**	**6,138,880**	**0**	**37,341,812**	**0**	**0**	**89,911,573**
Net profit for the financial year	0	0	0	0	0	21,710,280	0	0	21,710,280
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**	**21,710,280**	**0**	**0**	**21,710,280**
Profit allocated to statutory reserve funds	0	0	37,549,897	0	0	(37,549,897)	0	0	0
Share-based payments	0	0	0	8,118,446		0	0	0	8,118,446
As at Dec 31 2019	**228,720**	**4,870,274**	**78,881,784**	**14,257,326**	**0**	**21,502,195**	**0**	**0**	**119,740,299**

	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**

2.4. Statement of cash flows (PLN)

	Note	Period ended Dec 31 2019	Period ended Dec 31 2018
Cash flows from operating activities			
Profit for the financial year	3.12.1	**21,710,280**	**37,549,897**
Adjustments:			
Depreciation and amortisation	3.6	6,424,309	4,493,003
Income tax expense recognised in profit or loss	3.11.11	3,319,863	10,555,879
Revaluation of intangible assets		33,959	17,121
Other adjustments	3.36	8,360,773	6,465,764
Changes in working capital:			
Increase/ (decrease) in trade and other receivables		(3,198,307)	(11,873,555)
Increase/(decrease) in inventories		(11,829)	0
Increase/(decrease) in other assets		37,072	(48,061)
Decrease in trade and other payables		1,286,372	3,924,667
Increase/(decrease) in balance under contracts with customers		11,173,381	0
Increase/(decrease) in deferred income		(192,704)	207,359
Cash provided by operating activities		**48,943,169**	**51,292,074**
Income tax paid		(7,299,911)	(12,245,846)
Net cash from operating activities		**41,643,258**	**39,046,228**
Cash flows from investing activities			
Proceeds from bank deposits upon maturity – over 3 months		94,000,000	16,000,000
Payments for financial assets		0	(2,000,000)
Proceeds from sale of financial assets		5,094,282	0
New bank deposits placed – over 3 months		(134,000,000)	(43,000,000)
Payments for property, plant and equipment and intangible assets		(14,436,630)	(26,571,879)
Net cash from investing activities		**(49,342,348)**	**(55,571,879)**
Cash flows from financing activities			
Proceeds/(payments) under credit facility		(1,260,000)	12,600,000
Payment of bank loan interest		(409,072)	0
Net cash from financing activities		**(1,669,072)**	**12,600,000**
Net increase /(decrease) in cash and cash equivalents		(9,368,162)	(3,925,651)
Cash and cash equivalents at beginning of reporting period		24,250,681	28,176,332
CASH AS AT END OF REPORTING PERIOD		**14,882,519**	**24,250,681**

3.NOTES TO THE FINANCIAL STATEMENTS

3.1. Reporting in accordance with IFRSs

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 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 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 2019. The accounting policies applied to prepare these 2019 Financial Statements are consistent with the policies applied to prepare the Company's full-year financial statements for 2018, 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 2019

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 2019:

- **IFRS 16 *Leases*** (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IFRS 9 *Financial Instruments***: prepayment features with negative compensation (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IAS 19 *Employee Benefits***: plan amendment, curtailment or settlement (effective for annual periods beginning on or after January 1st 2019).
- **Amendments to IAS 28 *Investments in Associates and Joint Ventures***: long-term interests in associates and joint ventures (effective for annual periods beginning on or after January 1st 2019).

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

IFRS 16 replaced **IAS 17 *Leases* ("IAS 17")** and the related interpretations. The standard sets out guidance for recognising, measuring, presenting and disclosing leases and requires lessees to

account for most of their of lease contracts under a single accounting model. The Company applied **IFRS 16 *Leases*** for the first time on January 1st 2019, using the modified retrospective approach.

As at the date of issue of these Financial Statements, the Company had one effective agreement on land perpetual usufruct for a developed property at ul. Brzeska 2 in Warsaw, purchased by the Company at the end of 2018 to house its new headquarters.

Pursuant to the transitional provisions of IFRS 16, the new policies were adopted retrospectively with cumulative effect of initially applying the standard recognised at the date of initial application. As of January 1st 2019, the right of perpetual usufruct to the property located at ul. Brzeska 2 in Warsaw is disclosed in the Company's statement of financial position (under right-of-use assets and lease liabilities). The Company carried the perpetual usufruct right at PLN 344,065. It will be amortised over the term of the perpetual usufruct agreement, i.e. until October 27th 2099.

The amendments to standards and the interpretation referred to above did not have a material impact on these 2019 Financial Statements.

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 the authorisation of these Financial Statements, the following amendments to existing standards had been issued by the IASB and endorsed by the EU for application with effect from a later date.

- **Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** – definition of materiality, endorsed by the EU on November 29th 2019 (effective for annual periods beginning on or after January 1st 2020).
- **Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures*** – Interest Rate Benchmark Reform, endorsed by the EU on January 15th 2019 (effective for annual periods beginning on or after January 1st 2020).
- **Amendments to References to the Conceptual Framework in IFRS Standards** – endorsed by the EU on November 29th 2019 (effective for annual periods beginning on or after January 1st 2020).

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 these Financial Statements had they been applied by the Company as at the reporting date.

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

There are no major differences between the 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 25th 2020 (the following effective dates refer to the full versions of respective standards):

- **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 IAS 1 *Presentation of Financial Statements*** – classification of liabilities as current or non-current (effective for annual periods beginning on or after January 1st 2022).
- **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.
- **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).

The Company estimates that none of those new standards or amendments to the existing standards would have had a material impact on these 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.

The Company estimates that the application of hedge accounting for portfolios of financial assets and liabilities according to **IAS 39 *Financial Instruments: Recognition and Measurement*** would not have had any material impact on these Financial Statements had the standard been endorsed for use as at the reporting date.

3.2. Statement of accounting policies

3.2.1. Reporting period and scope of disclosure

These Financial Statements present data for the reporting period from January 1st 2019 to December 31st 2019 and contain the following comparative data:

- Statement of financial position – as at December 31st 2018,
- Statement of profit or loss and other comprehensive income – for the year ended December 31st 2018,
- Statement of changes in equity – for the year ended December 31st 2018,
- Statement of cash flows – for the year ended December 31st 2018.

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 products which are developed 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 exists 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 when the sale takes place but not earlier than after the delivery of materials enabling the actual distribution of the finished 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 losses 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 on that date. Non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rate effective on the date of the fair value measurement. Non-monetary items are measured at historical cost.

Exchange differences arising on a monetary item are recognised in profit or loss for the period in which they arise.

Most exchange differences arising in the Company's operations are related to export sales and the related trade receivables. The Company presents exchange differences in finance income or costs, which facilitates 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 position 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 6 to 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 from 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.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.

3.2.16.Earnings and diluted earnings per share

Earnings per share for each reporting period are calculated as the 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 potentially dilutive ordinary shares. As the Company has dilutive instruments (subscription warrants), it presents diluted earnings per share.

3.2.17.Capital management

The overall purpose of capital management (capital meaning equity in the statement of financial position) is to keep 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 environment 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.

3.2.18.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 3.32**.

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.

3.2.19.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.

3.2.20.Financial assets

In the reporting periods presented, the Company held financial assets at amortised cost and financial assets at fair value through profit or loss.

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.

Classification and subsequent measurement of financial assets

After initial recognition, the Company classifies each financial asset as measured at amortised cost 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.

The Company did not carry any financial assets measured at fair value through other comprehensive income in the reporting periods presented.

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.

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.

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 at 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 allowance for expected credit losses 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.

3.2.21.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 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.

3.2.22.Statement of cash flows

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

3.2.23.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 reportable segment.

3.3. Significant judgements and estimates

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

3.3.1. Professional judgement in accounting

Below are presented principal judgements, other than those involving estimates (see Note 3.3.2), which the 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.

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 credit facility (described in **Note 3.26)** contracted by the Company with PKO BP in December 2018 to finance a part of the purchase price for developed property at ul. Brzeska 2 in Warsaw is denominated in PLN. The Company does not have any non-bank borrowings or bonds in issue, and 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.

Accordingly, 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 the 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 based on 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 2019	Period ended Dec 31 2018
Revenue	71,221,248	82,113,506

As in the previous year, in 2019 the main source of the Company's revenue was sales of its own games as well as third-party games released by the Company as part of the 11 bit publishing services. The Company's other income (including mainly grants received) accounted for just 0.64% of total revenue in the reporting period (0.81% in 2018). In 2019, the Company generated revenue of PLN 71,221,248, down 13.3% year on year (2018: PLN 82,113,506). The drop was attributable to a strong base effect of last year's figures 2018 saw the very successful launch of *Frostpunk* and *Moonlighter* (on April 24th and May 29th, respectively). In 2019, the Company focused on further monetisation of those titles and *This War of Mine* as well as on paid DLC releases. On August 27th 2019, the Company launched *The Rifts*, the first of the three paid add-ons to *Frostpunk* which are to be released as part of the Season Pass. On July 23rd 2019, a paid DLC for *Moonlighter*, entitled *Between Dimensions*, was released. August 6th 2019 was the date of release of *Fading Embers*, a paid add-on to *This War of Mine* (the third and last DLC from the *TWoM: Stories* series). All these add-ons were well received by the players and made a positive contribution to the Company's performance in 2019. Another major contributor to 11 bit studios S.A.'s revenue in 2019 was the market debut of *Children of Morta*, created by the Dead Mage studio and marketed by 11 bit publishing. The PC version of the game went on sale on September 3rd 2019. On October 15th 2019, Xbox One and PS4 versions were released, and the version for Nintendo Switch was launched on November 20th 2019. The Company's 2019 revenue was complemented by sales of *Beat Cop* (a title first marketed by 11 bit publishing in spring 2017, as a PC version), which was released on PS4, Xbox One and Nintendo Switch consoles and handhelds with iOS and Android operating systems in the reporting period.

3.4.1. Revenue by geographical region (PLN)

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).

Below is presented information on revenue from sales to third parties by geographical area and on non-current assets by asset location.

	Revenue from third parties		Non-current assets	
	Period ended Dec 31 2019	Period ended Dec 31 2018	As at Dec 31 2019	As at Dec 31 2018
Poland	1,487,844	2,875,258	49,815,126	41,316,894
European Union	6,393,095	7,408,148	0	0
US	51,273,600	67,784,368	0	0
Japan	10,310,174	3,444,566	0	0
China	827,383	229,253	0	0
Other	929,152	371,913	0	0
Total	**71,221,248**	**82,113,506**	**49,815,126**	**41,316,894**

3.4.2. Revenue by distribution channel

The Company's revenue from sales of video games, of PLN 71,221,248 (2018: PLN 82,113,506) includes PLN 70,569,708 (2018: PLN 74,956,156) 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 2019	Period ended Dec 31 2018
Grants received	362,937	639,946
Gain on disposal of non-current non-financial assets	20,627	0
Other income	78,070	31,359
Total	**461,634**	**671,305**

The decrease in other income, of over 31.1%, to PLN 461,634 (2018: PLN 671,305), was attributable to lower grants received and accounted for by the Company in 2019 in respect of development projects, including new games. The grants totalled PLN 362,937, compared with PLN 639,946 in the previous year. An item with a positive effect on other income was a gain on the sale of a company car (exceeding its carrying amount).

3.5.2. Other expenses

	Period ended Dec 31 2019	Period ended Dec 31 2018
Impairment losses recognised on:		
Trade receivables	0	0
Other expenses:		
Other costs (cost of written-off items brought forward)	33,959	17,121
Donations	230,316	650,395
Non-recoverable withholding tax	625,964	0
Other expenses by nature	1,025,168	663,845
Total	**1,915,407**	**1,331,361**

In 2019, the main item of other expenses was represented by other expenses by nature (travel-for-work, business travel, advertising and insurance costs), which stood at PLN 1,025,168, compared with PLN 663,845 in 2018. Their growth was mainly driven by the increased activity (compared with the whole of 2018), especially of the publishing division, in terms of participation in trade fairs and other industry events. A material item in 2019, which had not been reported a year earlier, was non-recoverable withholding tax of PLN 625,964. Another major item of other expenses, albeit lower than in 2018, was a donation of PLN 230,316 (2018: PLN 650,395) 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, amounting to PLN 33,959, compared with PLN 17,121 in 2018.

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

	Period ended Dec 31 2019	Period ended Dec 31 2018
Cost of written-off items brought forward	(11,704)	(156,034)
Impairment losses – recognised	(95,172)	0
Impairment losses – reversed	6,978	101,840
Total	**(99,898)**	**(54,194)**

As at the end of 2019, the Company recognised impairment losses on trade receivables (PLN 95,172) from two former tenants for lease of office space in the office building at Brzeska 2 in Warsaw.

3.6. Depreciation and amortisation (PLN)

	Period ended Dec 31 2019	Period ended Dec 31 2018
Depreciation/ amortisation charges made during the year:		
Depreciation	462,343	384,359
Amortisation	6,255,177	4,180,154
Total	**6,717,520**	**4,564,513**
Allocation to project costs	(297,512)	(71,510)
Other depreciation and amortisation expenses	4,301	0
Total	**6,424,309**	**4,493,003**

The year-on-year increase in depreciation and amortisation in 2019 was attributable to the amortisation of development expenditure on *Frostpunk* and *Moonlighter*, which had commenced in the second quarter of 2018. In 2019, the Company also started to amortise development expenditure on *Children of Morta* (in the fourth quarter of 2019) and the console version of *Frostpunk* (in the fourth quarter of 2019 as well).

3.7. Services (PLN)

	Period ended Dec 31 2019	Period ended Dec 31 2018
Services	26,394,183	16,512,347

The year-on-year increase in services in 2019 was attributable to strong sales of *Moonlighter* (published by 11 bit publishing and marketed from May 29th 2018) and *Children of Morta* (released for PCs on September 3rd 2019) and the related royalties paid by the Company to the developers of those games, i.e. Digital Sun of Spain and Dead Mage of the US. In 2019, total royalties paid to Digital Sun, Dead Mage and, in a small part, to Pixel Crow, which had created *Beat Cop* (published by 11 bit studios S.A. and released in spring 2017), was PLN 20,191,515 (2018: PLN 10,196,581.

3.8. Salaries, wages and employee benefits (PLN)

	Period ended Dec 31 2019	Period ended Dec 31 2018
Salaries, wages and employee benefits	(12,291,040)	(12,965,744)

The Company reported a slight (5.2%) year-on-year decrease in salaries and wages, to PLN 12,291,040 (2018: PLN 12,965,744), despite growing workforce. The drop was due to annual bonuses for employees being lower than a year earlier. The system of earnings-based annual bonuses has been in place at the Company for a few years. 11 bit studios S.A.'s earnings for the period from Q4 2018 to Q3 2019, which served as the basis for the annual bonuses paid in Q4 2019, were sizeably lower than in the period Q4 2017 −Q3 2018, i.e. the reference period for the annual bonuses paid in Q4 2018. Salaries, wages and employee benefits also included non-cash

provisions recognised in connection with the Company's 2017–2019 Incentive Scheme In 2019, the provisions were close to PLN 8.1m, compared with PLN 6.2m the year before.

3.9. Finance income (PLN)

	Period ended Dec 31 2019	Period ended Dec 31 2018
Interest income:		
Bank deposits	1,089,576	392,637
Finance income:		
Gains on remeasurement of financial assets	0	40,748
Net foreign exchange gains (losses), including:		
a) Cash	44,796	28,752
b) Loans and receivables	161,836	820,184
c) Liabilities	67,164	69,058
Total	**1,363,372**	**1,351,379**

The steadily growing cash reserves (due to strong sales of *Frostpunk*, *Moonlighter*, *Children of Morta* and *This War of Mine*), predominantly held in the form of term deposits, produced a nearly three-fold increase in interest income, from PLN 392,637 in 2018 to PLN 1,089,576 in 2019.

In 2019, the Company's finance income benefited from the revaluation of monetary assets denominated in currencies other than the Polish złoty, although to a much lesser extent than a year earlier. It resulted in foreign exchange gains of PLN 273,796 (vs PLN 917,994 in 2018), resulting from favourable currency movements. In 2019, particularly in Q3 2019, the Polish złoty depreciated against the US dollar and the euro, enabling the Company to recognise additional income from revaluation on its monetary assets.

3.10. Finance costs (PLN)

	Period ended Dec 31 2019	Period ended Dec 31 2018
Other interest expense:		
a) Interest on public charges	11,924	2,141
b) Other	0	1
Net foreign exchange gains (losses), including:		
a) Cash	0	0
b) Loans and receivables	0	0
c) Liabilities measured at amortised cost	0	0
Losses on remeasurement of financial assets	192,626	192,203
Total	**204,550**	**194,345**

In the reporting period, the only material item of the Company's finance costs was the loss on revaluation of financial assets, the main part of which was related to an Interest Rate Swap hedging

the Company's position against interest rate risk connected with its investment credit facility of PLN 12,600,000 contracted with PKO BP S.A. at the end of 2018 to finance the purchase of new offices.

3.11. Income tax on continuing operations (PLN)

3.11.1. Income tax recognised in profit or loss

	Period ended Dec 31 2019	Period ended Dec 31 2018
Current income tax:		
Attributable to current year	3,703,852	10,623,919
Deferred income tax:		
Attributable to current year	(383,989)	(68,040)
Tax expense recognised in current year on continuing operations	**3,319,863**	**10,555,879**

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 is the same as the calendar year.

Reconciliation of the Company's tax and accounting profit:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Profit before tax from continuing operations	25,030,144	48,105,776
Income tax expense at 19% (2018: 19%)	4,755,727	9,140,098
Tax effect of income which is not classified as income for tax purposes	0	(19,350)
Tax effect of income which is classified as income for tax purposes	(56,994)	(10,649)
Tax effect of costs which are not deductible for tax purposes	(2,014,015)	1,928,213
Tax effect of costs which are deductible for tax purposes	4,168,181	(414,393)
Effect of IP Box tax relief settlement at 5% tax rate	(2,713,965)	0
Effect of 2018 settlements – R&D tax relief	(196,607)	0
Effect of 2018 settlements – withholding tax adjustment	(56,353)	0
Other changes – reconciliation of income tax from previous years	(182,122)	0
Total	**3,703,852**	**10,623,919**

The tax rate applied in the above reconciliation in 2019 and 2018 is 19%, i.e. the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate was 13.26% in 2019 and 21.94% in 2018.

The lower effective tax rate in 2019 was mainly attributable to the use of the IP Box tax relief (PLN 2,713,965), introduced on October 23rd 2018 pursuant to the Act Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Legislation Act and certain other acts, and effective as of January 1st 2019. The Company's revenue from the sale of qualifying intellectual property rights (games) multiplied by the nexus index was taxed at a preferential CIT rate (5%).

3.11.2. Current tax receivable and payable

	As at Dec 31 2019	As at Dec 31 2018
Tax refund receivable	(5,441,189)	(2,014,760)
Income tax payable	0	169,630
Total	**(5,441,189)**	**(1,845,130)**

Tax receivables included the IP Box tax relief described in Note **3.11.1** (PLN 2,713,965), the tax remaining to be deducted upon receipt of returns from trading partners and non-recovered withholding tax.

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 2019	As at Dec 31 2018
Deferred tax asset	604,448	178,853
Deferred tax liability	(62,426)	(20,820)
Total	**542,022**	**158,033**

Period ended Dec 31 2019

	Balance at beginning of period	Recognised in profit or loss	Recognised in other comprehensive income	Balance at end of period
Accruals and deferred income	98,329	29,591	0	127,920
Prepaid expenses	80,524	321,250	0	401,774
Measurement of IRS derivative transactions	0	74,754	0	74,754
Interest accrued on investments with maturities of more than 3 months from acquisition date	(20,820)	(41,606)	0	(62,426)
Total deferred tax asset (liability)	**158,033**	**383,989**	**0**	**542,022**

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
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**

3.12. Earnings per share (PLN)

3.12.1. Basic earnings per share

	Period ended Dec 31 2019	Period ended Dec 31 2018
Basic earnings per share:		
From continuing operations	9.49	16.42
Total basic earnings per share	**9.49**	**16.42**
Diluted earnings per share:		
From continuing operations	8.98	15.53
Total diluted earnings per share	**8.98**	**15.53**

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

	Period ended Dec 31 2019	Period ended Dec 31 2018
Profit for the financial year attributable to shareholders	21,710,280	37,549,897
Total profit used to calculate basic earnings per share	21,710,280	37,549,897
Profit used to calculate basic earnings per share from continuing operations	**21,710,280**	**37,549,897**

	Period ended Dec 31 2019	Period ended Dec 31 2018
Weighted average number of ordinary shares used to calculate earnings per share	2,287,199	2,287,199

3.12.2.Diluted earnings per share

	Period ended Dec 31 2019	Period ended Dec 31 2018
Profit for the financial year attributable to shareholders	21,710,280	37,549,897
Total profit used to calculate diluted earnings per share	21,710,280	37,549,897
Profit used to calculate diluted earnings per share from continuing operations	**21,710,280**	**37,549,897**

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 2019	Period ended Dec 31 2018
Weighted average number of ordinary shares used to calculate basic earnings per share	2,287,199	2,287,199
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**	**2,417,199**

3.13. Property, plant and equipment (PLN)

Carrying amount:

	As at Dec 31 2019	As at Dec 31 2018
Leasehold improvements	243,521	316,654
Buildings and structures	23,637,763	18,102,269
Plant and equipment	73,876	71,336
Vehicles	77,889	226,800
Other property, plant and equipment	10,790	17,005
Total	**24,043,839**	**18,734,064**

Gross carrying amount:

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2019	**18,102,269**	**383,283**	**718,580**	**558,705**	**262,161**	**20,024,998**
Increase	5,535,494	0	290,273	0	19,247	5,845,014
Reclassification	0	(39,406)	39,406	0	0	0
Decrease	0	0	4,795	185,851	0	190,646
As at Dec 31 2019	**23,637,763**	**343,877**	**1,043,464**	**372,854**	**281,408**	**25,679,366**

Accumulated depreciation and impairment:

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2019	**0**	**66,629**	**647,245**	**331,905**	**245,156**	**1,290,935**
Depreciation expense	0	33,727	325,486	77,668	25,461	462,343
Decrease	0	0	3,143	114,608	0	117,751
As at Dec 31 2019	**0**	**100,356**	**969,588**	**294,965**	**270,618**	**1,635,527**

Comparative data for the period from January 1st to December 31st 2018

Gross carrying amount:

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

Accumulated depreciation and impairment:

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

In 2019, 11 bit studios S.A. spent PLN 5,126,422 on renovation and upgrade of the property at ul. Brzeska 2 in Warsaw (the Company's new headquarters since March 2020). The Company also purchased plant and equipment for PLN 290,273 and spent PLN 409,072 on servicing the credit facility contracted to purchase the property. In 2018, the Company spent PLN 18,102 269 to purchase the property at ul. Brzeska 2, PLN 145,387 to purchase plant and equipment, and PLN 56,434 to refit and adapt offices at ul. Brechta 7, which housed the Company's headquarters in 2019.

In 2019, the amount of depreciation of property, plant and equipment was PLN 462,343, compared with PLN 384,359 in 2018.

No impairment of property, plant and equipment was identified either in 2019 or in 2018.

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 2019 included the capitalised cost of phase four work with a remaining weighted average amortisation period of 19 months.

As at December 31st 2019, the completed video games development work comprised games with the remaining weighted average amortisation period of 19 months.

Ongoing development work:

As at December 31st 2019, expenditures on ongoing development work included mainly development of video games (including *Frostpunk* DLCs and *Project 8*) and the game engine (phase five).

Testing ongoing development work for impairment:

Key assumptions used to calculate the value in use of material ongoing development work based on the discounted cash flow model:

The Company makes projections of revenue and expenses over a time horizon of up to three years from the forecast release date, and then discounts them with the weighted average cost of capital (WACC). The discount rate applied is 10%. For prudential reasons , the residual value is not taken into account.

Revenue was estimated based on: (1) the projected number of games sold, based on the Company's many years' experience and sales results for the 11 bit studios current portfolio, and (2) the average assumed unit selling price of a new game.

Expenses were estimated on the basis of costs already incurred and a projection of costs to be incurred until the forecast release date.

A sensitivity analysis performed as at the reporting date showed that there was no risk of impairment of intangible assets comprising ongoing development work.

As a result of tests, in the year ended December 31st 2019 expenditures on discontinued development work of PLN 33,959 were written off through other expenses. In the corresponding period of the previous year, the Company wrote off expenditure on discontinued work of PLN 17,121.

Carrying amount:

	As at Dec 31 2019	As at Dec 31 2018
Completed development work (game engine)	799,816	1,399,543
Completed development work (games)	11,402,028	10,624,149
Ongoing development work	12,668,661	5,112,644
Licences	0	1,675
Total	**24,870,505**	**17,138,011**

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2019	**2,717,702**	**24,453,528**	**505,551**	**5,112,644**	**32,789,425**
Increase	0	0	13,141	14,008,549	14,021,690
Reclassification of completed development work	0	6,418,573	0	(6,418,573)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	(33,959)	(33,959)
As at Dec 31 2019	**2,717,702**	**30,872,101**	**518,692**	**12,668,661**	**46,777,156**

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2019	**1,318,159**	**13,829,380**	**503,875**	**0**	**15,651,414**
Amortisation expense	599,727	5,640,705	14,745	0	6,255,177
Decrease	0	(12)	71	0	59
As at Dec 31 2019	**1,917,886**	**19,470,073**	**518,692**	**0**	**21,906,651**

Comparative data for the period from January 1st to December 31st 2018

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 expense	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**

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

3.15. Trade and other receivables (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Trade receivables and other receivables, including:	**17,902,912**	**14,609,432**
Taxes, grants, customs duties and social security	1,796,511	4,705,311
Other	250,862	59,882
Impairment losses on trade receivables	**(151,980)**	**(56,807)**
Total	**17,750,932**	**14,552,625**

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 days past due as past experience shows that such receivables are virtually unrecoverable.

The balances disclosed as at December 31st 2019 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Dec 31 2019	As at Dec 31 2018
Valve Corporation	6,319,615	4,302,492
Humble Bundle Inc.	3,050,261	49,897
Nintendo Co. Ltd	1,012,032	2,655,414
Sony Interactive Entertainment America LLC	1,105,220	246,070
Microsoft Corporation XC	818,247	0

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

Ageing analysis of past due receivables:

	As at Dec 31 2019	As at Dec 31 2018
60–90 days	0	3,435
91–120 days	140,539	35,416
121–360 days	76,784	32,327
over 360 days	0	9,200
Total	**217,323**	**80,378**

Changes in impairment losses on doubtful receivables:

	As at Dec 31 2019	As at Dec 31 2018
As at beginning of reporting period	**56,807**	**158,638**
Recognition	95,173	0
Reversal	0	(101,831)
As at end of reporting period	**151,980**	**56,807**

The year-on-year increase in impairment losses on doubtful receivables as at the end of 2018 followed from the recognition of impairment losses of PLN (95,173) on amounts due to the Company from two former tenants for lease of office space in the office building at ul. Brzeska 2. As at the end of 2018, the amount of the losses included receivables under court proceedings (a security deposit related to the lease of office space at ul. Modlińska 6 in Warsaw).

Ageing analysis of impaired trade receivables:

	As at Dec 31 2019	As at Dec 31 2018
60–90 days	0	0
91–120 days	0	0
121–360 days	95,173	0
over 360 days	56,807	56,807
Total	**151,980**	**56,807**

3.16. Income tax receivable (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Income tax receivable	5,441,189	1,845,130
Total	**5,441,189**	**1,845,130**

The year-on-year increase in the Company's income tax receivable as at December 31st 2019 was attributable to the settlement of tax reliefs, including primarily the IP Box tax relief. Based on the 'Tax guidance on the preferential taxation of income generated by intellectual property rights (IP Box)' published on July 16th 2019 on the Ministry of Finance's website, the IP Box tax relief can be claimed only in an annual return. This means that throughout 2019 11 bit studios S.A.'s income from qualifying intellectual property rights (games) was subject to 19% tax, and in the annual return the tax rate was adjusted downwards to 5%, resulting in a large amount of receivables from income tax overpayment. The effect of the IP Box tax relief settlement on the income tax amount was PLN 2,713,965 in 2019.

3.17. Non-current financial assets (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Investment fund units (PKO BP Płynnościowy SFIO)	0	5,094,282
Total	**0**	**5 094,282**

3.18. Current financial assets (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Bank deposits with maturities of more than 3 months from acquisition date	67,000,000	27,000,000
Valuation – bank deposits with maturities of more than 3 months	328,563	0
Total	**67,328,563**	**27,000,000**

3.19. Other current assets (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Insurance	45,642	25,692
Domain names, licences, subscriptions	187,929	122,727
Prepaid expenses	73,596	146,213
Guarantees	1,144	2,860
Royalties to be accounted for in the next period	129,919	0
Total	**438,230**	**297,492**

Prepayments and accrued income comprised prepaid expenses related to industry events (trade fairs) in which the Company will take part in subsequent periods, as well as fees for Internet domains, property insurance, subscriptions, stock exchange fees and charges related to the property located at ul. Brzeska 2 in Warsaw. As at December 31st 2019, royalties payable to game developers using the Company's publishing services also represented a material item.

3.20.Other assets (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Long-term security deposits	0	171,729
Long-term prepayments and accrued income	14,695	20,774
Total	**14,695**	**192,503**

As at the end of 2019, the main item of other assets was long-term prepayments (IT service licence). In 2018, the key item of other assets was a security deposit provided in favour of Mazovia Capital Sp. z o.o. under lease of the property housing the Company's headquarters (until the end of February 2020), located at ul. Brechta 7 in Warsaw.

3.21. Cash and cash equivalents (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Cash in hand and at banks	7,882,519	16,250,681
PKO BP Bank Hipoteczny bonds	7,000,000	8,000,000
Total	**14,882,519**	**24,250,681**

Cash in hand and at banks and term deposits as at December 31st 2019, by currency:

- PLN 8,696,229,
- USD 1,124,158 (PLN 4,269,215),
- EUR 446,196 (PLN 1,900,124),
- CNY 31,073 (PLN 16,951).

Cash in hand and at banks and term 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).

The PKO Bank Hipoteczny bonds were treated as current liquidity management instruments rather than an investment. On January 23rd 2020, the issuer (PKO Bank Hipoteczny) repurchased all the securities held by 11 bit studios S.A.

3.22. Share capital (PLN)

	As at Dec 31 2019	As at Dec 31 2018
Share capital	228,720	228,720
Total	**228,720**	**228,720**

As at December 31st 2019, the Company's share capital consisted of 2,287,199 fully paid-up ordinary shares totalling PLN 228,719.90.

3.22.1. Ordinary shares fully paid

	Number of shares	Share capital	Share premium
As at Dec 31 2018	**2,287,199**	**228,720**	**4,870,274**
Increase/decrease	0	0	0
As at Dec 31 2019	**2,287,199**	**228,720**	**4,870,274**

Each fully paid ordinary share, with a par value of PLN 0.10, confers one vote at the General Meeting and pays dividends.

3.22.2. Retained earnings

	As at Dec 31 2019	As at Dec 31 2018
Retained earnings	21,502,195	37,341,812

	Period ended Dec 31 2019	Period ended Dec 31 2018
As at beginning of reporting period	**37,341,812**	**3,209,255**
Net profit attributable to owners of the Company	21,710,280	37,549,897
Profit allocated to statutory reserve funds	(37,549,897)	(3,417,340)
As at end of reporting period	**21,502,195**	**37,341,812**

3.23. Information on dividend paid or declared

The Company paid no dividends in 2019 or 2018.

By Resolution No. 05/05/2019 of the Annual General Meeting of 11 bit studios S.A., dated May 23rd 2019, the net profit for 2018 of PLN 37,549,897 was allocated to statutory reserve funds.

Pursuant to Art. 396.1 of the Commercial Companies Code applicable the Company, at least 8% of net profit for each 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. As at December 31st 2019, it amounted to PLN 76,240 (2018: PLN 76,240).

3.24. Recommendation on allocation of 2019 profit

As at the date of issue of these 2019 Financial Statements, no resolution was passed by the Management Board regarding its recommendation on the allocation of the 2019 profit.

3.25. Liabilities under contracts with customers

As at December 31st 2019, liabilities under contracts with customers comprised advance payments received by the Company from its business partners towards future sales of the Company's products (games).

3.26. Borrowings

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000.00 investment credit 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. The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged with an

Interest Rate Swap. The interest rate is 3.4%. Repayment of the facility is secured with 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 over perpetual usufruct of the land 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 2019, the long-term portion of the loan was PLN 10,429,732, while its short-term portion was PLN 1,303,717 (including measurement of the Interest Rate Swap).

3.27. Trade and other payables

	As at Dec 31 2019	As at Dec 31 2018
Trade payables	5,402,392	187,089
Guarantee deposits – Brzeska 2	76,784	0
Taxes, customs duties, insurance and other dues	556,548	776,173
Accruals and deferred income	5,337,339	4,154,023
Amounts payable to employees	15,034	5,236
Other	41,796	0
Total	**11,429,893**	**5,122,519**

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.

The increase in trade payables to PLN 5,402,392 as at the end of 2019 from PLN 187,089 as at the end of 2018 was attributable to payment schedules for renovation and upgrade work carried out in the fourth quarter of 2019 on the property at ul. Brzeska 2 in Warsaw (the Company's headquarters since March 2020). The related liabilities were paid in the first weeks of 2020.

3.28. 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 2019	**241,513**	**165,840**	**3,746,668**	**4,154,022**
Increase:	**600,078**	**487,763**	**22,033,272**	**23,121,113**
Recognition	600,078	487,763	22,033,272	23,121,113
Decrease:	**571,591**	**446,422**	**20,919,782**	**21,937,795**
Use	571,591	436,630	21,987,568	22,995,789
Reversal	0	9,792	(1,067,786)	(1,057,994)
As at Dec 31 2019	**270,000**	**207,181**	**4,860,159**	**5,337,340**

The line item 'Other' mainly includes royalties relating to game sales and payable to game developers using 11 bit studios S.A.'s publishing services.

Comparative data for the period from January 1st to December 31st 2018

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2019	**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
As at Dec 31 2019	**241,513**	**165,841**	**3,746,669**	**4,154,023**

3.29.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.

3.30.Financial instruments (PLN)

The Company reviewed classes of its financial instruments and concluded that the carrying amounts of the instruments did not differ from their fair values as at December 31st 2019 and December 31st 2018.

3.30.1.Financial assets and liabilities

Financial assets:

	As at Dec 31 2019	As at Dec 31 2018
Financial assets measured at amortised cost - cash	14,882,519	24,250,681
Financial assets at fair value through profit or loss – investment fund units	0	5,094,282
Financial assets measured at amortised cost - bank deposits with maturities of more than 3 months from acquisition date	67,328,563	27,000,000
Financial assets measured at amortised cost - trade and other receivables	17,750,932	14,552,625
Total	**99,962,014**	**70,897,588**

Financial liabilities:

	As at Dec 31 2019	As at Dec 31 2018
Liabilities measured at amortised cost - trade and other payables	11,429,893	5,122,519
Total	**11,429,893**	**5,122,519**

Ageing analysis of trade and other payables:

	As at Dec 31 2019	As at Dec 31 2018
Current	11,429,893	5,116,894
0–60 days	0	5,625
61–90 days	0	0
91–120 days	0	0
121–360 days	0	0
over 360 days	0	0
Total	**11,429,893**	**5,122,519**

3.30.2.Objectives of financial risk management

The Company's Management Board 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.

3.30.3.Credit risk

The investment credit 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 for the investment credit facility of PLN 12,600,000 contracted from PKO BP at the end of 2018 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 with an Interest Rate Swap. The fixed interest rate is 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 are in a robust financial condition. Amounts due from electronic distribution 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 2019, the Company held cash with two institutions: PayPal (PLN 240,109) and the PKO BP Group (the balance).

3.30.4.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 where necessary 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 amounts of the Company's monetary assets and liabilities denominated in foreign currencies as translated into PLN were as follows:

Assets:

	As at Dec 31 2019	As at Dec 31 2018
USD-denominated, including:	**16,494,558**	**9,743,489**
Cash	4,269,215	4,550,443
Receivables	12,225,343	5,193,046
EUR-denominated, including:	**4,622,185**	**7,019,657**
Cash	1,900,124	3,942,335
Receivables	2,722,061	3,077,322

Liabilities:

	As at Dec 31 2019	As at Dec 31 2018
USD-denominated	24,235	21,980
EUR-denominated	70,531	20,270

3.30.5.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; it 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 2019	Period ended Dec 31 2018
Net profit*	1,334,096	787,442

EUR impact:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Net profit*	368,684	566,950

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

3.30.6.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.

3.30.7.Fair value of the Company's financial assets and liabilities that are not measured at fair value but are 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.

3.30.8.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 2019	As at Dec 31 2018	Fair value hierarchy
Bonds	7,000,000	8,000,000	Level 2
Investment fund units	0	5,094,282	Level 1

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

3.31. Deferred income

	As at Dec 31 2019	As at Dec 31 2018
Government grants (a)	677,555	864,298
Other (b)	9,123	15,083
Total	**686,677**	**879,381**
Short-term	189,114	201,827
Long-term	497,564	677,554
Total	**686,677**	**879,381**

(a) The amount represent the total of:

- 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 2019, the outstanding (not accounted for) balance of the grant was PLN 239,988 (December 31st 2018: PLN 419,979).
- Government grant (EU funding) received in 2017 under the Creative Media programme for the development of *Project 8*. Income from the grant has not been accounted for yet. It will be recognised against amortisation charges in the coming years – PLN 437,566 (December 31st 2018: PLN 437,566).

(b) The amount disclosed as at December 31st 2019 resulted from the purchase (as part of investments of free cash) of non-Treasury securities (PKO BP Bank Hipoteczny bonds) at a discount to their nominal value.

3.32. Share-based payments (PLN)

3.32.1.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 Supervisory Board, acting o the basis of a relevant proposal from the Management Board, will adopt a resolution to grant Series B subscription warrants to the Incentive Scheme participants; the number of the warrants will be specified in the Management Board's proposal.

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

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 2019 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 as part of the Incentive Scheme was set at PLN 103.38.

3.32.2.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 the Company's share price as at the date of signing the Incentive Scheme participation agreement (the grant date) and its annual volatility. This value is charged to profit or loss proportionately over the entire settlement period for the three-year Incentive Scheme, and is recognised as capital reserve. 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	by Jun 30 2020
11 but studios S.A. share price on the grant date (PLN)	209.00
Annual volatility of 11 bit studios S.A. share price (%)	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 2019	8,118,445
Cost of the Scheme as at December 31st 2018	6,138,880
Statement of profit or loss – employee benefits expense (PLN) in 2019	8,118,445
Statement of profit or loss – employee benefits expense (PLN) in 2018	6,138,880

3.33. 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

- Piotr Sulima– Chairman of the Supervisory Board (until May 23rd 2019)
- Jacek Czykiel– Deputy Chairman of the Supervisory Board
- Radosław Marter– Member of the Supervisory Board
- Agnieszka Maria Kruz– Member of the Supervisory Board (until May 23rd 2019)
- Wojciech Ozimek – Member of the Supervisory Board, Chairman of the Supervisory Board (since May 23rd 2019)
- Marcin Kuciapski – Member of the Supervisory Board (since May 23rd 2019)
- Piotr Wierzbicki – Member of the Supervisory Board (since May 23rd 2019).

In addition, the Company's related parties include also the following persons related to members of the key management:

- Paweł Miechowski, Partnership Manager – 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.

3.33.1. Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.33.4.**, the Company entered into the following related-party transactions in 2019 and 2018:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Arkona - Paweł Miechowski	182,120	190,142
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	54,350	79,562
Total	**236,471**	**269,704**

3.33.2. Loans advanced to related parties

The Company did not advance any loans to related parties in 2019 or 2018.

3.33.3. Borrowings from related parties

The Company did not receive any loans from related parties in 2019 or 2018.

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

The key management personnel includes members of the Management Board 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 (paid in 2019):

	Period ended Dec 31 2019	Period ended Dec 31 2018
Grzegorz Miechowski	430,838	456,391
Bartosz Brzostek (member of the Management Board until May 9th 2018)	0	178,654
Przemysław Marszał	429,866	455,438
Michał Drozdowski	420,000	445,630
Total	**1,280,704**	**1,536,113**

Short-term benefits – Management Board (accrued 2019 annual bonuses to be paid in 2020):

	Period ended Dec 31 2019	Period ended Dec 31 2018
Grzegorz Miechowski	90,000	80,504
Przemysław Marszał	90,000	80,504
Michał Drozdowski	90,000	80,504
Total	**270,000**	**241,512**

Short-term benefits – Supervisory Board:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Piotr Sulima	21,450	54,000
Jacek Czykiel	34,875	36,000
Radosław Marter	19,800	19,800
Agnieszka Maria Kruz	7,865	19,800
Wojciech Ozimek	40,510	19,800
Marcin Kuciapski	12,045	0
Piotr Wierzbicki	12,045	0
Total	**148,590**	**149,400**

Remuneration of the members of the Company's Management Board is determined by the Supervisory Board and depends on the individual members' performance 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 for the Company's earnings reported for a given period. The bonus is calculated for a period starting from the fourth quarter of the

previous year (inclusive) and ending with the third quarter of the current year (inclusive). The bonus amount is divided in equal parts among all Management Board members. For 2019, the Management Board received a total bonus of PLN 571,591. The 2019 bonus for the Management Board (for Q1–Q3 2019) was paid before the date of authorisation of these Financial Statements.

The bonus was divided as follows:

- Grzegorz Miechowski– PLN 190,530
- Przemysław Marszał– PLN 190,530
- Michał Drozdowski– PLN 190,530

The members of the Management Board did not receive any other remuneration for 2019 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 3.32**.

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 2019	Period ended Dec 31 2018
Grzegorz Miechowski	60,000	35,000
Michał Drozdowski	60,000	35,000
Przemysław Marszał	60,000	35,000
Total	**180,000**	**105,000**

Remuneration of the Management Board in 2019 – total:

	Grzegorz Miechowski	Przemysław Marszał	Michał Drozdowski
Remuneration for managerial responsibilities	430,838	429,866	420,000
Annual bonus (paid in 2019)	190,530	190,530	190,530
Annual bonus (accrued in 2019)	90,000	90,000	90,000
Remuneration under civil-law contracts	60,000	60,000	60,000
Total	**771,368**	**770,396**	**760,530**

Remuneration of the Management Board in 2018 – total:

	Grzegorz Miechowski	Bartosz Brzostek (Member of the Management Board until May 9th 2018)	Przemysław Marszał	Michał Drozdowski
Remuneration for managerial responsibilities	456,391	178,654	455,438	445,630
Annual bonus (paid in 2018)	570,362	0	570,362	570,362
Annual bonus (accrued in 2018)	80,504	0	80,504	80,504
Remuneration under civil-law contracts	35,000	0	35,000	35,000
Total	**1,142,257**	**178,654**	**1,141,304**	**1,131,496**

3.33.5.Other related-party transactions

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

3.34.Off-balance-sheet commitments

As at the date of issue of this Annual Report, the Company had off-balance-sheet commitments of EUR 2,795,000 and PLN 7,246,250. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.35.Contingent assets and liabilities

3.35.1.Contingent liabilities

During the reporting period, 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 2019 were PLN 348,232 (2018: PLN 353,258).

Security for an investment credit facility contracted with PKO BP S.A. in December 2018 to finance a part of the purchase price for the property at ul. Brzeska 2 in Warsaw, comprising a blank promissory note issued by the Company, together with a promissory note declaration, contractual mortgage of up to PLN 20,223,000.00 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.

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 credit facility agreement for the purchase of the developed property located at ul. Brzeska 2 in Warsaw.

3.36. 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 2019	Period ended Dec 31 2018
Change in deferred income in the statement of financial position	192,704	207,359
Total	**192,704**	**207,359**

The line item 'Other adjustments' in the statement of cash flows comprises:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Amortisation/depreciation charges allocated to project costs	297,512	71,510
Settlement of withholding tax for 2017 and previous years	0	103,921
Measurement of non-current financial assets	0	(40,748)
Valuation of share-based payments - Incentive Scheme	8,118,446	6,138,880
Other adjustments	201,246	192,203
Valuation of bank deposits with maturities of more than 3 months	(328,563)	0
Other	72,133	0
Total	**8,360,773**	**6,465,766**

3.37. 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.

3.38. 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 had an impact on the Company's financial results for 2019.

3.39. Events subsequent to the reporting date

The spread of the COVID-19 epidemic after the reporting date and before the date of authorisation of these Financial Statements did not affect the operations and performance of 11 bit studios S.A. until the date of issue of the Company's 2019 Annual Report.

In the first ten days of March 2020, the Company took the necessary steps to switch to the remote work model for the entire team to avoid the risk of the disease at the Company. After the required changes were made to the network infrastructure and software, since Monday, March 16th 2020, all employees and associates of 11 bit studios S.A. have been able to work from their homes. Accordingly, changes were also made to the management of the Company, in particular in the area of supervision, control and enforcement of employees' duties. As at the reporting date, in all key areas, including game production, 11 bit studios S.A. operated without any disruptions. Based on the sales data for the last weeks, the COVID-19 coronavirus epidemic has had no adverse effect on the Company's revenue from the sale of games, including its proprietary titles and the productions of third-party studios to which the Company provides publishing services. Furthermore, given the Company's cash resources which exceed many times its liabilities and planned capital expenditure, the epidemic is not expected to pose any threat to the Company's liquidity in the next 12 months.

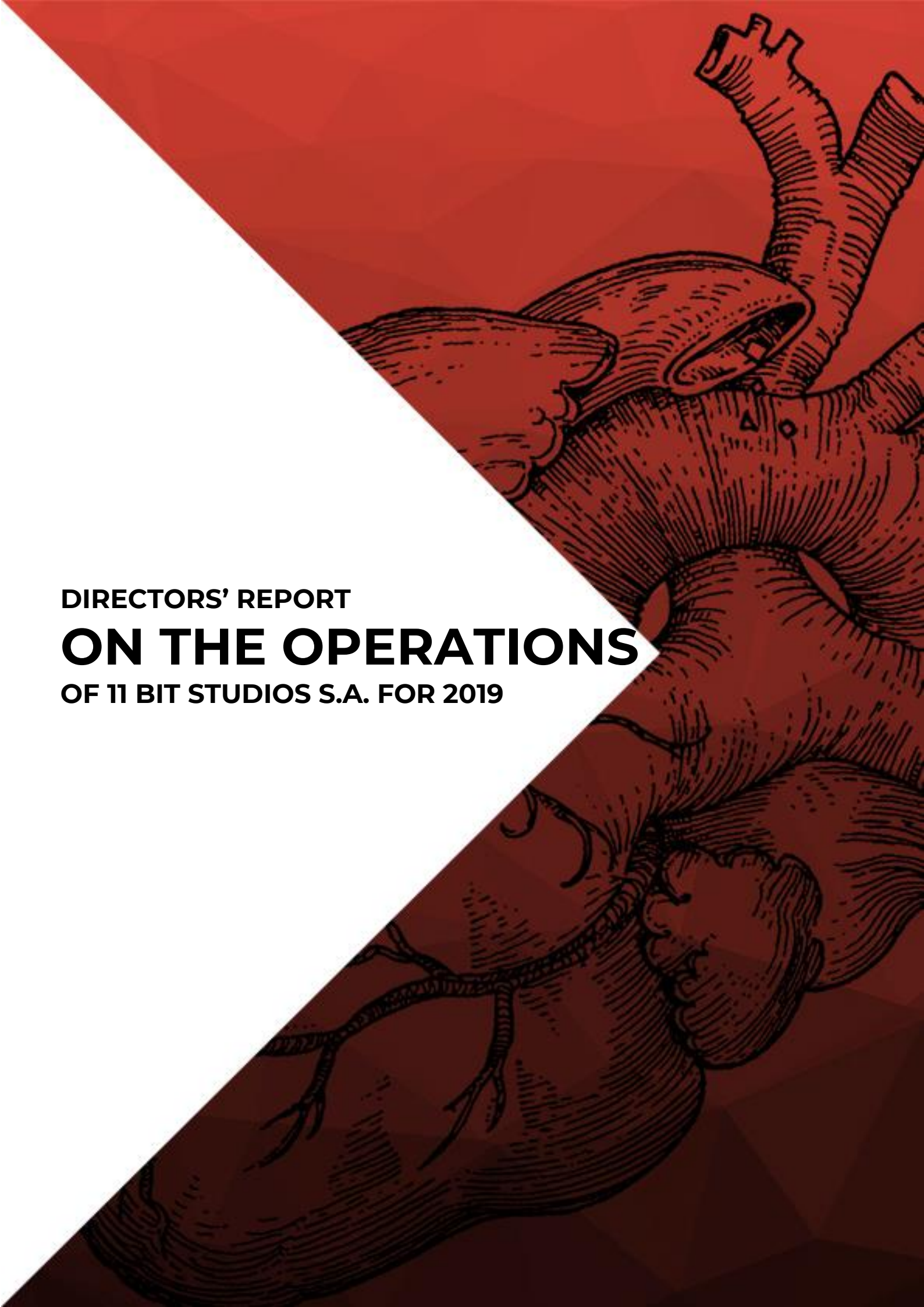
3.40. Authorisation of financial statements

These Financial Statements were authorised for issue by the Management Board on March 25th 2020.

Signed by:

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

Warsaw, March 25th 2020



DIRECTORS' REPORT

ON THE OPERATIONS

OF 11 BIT STUDIOS S.A. FOR 2019

4.OVERVIEW

4.1. Key achievements in 2019

The key drivers of 11 bit studios S.A.'s revenue in 2019 were strong sales of *Frostpunk* and *Moonlighter* (the latter being a third-party title released by 11 bit publishing), both marketed since the second quarter of 2018, the launch of the *Children of Morta,* as well as continuing solid sales of *This War of Mine,* which had been released in the PC version more than five years ago.

The PC version of *Frostpunk* was first placed on the market on April 24th 2018. The game, telling the story of a struggle for survival of a community stranded in a freezing world, proved very popular with fans, which translated into in very good sales in the release period and the following quarters. At the annual Investor Conference held on March 30th 2019, the Company announced that *Frostpunk* had already sold over 1.4m copies, but the sales volume continued to grow in the following months. On October 11th 2019, the Company's newest product was also released for Xbox One and PS4.

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. At the beginning of the third quarter of 2019, the Company announced via social media that over one million gamers had already played *Moonlighter*.

Children of Morta, produced by the American studio Dead Mage, was placed on the market (in the PC version) on September 3rd 2019. On October 15th 2019, it was released in the Xbox One and PS4 versions, and on November 20th 2019 in the version for Nintendo Switch.

This War of Mine continued to contribute positively to the Company's results in the first half of 2019 (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 2019, 11 bit studios S.A.'s development division focused on the Xbox One and PS4 versions (launched on October 11th 2019) of *Frostpunk* and the game's add-ons (including paid ones). Involved in the project was a team of over 40 employees and associates. It took longer than originally planned, mainly because 11 bit studios S.A. decided that the console version of *Frostpunk* would not be a straight port of the PC version. Accordingly, every element of the game was designed from scratch to work intuitively with controllers. In addition to changes in the user interface, the game offers an express menu for quick access to most common building actions, easy to use choice-wheels, top-down view for precise building, upscaled icons, and a host of other elements that make the console version of *Frostpunk* extremely user-friendly. The Company's

efforts to ensure the highest possible quality of the console version have been noted and appreciated by reviewers from industry media and game users after its release. On the Metacritic website, which aggregates reviews, the *Frostpunk* version for Xbox One scored 84/100, and the version for PS4 as much as 87/100, which was one of the best results for the 2019 releases.

In 2019, while preparing the console version of *Frostpunk*, its development team was also involved in the preparation of DLCs for that game, including paid ones. The first paid add-on to *Frostpunk*, *The Rifts,* was released on August 27th 2019. At the same time, the Company launched the sale of Season Pass for *Frostpunk* that includes, apart from *The Rifts*, two further DLCs whose launch was announced for the following months. The second DLC of the Season Pass, *Frostpunk – The Last Autumn*, came to stores on January 21st 2020. The last Season Pass DLC for *Frostpunk*, currently developed under the working title of *Project TVADGYCGJR*, will be released in 2020.

In 2019, the Company also took a number of steps to maintain gamers' interest in *Frostpunk* and further monetisation of the game. Its new language versions were marketed, including Japanese, Korean and Italian, and currently *Frostpunk* is available in twelve languages, with more language versions soon to follow. The Company's flagship product was also offered through a number of promotion and sale campaigns on major global platforms, including Steam, which had a positive impact on sales volumes.

After the reporting period, on February 14th 2020, 11 bit studios S.A. announced that it had signed an agreement with a global leader in developing games for handhelds to produce *Frostpunk* for handheld devices running on iOS and Android. The Company believes this is another step in building *Frostpunk* as a cross-platform global brand which may be relevant to the Company's performance in subsequent periods.

In 2019, the Company also continued its work (started a few quarters before) on the production of a game under the working title of *Project 8*. The title is being developed by another team, which at the date of this report consisted of almost 30 members, but is due to be strongly expanded through ongoing recruitment. According to current plans, the *Project 8* team should ultimately be comparable in size to that which produced *Frostpunk* (60 people), and the game's budget should be about PLN 20m. The Company expects to release *Project 8* simultaneously for PCs and for PS4 and Xbox One consoles, which should considerably enhance the game's commercial potential already from the date of its release (yet to be set).

In parallel with the development of *Frostpunk* and production of *Project 8*, in 2019 the Company was also engaged in activities to further develop *This War of Mine*. As a result, a third *TwoM: Stories* paid add-on was released (the first DLC of the series was released on November 14th 2017, on the third anniversary of the *TWoM* debut). The add-on entitled *TWoM: Stories – Fading Embers* was released on August 6th 2019 and was well received by the gaming community. On November 14th

2019, on the fifth anniversary of the debut of *This War of Mine* (PC version), 11 bit studios S.A. offered to the fans its remastered version entitled *This War of Mine: Final Cut*, containing an additional scenario and locations. The Company expects the *TWoM: Stories – Fading Embers* to be the last add-on to *TWoM*, and the team responsible for its development has proceeded to prototype a new title (IP). The group working on *Project 9* is small and includes approximately 10 people. It will be expanded in further stages of production. 11 bit studios S.A. also initiated work on another proprietary production – *Project 10*. Just as *Project 9*, it is in the initial concept phase, and the team working on the project consists of a few people.

4.1.2. Publishing division

In 2019, the Company's publishing division focused on preparations for the release of *Children of Morta*, a game developed by the US studio Dead Mage based in Austin, Texas. *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* for PCs was launched on September 3rd 2019; on October 15th 2019 the game was released for Xbox One and PS4, and on November 20th 2019 for Nintendo Switch. The price of *Children of Morta* distributed digitally for PCs, Xbox Ones, PS4s and Nintendo Switches is USD/EUR 21.99. Its boxed versions (prepared by Merge Games) are available for PCs (in Europe and Australia), and for PS4 and Nintendo Switch consoles.

The launch of *Children of Morta*, especially its PC version, proved very successful. The title ranked among top ten of the Steam's bestsellers and was included in the list of the best September releases on this platform. It also received very positive feedback from reviewers and users. On the Metacritic website, which aggregates reviews and grades from industry media, the PC version of *Children of Morta* scored 82/100 from reviewers and 8.3/10 from users. The Xbox One version scored 80/100 and 8.0/10, respectively, and the PS4 version: 79/100 and 7.9/10. Finally, for the Nintendo Switch version, the scores were 80/100 and 8.1/10. The game was also awarded a number of distinctions and award nominations, including in the competition for Windows Central Game Award 2019. *Children of Morta* won this competition in the *Best Indie Games* category. The game was also nominated in the following categories: *Best Action Games* and *Best Cooperative Multiplayer* in the *Game Of The Year 2019* competition organised by the prestigious *Game Informer* magazine.

In the weeks and months following its launch, sales of *Children of Morta* on all platforms for which the game was released were satisfying and contributed materially to the Company's performance for the third and fourth quarters, as well as the whole of 2019. The sales were supported by a number of promotional and marketing activities planned and carried out by 11 bit

studios S.A., including primarily the Publisher Week Sale (in the first ten days of October 2019) on the Steam website. Further sale campaigns organised on this platform, including Autumn Sale and Winter Sale, also contributed to good results.

In 2019, the publishing management team continued to monetise *Moonlighter* developed by the Spain-based 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. It debuted simultaneously for PCs, Xbox One and PS4 on May 29th 2018 and is available from the world's leading digital gaming platforms, including Steam. Since the fourth quarter of 2018, *Moonlighter* can also be played on Nintendo Switch, including by players in Japan, where the game was released on Nintendo Switch in March 2019 and was well received by the market. Nintendo Switch has been the primary sales platform for *Moonlighter* since the first quarter of 2019. At the beginning of the third quarter of 2019, the Company announced in social media that over one million gamers had already played *Moonlighter*.

In addition to its continued development (expanded content and new language versions) and participation in promotional and sale campaigns, the game monetisation efforts in 2019 included sales of a large paid add-on called *Moonlighter – Between Dimensions*, which came to stores on July 23rd 2019. The development team also worked on the game's version for mobile devices running on iOS or Android, whose release date will be announced at a later date.

In addition to the development and monetisation of *Moonlighter* and the release of *Children of Morta*, in 2019 the 11 bit publishing team actively supported sales of its older games, mainly *Beat Cop* (released on PCs in March 2017). For instance, the Company decided to release *Beat Cop* in versions for handheld devices, and for Nintendo Switch, PS4 and Xbox One consoles. The game's version for these platforms was released on March 5th 2019.

In 2019, 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. The results of these efforts translated into new publishing agreements, as announced by the Company in its current report at the end of 2019. On December 10th 2019, 11 bit studios S.A.'s publishing portfolio comprised three projects. The first of the agreements is for the publishing of a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The title will be classified into the RPG genre. The second of the agreements concerns a game with a working (code) name of *Foxhole*. It has been produced by Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The third title to be published by the Company has been

produced by a foreign game development studio. Further information about these productions, including their release dates, will be disclosed in due course.

4.1.3. Other developments

2019 witnessed important developments that built and solidified the image of 11 bit studios S.A. as a developer and publisher of world-class video games, but also as a reliable and fast-growing listed company.

On March 13th 2019, the Company won two accolades in the 20th edition of the *Listed Company of the Year* contest organised by the *Puls Biznesu* daily. 11 bit studios S.A. was ranked second in the *Success in 2018* category and was named among the top ten listed companies in the overall 2018 ranking.

On January 2nd 2019, 11 bit studios S.A. was notified by Aviva Investors Poland TFI S.A. that one of the funds under its management, i.e. Aviva Investors FIO, had purchased additional shares in the Company at the end of 2018, exceeding the threshold of 5% of its share capital. Following the transactions, Aviva Investors FIO held 115,839 shares in 11 bit studios S.A., representing 5.06% of the Company's share capital and conferring the same percentage of total voting rights at its General Meeting.

On May 22nd 2018, the Annual General Meeting of 11 bit studios S.A. decided to allocate the entire net profit earned by the Company in 2018, of PLN 37,549,897 to statutory reserve funds. The shareholders of 11 bit studios S.A. also appointed the following persons to the Company's Supervisory Board for a new three-year term of office: Wojciech Ozimek, Jacek Czykiel, Radosław Marter (reappointed members), Marcin Kuciapski and Piotr Wierzbicki.

The new Supervisory Board appointed Wojciech Ozimek as Chairman of the Supervisory Board and Jacek Czykiel as its Deputy Chairman. The Supervisory Board reappointed all members of the Company's Management Board, i.e. Grzegorz Miechowski (President of the Management Board) as well as Przemysław Marszał and Michał Drozdowski (members) for a new three-year term of office.

At its meeting held on September 3rd 2019, the Supervisory Board appointed the Audit Committee, consisting of Jacek Czykiel (Chairman), Radosław Marter and Piotr Wierzbicki (members). Prior to the appointment of the Audit Committee, in accordance with the resolution of the Company's General Meeting of June 26th 2015, the audit committee functions were performed by the Supervisory Board.

On August 19th 2019, 11 bit studios S.A. was notified by Aviva Investors Poland TFI S.A. that the equity interest held in the Company by one of the funds under its management, i.e. Aviva Investors FIO, below the 5% threshold following sale transaction executed on August 13th 2019. Following the sale, Aviva Investors FIO held 101,146 shares in 11 bit studios S.A., or 4.42% of the total share capital. At the same time, Aviva Investors Poland TFI S.A. reported that the funds under its management continued to hold jointly 11 bit studios S.A. shares representing more than 5% of the share capital.

On September 10th 2019, the Company announced that it had been notified by Valve Corporation (Steam) that cumulative revenue from the sale of *Frostpunk* and its add-ons on the Steam platform in the period from October 1st 2018 to the date of the announcement (September

10th 2019) exceeded USD 10m. As a result, the fee charged by Steam on any subsequent sales of *Frostpunk* and its add-ons has been reduced to 25% from 30% previously.

After the reporting period, on February 6th 2020, having considered the Audit Committee's recommendation, the Company's Supervisory Board selected PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp.k., to audit the Company's financial statements and review interim financial statements for the financial years ending December 31st 2020 and 2021.

On February 21st 2020, the Company received notifications of disposal of shares submitted by Grzegorz Miechowski, President of the Management Board, as well as Przemysław Marszał and Michał Drozdowski, members of the Management Board. In block transactions executed on February 20th 2020, they sold, respectively, 3,000, 7,700 and 5,000 shares in 11 bit studios S.A., for PLN 460 per share. Moreover, following the sale of 11 bit studios S.A.'s shares, Przemysław Marszał's interest in the Company decreased below the threshold of 5% of the Company's share capital. After the transaction, Przemysław Marszał holds 110,300 shares in 11 bit studios S.A., representing 4.82% of the Company's share capital.

Prior to the publication of this report and after the end of the reporting period, the Company moved to its new headquarters. As of March 2nd 2020, all employees of 11 bit studios S.A. have been working in the Company's office building located at ul. Brzeska 2 in Warsaw, Poland.

On the same day, March 2nd 2020, the Company was included in the *Financial Times*' prestigious ranking of the 1,000 fastest growing technology companies in Europe.

The growing interest in the stock also translated into numerous new recommendations and increased research coverage of 11 bit studios S.A. Throughout 2019, analysts produced as many as 23 equity research reports on 11 bit studios S.A., compared with 16 in the year before. As many as 12 of them included 'buy' recommendations, As many as 18 of them included 'buy' recommendations in 2019, two recommended 'holding'' Company shares, and one was 'neutral'. The shares also received one 'neutral' recommendation and one 'sell' recommendation.

In the reporting period, the Company applied and qualified for inclusion in the WSE Equity Research Coverage Support Programme, set up to increase the research coverage of the mWIG40 and sWIG80 companies. The broker responsible for producing reports on 11 bit studios S.A. under the programme is Erste Research Group. The first report on the Company was published at the very beginning of July 2019. Erste Research Group valued 11 bit studios shares at PLN 493.4, with a 'buy' recommendation.

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 release of *Moonlighter* (May 29th 2018) pushed the ratio up to 18%. In 2019, it was already 40% after the Company released another third-party title, *Children of Morta*, whose PC version was launched on September 3rd 2019 (console versions in Q4 2019).

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, and Australia).

Revenue from third-party customers by geographical area:

	Period ended Dec 31 2019		Period ended Dec 31 2018	
	PLN	share (%)	PLN	share (%)
Poland	1,487,844	2.09	2,875,258	3.50
European Union	6,393,095	8.98	7,408,148	9.02
US	51,273,600	71.99	67,784,368	82.55
Japan	10,310,174	14.48	3,444,566	4.19
China	827,383	1.16	229,253	0.28
Other	929,153	1.30	371,913	0.45
Total	**71,221,248**	**100.00**	**82,113,506**	**100.00**

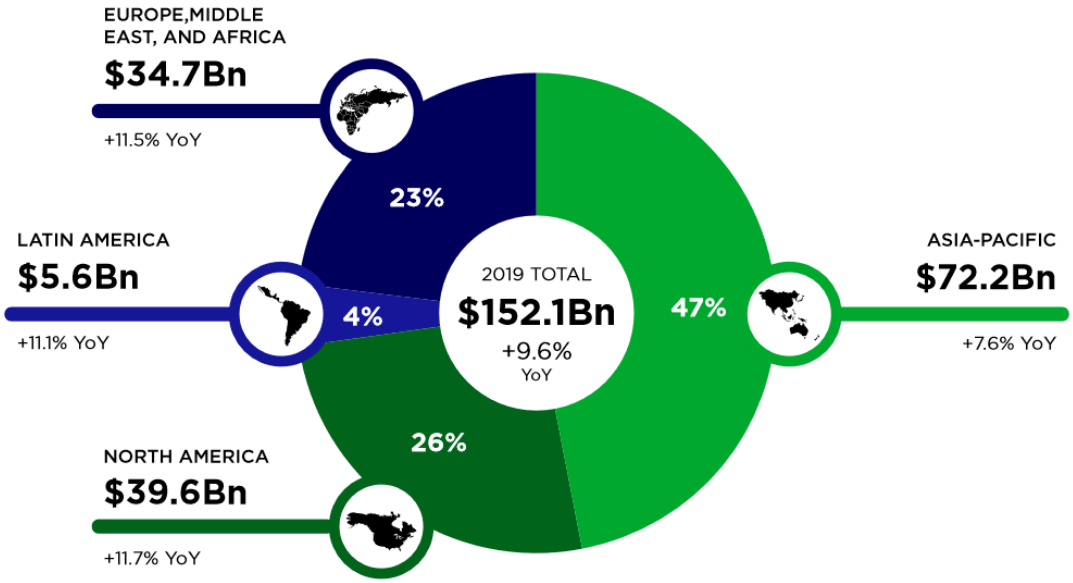
The Company sells its products (video games) based on long-term agreements with publishers and distributors from all over the world. In 2019, the largest customer was Valve Corporation, accounting for more than 10% of the Company's total sales. Other important trading partners included Nintendo Co Ltd., 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 2019, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 152.1bn, an increase of more than 9.6% compared with the previous year, when it was worth USD 138.7bn.

2019 GLOBAL GAMES MARKET
PER REGION

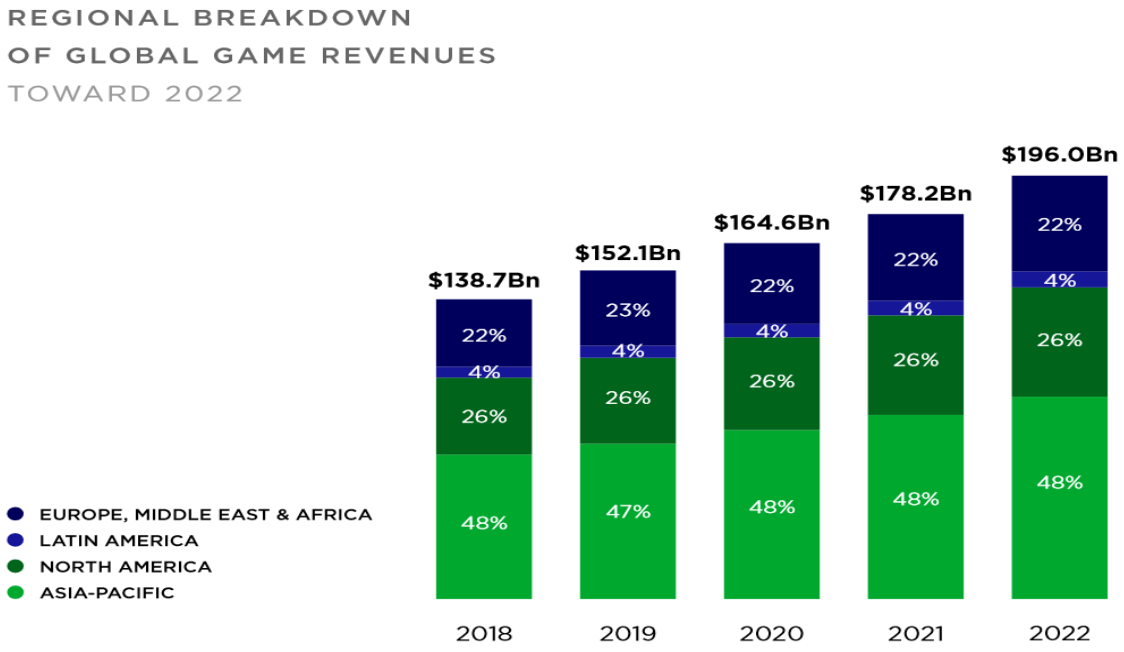


Source: 'The Global Games Market 2019', Newzoo.

In geographical terms, Asia – including in particular China, which outranked the US as early as in 2016 – was again the world's most important gaming market in 2019. In 2019, customers in Asia spent USD 72.2bn on computer games, 7.6% more than in 2018, which accounted for as much as 47% of the entire gaming market in the world. Earlier forecasts for Asia for 2019 were far more optimistic, but were subsequently revised due to measures taken by Chinese regulators – issuing approvals for direct distribution of new games on the local market was slower than expected.

The world's second largest gaming market was North America, led by the United States (ranking second with regard to individual countries). Gaming enthusiasts from North America spent USD 39.6bn on video games in 2019, which represented a 11.7% change on the previous year. America was the fastest growing market in the world.

Europe, the Middle East and Africa ranked third, accounting for 23% of the global gaming market in 2019. In 2019, customers from those three regions spent USD 34.7bn on computer games, 11.5% more than in 2018. Latin America's gaming market was growing at a slightly slower pace (11.1%). Its value increased to USD 5.6bn, representing 4% of the global gaming market.

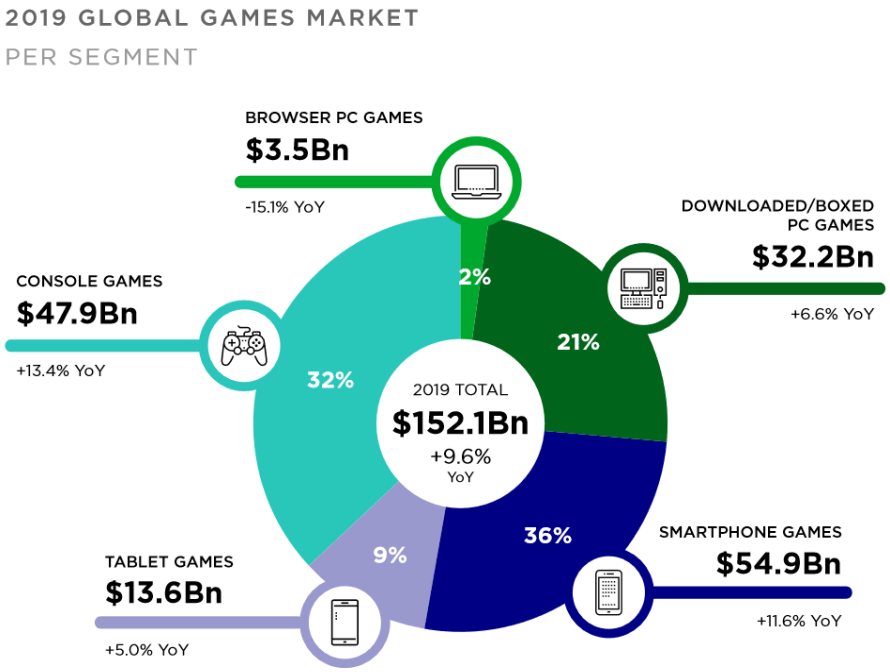


Source: 'The Global Games Market 2019', Newzoo.

Newzoo experts expect the industry in which 11 bit studios S.A. operates to continue to grow dynamically in the coming years. They predict that it will grow at an average annual rate of approximately 9% in 2018–2022. Forecasts for 2020 assume growth of the global gaming market to USD 164.6bn, a 8.2% increase on 2019. In 2021 and 2022, game spending will reach, respectively, USD 178.2bn and USD 196bn.

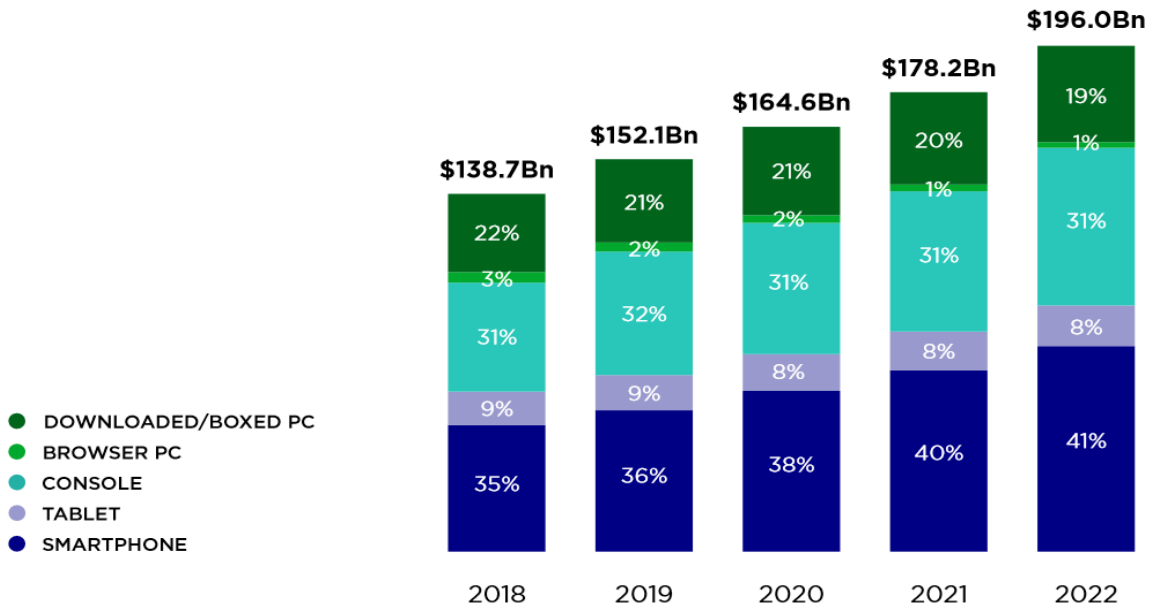
In geographical terms, similarly to previous years, most of the gaming sector's revenue in the coming years will be generated in Asia (47%–48%, depending on the year). According to Newzoo experts, fans from the North America, that is mainly from the United States, will represent 26% of the market. Europe, the Middle East and Africa will account for 22%–23% of the gaming market and Latin America – 4%.

In 2019, the largest part of the gaming market (36%) was smartphone (mobile phone) games. Compared with 2018, the value of this market segment increased by 11.6%, to USD 54.9bn. Games for handheld devices were complemented with games for tablets. In 2019, the value of the tablet games market reached USD 13.6bn, a 5% increase year on year. Also the console games market was thriving in 2019. Fans spent USD 47.9bn on this entertainment format, 13.4% more than a year earlier. Thus, as in the case of smartphone games, the console games market far outgrew the entire gaming sector. Console games accounted for 32% of the entire gaming market. The PC game market grew at a much slower pace in 2019, up by a mere 6.6% on 2018, and the value of this market increased to USD 32.2bn. Therefore, PC games accounted for 21% of the world's gaming market. In 2019, games accessed via web browsers had a nominal (2%) share in the gaming market (games made available in social media). Relative to 2018, this segment shrank by 15.1%, to USD 3.5bn.



Source: 'The Global Games Market 2019', Newzoo.

There will be no major changes in the computer gaming industry's product structure in the years to come. Newzoo experts predict that games for handheld devices will play an increasingly major role, which is largely attributable to a rapid increase in the number of such devices globally. In 2020, the share of smartphone games is expected to reach 38% of the world's gaming market, and the figure is to rise to 40% and 41% in 2021 and 2022, respectively. This growth will come at the expense of the PC and web browser games segments. Experts believe that in 2020 the former will still have a 21% share in the global gaming market, but it will drop to 20% and 19% in 2021 and 2022, respectively. The latter's share will shrink from 2% in 2019 to 1% in 2022. Console games will retain their market share, although the coming quarters are expected to see the launch of new generation consoles made by Sony and Microsoft. Newzoo anticipates that in 2020 console games will have a 31% share in the gaming market, and that this share will be retained in the future. Likewise, games for tablets are predicted to retain their 8% share in the gaming market in 2020–2022.



Source: 'The Global Games Market 2019', Newzoo.

The share of the Polish gaming market in the global market is small, as is its share in 11 bit studios S.A.'s revenue. According to Newzoo, in 2019 the Poles spent USD 574.4m on computer games, USD 541.5m (or 5.9%) more than in 2018. Compared with the global market, Poland was slightly different in terms of the shares of individual hardware platforms. According to Business Insider Polska website, which relied on the data published by Newzoo and Wargaming, smartphone games accounted for 29% of the Polish market in 2018, which represented a 12.5% change on the previous year. Tablet games had a 11% share, more than in the global market. The share of PC games was also larger. In 2018, the amount spent by Poles on those games was USD 152.6m, 4.7% more than the year earlier, carving out a 28% market share for PC games. In 2018, console games enjoyed the same share of the Polish gaming market. Spending on console games stood at USD 151.7m, up 8.1% year on year.

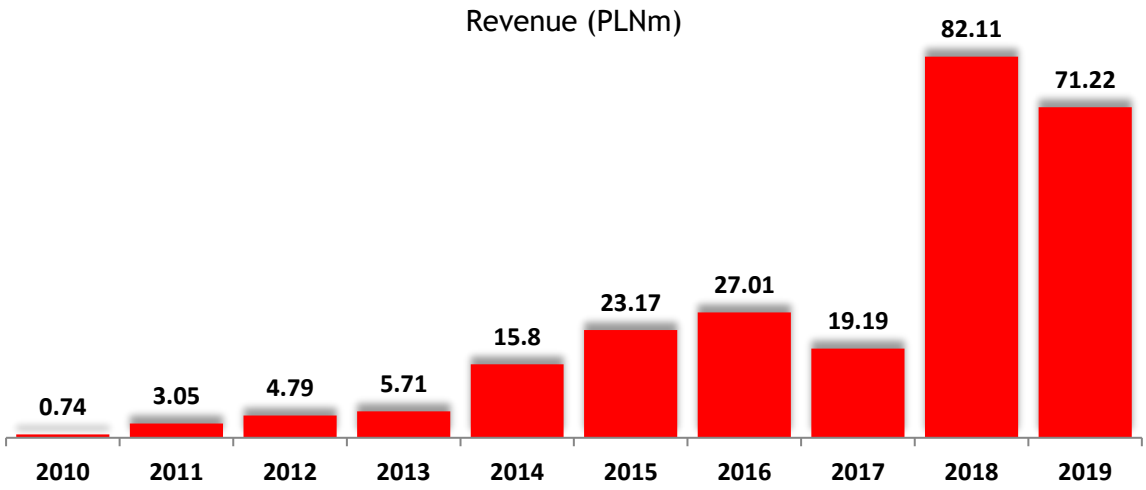
4.6. Financial condition of 11 bit studios S.A. in 2019

4.6.1. Statement of profit or loss

	Period ended Dec 31 2019	Period ended Dec 31 2018	Change yoy (%)
Continuing operations			
Revenue	71,221,248	82,113,506	-13,26
Other income	461,634	671,305	-31,23
Total operating income	**71,682,882**	**82,784,811**	**-13,41**
Depreciation and amortisation	(6,424,309)	(4,493,003)	42.98
Raw materials and consumables used	(438,947)	(233,905)	87.66
Services	(26,394,184)	(16,512,347)	59.85
Salaries, wages and employee benefits	(12,291,040)	(12,965,744)	-5,20
Taxes and charges	(247,777)	(245,515)	0.92
Other expenses	(1,915,407)	(1,331,361)	43.87
(Impairment)/reversal of impairment of financial instruments	(99,898)	(54,194)	84.33
Total operating expenses	**(47,811,561)**	**(35,836,069)**	**33.42**
Operating profit	**23,871,321**	**46,948,742**	**-49,15**
Interest income	1,089,576	392,637	177.50
Other finance income	273,796	958,742	-71,44
Finance costs	(204,550)	(194,345)	5.25
Profit before tax	**25,030,143**	**48,105,776**	**-47,97**
Income tax expense	3,319,863	(10,555,879)	-68,55
Net profit from continuing operations	**21,710,280**	**37,549,897**	**-42,18**
Discontinued operations	0	0	
Net profit from discontinued operations	0	0	
NET PROFIT	**21,710,280**	**37,549,897**	**-42,18**
Earnings per share (PLN):			
Basic	9.49	16.42	-42,20
Diluted	8.98	15.53	-42,18
NET PROFIT	**21,710,280**	**37,549,897**	**-42,18**
Other comprehensive income	0	0	
TOTAL COMPREHENSIVE INCOME	**21,710,280**	**37,549,897**	**-42,18**

In 2019, 11 bit studios S.A. earned revenue of PLN 71,221,248, compared with PLN 82,113,506 in the previous year (down by 13.26% year on year). The drop was attributable to a strong base effect of last year's figures. In 2018, *Frostpunk* was launched on April 24th and *Moonlighter* (the publishing division's title) on May 29th. The only game launched in 2019 was *Children of Morta*. The

PC version of the game was released on September 3rd 2019 (the game for Xbox One, PS4 and Nintendo Switch consoles was released as late as in Q4 2019), which is why the revenue from its sale had a limited effect on 11 bit studios S.A.'s full-year performance.



In 2018 and 2019, 11 bit studios S.A.'s revenue came mainly from sales of *Frostpunk.* To maintain its monetisation at a satisfactory level, the Company took a number of steps to develop the game, mainly involving the preparation of its release on Xbox One and PS4 consoles. Work on preparing the porting of *Frostpunk* to those consoles took the development team slightly more time than planned, and as a result the product was not marketed until October 11th 2019. In 2019, the Company was also engaged in developing DLCs (including paid ones) to *Frostpunk*. The first paid add-on to *Frostpunk*, *The Rifts,* was released on August 27th 2019. At the same time, the Company launched the sale of Season Pass for *Frostpunk* that includes, apart from *The Rifts*, two further DLCs whose launch was announced for the following months. The second DLC of the Season Pass, *Frostpunk – The Last Autumn*, premiered on January 21st 2020. Therefore, the revenue from its sales did not have any effect on the Company's performance in the reporting period. The last Season Pass DLC for *Frostpunk*, currently developed under the working title of *Project TVADGYCGJR*, will be released in 2020.

Sales of *Moonlighter*, including the title's Nintendo Switch version released in late 2018, made a significant contribution to 11 bit studios S.A.'s revenue in 2019. Nintendo Switch has been the primary sales platform for *Moonlighter* since the first quarter of 2019. *Moonlighter*'s monetisation in 2019 was further supported by new content additions (the large paid DLC *Between Dimensions* launched on July 23rd 2019, new language versions, promotions on major sales platforms, etc.).

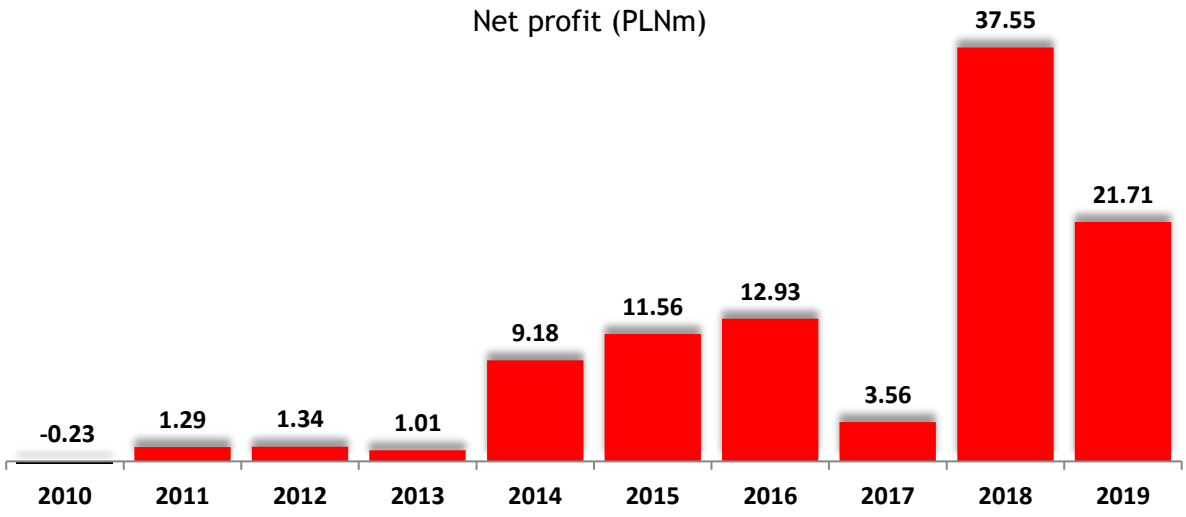
In 2019, a strong focus was maintained on strict discipline in operating expenses, which rose 33.42% year on year, to PLN 47,811,561 (2018: PLN 35,836,069). The higher operating expenses were mainly attributable to a rise in depreciation and amortisation (PLN 6,424,309 compared with PLN 4,493,003 in 2018) resulting from amortisation of costs incurred to develop the Xbox One and PS4 versions of *Children of Morta* and *Frostpunk.* The largest item of operating expenses disclosed by the Company in 2019 were costs of services (up 59.85%, to PLN 26,394,184), which include payments to third-party game developers to whom 11 bit studios S.A. provides publishing services.

The Company's 2018 revenue from sales of games in the publishing segment accounted for 18% of total revenue. The figure surged to 40% in 2019 following the release of *Children of Morta*, which led to a sharp rise in royalties paid. Worthy of note is a decrease in salaries and wages (down 5.2%, to PLN 12,291,040 in 2019) reported despite a steady increase in headcount. Salaries and wages fell as a result of much lower annual bonuses paid in 2019 compared with the preceding year (the bonus amounts are directly linked to profits earned by the Company. Salaries and wages also included non-cash provisions recognised in connection with the Company's 2017–2019 Incentive Scheme. These provisions (of over PLN 2.0m for each quarter) will reduce 11 bit studios S.A.'s operating profit until the second quarter of 2020 (inclusive). Non-cash costs related to the Incentive Scheme stood at PLN 6,138,880 in 2018, compared with as much as PLN 8,118,445 in 2019.

The slight year-on-year decline in revenue posted in 2019, combined with higher operating expenses, mainly reflecting higher royalties paid, reduced the Company's operating profit for 2019. Operating profit came in at PLN 23,871,321, a 49.15% decrease on 2018 (PLN 46,948,742), with operating profit margin at 33.15% (2018: 57.15%). The Company's 2019 EBITDA reached PLN 30,295,630 (2018: PLN 51,441,745), with EBITDA margin down to 42.5%, from 62.6% the year before.

Rising free cash reported by 11 bit studios S.A. over the preceding years led to a significant year-on-year increase in interest income in 2019, to PLN 1,089,576, or by 177.5%. Net finance income remained broadly flat in 2019 (approximately PLN 1.15m) compared with the 2018 figure, which was significantly buoyed by other finance income (exchange differences).

Thanks to the positive impact of finance income, 11 bit studios S.A.'s profit before tax reached PLN 25,030,143 in 2019, compared with PLN 48,105,776 in 2018. The decrease in profit before tax amounted to almost 48% and had a significant effect on the income tax paid by the Company. Another important factor driving the income tax amount were two tax reliefs used by the Company in 2019, namely the IP BOX tax relief (PLN 2,713,965) and the R&D tax relief (PLN 196,607 – an adjustment for 2018). 11 bit studios S.A.'s income tax for 2019 totalled PLN 3,319,863, down 68.5% year on year (2018: PLN 10,555,879). As a result, 11 bit studios S.A. posted a net profit of PLN 21,710,280 in 2019, compared with PLN 37,549,897 in 2018, with the decrease amounting to 42.2%. The Company's net profit margin shrank to 30.5%, from 45.7% in 2018.



4.6.2. Statement of financial position

As at December 31st 2019, the Company's total assets amounted to PLN 155,668,388, up by 42.47% from PLN 109,262,821 in the previous year.

ASSETS

	As at Dec 31 2019	Share (%)	As at Dec 31 2018	Share (%)
NON-CURRENT ASSETS				
Property, plant and equipment	24,043,839	15.45	18,734,064	17.15
Intangible assets	24,870,505	15.98	17,138,011	15.69
Right-of-use assets	344,065	0.22	0	0.00
Deferred tax asset	542,022	0.35	158,033	0.14
Other assets	14,694	0.01	192,504	0.18
Non-current financial assets	0	0.00	5,094,282	4.66
TOTAL NON-CURRENT ASSETS	**49,815,126**	**32.00**	**41,316,894**	**37.81**
CURRENT ASSETS				
Trade and other receivables	17,750,932	11.40	14,552,625	13.32
Inventories - prepaid deliveries of goods and services	11,829	0.01	0	0
Income tax receivable	5,441,189	3.50	1,845,130	1.69
Other current assets	438,230	0.28	297,492	0.27
Cash and cash equivalents	14,882,519	9.56	24,250,681	22.19
Current financial assets	67,328,563	43.25	27,000,000	24.71
TOTAL CURRENT ASSETS	**105,853,262**	**68.00**	**67,945,928**	**62.19**
TOTAL ASSETS	**155,668,388**	**100.00**	**109,262,821**	**100.00**

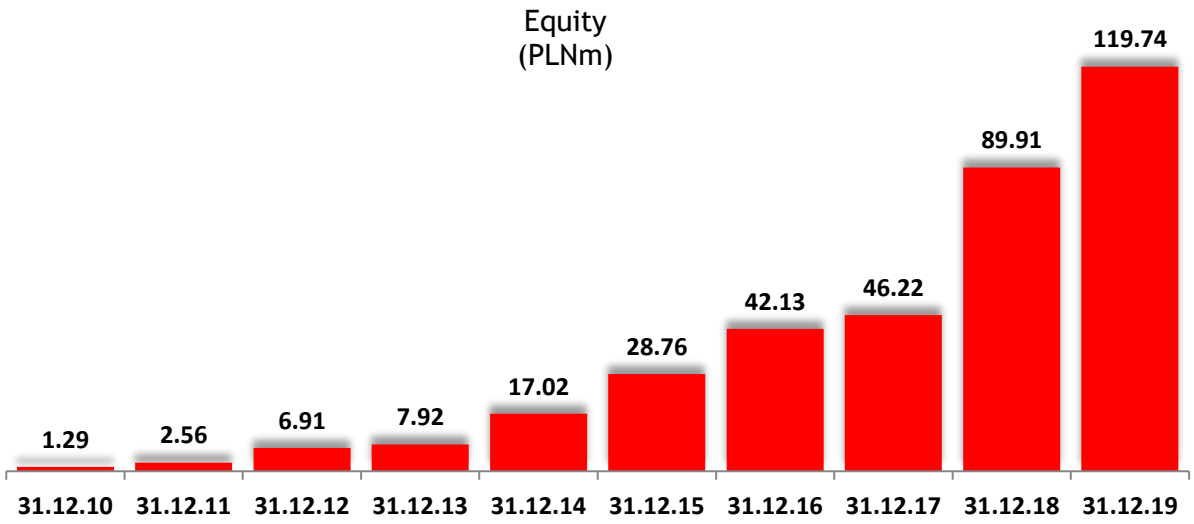
EQUITY AND LIABILITIES

	As at Dec 31 2019	Share (%)	As at Dec 31 2018	Share (%)
EQUITY				
Share capital	228,720	0.15	228,720	0.21
Share premium	4,870,274	3.13	4,870,274	4.46
Statutory reserve funds	78,881,784	50.67	41,331,887	37.83
Share-based payment reserve	14,257,326	9.16	6,138,880	5.62
Retained earnings	21,502,195	13.81	37,341,812	34.18
TOTAL EQUITY	**119,740,299**	**76.92**	**89,911,573**	**82.29**
NON-CURRENT LIABILITIES				
Long-term borrowings and other debt instruments	10,429,732	6.70	11,340,000	10.38
Deferred income	497,564	0.32	677,555	0.62
Lease liabilities – perpetual usufruct of land	334,891	0.22	0	0.00
TOTAL NON-CURRENT LIABILITIES	**11,262,187**	**7.23**	**12,017,555**	**11.00**
		0.00		
CURRENT LIABILITIES				
Trade and other payables	11,429,893	7.34	5,122,519	4.69
Liabilities under contracts with customers	11,730,526	7.54	557,145	0.51
Short-term borrowings and other debt instruments	1,303,717	0.84	1,452,203	1.33
Lease liabilities – perpetual usufruct of land	12,653	0.01	0	0.00
Deferred income	189,114	0.12	201,826	0.18
TOTAL CURRENT LIABILITIES	**24,665,902**	**15.85**	**7,333,693**	**6.71**
TOTAL LIABILITIES	**35,928,089**	**23.08**	**19,351,248**	**17.71**
TOTAL EQUITY AND LIABILITIES	**155,668,388**	**100.00**	**109,262,821**	**100.00**

As at the end of 2019, current assets represented the majority (68%) of the Company's total assets. They stood at PLN 105,853,262, compared with PLN 67,945,928 in the previous year, which means a year-on-year increase of 55.8%. As in 2018, current financial assets (bank deposits with maturities of more than 3 months) were the largest item of the Company's current assets, amounting to PLN 67,328,563, compared with PLN 27,000,000 as at the end of 2018 and accounting for 43.25% of total assets. Cash and cash equivalents of PLN 14,882,519 at the end of 2019 can be added to that figure. compared with PLN 24,250,681 the year before. Trade and other receivables of PLN 17,750,932 were also a significant component of the Company's current assets. Their balance was slightly lower in the previous year, when they amounted to PLN 14,552,625.

As at the end of December 2019, the Company's non-current assets stood at PLN 49,815,126, relative to PLN 41,316,893 in the previous year. They rose 20.57% year on year, accounting for 32%

of total assets (2018: 37.81%). Intangible assets were the main component of non-current assets, and their value was reported at PLN 24,870,505, up from PLN 17,138,011 in the previous year. They increased 45.12% and their share in the Company's total assets grew to 15.98% from 15.69% at the end of 2018. Intangible assets comprised mainly partially amortised expenditure on games already on sale (*Frostpunk* and its console edition, *Moonlighter* and *Children of Morta*), expenditure on ongoing development work (*Project 8*, *Project 9*, *Project 10*, and new games of 11 bit publishing), and expenditure on the game engine development. Another component of non-current assets, with a value similar to that of intangible assets, was property, plant and equipment, valued at PLN 24,043,839 at the end of 2019, compared with PLN 18,734,064 the year before. The largest item of the Company's non-current assets was the property located at ul. Brzeska 2 in Warsaw, which the Company purchased in late 2018 to be used as its new office. As at the end of December 2019, the value of the property in the Company's statement of financial position was PLN 23,637,763, compared with PLN 18,102,269 a year earlier. The increase in the property's value was attributable to upgrade and adaptation work carried out to suit the Company's needs in respect of its new headquarters.



The most significant item of the Company's equity and liabilities were statutory reserve funds, which amounted to PLN 78,881,784 as at the end of December 2019, i.e. 50.67% of total equity and liabilities. The year before they stood at PLN 41,331,887 and represented 37.83% of total equity and liabilities. Statutory reserve funds increased as a result of contribution of the Company's net profit for 2018. The shareholders decided to allocate the entire profit for 2018 (PLN 37,549,897) to statutory reserve funds at the General Meeting held on May 23rd 2019. As at the end of 2019, retained earnings were a significant component of the Company's equity and liabilities. They amounted to PLN 21,502,195 and accounted for 13.81% of total equity and liabilities. As at the end of 2018, retained earnings amounted to PLN 37,341,812 (34.18% of total equity and liabilities). The decrease was led by the year-on-year decrease in net profit in 2019, driven by lower revenues and profits from sales of video games. A fast-growing item of equity and liabilities of 11 bit studios S.A. (compared with the end of 2018) was the share-based payment reserve related to the Company's

Incentive Scheme for 2017–2019. It amounted to PLN 14,324,056, representing 9.56% of total equity and liabilities. This compares with PLN 6,138,880 (5.62% of total equity and liabilities) the year before.

As at December 31st 2019, the Company's total liabilities amounted to PLN 35,928,089 compared with PLN 19,351,249 in 2018. They increased 85.66% on the end of 2018 and represented 23.08% of total equity and liabilities (2018: 17.71%).

As at the end of December 2019, the Company's non-current assets stood at PLN 11,262,187, relative to PLN 12,017,555 in the previous year. The main item of non-current liabilities was a PLN 12,600,000 investment credit facility contracted by the Company with PKO BP at the end of 2018 to finance the purchase of the property at ul. Brzeska 2 in Warsaw (new office), which is repaid in a timely manner.

As at the end of 2019, the Company's current liabilities stood at PLN 24,665,902, relative to PLN 7,333,693 in the previous year. They rose 236.34% year on year, accounting for 15.68% of total equity and liabilities (end of 2018: 6.71%), with the increase attributable to higher trade payables, which rose to PLN 11,429,893 from PLN 5,122,519 a year earlier. The item included payments for renovation and upgrade work performed at the property located at ul. Brzeska 2 in Warsaw (the Company's headquarters since March 2020) in the fourth quarter of 2019. The related liabilities were paid in the first weeks of 2020. Another major item of trade payables were royalties payable to third-party developers for sales of their games as part of publishing services provided by the Company (11 bit publishing). Liabilities under contracts with customers were also a significant item of the Company's current liabilities as at the end of 2019, amounting to PLN 11,730,526 (end of 2018: PLN 557,145) or 7.5% of total equity and liabilities (only 0.51% a year earlier). The item comprised advance payments received by the Company from its business partners (game distributors) towards future sales of the Company's products (games).

A new item of equity and liabilities that had not been disclosed in the 2018 statement of financial position were lease liabilities – perpetual usufruct rights to land. Amounting to PLN 334,891 at the end of 2019, these liabilities were an effect of the acquisition by the Company of the property at ul. Brzeska 2 in Warsaw.

4.6.3. Statement of cash flows

	Period ended Dec 31 2019	Period ended Dec 31 2018
Cash flows from operating activities		
Profit for the financial year	**21,710,280**	**37,549,897**
Adjustments:		
Depreciation and amortisation	6,424,309	4,493,003
Income tax expense recognised in profit or loss	3,319,863	10,555,879
Revaluation of intangible assets	33,959	17,121
Other adjustments	8,360,773	6,465,764
Changes in working capital:		
Increase/(decrease) in trade and other receivables	(3,198,307)	(11,873,555)
Increase/(decrease) in inventories	(11,829)	0
Increase/(decrease) in other assets	37,072	(48,061)
Decrease in trade and other payables	1,286,372	3,924,667
Increase/(decrease) in balance under contracts with customers	11,173,381	0
Increase/(decrease) in deferred income	(192,704)	207,359
Cash provided by operating activities	**48,943,169**	**51,292,074**
Income tax paid	(7,299,911)	(12,245,846)
Net cash from operating activities	**41,643,258**	**39,046,228**
Cash flows from investing activities		
Proceeds from bank deposits upon maturity – over 3 months	94,000,000	16,000,000
Payments for financial assets	0	(2,000,000)
Proceeds from sale of financial assets	5,094,282	0
New bank deposits placed – over 3 months	(134,000,000)	(43,000,000)
Payments for property, plant and equipment and intangible assets	(14,436,630)	(26,571,879)
Net cash from investing activities	**(49,342,348)**	**(55,571,879)**
Cash flows from financing activities		
Proceeds/(payments) under credit facility	(1,260,000)	12,600,000
Payment of interest	(409,072)	0
Net cash from financing activities	**(1,669,073)**	**12,600,000**
Net increase /(decrease) in cash and cash equivalents	(9,368,162)	(3,925,651)
Cash and cash equivalents at beginning of reporting period	24,250,681	28,176,332
CASH AS AT END OF REPORTING PERIOD	**14,882,519**	**24,250,681**

In 2019, the Company generated cash flows from operating activities of PLN 48,943,169, only 4.58% less than in 2018, despite no new game releases significantly contributing to its performance, with the exception of *Children of Morta* (a third-party title published by 11 bit publishing), released in autumn. Impressive cash flows from operating activities were attributable to very good sales of the games marketed by 11 bit studios S.A. since Q2 2018, mainly *Frostpunk* and *Moonlighter*. Sales of *This War of Mine* were also a significant contributor to top-line

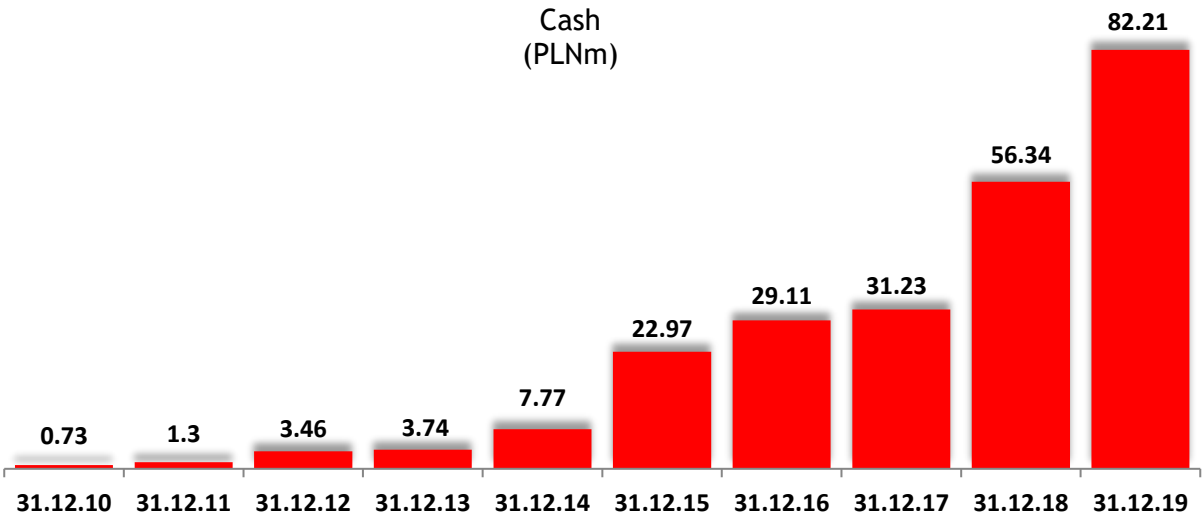
performance, although revenue from this source, due to the natural ageing of the product, was lower than in 2018.

Lower profit earned by the Company in 2019 and the use of the IP BOX and R&D (adjustment for 2018) tax reliefs drove down the income tax expense, to PLN 3,319 863 (amount recognised in profit or loss) vs PLN 10,555,879 in 2018. Consequently, net cash provided by the Company's operating activities in 2019 amounted to PLN 41,643,258, compared with PLN 39,046,228 a year earlier, up 6.65% year on year.

At the same time, the Company allocated PLN 49,342,348 to investments, down from PLN 55,571,879 in 2018. A major part of that amount was represented by financial investments (bank deposits), used by 11 bit studios S.A. to manage its cash resources. Payments for property, plant and equipment and intangible assets (mainly game development) were also an important expenditure item (PLN 14,436,630), having decreased from PLN 26,571,879 in 2018. However, the amount included a payment of PLN 18,000,000 for the property located at ul. Brzeska 2, purchased by the Company in late 2018 to be used as a new office.

Cash flows from financing activities in 2019 included payments related to the servicing of the 10-year investment credit facility with PKO BP, taken out in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. In 2019, 11 bit studios S.A. spent PLN 1,260,000 to repay the facility. Another PLN 409,072 was spent to repay interest on the borrowed funds. In consequence, net cash from financing activities was negative at PLN 1,669,073. In 2018, it had been positive (PLN 12,600,000) as a result of contracting the investment credit facility with PKO BP referred to above.

As at December 31st 2019, the Company held cash and cash equivalents of PLN 14,882,519 vs PLN 24,250,681 in 2018. This means a decrease of 38.63% compared with the end of 2018. It should be noted that at the end of 2019 the Company also held PLN 67,328,563 in bank deposits with maturities of more than three months. As at the end of 2018, the value of such deposits was PLN 27,000,000. This means that 11 bit studios S.A.'s total cash held at the end of 2019 amounted to as much as PLN 82,211,082, an increase of 60.4% on the year before (PLN 51,250,681). Inclusive of trade receivables (PLN 17,750,932 as at the end of 2019 relative to PLN 14,552,625 in the previous year), 11 bit studios S.A.'s total financial assets as at December 31st 2019 hit an all-time record high of PLN 99,962,014.



4.6.4. Borrowings in the financial year 2019

In 2019, 11 bit studios S.A. did not enter into any credit facility or loan agreements.

In the previous reporting period, on December 18th 2018 the Company entered into a PLN 12,600,000.00 ten-year investment credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. The proceeds were used to partially finance the purchase price of the property located at ul. Brzeska 2 in Warsaw for the Company's new office (the Company's headquarters as of March 2020).

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 using an Interest Rate Swap. The interest rate is 3.4%.

4.6.5. Loans advanced in the financial year 2019

In 2019 and 2018, 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 2019. Material off-balance sheet items related to 11 bit studios S.A.'s publishing activities are described in **Note 3.34**.

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 2019

In 2019, there were no non-recurring factors which affecting the Company's performance in that period.

4.7. Agreements significant to the Company's operations (excluding credit facility and loan agreements) executed in 2019 and by the issue date of this report

After the end of the reporting period, on February 14th 2020, the Company announced that it had signed an agreement with a global leader in developing games for handhelds to produce *Frostpunk* for handheld devices running on iOS and Android. For the sake of successful cooperation, details of the agreement, including the partner's name and the date of the game's release, will be disclosed at a later date.

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 2019.

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 listed on the NewConnect market. In 2015, the Company's shareholders decided to change the listing market on the WSE. The shares were first traded on the main market on December 18th 2015. At the start of the first trading session, their price was 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.

The Company founders, i.e. Grzegorz Miechowski (President of the Management Board) as well as Przemysław Marszał and Michał Drozdowski (members of the Management Board) remain its major shareholders. As at the issue date of this Annual Report for 2019, 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.

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, its weight in the index was 1.69% (2018: 0.92%).

11 bit studios S.A. shares are also a constituent of the WIG.GAMES index, published since March 18th 2019 and featuring the largest gaming companies listed on the WSE. As at the date of issue of this report, the Company stock's weight in the index was 23.07%.

Company shares are also included in the WIG-ESG Index, published since September 3rd 2019, which brings together socially responsible businesses, i.e. those that adhere to CSR standards, in particular with respect to environmental, social, economic and corporate governance aspects. 11 bit studios S.A. shares account for 0.46% of the index.

Since September 4th 2019, 11 bit studios S.A. shares have also been included in the new CEEplus index comprising 100 largest and most liquid companies listed on stock exchanges in Central Europe: Croatia, the Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary. As at the date of issue of this report, 11 bit studios S.A. shares represented 0.15% of the index.

11 bit studios S.A. also features in the WIG, WIG-Poland, WIGtech, mWIG40TR and InvestorMS indices.

Throughout 2019, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its price increase. During the period, the share price surged by 63.9%, while the broad-market WIG index rose by 0.25%. The mWIG40 index, which includes 11 bit studios, lost negligibly (0.005%).

Chart: Performance of 11 bit studios S.A. shares on the Warsaw Stock Exchange in 2019 (PLN)

Source: Parkiet.com

In 2019, the price of 11 bit studios shares on the WSE ranged from PLN 251.0 (during the trading session on January 2nd 2019) to PLN 430.0 (at the trading session on July 17th 2019). The share performance was particularly good in the first quarter of 2019, when the stock made up for the losses suffered in the last months of 2018 (driven by deteriorating sentiment on global capital markets, including towards computer game developers and publishers). In the following months of 2019, it trended sideways. It was only at the end of the year, as sentiment improved on the WSE,

especially in the SME segment, that 11 bit studios S.A. share price returned to the upward trend, rising to PLN 400 at the close of trading on the last session day in 2019. At the end of 2019, the market value of 11 bit studios S.A. was nearly PLN 915m, having grown PLN 335m year on year.

The appreciation of the share price, combined with its good liquidity (in 2019, the average daily value of trading in Company shares was PLN 2.4m, the 12th best result among all companies included in the mWIG40 index), had a positive effect on the equity research coverage of the Company. Throughout 2019, stock analysts of more than a dozen brokerage houses and offices issued as many as 23 equity research reports on 11 bit studios S.A., compared with 16 in the year before and 7 in 2017. In 2019, as many as 18 of the reports included 'buy' recommendations, two recommended 'holding" Company shares, and one was 'neutral'. The shares also received one 'neutral' recommendation and one 'sell' recommendation.

In 2019, 11 bit studios S.A. participated in the WSE Equity Research Coverage Support Programme, set up to increase the research coverage of companies included in the mWIG40 and sWIG80 indices. The broker responsible for producing reports on 11 bit studios S.A. under the programme is Erste Research Group. The first report on the Company was published at the very beginning of July 2019. Erste Research Group valued 11 bit studios shares at PLN 493.4, with a 'buy' recommendation.

Considerable interest from investors in 11 bit studios S.A. shares prompted the Warsaw Stock Exchange to introduce futures contracts for Company shares to stock exchange trading. The relevant resolution (No. 152/2019) was passed by the WSE Management Board on March 7th 2019. As at the date of issue of this report, three series of futures contracts for 11 bit studios shares were traded on the stock exchange: the F11BM20 series (expiring on June 19th 2020), the F11BU20 series (September 18th 2020) and the F11BZ20 series (December 17th 2020).

In 2019, 11 bit studios S.A., in line with its full transparency policy and in order to meet investors' and shareholders' expectations, significantly increased its activity with regard to the frequency of holding meetings with investors, including retail investors, asset managers and stock analysts. On March 30th 2019, the Company invited capital market representatives to the annual Investors Conference, which was attended by about 80 guests, including analysts, asset managers, representatives of financial media and retail investors. The conference was broadcast over the Internet and simultaneously interpreted into English. The recording is available on the Company's YouTube channel at

https://www.youtube.com/watch?v=xLoGbabTHO8&t=25s

In 2019, the Company took part in numerous investor conferences abroad. Representatives of 11 bit studios S.A. met with investment funds in London (in March), Paris (in June), Frankfurt am Main (in August), again in London (September), Stockholm (September) and Prague (December 2020).

The Company was also active in contacts with retail investors. In May, they had the opportunity to meet with its representatives in Kraków. In June, the Company attended the WallStreet 23 conference held in Karpacz, Poland's most prominent event for retail investors, organised by the Polish Association of Retail Investors. In Q4 2019, with the support of the DM mBank brokerage house, 11 bit studios S.A. organised meetings with retail investors in Wrocław, Poznań and Gdynia,

each attended by several dozen people. The Company intends to continue holding such meetings in the coming periods.

4.11. 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. Export sales accounted for nearly 97.9% of the Company's total revenue in 2019 (2018: 96.5%). For a few years now, video gaming has been the fastest growing sector of the global entertainment market. In 2019, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 152.1bn, an increase of 9.6% compared with the previous year, when it was worth USD 138.7bn. The outlook for the industry in the coming years is very promising, with the fast-growing mobile games segment as the main driver. Newzoo estimates the sector will grow at an average annual rate of approximately 9% in 2018–2022. Forecasts for 2020 assume growth of the global gaming market to USD 164.6bn, a 8.2% increase on 2019, with game spending expected to reach USD 178.2bn in 2021 and USD 196bn a year later.

The objective of 11 bit studios S.A. is to develop at a faster rate than the entire video games market and to steadily increase its market share. The success of *This War of Mine*, which premiered in autumn 2014, consolidated the Company's position as one of the leading developers in the indie (independent) segment of the gaming industry. From the game's release to the end of 2019, revenue from its sales topped PLN 95m. The success of *Frostpunk* (launched less than two years ago, the title and related add-ons generated revenue of close to PLN 90m by the end of 2019) has confirmed that the Company is a leading player in the global video games industry. This corresponds well with the Company's strategy for the coming years, which assumes production of ever larger games (with greater commercial potential), i.e. gradual exit from the indie segment.

11 bit studios' strategy assumes that the Company's new games will be developed based on a proprietary engine which has been in development for some time. It is possible, however, that the Company will also use third-party engines to develop some of its proprietary titles. The production, promotion and sales of games are the responsibility of an experienced, stable management team with many years of know-how acquired in major gaming companies in Poland. On the basis of its steadily growing human resources, for several quarters the Company has been building a development team responsible for the production of a new game to be released after *Frostpunk*, with a working title *Project 8*. The *Project 8* team comprises almost 30 people and is being gradually expanded. According to current plans, it should ultimately be comparable in size to the team which produced *Frostpunk* (50–60 people), and the new game's budget is expected to be about PLN 20m. The Company expects to release *Project 8* simultaneously for PCs and for PS4 and Xbox One consoles, which should enhance the game's commercial potential. In 2019, 11 bit studios S.A. launched a third development team, based on employees who until recently worked on further development of *This War of Mine*, including the *TWoM: Stories* DLC. The last add-on of the series, called *TWoM: Stories – Fading Embers*, was released on August 6th 2019. The team is now engaged in conceptual work on a game with the working title *Project 9*. In the reporting period, conceptual work was also commenced on another title, called *Project 10*,. The Company's medium-term

strategy for the next few years is to have three in-house development teams, comparable in size (each ca. 60 people strong). Assuming a production cycle of about three to four years for each game, with three teams 11 bit studios S.A. would be able to release one proprietary title a year.

11 bit studios S.A.'s performance in 2020 and the following periods will chiefly be determined by future sales of *Frostpunk* and paid DLCs released for this title as part of the Season Pass. The second of three Season Pass DLCs for *Frostpunk*, called *The Last Autumn*, was released after the reporting period (on January 21st 2020). The DLC was very well received by players (strong reviews and sales). The Company plans to launch its third DLC for *Frostpunk* by the end of 2020. Its working title is *Project TVADGYCGJR*. New language and platform versions of *Frostpunk* will also be developed (currently the title is available in 12 languages). On February 14th 2020, the Company announced that it signed an agreement with a leading global player on the mobile games market to develop a version of *Frostpunk* for mobile devices. The Company will communicate the details of the agreement in future periods.

Further monetisation of *This War of Mine* will continue to be an important contributor to 11 bit studios S.A.'s performance in the short term. However, revenue from this source is expected to gradually decline due to the natural process of the game's ageing and progressing market saturation as well as the fact that the Company abandoned further development work on *TWoM* as of the fourth quarter of 2019. The team responsible for this project is now working on a concept for another game with the working title *Project 9*.

The Company expects that its publishing division will become an increasingly important contributor to 11 bit studios' financial results in the coming years, although it is proprietary games that should ultimately be the main source of revenue. So far, 11 bit studios S.A. has released five titles created by third-party studios: *Spacecom* (2014), *Beat Cop* (March 30th 2017), *Tower* (November 16th 2017), *Moonlighter* (May 29th 2018), and *Children of Morta* (PC version September 3rd 2019). The growing importance of the 11 bit publishing division is demonstrated by the fact that in 2019 revenue from the sale of games created by third-party developers accounted for 40% of the Company's revenue. This compares with 18% in 2018 and 12% in 2017. In 2020 and subsequent periods, revenue delivered by the publishing division (from third-party titles) will mainly include revenue from sales of *Moonlighter* and *Children of Morta*. Both titles will continue to be further expanded with add-ons and new platform versions. As part of these activities, Digital Sun (the development studio that produced *Moonlighter*) is working on a mobile version of the game for iOS and Android devices. whose release date will be announced at a later date.

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* and *Children of Morta*, 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 constraints. 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. It has been changed and this cap was increased to PLN 5m (the threshold should be treated flexibly), 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. As at the reporting date, 11 bit studios S.A. had three publishing agreements with third-party development teams. The first of the agreements is for the publishing of a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The second concerns a game with a working (code) name of *Foxhole*. It has been produced by Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The third title to be published by the Company has been produced by a foreign game development studio.

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 **(Note 5.16)**.

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 growth of 11 bit studios S.A. is the increasing 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 are expected to increasingly contribute to the Company's financial performance by the year. In the game development area, the Company continued to build another development team in 2019, which will enable it to ultimately own multiple product lines (brands – IP). At the end of 2019, the Company assembled a development team to work on a concept for a game called *Project 9,* which was built around people that had previously created *This War of Mine*. The Company also started work on a game under the working title *Project 10*. The project team currently comprises a few developers. With three development teams and several product lines, the 11 bit studios S.A. 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 2019, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 14,882,519 (2018: PLN 24,250,681). As at the end of 2019, 11 bit studios S.A. also held PLN 67,328,563 in bank deposits with maturities of more than three months. This means total cash resources available to the Company at the end of 2019 amounted to PLN 82,211,082, an almost 45.9% increase over 2018, when they stood at PLN 56,344,963. PLN 17,750,932 of receivables (mainly trade receivables) should be added to that amount (end of 2018: PLN 14,552,625). The total value of 11 bit studios S.A.'s financial assets reported as at December 31st 2019 was an impressive PLN 99,962,014 (2018: PLN 70,897,588), an increase of close to 41% year on year.

The total value of (current and non-current) liabilities was PLN 35,928,089 as at December 31st 2019, compared with PLN 19,351,249 the year before. Of that amount PLN 11,733,449 was a credit facility (including an IRS instrument used by the Company to hedge against interest rate risk) contracted with PKO BP at the end of 2018 to purchase the property at ul. Brzeska 2 in Warsaw which has been home to the Company's headquarters since March 2020. The amount outstanding under the credit facility (including the IRS) as at the end of 2018 was PLN 12,792,203.

With the large cash resources, far exceeding its liabilities, the Company should be able to finance its day-to-day operations and planned growth investments (development of games and expansion of the 11 bit publishing division) with its own funds at least in the next few quarters, and does not need to use 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 2020.

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:	ul. Brzeska 2, 03-737 Warsaw, Poland
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.

5.2. Governing bodies

5.2.1. Management Board

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

In the reporting period, the Company's Supervisory Board did not change the composition of the Management Board of 11 bit studios S.A., and reappointed its members for another three-year term of office at the Supervisory Board's meeting held on May 23rd 2019. The term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021.

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

- Wojciech Ozimek – Chairman of the Supervisory Board
- Jacek Czykiel– Deputy Chairman of the Supervisory Board
- Radosław Marter– Member of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board

The composition of the Supervisory Board of 11 bit studios S.A. changed in the reporting period following expiry of the term of office of the previous Supervisory Board members. The Annual General Meeting held on May 23rd 2019 appointed a new Supervisory Board for another three-year term of office, with the following composition: Wojciech Ozimek, Jacek Czykiel and Radosław Marter (members of the Company's Supervisory Board of the previous term of office), as well as Marcin Kuciapski and Piotr Wierzbicki. At its meeting held on June 18th 2019, the Supervisory Board passed a resolution to appoint Wojciech Ozimek as Chairman and Jacek Czykiel as Deputy Chairman of the Supervisory Board. The term of office of the Supervisory Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021.

Composition of the previous Supervisory Board, whose term of office expired on May 23rd 2019:

- 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

Experience and competences of the Supervisory Board Members

Wojciech Ozimek – Chairman of the Supervisory Board

President of the Management Board of one2tribe Sp. z o.o. for over 13 years. Graduate of the Faculty of Mathematics, Computer Science and Mechanics at the University of Warsaw (Bachelor's

degree). 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 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.

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.

Radosław Marter – Member of the Supervisory Board

Involved in the pharmaceutical and medical industry for 19 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.

Marcin Kuciapski – Member of the Supervisory Board

Graduate of the Maritime Academy in Gdynia (M. Sc. in Commodity Studies). He also graduated from Hochschule Bremenhaven (Business and Economics) as part of the Erasmus Programme. Since 2008, he has held a securities broker license. Winner of numerous awards and distinctions, including 1st place in the *Forbes* ranking of Institutional Brokers 2013. In 2008−2010, he worked for DM PKO BP, initially at the Equity Research Team, and then at the Institutional Sales Team as Institutional Broker. In 2010, he moved to the same position with the Brokerage Office of BZ WBK, to be promoted to Executive Director in 2012. Since 2017 with Bank Zachodni WBK (Santander Bank Polska as of July 2018) as Head of the Institutional Brokerage Team at the Institutional Sales Department.

Piotr Wierzbicki – Member of the Supervisory Board

Graduate of the Warsaw School of Economics (SGH). He has also completed a number of training programmes in finance, management, financial reporting (IAS, US GAAP) and project management, including the Business Programme for Top Executives at IMD Business School, and ACCA Training. In 1993–1996 he worked at PWC as a Senior - Audit&Business Advisory Services. Then, in 1996–2008, he worked at Sun Microsystems, initially as CFO and, from 2002, as CEO. In 2009–2010, he was employed at Sygnity as Executive VP, CFO. In the following years, he worked at a number of companies, including EMC, YieldPlanet (currently as member of the company's Supervisory Board) and again at Sygnity. Since May 2018, serves as Managing Director, Country Manager, at Atos Polska.

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 45,000 (for an audit of the full-year financial statements for 2019) and PLN 27,000 (for a review of the Company's interim financial statements for 2019). In 2018, the fees were PLN 43,000 and PLN 22,000, respectively.

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*	137,771	6.02	137,771	6.02
Aviva Investors Poland TFI*	204,225	8.93	204,225	8.93
Other shareholders	1,575,573	68.89	1,575,573	68.89
Total	**2,287,199**	**100.00**	**2,287,199**	**100.00**

* Number of shares registered at the Annual General Meeting held on May 23rd 2019.

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A.

In Current Report No. 1/2019 of January 2nd 2019, 11 bit studios S.A. reported that on January 2nd 2019 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 from Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"), acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), of exceeding the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights in the Company changed following the purchase of Company shares by the Fund on December 20th 2018. Prior to the change, the Fund had held 113,709 shares in 11 bit studios S.A., representing 4.97% of the Company's share capital. Upon the transaction, the Fund held 115,839 shares, representing 5.06% of the share capital.

In Current Report No. 18/2019 of August 19th 2019, 11 bit studios S.A. announced that on August 19th 2019 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 from Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A. ("Aviva TFI"), acting on behalf of Aviva Investors Fundusz Inwestycyjny Otwarty (the "Fund"), of going below the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights in the Company changed following the sale of some of the Company shares by the Fund on August 13th 2019. Prior to the change, the Fund had held 120,771 shares in 11 bit studios S.A., representing 5.28% of the Company's share capital. As at the date of going below the 5% threshold, the Fund held 101,146 shares in 11 bit studios S.A., representing 4.42% of the Company's share capital. At the same time, Aviva TFI reported that the Aviva Investors Fundusz Inwestycyjny Otwarty and Aviva Investors Specjalistyczny Fundusz Inwestycyjny Otwarty funds continue to hold in aggregate more than 5% of total voting rights at the Company's General Meeting.

In the reporting period, there were also changes in the number of Company shares held by the management and supervisory staff.

In Current Report No. 23/2019 of November 22nd 2019, 11 bit studios S.A. announced that on November 22nd 2019 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Marcin Kuciapski, member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On November 22nd 2019, Marcin Kuciapski purchased a total of 300 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 349.25 per share.

In Current Report No. 24/2019 of December 3rd 2019, 11 bit studios S.A. announced that on December 3rd 2019 the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Marcin Kuciapski, member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On December 2nd and December 3rd 2019, Mr Kuciapski purchased a total of 100 shares in 11 bit studios S.A. in trades on the WSE, at an average price of PLN 347 (2 shares on December 2nd 2019) and PLN 348 (98 shares on December 3rd 2019) per share.

After the reporting period, there were changes in the shareholding structure of 11 bit studios S.A. associated with the number of Company shares held by the management staff.

In Current Report No. 4/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, President of the Company's Management Board, concerning his disposal of 11 bit studios S.A. shares. On February 20th 2020, Grzegorz Miechowski sold 3,000 shares in a block transaction on the WSE at an average price of PLN 460 per share.

In Current Report No. 5/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, member of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On February 20th 2020, Przemysław Marszał sold 7,700 shares in 11 bit studios S.A. in a block transaction on the WSE at an average price of PLN 460 per share.

In Current Report No. 6/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Michał Drozdowski, member of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On February 20th 2020, Michał Drozdowski sold 5,000 shares in 11 bit studios S.A. in a block transaction on the WSE at an average price of PLN 460 per share.

Furthermore, in Current Report No. 7/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 21st 2020 the Company received a notification under Art. 69.1.2 in conjunction with Art. 87.1.2 of the Act on Public Offering , Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz. U. of 2009, item 623; the "Act") from Przemysław Marszał, member of the Company's Management Board, to the effect that his interest in total voting rights at the Company's General Meeting fell below 5% as a result of disposal of 11 bit studios S.A. shares in a block transaction executed on the Warsaw Stock Exchange on February 20th 2020. Immediately prior to the transaction, Mr Marszał

held 118,000 Company shares, representing 5.16% of the Company's share capital and conferring the right to 118,000 votes, or 5.16% of total voting rights, at the Company's General Meeting. Following the sale transaction of February 20th 2020, he holds 110,300 shares, representing 4.82% of the Company's share capital and conferring the right to 110,300 votes, or 4.82% of total voting rights, at the Company's General Meeting.

5.6. Company shares held by members of its management and supervisory staff

	Position	Number of shares as at this report date	Number of shares as at Dec 31 2019 (shares)	Number of shares as at Dec 31 2018 (shares)
Grzegorz Miechowski	President of the Management Board	159,000	162,000	162,000
Przemysław Marszał	Member of the Management Board	110,300	118,000	118,000
Michał Drozdowski	Member of the Management Board	84,630	89,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	400	400	0

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

In the reporting period, there were changes in the holdings of Company shares by the supervisory staff of 11 bit studios S.A. For details, see **Note 5.5**.

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 5.5**.

5.7. Remuneration, awards or benefits received by members of the management and supervisory bodies of the Company (PLN)

Management Board:

Remuneration for managerial responsibilities (paid in 2019):

	Period ended Dec 31 2019	Period ended Dec 31 2018
Grzegorz Miechowski	430,838	456,391
Bartosz Brzostek (Member of the Management Board until May 9th 2018)	0	178,654
Przemysław Marszał	429,866	455,438
Michał Drozdowski	420,000	445,630
Total	**1,280,704**	**1,536,113**

Remuneration for managerial responsibilities (accrued 2019 annual bonuses to be paid in 2020):

	Period ended Dec 31 2019	Period ended Dec 31 2018
Grzegorz Miechowski	90,000	80,504
Przemysław Marszał	90,000	80,504
Michał Drozdowski	90,000	80,504
Total	**270,000**	**241,512**

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

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

	Period ended Dec 31 2019	Period ended Dec 31 2018
Grzegorz Miechowski	60,000	35,000
Michał Drozdowski	60,000	35,000
Przemysław Marszał	60,000	35,000
Total	**180,000**	**105,000**

Remuneration of the members of the Company's Management Board is determined by the Supervisory Board and depends on the individual members' performance 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 for the Company's earnings reported for a given period. The bonus is calculated for a period starting from the fourth quarter of the previous year (inclusive) and ending with the third quarter of the current year (inclusive). The bonus amount is divided in equal parts among all Management Board members. For 2019, the Management Board received a total bonus of PLN 571,591, which was paid before the date of authorisation of this report.

The bonus was divided as follows:

- Grzegorz Miechowski– PLN 190,530;
- Przemysław Marszał– PLN 190,530;
- Michał Drozdowski – PLN 190,530.

The members of the Management Board did not receive any other remuneration for 2019 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 supervisory responsibilities:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Piotr Sulima	21,450	54,000
Jacek Czykiel	34,875	36,000
Radosław Marter	19,800	19,800
Agnieszka Maria Kruz	7,865	19,800
Wojciech Ozimek	40,510	19,800
Marcin Kuciapski	12,045	0
Piotr Wierzbicki	12,045	0
Total	**148,590**	**149,400**

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 2019 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 2019, there were changes in the Company's principal governance rules.

5.14. Major domestic and foreign investments; structure of major capital investments

Current financial assets (term deposits with maturities of more than three months) and cash and cash equivalents were the largest item of the Company's assets. As at December 31st 2019, they stood at, respectively, PLN 67,328,563 (previous year: PLN 27,000,000) and PLN 14,882,519 (PLN 24,250,681 as at the end of 2018). In total, the Company's current assets as at the end of 2019 amounted to PLN 103,387,021 (2018: PLN 67,945,928).

As at the end of 2019, 11 bit studios S.A.'s non-current assets stood at PLN 49,875,283, relative to PLN 41,316,893 at the end of 2018. The largest item of the Company's non-current assets as at the end of 2019 was property, plant and equipment (PLN 24,148,839), comprising the property at ul. Brzeska 2 in Warsaw, purchased by the Company in December 2018 to house its new headquarters. Another significant item of non-current assets was intangibles, which included expenditure on ongoing development work (*Project 8, Project 9, Project 10* and games of 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 2019, intangible assets totalled PLN 24,870,505 (2018: PLN 17,138,011).

In 2019, the large amounts of surplus cash held by the Company enabled it to finance its current operations and investment projects with own funds, without the need for any borrowings.

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

As at December 31st 2019, 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, hard-to-predict 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 work. 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 failure to secure 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, in particular the Management Board members, who are the most qualified management staff at the Company, the Company relies to some extent on

flexible forms of employment, 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 2019 Annual Report, the founding shareholders held a total of 353,930 shares in the Company, representing 15.47% of the share capital and conferring the right to 15.47% 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 practically 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.

Risk of actual and potential impact of the COVID-19 epidemic on the Company's operations

Since the onset of the COVID-19 epidemic in Q1 2020, 11 bit studios S.A. has been continuously monitoring its potential adverse effects on the Company's operations and performance. As at the reporting date, thanks to the measures taken in advance (ensuring the network infrastructure and software to enable all the staff to work from home), none of the Company's operations was found to be at risk of being disrupted. Games (both own and third-party productions, of which the Company is the publisher) are being developed and sold in an uninterrupted manner. Therefore, the Management Board of 11 bit studios S.A. believes the risk of disrupting the continuity of the Company's operations caused by the COVID-19 epidemic to be low. Nevertheless, the Company takes into account the possibility that some or all of the risks associated with the spread of the

COVID-19 epidemic may materialise and it therefore monitors the developments on an ongoing basis.

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, business laws, labour and social security laws, or securities laws 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.

Signed by:

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

Warsaw, March 25th 2020

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY

11 BIT STUDIOS S.A.

IN 2019

6.OVERVIEW

In 2019, 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. The Company announced an update to the scope of application in EBI Current Report No. 1/2019 of September 4th 2019. All information resulting from the corporate governance standards adopted by the Company, reflecting subsequent updates, is published at
http://ir.11bitstudios.com/wp-content/uploads/2019/09/Dobre-Praktyki-2019.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:

a. real-life broadcast of the general meeting,
b. real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
c. 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.

Detailed principles

IV. Z.2. "If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings."

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, and does not enable shareholders to participate in the General Meetings using electronic means of communication. 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 future.

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 managerial responsibilities 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 for which the function is performed 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 2019:

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 Poland 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 2020

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

In the reporting period, there were no changes in the composition of the Company's Management Board. At its meeting held on May 23rd 2019, the Company's Supervisory Board passed a resolution to appoint the following persons to the Management Board for another three-year term of office:

Grzegorz Miechowski, President of the Management Board
Przemysław Marszał, Member of the Management Board, Artistic Director
Michał Drozdowski, Member of the Management Board, Creative Director

The term of office of the appointed members of the Management Board expires on the date the Annual General Meeting approves the Company's full-year financial statements for the financial year ended December 31st 2021.

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

The composition of the Company's Supervisory Board changed in the reporting period. On May 23rd 2019, as the term of the previous Supervisory Board had expired, the General Meeting appointed the following persons for another three-year term of office:

- Wojciech Ozimek
- Jacek Czykiel
- Radosław Marter
- Marcin Kuciapski
- Piotr Wierzbicki

The term of office of the Supervisory Board members ends on May 23rd 2022. For detailed information on the members of the Supervisory Board and a description of their experience and competences, see **Note 5.2.2.**

At its meeting held on June 18th 2019, the Supervisory Board passed a resolution to appoint Wojciech Ozimek as Chairman and Jacek Czykiel as Deputy Chairman of the Supervisory Board. Accordingly, as at the date of issue of this report, the composition of the 11 bit studios S.A. Supervisory Board was as follows:

- Wojciech Ozimek – Chairman of the Supervisory Board
- Jacek Czykiel– Deputy Chairman of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Radosław Marter– Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Marcin Kuciapski – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Piotr Wierzbicki – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*

Composition of the previous Supervisory Board, whose term of office expired on May 23rd 2019:

- 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 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.

At its meeting held on September 3rd 2019, the Supervisory Board appointed an Audit Committee with the following composition:

- Jacek Czykiel – Chairman of the Audit Committee
- Radosław Marter – Member of the Audit Committee
- Piotr Wierzbicki – Member of the Audit Committee

Prior to the appointment of the Audit Committee, in accordance with the resolution of the Company's General Meeting of June 26th 2015, the audit committee functions were performed by the Supervisory Board.

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 management and governance positions (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 2019, 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.

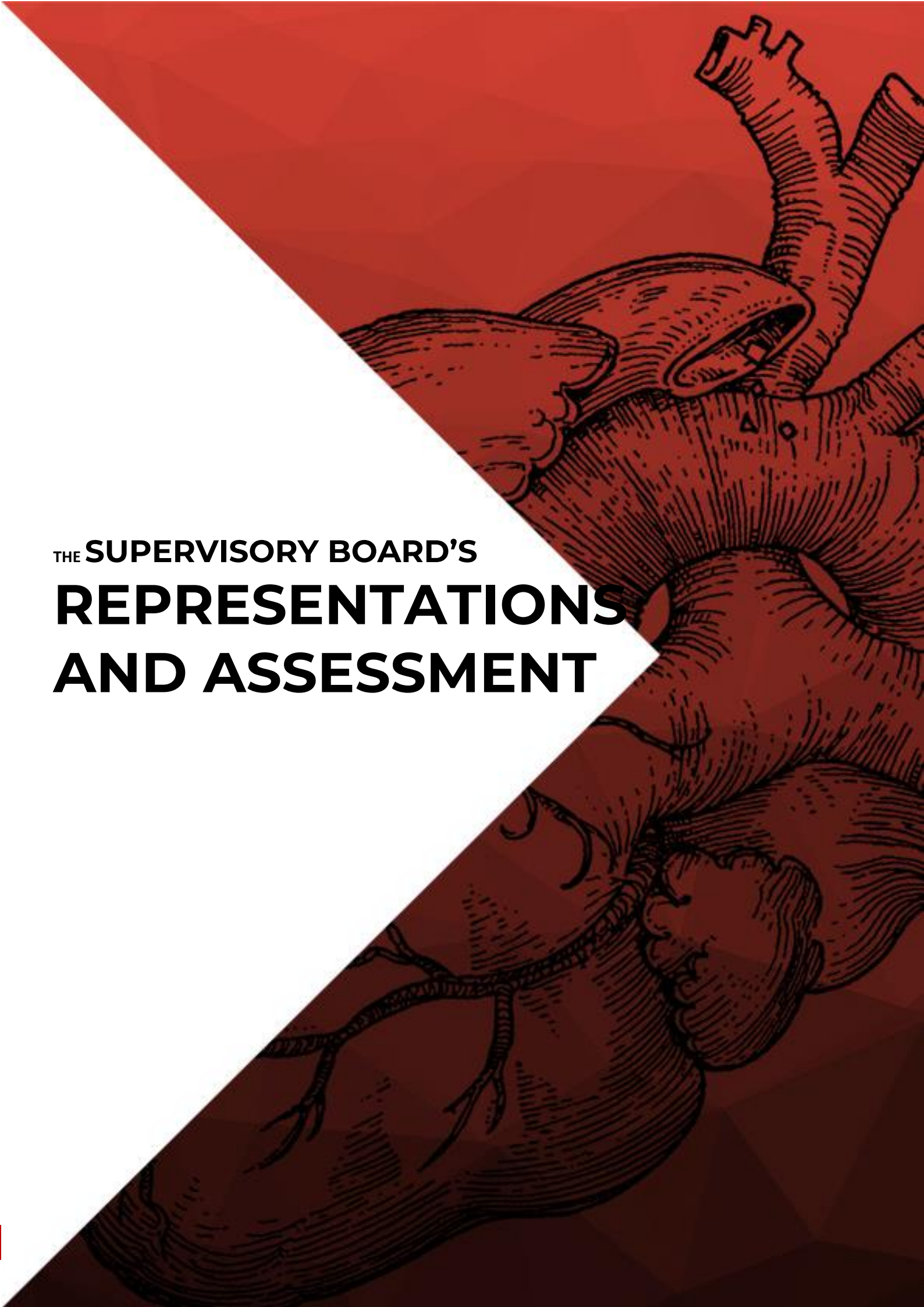
6.11. Sponsorship, charity or other similar activities carried out by the Company

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 an add-on to *This War of Mine* (War Child Charity DLC). In 2019, the Company transferred PLN 230,316 to the War Child foundation's account. In 2018, the amount was PLN 648,755.

Signed by:

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

Warsaw, March 25th 2020



THE SUPERVISORY BOARD'S

REPRESENTATIONS AND ASSESSMENT

7.1. Concerning selection of the audit firm

The Supervisory Board of 11 bit studios S.A. represents that on July 26th 2017 it 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 interim financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2017, 2018 and 2019.

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 of the Company in accordance with applicable laws, professional standards and rules of ethics. The Company 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 for the selection of an audit firm and the provision of additional non-audit services to the Company 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.

7.2. 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 complies with the laws and regulations governing the appointment, composition, and operation of audit committees, including those concerning the fulfilment by audit committee members of independence criteria and the requirements relating to knowledge and skills relevant for the industry in which the company operates as well as those relating to knowledge and skills in accounting or auditing of financial statements.
- The Audit Committee of 11 bit studios S.A. performed the tasks of the audit committee as provided for in applicable regulations.

Wojciech Ozimek – Chairman of the Supervisory Board

Jacek Czykiel – Deputy Chairman of the Supervisory Board

Radosław Marter – Member of the Supervisory Board

Marcin Kuciapski – Member of the Supervisory Board

Piotr Wierzbicki – Member of the Supervisory Board

The original document bears the relevant signatures
Warsaw, March 25th 2020

7.3. 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 2019 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 2019 and the Directors' Report on the operations of 11 bit studios S.A. in the year ended December 31st 2019, 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 Audit Committee, (ii) information and data provided by the Company's Management Board to the Audit Committee.

Wojciech Ozimek – Chairman of the Supervisory Board

Jacek Czykiel – Deputy Chairman of the Supervisory Board

Radosław Marter – Member of the Supervisory Board

Marcin Kuciapski – Member of the Supervisory Board

Piotr Wierzbicki – Member of the Supervisory Board

The original document bears the relevant signatures
Warsaw, March 25th 2020