

Warsaw, August 27th 2020

**HALF-YEAR REPORT OF  
11 BIT STUDIOS S.A.  
FOR THE FIRST HALF OF  
2020**

# LETTER FROM THE MANAGEMENT BOARD

Warsaw, August 27th 2020

**Dear Shareholders and Investors,**

Please be invited to read 11 bit studios S.A.'s report for the first half of 2020. We, as the Management Board, are extremely satisfied with the Company's financial performance in the period.

In the first six months of 2020, 11 bit studios S.A. reported revenue of nearly PLN 50.2m, up 63.2% year on year, and delivered a net profit of more than PLN 25.0m, up 237%. The Company generated cash from operating activities of PLN 30.8m, and the value of its financial assets (cash and cash equivalents, bank deposits, trade and tax receivables) as at the end of June 2020 soared to a record high of PLN 114.2m. In conclusion, never in the Company's history, now spanning over a decade, did we post such good results in the first half of a year, not even in 2018, when *Frostpunk* and *Moonlighter* were first released on the market.

The robust financial performance delivered by 11 bit studios S.A. in the first half of 2020 is attributable to very good sales of games from our entire, steadily growing portfolio of proprietary games and games from our publishing line. We are particularly satisfied with the sales of *Frostpunk* and paid DLCs for this production, released as part of the Season Pass. By the end of June 2020, in a little more than two years from the game's debut, revenue from sale of *Frostpunk* (entire IP) came close to PLN 110m and exceeded cumulative revenue from sales of our previous hit game *This War of Mine*. The games released by the publishing division, mainly *Moonlighter* and *Children of Morta*, vitally contribute to the results posted by 11 bit studios S.A. The revenue from the two games in the first six months of 2020 accounted for 30% of the Company's total revenue.

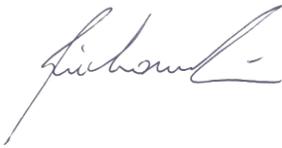
Despite temporary disruptions related to the COVID-19 pandemic, which did not affect our day-to-day operations, the first half of 2020 was a period of major change for 11 bit studios S.A. Since March, we have been working from a new (our own) office at ul. Brzeska 2 in Warsaw. We are actively expanding our workforce, now comprising almost 150 people, and this entails change in the Company's organisational structure. The new employees join mainly the three internal development teams working on new games, i.e. *Project 8*, as well as the *Dolly* and *Eleanor* projects. We are satisfied with the progress of work on these productions, although we must admit that *Project 8* has turned out to be a bit more challenging than we originally expected, which means we need more time to complete it. Work on the other two projects is progressing without interruption and its pace is very satisfactory.

The COVID-19 pandemic, which led to the cancellation of all industry events, did not hinder the dynamic growth of the 11 bit publishing division. At the end of June, 11 bit studios S.A. announced that it had acquired another title, with a working name *Ava*, authored by Spanish studio Chibig. It is the fourth publishing project in the Company's portfolio. We are currently holding negotiations concerning a few other projects.

The Company's investments in new games, both proprietary ones and those released as part of the publishing business, combined with the record level of financial assets, allow the Company to look at the coming quarters and years with high hopes, although the time when the investments yield fruit is yet to come. This is why in the coming periods 11 bit studios S.A. will focus on developing and monetising its existing game portfolio in order to maximise the life cycle of each production.

The *Frostpunk* release for mobile devices, scheduled for 2021, is only one example of the initiatives undertaken with this goal in mind.

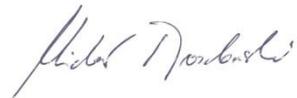
Thank you once again for the trust you place in us. We invite you to read our report.

A handwritten signature in black ink, appearing to read 'Grzegorz Miechowski'.

*Grzegorz Miechowski*  
*President of the*  
*Management Board*

A handwritten signature in black ink, appearing to read 'Przemysław Marszał'.

*Przemysław Marszał*  
*Member of the*  
*Management Board*

A handwritten signature in black ink, appearing to read 'Michał Drozdowski'.

*Michał Drozdowski*  
*Member of the*  
*Management Board*

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# 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 June 30th 2020 - **PLN 4.4660**
- Exchange rate as at December 31st 2019 - **PLN 4.2585**.

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 the first half of 2020 - **PLN 4.4413**
- Exchange rate for the first half of 2019 - **PLN 4.2880**

## Statement of financial position

	Jun 30 2020 (PLN)	Jun 30 2020 (EUR)	Dec 31 2019 (PLN) <i>(restated)</i>	Dec 31 2019 (EUR) <i>(restated)</i>
Total assets	176,388,990	39,495,967	156,668,388	36,789,571
Non-current assets	61,697,358	13,814,903	49,815,125	11,697,810
Intangible assets	29,582,512	6,623,939	24,870,505	5,840,203
Current assets	114,691,632	25,681,064	105,853,263	24,856,936
Cash	29,050,705	6,504,860	14,882,519	3,494,780
Bank deposits with maturities of more than 3 months	62,201,853	13,927,867	67,328,563	15,810,394
Total equity and liabilities	176,388,990	39,495,967	155,668,388	36,554,747
Equity	144,750,589	32,411,686	119,740,299	28,117,952
Liabilities and provisions	31,638,401	7,084,281	35,928,089	8,436,794

## Statement of profit or loss

	Period ended Jun 30 2020 (PLN)	Period ended Jun 30 2020 (EUR)	Period ended Jun 30 2019 (PLN) <i>(restated)</i>	Period ended Jun 30 2019 (EUR) <i>(restated)</i>
Revenue	50,168,756	11,295,962	30,738,966	7,168,602
Depreciation and amortisation	4,844,854	1,090,864	3,038,143	708,522
Operating profit	26,376,046	5,938,812	9,688,208	2,259,377
EBITDA	31,220,900	7,029,676	12,726,351	2,967,899
Profit (loss) before tax	26,681,959	6,007,691	9,979,572	2,327,326
Net profit (loss)	25,010,290	5,631,299	7,421,572	1,730,777

## Statement of cash flows

	Period ended Jun 30 2020 (PLN)	Period ended Jun 30 2020 (EUR)	Period ended Jun 30 2019 (PLN) <i>(restated)</i>	Period ended Jun 30 2019 (EUR) <i>(restated)</i>
Net cash from operating activities	28,918,250	6,511,213	19,928,733	4,647,559
Net cash from investing activities	(14,027,199)	(3,158,354)	(21,308,089)	(4,969,237)
Net cash from financing activities	(722,866)	(162,760)	(699,061)	(163,027)
Total net cash flows	14,168,186	3,190,099	(2,078,417)	(484,705)



**INTERIM CONDENSED FINANCIAL STATEMENTS OF**  
**11 BIT STUDIOS S.A.**  
**FOR THE FIRST HALF OF 2020**

# 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

These interim condensed financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to June 30th 2020 and contain the following comparative data:

- Statement of financial position – as at December 31st 2019,
- Statement of profit or loss and other comprehensive income – 6 months ended June 30th 2019,
- Statement of changes in equity – 6 months ended June 30th 2019,
- Statement of cash flows – 6 months ended June 30th 2019.

### 1.3. Composition of the Company's governing bodies as at June 30th 2020

#### 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 Company's Management or Supervisory Boards. 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 term of office of the current Supervisory Board expires on May 23rd 2022.

### 1.4. Auditor

PricewaterhouseCoopers Polska., Sp. z o.o. Audyt Sp.k. ul. Polna 11, 00-633 Warsaw, Poland

In Current Report No. 2/2020 of February 6th 2020 the Company announced that in accordance with the applicable laws and professional standards the competent body, i.e. the Company's Supervisory Board, at a meeting held on February 5th 2020, acting pursuant to Art. 66.4 of the Accounting Act of September 29th 1994, Art. 8.4 of the Company's Articles of Association, and Section 7.3 of the Rules of Procedure for the Company's Supervisory Board, and having considered the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., with registered office at ul. Polna 11, 00-633 Warsaw, to audit the Company's financial statements and review its interim financial statements for the financial years ending December 31st 2020 and 2021. PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. is entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors under Reg. No. 144. The Company did not previously engage PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k. to audit or review its financial statements or provide any other advisory services.

### 1.5. Shareholding structure as at the date of issue of the half-year report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM

Grzegorz Miechowski	177,413	7.53	177,413	7.53
Przemysław Marszał	110,300	4.68	110,300	4.68
Michał Drozdowski	84,630	3.59	84,630	3.59
Aviva Investors Poland TFI*	181,609	7.71	181,609	7.71
Other shareholders	1,801,528	76.49	1,801,528	76.49
<b>Total</b>	<b>2,355,480</b>	<b>100.00</b>	<b>2,355,480</b>	<b>100.00</b>

\* Number of shares registered at the Annual General Meeting held on June 9th 2020.

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

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 disposal of 11 bit studios S.A. shares. On February 20th 2020, Przemysław Marszał sold 7,700 shares 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 2020 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 disposal of 11 bit studios S.A. shares. On February 20th 2020, Michał Drozdowski sold 5,000 shares 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 disposal, Przemysław 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.

In Current Report No. 14/2020 of June 1st 2020, 11 bit studios S.A. announced that on May 29th 2020 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 NN Investment Partners Towarzystwo Funduszy

Inwestycyjnych S.A. ("NN TFI"), of going below the threshold of 5% of total voting rights at the General Meeting of 11 bit studios S.A. The percentage of total voting rights in the Company changed following the sale of some of the Company shares by NN Fundusz Inwestycyjny Otwarty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty (funds managed by NN TFI) on May 26th 2020. Prior to the change, all funds managed by NN TFI held a total of 120,334 shares in 11 bit studios S.A., representing 5.26% of the Company's share capital and 5.26% of total voting rights at the Company's General Meeting. As at the date of going below the threshold, the funds managed by NN TFI held a total of 110,804 shares in 11 bit studios S.A., representing 4.84% of the Company's share capital and 4.84% of total voting rights at the Company's General Meeting.

In Current Report No. 21/2020 of June 30th 2020, 11 bit studios S.A. announced that on June 30th 2020 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Marcin Kuciapski, member of the Company's Supervisory Board, concerning his purchase of 11 bit studios S.A. shares. On June 30th 2020, Marcin Kuciapski purchased 150 shares in transactions on the WSE for an average price of PLN 488 per share.

After the reporting period, there was also a change in the number of shares held by a member of the Company's management staff.

In Current Report No. 24/2020 of July 3rd 2020, 11 bit studios S.A. announced that on July 3rd 2020 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 subscription for 11 bit studios S.A. shares as part of the settlement of the 2017-2019 Incentive Scheme. On July 3rd 2020, Grzegorz Miechowski subscribed for 18,413 Company shares at a price of PLN 103.38 per share.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Jun 30 2020 (no. of shares)	Shareholding as at Dec 31 2019 (no. of shares)
Grzegorz Miechowski	President of the Management Board	177,413	159,000	162,000
Przemysław Marszał	Member of the Management Board	110,300	110,300	118,000
Michał Drozdowski	Member of the Management Board	84,630	84,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	550	550	400

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**.

## **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, 148 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 interim condensed 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**

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

These interim condensed financial statements as at June 30th 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting and the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz.U. of 2018, item 757).

These interim condensed financial statements have been prepared on a historical cost basis. They do not include all information and disclosures required in full-year financial statements and should be read in conjunction with the Company's full-year financial statements for 2019, including notes, for the period of 12 months ended December 31st 2019, prepared in accordance with the IFRS as endorsed by the EU.

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

### **1.11. Statement of the Company's Management Board concerning the entity authorised to review the reliability of preparation of the interim condensed financial statements**

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

Pursuant to the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated March 29th 2018, the Company's Management Board hereby represents that, to the best of its knowledge, these interim condensed financial statements and comparative data have been prepared in accordance with the applicable accounting policies, give a true, fair and clear view of the Company's assets, financial position and financial result, and are consistent with the underlying accounting records, documents and facts.

### **1.12. Authorisation of financial statements**

These interim condensed financial statements of 11 bit studios S.A. were authorised for issue by the Company's Management Board on August 27th 2020.

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

### 2.1. Interim statement of comprehensive income (PLN)

	Note	3 months ended Jun 30 2020 <i>(unaudited)</i>	3 months ended Jun 30 2019 <i>(unaudited)</i>	6 months ended Jun 30 2020	6 months ended Jun 30 2019 <i>(restated)</i>
<b>Continuing operations</b>					
Revenue	3.3	19,645,147	16,555,170	50,168,756	30,738,966
Other income	3.4	85,479	67,389	150,938	153,941
<b>Total operating income</b>		<b>19,730,626</b>	<b>16,622,559</b>	<b>50,319,694</b>	<b>30,892,907</b>
Depreciation and amortisation	3.5	(2,473,091)	(1,473,328)	(4,844,854)	(3,038,143)
Raw materials and consumables used		(81,604)	(132,957)	(178,369)	(218,950)
Services	3.6	(6,648,048)	(8,580,765)	(13,638,340)	(11,948,337)
Salaries, wages and employee benefits	3.7	(318,137)	(2,374,121)	(3,784,196)	(5,176,924)
Taxes and charges		(87,285)	(61,384)	(156,763)	(114,105)
Other expenses	3.4	(987,993)	(559,746)	(1,341,126)	(701,883)
(Impairment)/reversal of impairment of financial instruments		0	(1,632)	0	(6,357)
<b>Total operating expenses</b>		<b>(10,596,159)</b>	<b>(13,183,933)</b>	<b>(23,943,648)</b>	<b>(21,204,699)</b>
<b>Operating profit</b>		<b>9,134,467</b>	<b>3,438,625</b>	<b>26,376,046</b>	<b>9,688,208</b>
Interest income	3.8	194,160	282,955	456,901	495,721
Other finance income		(684,168)	(134,508)	455,358	0
Finance costs	3.9	184,522	(79,134)	(606,346)	(204,357)
<b>Profit before tax</b>		<b>8,828,983</b>	<b>3,507,939</b>	<b>26,681,959</b>	<b>9,979,572</b>
Income tax expense	3.10	1,673,263	(1,028,808)	(1,671,669)	(2,558,000)
<b>NET PROFIT</b>		<b>10,502,246</b>	<b>2,479,131</b>	<b>25,010,290</b>	<b>7,421,572</b>
<b>Earnings per share (PLN):</b>					
Basic	3.11	3.71	1.08	10.93	3.24
Diluted	3.11	3.51	1.03	10.35	3.07
<b>NET PROFIT</b>		<b>10,502,246</b>	<b>2,479,131</b>	<b>25,010,290</b>	<b>7,421,572</b>
Other comprehensive income		0	0	0	0
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>10,502,246</b>	<b>2,479,131</b>	<b>25,010,290</b>	<b>7,421,572</b>

### 2.2. Interim statement of financial position (PLN)

#### ASSETS

	Note	As at Jun 30 2020	As at Dec 31 2019 <i>(restated)</i>
<b>Non-current assets</b>			
Property, plant and equipment	3.12	25,881,583	20,380,205

Intangible assets	3.13	29,582,512	24,870,505
Perpetual usufruct of land		4,005,549	4,007,699
Deferred tax asset		2,216,060	542,022
Other assets	3.17	11,654	14,694
Non-current financial assets		0	0
<b>Total non-current assets</b>		<b>61,697,358</b>	<b>49,815,125</b>
<b>Current assets</b>			
Trade and other receivables	3.14	14,909,674	17,750,932
Inventories - prepaid deliveries of goods and services		11,830	11,830
Income tax receivable	3.10	3,952,947	5,441,189
Other current assets	3.16	455,681	438,230
Cash and cash equivalents	3.18	29,050,705	14,882,519
Current financial assets	3.15	66,310,796	67,328,563
<b>Total current assets</b>		<b>114,691,632</b>	<b>105,853,262</b>
<b>TOTAL ASSETS</b>		<b>176,388,990</b>	<b>156,668,388</b>

## EQUITY AND LIABILITIES

	Note	As at Jun 30 2020	As at Dec 31 2019 (restated)
<b>Equity</b>			
Share capital	3.19	228,720	228,720
Share premium		4,870,274	4,870,274
Statutory reserve funds		87,152,664	78,881,784
Share-based payment reserve		31,744,829	18,305,429
Retained earnings		20,754,102	17,454,092
<b>Total equity</b>		<b>144,750,589</b>	<b>119,740,299</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings and other debt instruments	3.22	10,249,710	10,429,732
Deferred income		437,567	497,564
Lease liabilities - perpetual usufruct of land		334,470	334,891
<b>Total non-current liabilities</b>		<b>11,021,747</b>	<b>11,262,187</b>
<b>Current liabilities</b>			
Trade and other payables	3.23	14,599,039	11,429,892
Liabilities under contracts with customers		4,488,341	11,730,526
Short-term borrowings and other debt instruments	3.22	1,366,628	1,303,717
Lease liabilities - perpetual usufruct of land		12,653	12,653
Deferred income		149,993	189,114
<b>Total current liabilities</b>		<b>20,616,654</b>	<b>24,665,902</b>
<b>Total liabilities</b>		<b>31,638,401</b>	<b>35,928,089</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>176,388,990</b>	<b>155,668,388</b>

### 2.3. Interim statement of changes in equity (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
<b>As at Jan 1 2020 before restatement:</b>	<b>228,720</b>	<b>4,870,274</b>	<b>78,881,784</b>	<b>14,257,326</b>	<b>21,502,195</b>	<b>0</b>	<b>0</b>	<b>119,740,299</b>
- opening balance adjustments				4,048,103	(4,048,103)			<b>0</b>
<b>As at Jan 1 2020</b>	<b>228,720</b>	<b>4,870,274</b>	<b>78,881,784</b>	<b>18,305,429</b>	<b>17,454,092</b>	<b>0</b>	<b>0</b>	<b>119,740,299</b>
Net profit for the financial year	0	0	0	0	25,010,290	0	0	25,010,290
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,010,290</b>	<b>0</b>	<b>0</b>	<b>25,010,290</b>
Creation of capital reserve	0	0	(13,439,400)	13,439,400	0	0	0	0
Settlement of share-based payment reserve	0	0	0	0	0	0	0	0
Profit allocated to statutory reserve funds	0	0	21,710,280	0	(21,710,280)	0	0	0
Share-based payments	0	0	0	0	0	0	0	0
<b>As at Jun 30 2020</b>	<b>228,720</b>	<b>4,870,274</b>	<b>87,152,664</b>	<b>31,744,829</b>	<b>20,754,102</b>	<b>0</b>	<b>0</b>	<b>144,750,589</b>

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
<b>As at Jan 1 2019 before restatement:</b>	<b>228,720</b>	<b>4,870,274</b>	<b>41,331,887</b>	<b>6,138,880</b>	<b>37,341,812</b>	<b>0</b>	<b>0</b>	<b>89,911,573</b>
- opening balance adjustments	0	0	0	6,064,737	(6,064,737)	0	0	0
<b>As at Jan 1 2019</b>	<b>228,720</b>	<b>4,870,274</b>	<b>41,331,887</b>	<b>12,203,617</b>	<b>31,277,075</b>	<b>0</b>	<b>0</b>	<b>89,911,573</b>
Net profit for the financial year	0	0	0	0	6,413,256	0	0	6,413,256
- adjustment of incentive scheme costs for 2019	0	0	0	0	1,008,317	0	0	1,008,317
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,421,573</b>	<b>0</b>	<b>0</b>	<b>7,421,573</b>
Creation of capital reserve	0	0	0	0	0	0	0	0
Settlement of share-based payment reserve	0	0	0	0	0	0	0	0
Profit allocated to statutory reserve funds	0	0	37,549,897	0	(37,549,897)	0	0	0
Share-based payments	0	0	0	4,092,588	0	0	0	4,092,588
- adjustment of incentive scheme costs for 2019	0	0	0	(1,008,317)	0	0	0	(1,008,317)
<b>As at Jun 30 2019</b>	<b>228,720</b>	<b>4,870,274</b>	<b>78,881,784</b>	<b>15,287,888</b>	<b>1,148,751</b>	<b>0</b>	<b>0</b>	<b>100,417,417</b>

## 2.4. Interim statement of cash flows (PLN)

	Note	Period ended Jun 30 2020	Period ended Jun 30 2019 (restated)
<b>Cash flows from operating activities</b>			
<b>Profit for the financial year</b>		<b>25,010,290</b>	<b>7,421,572</b>
<b>Adjustments:</b>			
Depreciation and amortisation	3.5	4,844,854	3,038,143
Income tax expense recognised in profit or loss		1,671,669	2,558,000
Revaluation of intangible assets		(17,450)	33,959
Other adjustments	3.31	611,661	3,349,146
<b>Changes in working capital:</b>			
Increase/(decrease) in trade and other receivables		2,841,258	993,069
Increase/decrease in inventories		0	0
Increase/(decrease) in other assets		14,410	(149,771)
Increase/(decrease) in trade and other payables		3,169,146	1,819,958
Increase/(decrease) in net balance under contracts with customers		(7,242,184)	5,132,642
Increase/(decrease) in deferred income		(99,118)	(79,558)
<b>Cash provided by operating activities</b>		<b>30,775,715</b>	<b>24,117,160</b>
Income tax paid		(1,857,464)	(4,188,427)
<b>Net cash from operating activities</b>		<b>28,918,250</b>	<b>19,928,733</b>
<b>Cash flows from investing activities</b>			
Loans to employees		(4,108,945)	0
Proceeds from bank deposits upon maturity – over 3 months		94,000,000	43,000,000
New bank deposits placed – over 3 months		(89,000,000)	(59,000,000)
Proceeds from interest on financial assets		126,710	0
Payments for property, plant and equipment and intangible assets		(15,044,965)	(5,308,089)
<b>Net cash from investing activities</b>		<b>(14,027,199)</b>	<b>(21,308,089)</b>
<b>Cash flows from financing activities</b>			
Proceeds/(payments) under credit facility		(630,000)	(525,000)
Payment of bank loan interest		(92,866)	(174,061)
<b>Net cash from financing activities</b>		<b>(722,866)</b>	<b>(699,061)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>		<b>14,168,186</b>	<b>(2,078,417)</b>
Cash at beginning of reporting period		14,882,519	24,250,681
<b>CASH AT END OF REPORTING PERIOD</b>		<b>29,050,705</b>	<b>22,172,264</b>

# 3. NOTES TO THE FINANCIAL STATEMENTS

## 3.1. Application of 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 accordance with IAS 34 *Interim Financial Reporting*.

The Company has applied the IFRSs as effective on June 30th 2020. The accounting policies applied to prepare these financial statements of the Company for the first half of 2020 are consistent with the policies applied to prepare the Company's full-year financial statements for 2019, 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 2020

The following new standards and amendments to existing standards effective from January 1st 2020 were applied for the first time in these financial statements:

- **IFRS 3 Business Combinations**

The amendments to IFRS 3 include a change in the definition of 'business'. Under the amended standard, the scope of the definition is narrower and will probably increase the proportion of acquisitions classified as asset acquisition.

In the Company's opinion, the application of the above amendments does not affect the financial statements as the Company did not carry out any business combinations in recent years.

- **Amendments to IFRS 9, IAS 39 and IFRS 7 related to IBOR reform**

Amendments to IFRS 9, IAS 39 and IFRS 7, issued in 2019, revise certain specific hedge accounting requirements, primarily to have the effect that the interest rate benchmark reform (IBOR reform) should not generally cause hedge accounting to terminate. They have no effect on the Company's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

The IASB published a new definition of 'materiality'. Amendments to IAS 1 and IAS 8 clarify the definition of materiality and improve the standards' consistency, but are not expected to have a material effect on the preparation of financial statements.

- **Amendments to the IFRS Conceptual Framework**

Amendments to the IFRS Conceptual Framework were released in 2019, applicable as of January 1st 2020. The revised Conceptual Framework is used by the Board and the Interpretations Committee in their work on new standards. However, entities preparing financial statements may use the Conceptual Framework to develop their accounting policies for transactions which have not been covered by the IFRSs currently in effect.

### 3.1.3. Issued standards and interpretations which are not yet effective and have not been adopted early by the Company

In these financial statements, the Company resolved not to early adopt the following issued standards, interpretations or amendments to existing standards prior to their effective date:

- **IFRS 17 Insurance Contracts and amendments to IFRS 17**

IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board on May 18th 2017 and amendments to IFRS 17 were issued on June 25th 2020. The amended standard is effective for annual periods beginning on or after January 1st 2023.

IFRS 17 *Insurance Contracts* will replace existing IFRS 4, which provides for diverse practices in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.

The Company will apply IFRS 17 following its endorsement by the European Union. As at the date of these financial statements, the new standard has not yet been endorsed by the European Union.

- **Amendments to IAS 1 Presentation of Financial Statements**

The IASB has published amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. The amendments are effective for financial statements for periods beginning on or after January 1st 2020.

As at the date of these financial statements, the amendment has not yet been endorsed by the European Union.

- **Amendments to IFRS 3 Business Combinations**

The amendments to the standard are intended to update the relevant references to the Conceptual Framework in IFRS without introducing any substantive changes to accounting for business combinations. As at the date of these financial statements, the amendment has not yet been endorsed by the European Union.

- **Amendments to IAS 16 Property, Plant and Equipment**

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendment is effective for financial statements for periods beginning on or after January 1st 2022. As at the date of these financial statements, the amendment has not yet been endorsed by the European Union.

- **Amendment to IAS 37 Provisions, contingent liabilities and contingent assets**

The amendments to IAS 37 clarify what costs an entity considers in assessing whether a contract is onerous. The amendment is effective for financial statements for periods

beginning on or after January 1st 2022. As at the date of these financial statements, the amendment has not yet been endorsed by the European Union.

- **Annual Improvements to IFRSs 2018–2020 Cycle**

Annual Improvements to IFRSs 2018–2020 Cycle amend the following standards: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and illustrative examples for IFRS 16 *Leases*.

The amendments explain and clarify the guidance on recognition and measurement provided in the standards. As at the date of these financial statements, the amendments have not yet been endorsed by the European Union.

- **IFRS 16 Leases**

On May 28th 2020, the Board issued an amendment to IFRS 16 as a response to changes regarding lease contracts in connection with the coronavirus pandemic (COVID-19). Lessees have the right to various reliefs and concessions, such as deferral of or exemption from lease payments. In view of the above, the Board introduced a practical expedient regarding assessment whether the changes are a lease modification. Lessees are provided with a practical relief in the form of exemption from applying IFRS 16 guidance regarding lease modifications. This will result in the recognition of lease reliefs and exemptions as variable lease payments in the period in which the event or condition that reduces payment occurs. The amendment has been effective since June 1st 2020, but it is yet to be endorsed by the European Union.

- **Amendment to IFRS 4: Application of IFRS 9 Financial Instruments**

The amendment to IFRS 4 *Insurance Contracts* postpones the application of IFRS 9 *Financial Instruments* until 2021. As at the date of these financial statements, the amendment has not yet been endorsed by the European Union.

- **IFRS 14 Regulatory Deferral Accounts**

The standard permits an entity which is a first-time adopter of IFRS (on or after January 1st 2016) to continue to account for rate-regulated activities in accordance with its previous accounting policies. To ensure better comparability with entities which already use IFRSs and do not account for such activities, in accordance with the issued IFRS 14 amounts from rate-regulated activities should be presented as a separate item in the statement of financial position, statement of profit or loss, and statement of comprehensive income. The European Union has decided not to endorse IFRS 14.

- **Amendments to IFRS 10 and IAS concerning sale or contribution of assets between an investor and its associate or joint venture**

The amendments address the current inconsistency between IFRS 10 and IAS 28. The accounting approach depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business.

Full gain or loss is recognised by the investor if the non-monetary assets constitute a business. If the assets do not meet the definition of a business, the investor recognises a partial gain or loss, excluding the part corresponding to other investors' interests.

The amendments were issued on September 11th 2014. As at the date of these financial statements, endorsement of the amendments has been postponed by the European Union.

### **3.2. Material achievements or failures of the Company in the reporting period**

The highlight of the first half of 2020, which determined the excellent financial performance of 11 bit studios S.A. in the period (revenue soared 63.21% year on year, to PLN 50.17m, and the net profit skyrocketed 238.72%, to PLN 25.14m), was the release of a paid add-on to *Frostpunk – Frostpunk: The Last Autumn*. It was the second of the three DLCs announced by the Company several quarters ago as part of the Season Pass. The first add-on in the series, *Frostpunk: The Rifts*, had its debut in late August 2019. The third DLC, entitled *Frostpunk: On The Edge*, was released on August 20th 2020.

The launch of *Frostpunk: The Last Autumn* on January 21st 2020 was a huge success. The add-on was high on the Steam top sellers list for a long time and received great reviews and ratings from industry media and players. Moreover, its strong sales drove sales of the game's basic version as well. Many buyers decided to purchase *Frostpunk: Game of The Year (GOTY)*, the edition containing the main version and the Season Pass, which effectively increased the Company's revenue in the reporting period.

Revenue from sale of *This War of Mine* was an important addition to the Company's H1 2020 revenue from its proprietary game portfolio, despite that fact that almost six years had passed since the release of the game on November 14th 2014. The refreshed interest in *Frostpunk* and its add-ons encouraged some fans buy this previous title from 11 bit studios S.A. and, as a result, its sales were clearly higher than in the first half of 2019.

As in previous periods, the sales of games created by third party developers for which the Company provided publishing services were an important source of revenue for 11 bit studios S.A. The revenue of the publishing division, with its key portfolio products being *Moonlighter* and *Children of Morta*, accounted for 30% of the Company's total revenue for the first half of 2020. This proportion was lower than in the whole of 2019, when it reached 40%, following a significant spike in sales of the Company's own games, in particular *Frostpunk*.

In the proprietary game development segment, in addition to the continued work on *Frostpunk* (preparation of further DLCs), in the first half of 2020 11 bit studios S.A. focused on the production of a game with a working title *Project 8* and on prototyping games with working (code) titles *Dolly Project* (formerly *Project 9*) and *Eleanor Project* (formerly *Project 10*). In the reporting period, the Company decided, in connection with the expansion of the concept for *Project 8*, to change the game engine based on which the game is being developed from an in-house solution used in the Company's earlier productions to Unreal Engine 5. In the first six months of the year, the Company

carried out intensive recruitment for the teams in charge of each of the productions, which are going to drive its financial performance in the coming years.

Despite the movement restrictions due to the COVID-19 pandemic and the cancellation of all industry events, the management team of the 11 bit publishing business carried out intensive acquisition activities in the first half of 2020 with a view to expanding its publishing portfolio for the next years. There are currently four titles in the portfolio: a game under the working (code) title *Vitriol* produced by Fool's Theory studio based in Bielsko-Biała, games under the working (code) titles *Foxhole* and *Botin* (produced by Digital Sun Games studio from Spain, which was responsible for the production of *Moonlighter*) and a game under the working title *Ava*, produced by the Spanish development studio Chibig. 11 bit studios S.A. assumes that by the end of 2020 it will sign at least one more publishing agreement.

The excellent sales of *Frostpunk* and its paid add-ons, *Moonlighter* (including the paid DLC – *Moonlighter: Between Dimensions*, which in the second quarter of 2020 was released for Xbox One, PS4 and Nintendo Switch users), *Children of Morta* and *This War of Mine* in the first half of 2020, coupled with the sales of other games in the portfolio (*Beat Cop* or the *Anomaly* games series), resulted in 11 bit studios S.A. recording a total revenue of PLN 50,168,756, which means an increase of 63.21% year on year. This makes the first half of 2020 the best half-year in terms of revenue in more than ten years of 11 bit studios S.A.'s history, after the record-breaking first half of 2018, which saw the releases of *Frostpunk* and *Moonlighter*.

In H1 2020, the Company's operating expenses increased to PLN 23,943,648 from PLN 21,204,699 in H1 2019, a rise of 12.92%. The largest item of operating expenses in the first half of 2020 was services (PLN 13,638,340, up 14.14% year on year), mostly comprising royalties payable to the producers of *Moonlighter* and *Children of Morta*. In H1 2020, the Company spent PLN 3,784,196 on salaries, wages and employee benefits, down 26.90% year on year. It should be noted that a year ago this item included a non-cash provision (over PLN 4.1m) created each quarter to cover the costs of the Incentive Scheme for 2017–2019. At PLN 4,844,854, depreciation and amortisation were a considerable item of operating expenses in Q1 2020, having increased by 59.46% year on year. The increase was driven by the commencement of amortisation of the expenditure incurred to create the *Frostpunk: The Last Autumn* DLC (starting from February 2020) and *Children of Morta* (starting from December 2019).

With strong revenue growth and slower increase in operating expenses, the operating profit posted by 11 bit studios S.A. for H1 2020 amounted to PLN 26,376,046, up 172.25% year on year (PLN 9,688,208). Accordingly, the Company's operating profit margin rose to 52.57%, from 31.52% in H1 2019. The positive balance of finance income and finance costs, resulting from favourable changes in international currency markets (depreciation of the złoty against foreign currencies) and recognition of a considerable amount of interest on bank deposits, boosted profit before tax to PLN 26,681,959 in H1 2020, which meant an increase by 167.37% year on year. The Company posted a net profit of PLN 25,330,511, 241.31% more than in the comparative period. As a result, the net margin reached 50.49%, compared with 24.14% the year before. The net profit earned by 11 bit studios S.A. in the first half of 2020 was, just like the revenue for the period, the second highest half-year net profit figure in the Company's history.

The Company's sound financial position was also confirmed by cash flows from operating activities, which amounted to PLN 30,793,165. After payment of PLN 1,857,464 of income tax (the Company decided that starting from the half-year report for H1 2020 it will take into account the effect of the IP Box relief on its current financial statements rather than on an annual basis), net cash flows from operating activities amounted to PLN 28,935,700, up 44.09% year on year. As at the end of June 2020, the Company's financial assets (cash and cash equivalents, bank deposits, trade and tax receivables) totalled PLN 114,224,123, up 8.37% on the end of December 2019.

### 3.3. Revenue (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019
Revenue	50,168,756	30,738,966

As in the previous year, in H1 2020 the main source of the Company's revenue was sales of its own games as well as third-party games marketed as part of the 11 bit publishing services. Other income (including mainly grants received) accounted for just 0.3% of total revenue in the reporting period (0.5% in H1 2019). The Company's revenue in the reporting period reached PLN 50,168,756, up 63.21% year on year.

This sharp increase in revenue was largely attributable to the very successful release (on January 21st 2020) of *Frostpunk: The Last Autumn*, the second paid add-on to *Frostpunk*. The release also had a positive effect on sales of the basic version of the game.

The games released by the publishing division, *Moonlighter* and *Children of Morta*, also contributed positively to the revenues of 11 bit studios S.A. in H1 2020. The sales of third-party developers' games accounted for 30% of the total in the reporting period. *This War of Mine* continued to deliver a sizeable revenue stream, despite the fact that almost six years had already passed since its launch on November 14th 2014.

An important part of the Company's revenue in H1 2020 was revenue from a contract with Microsoft for the release of *Frostpunk* (January 9th 2020) and *Children of Morta* (January 16th 2020) in the Xbox Pass subscription service.

#### 3.3.1. 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 Jun 30 2020	Period ended Jun 30 2019	As at Jun 30 2020	As at Dec 31 2019
Poland	874,853	548,216	61,697,358	49,815,125
European Union	3,138,006	2,252,687	0	0
US	38,140,147	21,479,731	0	0
Japan	7,613,666	5,725,818	0	0
China	125,822	150,354	0	0
Other	276,262	582,160	0	0
<b>Total</b>	<b>50,168,756</b>	<b>30,738,966</b>	<b>61,697,358</b>	<b>49,815,125</b>

### 3.3.2. Revenue by distribution channel

The Company's revenue from sales of computer games in H1 2020, amounting to PLN 50,168,756 (vs PLN 30,738,966 the year before), included PLN 48,399,999 (vs PLN 29,846,319 the year before) in revenue from sale of the Company's products via the selling platforms of its 10 largest business partners, including Steam (Valve Corporation), Nintendo Co Ltd., Microsoft Corporation, Google, Apple and Humble Bundle.

## 3.4. Other income and expenses (PLN)

### 3.4.1. Other income

	Period ended Jun 30 2020	Period ended Jun 30 2019
Grants received	89,996	96,748
Gain on disposal of non-current non-financial assets	3,845	20,627
Other income - subject to recharge	43,049	0
Other income - received damages/compensations	14,048	36,566
<b>Total</b>	<b>150,938</b>	<b>153,941</b>

### 3.4.2. Other expenses

	Period ended Jun 30 2020	Period ended Jun 30 2019
<b>Impairment losses recognised on:</b>		
Trade receivables	0	0
<b>Other expenses:</b>		
Liquidation of non-financial non-current assets	244,745	0
Other costs (liquidation of written-off items brought forward)	0	33,959
Non-recoverable withholding tax	11,444	0
Donations	917,850	230,316
Other expenses by nature	167,087	437,608
<b>Total</b>	<b>1,341,126</b>	<b>701,883</b>

In H1 2020, the main item of other expenses (PLN 917,850) was expenses incurred by the Company to purchase medical equipment and supplies (in connection with the COVID-19

pandemic), which were donated to healthcare and educational establishments. A major item of other expenses was also liquidation of non-financial non-current assets, i.e. write-off of equipment from the office at ul. Brechta 7, Warsaw, Poland (the Company's headquarters until the end of February 2020). The decrease in other expenses by nature from PLN 437,608 in H1 2019 to PLN 167,087 was attributable to a reduction in business travel, advertising and insurance expenses in consequence of the COVID-19 pandemic.

### 3.5. Depreciation and amortisation (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019
<b>Depreciation/ amortisation charges made during the year:</b>		
Depreciation	729,005	277,024
Amortisation	4,613,458	2,951,041
<b>Total</b>	<b>5,342,463</b>	<b>3,228,065</b>
Allocation to project costs	(499,760)	(192,072)
Land (including perpetual usufruct of land)	2,150	2,150
<b>Total</b>	<b>4,844,854</b>	<b>3,038,143</b>

The year-on-year increase in depreciation and amortisation expense in H1 2020 was driven by the commencement of amortisation of the expenditure incurred to create *Frostpunk: The Last Autumn* (the second paid DLC to *Frostpunk*), released in January 2020, and the expenditure on *Children of Morta*, which had its debut in autumn 2019. Depreciation of property, plant and equipment also increased (to PLN 729,005 in H1 2020 from PLN 277,024 in H1 2019), due to the Company's investments in new IT equipment.

### 3.6. Services (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019
Services	13,638,340	11,948,337

The year-on-year rise in cost of services in H1 2020 was mainly driven by the sharp growth in revenue from sale of third-party games. The Company's publishing portfolio in H1 2019 comprised *Moonlighter*, a game released in May 2018. In the reporting period, apart from *Moonlighter*, 11 bit studios S.A. generated revenues from sales of *Children of Morta*, which was released in H2 2019.

The Company made appropriate royalty payments on those revenues to the respective game developers: Digital Sun studio based in Spain and Dead Mage in the US. The amount of royalties in H1 2020 increased to PLN 9,492,058 from PLN 9,107,412 in H1 2019.

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

	Period ended Jun 30 2020	Period ended Jun 30 2019 <i>(restated)</i>
Salaries, wages and employee benefits	3,784,196	5,176,924

The 26.9% decrease in salaries and wages (to PLN 3,784,196 in H1 2020, from PLN 5,176,924 in H1 2019) despite a gradual increase in the Company's workforce and growing salaries and wages was attributable to a change in the method of accounting for the costs of the 2017-2019 Incentive Scheme. Historically, non-cash provisions created in connection with the Incentive Scheme increased the Company's expenses (salaries, wages and employee benefits) by approximately PLN 2.05m each quarter and were to be recognised until and including Q2 2020. However, during the preparation of the report for H1 2020, the Company decided that all costs related to the Incentive Scheme (PLN 18,305,428) should be accounted for by the end of 2019 (the resulting adjustments to the presentation data for earlier periods are presented in **Note 3.32.**). This is why no costs related to the Incentive Scheme are disclosed in the report for H1 2020.

### 3.8. Finance income (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019
<b>Interest income:</b>		
Bank deposits	456,901	329,793
<b>Finance income:</b>		
Gains on remeasurement of financial assets	0	165,927
<b>Net foreign exchange gains (losses), including:</b>		
a) Cash	182,039	0
b) Loans and receivables	234,674	0
c) Liabilities measured at amortised cost	38,645	0
<b>Total</b>	<b>912,259</b>	<b>495,721</b>

As a result of favourable changes in international currency markets in H1 2020, i.e. depreciation of the złoty against the US dollar and the euro, in which a vast majority of the Company's revenue is earned, the Company disclosed much higher finance income year on year. Finance income from foreign currency gains (remeasurement of monetary assets denominated in currencies other than the Polish złoty) alone amounted to PLN 455,358 (PLN 0 in H1 2019). The Company also disclosed PLN 456,901 in interest income from bank deposits in H1 2020 (H1 2019:

PLN 329,793). The increase was driven by the growing amounts of cash in bank deposits, which more than offset the lower interest rates on deposits.

### 3.9. Finance costs (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019
<b>Other interest expense:</b>		
Interest on public charges	591	6,002
<b>Net foreign exchange gains (losses), including:</b>		
a) Cash	0	(35,488)
b) Loans and receivables	0	(38,778)
c) Liabilities measured at amortised cost	0	119,570
Bank loan interest	80,542	0
Settlement of IRS	12,324	0
Losses on remeasurement of financial assets	512,890	153,051
<b>Total</b>	<b>606,346</b>	<b>204,357</b>

In the reporting period, the largest item of the Company's finance costs was the non-cash costs resulting from remeasurement of financial assets, including mainly remeasurement of 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. A significant portion of 11 bit studios S.A.'s finance costs in H1 2020 was also interest expense on the investment credit facility.

### 3.10. Income tax on continuing operations (PLN)

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

	Period ended Jun 30 2020	Period ended Jun 30 2019
<b>Current income tax:</b>		
Attributable to current year	3,345,707	2,978,451
<b>Deferred income tax:</b>		
Attributable to current year	(1,674,038)	(420,451)
<b>Tax expense recognised in current year on continuing operations</b>	<b>1,671,669</b>	<b>2,558,000</b>

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. and its fiscal and accounting year is the same as the calendar year.

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

	Period ended Jun 30 2020	Period ended Jun 30 2019
Profit before tax from continuing operations	26,681,959	9,688,208
Income not classified as income for tax purposes	(1,970,997)	0
Income classified as income for tax purposes	0	(232,890)
Costs not deductible for tax purposes	13,689,966	8,345,012
Costs deductible for tax purposes	(2,847,607)	(1,407,322)
<b>Total</b>	<b>35,553,321</b>	<b>16,393,008</b>

The tax rate applied in the above reconciliation in 2020 and 2019 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws.

The Company decided that in the reporting period it would use the IP Box relief which was introduced on October 23rd 2018 pursuant to the Act Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Legislation and certain other acts, and has been in effect since January 1st 2019. Under the Act, the Company's revenue from sale of qualifying intellectual property rights (games) multiplied by the nexus index is taxed at a preferential CIT rate (5%). In the reporting period, the effect of the relief on the Company's profit or loss was PLN 3,409,424.

### 3.10.2. Current tax receivable and payable

	As at Jun 30 2020	As at Dec 31 2019
CIT refund receivable	3,952,947	5,441,189
<b>Total</b>	<b>3,952,947</b>	<b>5,441,189</b>

The decrease in CIT receivables to PLN 3,952,947 as at the end of June 2020, from PLN 5,441,189 as at the end of December 2019, is attributable to the tax refund received on settlement of the IP Box relief.

## 3.11. Earnings per share (PLN)

### 3.11.1. Basic earnings per share

	Period ended Jun 30 2020	Period ended Jun 30 2019 (restated)
<b>Basic earnings per share:</b>		
From continuing operations	10.93	3.24
<b>Total basic earnings per share</b>	<b>10.93</b>	<b>3.24</b>
<b>Diluted earnings per share:</b>		
From continuing operations	10.35	3.07
<b>Total diluted earnings per share</b>	<b>10.35</b>	<b>3.07</b>

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

	Period ended Jun 30 2020	Period ended Jun 30 2019 <i>(restated)</i>
Profit for the financial year attributable to shareholders	25,010,290	7,421,572
Total profit used to calculate basic earnings per share	25,010,290	7,421,572
<b>Profit used to calculate basic earnings per share from continuing operations</b>	<b>25,010,290</b>	<b>7,421,572</b>

	Period ended Jun 30 2020	Period ended Jun 30 2019
Weighted average number of ordinary shares used to calculate earnings per share	2,287,199	2,287,199

### 3.11.2. Diluted earnings per share

	Period ended Jun 30 2020	Period ended Jun 30 2019 <i>(restated)</i>
Profit for the financial year attributable to shareholders	25,010,290	7,421,572
Total profit used to calculate diluted earnings per share	25,010,290	7,421,572
<b>Profit used to calculate diluted earnings per share from continuing operations</b>	<b>25,010,290</b>	<b>7,421,572</b>

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 Jun 30 2020	Period ended Jun 30 2019
Weighted average number of ordinary shares used to calculate basic earnings per share	2,287,199	2,287,199
<b>Shares expected to be issued:</b>		
Employee stock options	130,000	130,000
<b>Weighted average number of ordinary shares used to calculate diluted earnings per share</b>	<b>2,417,199</b>	<b>2,417,199</b>

### 3.12. Property, plant and equipment (PLN)

Carrying amount:

	As at Jun 30 2020	As at Dec 31 2019
Buildings and premises	22,921,128	20,206,136
Property, plant and equipment under construction	81,689	11,515

Plant and equipment	149,750	73,876
Vehicles	40,603	77,888
Other property, plant and equipment	2,688,413	10,790
<b>Total</b>	<b>25,881,583</b>	<b>20,380,205</b>

**Gross carrying amount:**

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
<b>As at Jan 1 2020</b>	<b>20,306,491</b>	<b>11,515</b>	<b>1,043,464</b>	<b>372,854</b>	<b>281,408</b>	<b>22,015,732</b>
Increase	5,994,781	262,735	396,842	0	2,874,834	9,529,191
Decrease	(333,169)	(192,560)	0	0	(22,710)	(548,440)
Reclassification	(2,861,503)		0	0	0	(2,861,503)
<b>As at Jun 30 2020</b>	<b>23,106,600</b>	<b>81,690</b>	<b>1,440,306</b>	<b>372,854</b>	<b>3,133,532</b>	<b>28,134,980</b>

**Accumulated amortisation and impairment:**

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
<b>As at Jan 1 2020</b>	<b>100,356</b>	<b>0</b>	<b>969,588</b>	<b>294,965</b>	<b>270,617</b>	<b>1,635,526</b>
Depreciation expense	182,686	0	320,967	37,285	188,066	729,005
Decrease	(97,571)	0	0	0	(13,563)	(111,134)
<b>As at Jun 30 2020</b>	<b>185,471</b>	<b>0</b>	<b>1,290,555</b>	<b>332,250</b>	<b>445,120</b>	<b>2,253,397</b>

**Comparative data for the period from January 1st to June 30th 2019**

### Gross carrying amount:

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
<b>As at Jan 1 2019</b>	<b>18,102,269</b>	<b>383,283</b>	<b>718,580</b>	<b>558,705</b>	<b>262,161</b>	<b>20,024,998</b>
Increase	14,259	0	155,747	0	16,501	186,507
Payment of bank loan interest	174,061	0	0	0	0	174,061
Reclassification	0	(39,406)	39,406	0	0	0
Decrease	0	0	0	185,851	0	185,851
<b>As at Jun 30 2019</b>	<b>18,290,589</b>	<b>343,877</b>	<b>913,733</b>	<b>372,854</b>	<b>278,662</b>	<b>20,199,715</b>

### Accumulated amortisation and impairment:

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
<b>As at Jan 1 2019</b>	<b>0</b>	<b>66,629</b>	<b>647,245</b>	<b>331,905</b>	<b>245,156</b>	<b>1,290,935</b>
Depreciation expense	0	16,863	199,780	40,383	19,998	277,024
Decrease	0	0	3,143	114,608	0	117,751
<b>As at Dec 31 2019</b>	<b>0</b>	<b>83,492</b>	<b>843,882</b>	<b>257,680</b>	<b>265,154</b>	<b>1,450,208</b>

### 3.13. Intangible assets (PLN)

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

Useful lives of intangible assets used to calculate amortisation:

#### Completed development work:

Completed game engine development work as at June 30th 2020 included the capitalised cost of the fourth work phase with the remaining weighted average amortisation period of 13 months.

As at June 30th 2020, the completed video games development work comprised games with the remaining weighted average amortisation period of 13.1 months.

#### Ongoing development work:

As at June 30th 2020, expenditures on ongoing development work included mainly expenditure on development of video games (including the *Frostpunk* DLC, *Project 8*, *Dolly* and *Eleanor*) 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 8.5%. 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 the analysis, no expenditures on discontinued work were written off in the reporting period. In 2019, the Company wrote off expenditure on discontinued work of PLN 33,959.

#### Carrying amount:

	As at Jun 30 2020	As at Dec 31 2019
Completed development work (game engine)	499,952	799,816
Completed development work (games)	10,309,048	11,402,028
Ongoing development work	18,773,512	12,668,661
<b>Total</b>	<b>29,582,512</b>	<b>24,870,505</b>

#### Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
<b>As at Jan 1 2020</b>	<b>2,717,702</b>	<b>30,872,101</b>	<b>518,692</b>	<b>12,668,661</b>	<b>46,777,156</b>
Increase	0	0	42,796	9,282,669	9,325,465
Reclassification of completed development work	0	3,177,819	0	(3,177,819)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
<b>As at Jun 30 2020</b>	<b>2,717,702</b>	<b>34,049,920</b>	<b>561,488</b>	<b>18,773,511</b>	<b>56,102,621</b>

**Accumulated amortisation and impairment:**

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
<b>As at Jan 1 2020</b>	<b>1,917,886</b>	<b>19,470,073</b>	<b>518,692</b>	<b>0</b>	<b>21,906,651</b>
Amortisation expense	299,863	4,270,799	42,796	0	4,613,458
Decrease	0	0	0	0	0
<b>As at Jun 30 2020</b>	<b>2,217,749</b>	<b>23,740,872</b>	<b>561,488</b>	<b>0</b>	<b>26,520,109</b>

**Comparative data for the period from January 1st to June 30th 2019**
**Gross carrying amount:**

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
<b>As at Jan 1 2019</b>	<b>2,717,702</b>	<b>24,453,528</b>	<b>505,551</b>	<b>5,112,644</b>	<b>32,789,425</b>
Increase	0	0	13,141	5,108,444	5,121,585
Reclassification of completed development work	0	196,717	0	(196,717)	0
Discontinued work written off	0	0	0	(33,959)	(33,959)
<b>As at Jun 30 2019</b>	<b>2,717,702</b>	<b>24,650,245</b>	<b>518,692</b>	<b>9,990,412</b>	<b>37,877,051</b>

**Accumulated amortisation and impairment:**

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
<b>As at Jan 1 2019</b>	<b>1,318,159</b>	<b>13,829,380</b>	<b>503,875</b>	<b>0</b>	<b>15,651,414</b>
Amortisation expense	299,864	2,636,361	14,817	0	2,951,042
Decrease	0	(12)	0	0	(12)
<b>As at Jun 30 2019</b>	<b>1,618,023</b>	<b>16,465,729</b>	<b>518,692</b>	<b>0</b>	<b>18,602,444</b>

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.

### 3.14. Trade and other receivables (PLN)

	As at Jun 30 2020	As at Dec 31 2019
<b>Trade receivables and other receivables, including:</b>	<b>15,061,654</b>	<b>17,902,912</b>
Taxes, grants, customs duties and social security	2,770,798	1,796,510
Other	272,136	250,862
<b>Impairment losses on trade receivables</b>	<b>(151,980)</b>	<b>(151,980)</b>
<b>Total</b>	<b>14,909,674</b>	<b>17,750,932</b>

#### 3.14.1. 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 360 days past due as past experience shows that such receivables are virtually unrecoverable.

The balances disclosed as at June 30th 2020 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

##### Receivables by customer:

	As at Jun 30 2020	As at Dec 31 2019
Valve Corporation	7,407,709	6,319,615
Nintendo Co. Ltd	1,274,180	1,012,032
Sony Interactive Entertainment America LLC	667,654	1,105,220

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 Jun 30 2020	As at Dec 31 2019
60-90 days	337,221	0
91-120 days	21,276	140,539
121-360 days	128,618	76,784
over 360 days	111,092	0
<b>Total</b>	<b>598,207</b>	<b>217,323</b>

##### Changes in impairment losses on doubtful receivables:

	As at Jun 30 2020	As at Dec 31 2019
<b>As at beginning of reporting period</b>	<b>151,980</b>	<b>56,807</b>
Recognition	0	95,173
Reversal	0	0
<b>As at end of reporting period</b>	<b>151,980</b>	<b>151,980</b>

##### Ageing analysis of impaired trade receivables:

	As at Jun 30 2020	As at Dec 31 2019
60-90 days	0	0
91-120 days	0	0
121-360 days	82,424	95,173
over 360 days	69,556	56,807
<b>Total</b>	<b>151,980</b>	<b>151,980</b>

### 3.15. Current financial assets (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Bank deposits with maturities of more than 3 months	62,000,000	67,000,000
Valuation - bank deposits with maturities of more than 3 months	201,852	328,563
Loans to employees	4,108,944	0
<b>Total</b>	<b>66,310,796</b>	<b>67,328,563</b>

### 3.16. Other current assets (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Insurance	24,286	45,642
Domain names, licences, subscriptions	230,448	187,929
Prepaid expenses	132,198	73,596
Guarantees	286	1,144
Property tax	50,822	0
Perpetual usufruct of land	6,327	0
Royalties to be accounted for in the next period	0	129,919
Other	11,314	0
<b>Total</b>	<b>455,681</b>	<b>438,230</b>

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.

### 3.17. Other assets (PLN)

	As at Jun 30 2020	As at Dec 31 2019

Long-term prepayments and accrued income	11,654	14,694
<b>Total</b>	<b>11,654</b>	<b>14,694</b>

The main item of other assets as at the end of H1 2020 was long-term prepayments (IT service licence), the same as at the end of 2019.

### 3.18. Cash and cash equivalents (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Cash in hand and at banks	29,050,705	7,882,519
PKO BP Bank Hipoteczny bonds	0	7,000,000
<b>Total</b>	<b>29,050,705</b>	<b>14,882,519</b>

Cash in hand and at banks as at June 30th 2020, by currency:

- PLN 16,927,255,
- USD 2,342,705 (PLN 9,325,372),
- EUR 622,610 (PLN 2,780,577),
- CNY 31,073 (PLN 17,501).

Cash in hand and at banks 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).

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.

### 3.19. Share capital (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Share capital	228,720	228,720
<b>Total</b>	<b>228,720</b>	<b>228,720</b>

As at June 30th 2020, the Company's share capital consisted of 2,287,199 fully paid-up ordinary shares totalling PLN 228,719.90.

### 3.20. Information on dividend paid or declared

The Company did not pay any dividend in the first half of 2020 or the first half of 2019.

### 3.21. Liabilities under contracts with customers

As at June 30th 2020, liabilities under contracts with customers comprised advance payments received by the Company from its trading partners towards future sales of the Company's products (games).

### 3.22. Borrowings

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000.00 investment loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. It bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged using 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 June 30th 2020, the long-term portion of the facility was PLN 10,249,710 (including the measurement of the IRS - PLN 799,710), while its current portion was PLN 1,366,628 (also including the measurement of the IRS - PLN 106,628).

### 3.23. Trade and other payables (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Trade payables	1,392,321	5,402,392
Guarantee deposits - Brzeska 2	81,584	76,784
Taxes, customs duties, insurance and other dues	330,887	556,548
Accruals and deferred income	12,751,991	5,337,339
Amounts payable to employees	460	15,033
Other	41,796	41,796
<b>Total</b>	<b>14,599,039</b>	<b>11,429,892</b>

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 and other payables to PLN 14,599,039 (at the end of June 2020) from PLN 11,429,893 (at the end of 2019) was mainly attributable to an increase in accruals and deferred income to PLN 12,751,991 (as at June 30th 2020) from PLN 5,337,339 (December 31st 2019). The item included mainly royalties for third-party developers for which the Company provides

publishing services. The decrease in trade payables to PLN 1,392,321 as at the end of June 2020 from PLN 5,402,392 as at the end of 2019 was attributable to payment for conversion and upgrade work carried out in Q1 2020 on the property at ul. Brzeska 2 in Warsaw (the Company's headquarters since March 2020).

#### Ageing analysis of trade and other payables:

	As at Jun 30 2020	As at Dec 31 2019
Short-term	13,582,986	11,429,893
0-60 days	0	0
61-90 days	68,492	0
91-120 days	35,266	0
121-360 days	912,295	0
over 360 days	0	0
<b>Total</b>	<b>14,599,039</b>	<b>11,429,892</b>

### 3.24. Accrued employee bonuses and other accruals and deferred income (PLN)

	Provisions for holiday entitlements	Provisions for B2B bonuses	Provisions for royalties	Provisions for audit	Provisions for bonuses for Management Board members and employees	Provisions for other invoices	Provisions for salaries and wages (current month contracts paid in the following month)	Total
<b>As at Jan 1 2020</b>	<b>151,082</b>	<b>291,254</b>	<b>4,320,291</b>	<b>45,000</b>	<b>270,000</b>	<b>52,532</b>	<b>207,181</b>	<b>5,337,339</b>
<b>Increase:</b>								
Recognition	366,104	793,506	9,066,408	104,000	1,198,910	185,348	430,093	12,144,369
<b>Decrease:</b>								
Use	(129,500)	(178,922)	(2,522,790)	(45,000)	0	(52,532)	(20,547)	(2,949,290)
Reversal	0	0	(1,780,427)	0	0	0	0	(1,780,427)
<b>As at Jun 30 2020</b>	<b>387,686</b>	<b>905,838</b>	<b>9,083,482</b>	<b>104,000</b>	<b>1,468,910</b>	<b>185,348</b>	<b>616,727</b>	<b>12,751,991</b>

#### Comparative data for the period from January 1st to June 30th 2019

	Accrued bonuses for management	Accrued salaries and wages	Other	Total

	and employees			
<b>As at Jan 1 2019</b>	<b>241,513</b>	<b>165,841</b>	<b>3,746,669</b>	<b>4,154,023</b>
<b>Increase:</b>				
Recognition	226,685	184,785	8,233,176	8,644,646
<b>Decrease:</b>				
Use	0	(22,511)	(10,920,190)	(10,942,701)
Reversal	0	0	1,279,691	1,279,691
<b>As at Jun 30 2019</b>	<b>468,198</b>	<b>328,115</b>	<b>2,339,346</b>	<b>3,135,659</b>

### 3.25. Financial instruments (PLN)

The Company reviewed classes of its financial instruments And concluded that the carrying amount of the instruments did not differ from their fair value both as at June 30th 2020 and December 31st 2019.

#### 3.25.1. Financial assets and liabilities

##### Financial assets:

	As at Jun 30 2020	As at Dec 31 2019
Financial assets measured at amortised cost – cash	29,050,705	14,882,519
Financial assets measured at amortised cost – bank deposits over 3 months from acquisition date	62,201,853	67,328,563
Financial assets measured at amortised cost – loans, trade and other receivables	14,909,674	17,750,932
Loans to employees	4,108,944	0
<b>Total</b>	<b>110,271,176</b>	<b>99,962,014</b>

As at December 31st 2019, financial assets measured at amortised cost - cash also included PKO Bank Hipoteczny bonds, which were treated as instruments to manage the Company's current liquidity and not as investment. On January 23rd 2020, the issuer (PKO Bank Hipoteczny) repurchased all the securities held by 11 bit studios S.A.

##### Financial liabilities:

	As at Jun 30 2020	As at Dec 31 2019
Liabilities measured at amortised cost – trade and other payables	14,599,039	11,429,892
Credit facility	10,710,000	11,340,001
IRS	906,338	393,448
Perpetual usufruct rights to land	347,123	347,544
<b>Total</b>	<b>26,562,500</b>	<b>23,510,885</b>

### 3.25.2.Credit risk

Trade receivables, bank deposits 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.

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 3.14**.

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at June 30th 2020, the Company held cash with two institutions: PayPal (PLN 274,037) and the PKO BP Group (the balance).

### 3.25.3.Fair value measurement methods

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

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

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

#### Financial assets:

	As at Jun 30 2020	As at Dec 31 2019	Fair value hierarchy
Bonds	0	7,000,000	Level 2
Investment fund units	0	0	Level 1

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

### 3.26.Deferred income (PLN)

	As at Jun 30 2020	As at Dec 31 2019
Government grants (a)	587,559	677,555
Other (b)	0	9,123
<b>Total</b>	<b>587,559</b>	<b>686,678</b>
Short-term	149,992	189,114
Long-term	437,567	497,564
<b>Total</b>	<b>587,559</b>	<b>686,678</b>

(a) The amount represents 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 June 30th 2020, the outstanding (not accounted for) balance of the grant was PLN 149,992 (December 31st 2019: PLN 239,988).
- 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 437,567 (December 31st 2019: PLN 437,567).

(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. The bonds were fully repurchased by the issuer on January 23rd 2020.

### 3.27.Share-based payments (PLN)

#### 3.27.1.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. The Incentive Scheme covers the years 2017–2019. Persons who signed Incentive Scheme participation agreements with the Company were entitled to acquire a total of 130,000 Series B subscription warrants convertible into 130,000 Series G shares, subject to delivery by the Company of the objectives set out in the Incentive Scheme Rules. The resolution (No. 05/06/2017) to 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 was passed by the Extraordinary General Meeting of June 7th 2017.

The grant of the warrants was 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

On June 9th 2020, the Company's Supervisory Board, at the request of the Company's Management Board, following approval of the Company's financial statements for 2019 by the Annual General Meeting, passed a resolution to grant 130,000 Series B subscription warrants to the Incentive Scheme Participants. The persons who subscribed for the warrants will be able to exercise the warrants by subscribing for Series G shares by June 30th 2023. The issue price of Series G shares under the Incentive Scheme was set at PLN 103.38.

On July 3rd 2020, the Company announced, based on the information received from DM BOŚ S.A. (the brokerage house which supported the Company in the implementation of the 2017–2019 Incentive Scheme) that on that day 68,281 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 7,058,889.78.

Consequently, as of that date the share capital of 11 bit studios S.A. comprises 2,355,480 Series A-G shares.

### 3.27.2. 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	Dec 31 2019
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 June 30th 2020	0
Cost of the Scheme as at December 31st 2019	18,305,429
Statement of profit or loss – employee benefits expense (PLN) in 2020	0
Statement of profit or loss – employee benefits expense (PLN) in H1 2019	3,050,905

### 3.28. 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
- 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 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, conducting business activities under the name Arkona – Paweł Miechowski,
- Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek (law office); Agnieszka Rabenda-Ozimek is married to Wojciech Ozimek, Chairman of the Supervisory Board.

### 3.28.1. Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.28.4.**, The Company entered into the following related-party transactions in the first half of 2020 and the first half of 2019:

	Period ended Jun 30 2020	Period ended Jun 30 2019
Arkona - Paweł Miechowski	92,292	82,650
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	29,055	23,008
<b>Total</b>	<b>121,347</b>	<b>105,658</b>

### 3.28.2. Loans advanced to related parties

On June 15th 2020, in accordance with Art. 245.1, Art. 245.4 and Art. 245.8 of the Commercial Companies Code and pursuant to Resolution No. 22/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company signed a loan agreement with Paweł Miechowski (related party) to directly finance the acquisition of shares offered as part of the 2017–2019 Incentive Scheme. As at the end of the reporting period, the outstanding loan amount (including interest) was PLN 158,614.34.

In H1 2019, the Company did not advance any loans to related parties.

### 3.28.3. Borrowings from related parties

The Company did not receive any loans from related parties in H1 2020 or H1 2019.

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

The Company's key management personnel are its Management Board. In H1 2020 and in the reference period, the members of the Company's Management Board and Supervisory Board were remunerated as follows for discharging managerial and supervisory responsibilities:

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

	Period ended Jun 30 2020	Period ended Jun 30 2019
Grzegorz Miechowski	614,120	404,158
Michał Drozdowski	609,637	399,653
Przemysław Marszał	613,676	403,714
<b>Total</b>	<b>1,837,433</b>	<b>1,207,525</b>

#### Short-term benefits - Supervisory Board:

	Period ended Jun 30 2020	Period ended Jun 30 2019
Piotr Sulima- Chairman of the Supervisory Board (until May 23rd 2019)	0	21,450
Wojciech Ozimek (Chairman of the Supervisory Board since May 23rd 2019, Member of the Supervisory Board until May 23rd 2019)	27,000	16,875
Jacek Czykiel	18,000	9,900
Radosław Marter	9,900	7,865
Agnieszka Maria Kruz- Member of the Supervisory Board (until May 23rd 2019)	0	13,510
Marcin Kuciapski - Member of the Supervisory Board (since May 23rd 2019)	9,900	2,145
Piotr Wierzbiicki (Member of the Supervisory Board since May 23rd 2019)	9,900	2,145
<b>Total</b>	<b>74,700</b>	<b>73,890</b>

On June 9th 2020, the Company's Annual General Meeting passed a resolution (No. 20/06/2020) to adopt a remuneration policy for members of the Company's Management and Supervisory Boards. The full text of the remuneration policy is available on the Company's website in the Investor Relations section.

The members of the Company's Management Board did not receive any other remuneration in the form of profit distributions or stock options for the first half of 2020 or the first half of 2019. However, they participate in the Incentive Scheme, described in detail (together with its valuation) in **Note 3.32.** to the full-year financial statements of 11 bit studios S.A. for 2019.

In addition, members of the Management Board received the following consideration for services under civil-law contracts (data for the entire reporting period):

#### Short-term benefits - Management Board:

	Period ended Jun 30 2020	Period ended Jun 30 2019
Grzegorz Miechowski	30,000	30,000
Michał Drozdowski	30,000	30,000
Przemysław Marszał	30,000	30,000
<b>Total</b>	<b>90,000</b>	<b>90,000</b>

### 3.28.5. Other related-party transactions

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

### 3.29. Off-balance-sheet commitments

As at the date of issue of this report, the Company had off-balance-sheet commitments of EUR 3,610,000 and PLN 5,834,322. The commitments are related to publishing agreements executed by the Company with third-party development studios.

### 3.30. Contingent assets and liabilities

#### 3.30.1. Contingent liabilities

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.

#### 3.30.2. Contingent assets

As at June 30th 2020 and in the comparative period, the Company did not recognise any contingent assets.

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

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

	Period ended Jun 30 2020	Period ended Jun 30 2019 <i>(restated)</i>
Amortisation/depreciation charges allocated to project costs	0	192,073
Settlement of withholding tax for 2017 and previous years	0	0
Measurement of long-term investments	0	(4,310)
Measurement of share-based payments – Incentive Scheme	0	3,084,271
Measurement of derivative transactions	512,890	157,361
Valuation of bank deposits with maturities of more than 3 months	0	(147,926)
Other adjustments	98,771	67,677
<b>Total</b>	<b>611,661</b>	<b>3,349,146</b>

### 3.32. Correction of previous years' errors

During the preparation of the Company's interim condensed financial statements for H1 2020 and in the course of the financial statements review procedures applied by the auditor, the

Company identified irregularities in the manner of accounting for the costs of the 2017-2019 Incentive Scheme. In previous financial statements, the Company recognised the costs of the Scheme in the period from Q2 2018. The second quarter of 2020 was to be the last quarter in which the costs would be recognised. Having analysed the terms and conditions of the Scheme, in particular the vesting conditions, and the requirements of IFRS 2, it was determined that the cost of the Scheme should be recognised in the period from Q1 2017 to Q4 2019 (with the 2017 costs of the Scheme recognised from the date of signing contracts with the employees). As a result, the entire cost of the 2017-2019 Incentive Scheme, in the amount of PLN 18,305,429, was accounted for by the end of 2019, and the amount of the Scheme costs recognised in the individual periods were adjusted. Consequently, the Company decided to restate the published financial data for 2018 and 2019, H1 2019 and Q2 2019.

Furthermore, the Company adjusted the value of the perpetual usufruct right to land at ul. Brzeska 2 (the Company's registered office), acquired in 2018 together with the building located on the plot. In 2018, the Company allocated the entire amount paid for the property to the building, while valuations prepared in March 2020 by independent appraisers indicate that perpetual usufruct rights to land of PLN 4,012,000 should have been recognised as at the transaction date. As a result, the Company decided to restate the published financial data for 2018, 2019 and H1 2019.

The tables below present the restated presentation data.

#### 2019 full-year report (PLN)

	Value before adjustments	Adjustment A Accounting for the Incentive Scheme	Adjustment B Change in presentation of land value	Value after adjustments
<b>Statement of profit or loss and other income</b>	<b>2019</b>			<b>2019</b>
Salaries, wages and employee benefits	(12,291,040)	2,016,634	0	(10,274,406)
Net profit/total comprehensive income	21,710,280	2,016,634	0	23,726,914
Earnings per share				
Basic	9.49	0.88	0	10.37
Diluted	8.98	0.83	0	9.82
<b>Statement of financial position</b>	<b>As at Dec 31 2019</b>			<b>As at Dec 31 2019</b>
Property, plant and equipment	24,043,839	0	(3,663,634)	20,380,205
Right-of-use assets	344,065	0	3,663,634	4,007,699
Share-based payment reserve	14,257,326	4,048,103	0	18,305,429
Retained earnings	21,502,195	(4,048,103)	0	17,454,092

	2019			2019
<b>Statement of cash flows</b>				
Net profit for the financial year	21,710,280	2,016,634	0	23,726,914
Other adjustments	8,360,773	(2,016,634)	0	6,344,139
<b>Net cash from operating activities</b>	<b>41,643,258</b>	<b>0</b>	<b>0</b>	<b>41,643,258</b>

### 2018 full-year report (PLN)

	Value before adjustments	Adjustment A Accounting for the Incentive Scheme	Adjustment B Change in presentation of land value	Value after adjustments
<b>Statement of profit or loss and other income</b>	<b>2018</b>			<b>2018</b>
Salaries, wages and employee benefits	12,965,744	(6,064,737)	0	19,030,481
Net profit/total comprehensive income	37,549,897	(6,064,737)	0	31,485,160
Earnings per share				
Basic	16.42	(2.65)	0	13.77
Diluted	15.53	(2.50)	0	13.03
<b>Statement of financial position</b>	<b>As at Dec 31 2018</b>			<b>As at Dec 31 2018</b>
Property, plant and equipment	18,734,064	0	(4,012,000)	14,722,064
Right-of-use assets	0	0	4,012,000	4,012,000
Share-based payment reserve	6,138,880	(6,064,737)	0	12,203,617
Retained earnings	37,341,812	(6,064,737)	0	31,277,075
<b>Statement of cash flows</b>	<b>2018</b>			<b>2018</b>
Net profit for the financial year	37,549,897	(6,064,737)	0	31,485,160
Other adjustments	6,465,764	(6,064,737)	0	12,530,501
Net cash from operating activities	39,046,228	0	0	39,046,228

### H1 2019 report (2019)

	Value before adjustments	Adjustment A Accounting for the incentive scheme	Adjustment B Change in presentation of land value	Value after adjustment
<b>Statement of profit or loss and other income</b>	<b>H1 2019</b>			<b>H1 2019</b>
Salaries, wages and employee benefits	(6,185,241)	1,008,317	0	(5,176,924)
Net profit/total comprehensive income	6,413,255	1,008,317	0	7,421,572
Earnings per share (PLN per share)				
Basic	2.80	0.44	0	3.24
Diluted	2.65	0.42	0	3.07
<b>Statement of financial position</b>	<b>As at Jun 30 2019</b>			<b>As at Jun 30 2019</b>
Property, plant and equipment	18,749,507	0	(3,663,634)	15,085,873
Right-of-use assets	346,216	0	3,663,634	4,009,850
Share-based payment reserve	10,231,468	(5,056,420)	0	15,287,888
Retained earnings	6,205,171	5,056,420	0	1,148,751
<b>Statement of cash flows</b>	<b>H1 2019</b>			<b>H1 2019</b>
Net profit for the financial year	6,413,255	1,008,317	0	7,421,572
Other adjustments	4,357,463	(1,008,317)	0	3,349,146
Net cash from operating activities	19,928,733	0	0	19,928,733

### Q2 2019 report (PLN)

	Value before adjustments	Adjustment A Accounting for the incentive scheme	Adjustment B Change in presentation of land value	Value after adjustment
<b>Statement of profit or loss and other income</b>	<b>Q2 2019</b>			<b>Q2 2019</b>
Salaries, wages and employee benefits	(2,878,281)	504,159	0	(2,374,122)
Net profit/total comprehensive income	1,974,971	504,159	0	2,479,130
Earnings per share (PLN per share)				
Basic	0.86	0.22	0	1.08
Diluted	0.82	0.21	0	1.03

### 2019 full-year report (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
<b>As at Jan 1 2019 before restatement:</b>	<b>228,720</b>	<b>4,870,274</b>	<b>41,331,887</b>	<b>6,138,880</b>	<b>37,341,812</b>	<b>0</b>	<b>0</b>	<b>89,911,573</b>
- opening balance adjustments				6,064,737	(6,064,737)			0
<b>As at Jan 1 2019</b>	<b>228,720</b>	<b>4,870,274</b>	<b>41,331,887</b>	<b>12,203,617</b>	<b>31,277,075</b>	<b>0</b>	<b>0</b>	<b>89,911,573</b>
Net profit for the financial year	0	0	0	0	21,710,280	0	0	21,710,280
- adjustment of incentive scheme costs for 2019	0	0	0	0	2,016,634	0	0	2,016,634
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23,726,914</b>	<b>0</b>	<b>0</b>	<b>23,726,914</b>
Profit allocated to statutory reserve funds	0	0	37,549,897	0	(37,549,897)	0	0	0
Share-based payments	0	0	0	8,118,446	0	0	0	8,118,446
- adjustment of incentive scheme costs for 2019	0	0	0	(2,016,634)	0	0	0	(2,016,634)
<b>As at Dec 31 2019</b>	<b>228,720</b>	<b>4,870,274</b>	<b>78,881,784</b>	<b>18,305,429</b>	<b>17,454,092</b>	<b>0</b>	<b>0</b>	<b>119,740,299</b>

The above adjustments did not affect the current and deferred tax amounts.

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

In the first half of 2020, the Company did not record any unusual seasonal or cyclical fluctuations.

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

In the first half of 2020, there were no factors or events of a non-recurring nature that had an impact on the Company's financial results for that period.

### 3.35. Events subsequent to the reporting date

No events occurred which would have an impact on these interim financial statements for the first half of 2020 by the date of their authorisation for issue by the Parent's Management Board on August 27th 2020.

### 3.36. Impact of the COVID-19 epidemic on the Company's operations

The rebound in the number of coronavirus cases (COVID-19 epidemic) recorded in Poland after the reporting date had no effect on the operations and results of 11 bit studios S.A. until the date of issue of this Report for H1 2020. The Company continued the steps taken in the first ten

days of March 2020 to switch to the remote work model for the entire team to avoid the risk of the disease at the Company. 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, 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.

After the reporting period, the Company decided to enable the return to the office for the employees who would like to stop working from home, with full safety procedures maintained (frequent hand washing, temperature measurement, availability of masks and hand sanitisers, and increased spacing between desks). As at the date of issue of this report, approximately 20% of the Company's employees took the opportunity. The rest continue working from home.

### **3.37. Factors with bearing on the Company's future results**

Over the next few quarters, including H2 2020, 11 bit studios S.A.'s performance will be chiefly determined by continued sales of *Frostpunk* and paid DLCs released for this title as part of the Season Pass. After the reporting period, on August 20th 2020, the third paid DLC to *Frostpunk* (*Frostpunk: On The Edge*) was released and was very well received by the gaming community, as were the earlier add-ons. The Company's excellent financial performance in H1 2020, fuelled by the sale of *Frostpunk*, shows that the game still has a very strong monetisation potential, which supports the expectation that its life cycle will be as long as that of *This War of Mine*. The Company intends to maintain gamers' interest in *Frostpunk* through promotional and marketing activities. New language and platform versions of the game will also be developed (it is currently available in 12 languages, and work is ongoing on the development of a board version of *Frostpunk*). On February 14th 2020, the Company announced that it signed an agreement with a leading global player on the mobile games market to develop *Frostpunk* for mobile devices. On June 29th 2020, at the Annual Investors Conference, the Company disclosed that the partner responsible for creating the version of *Frostpunk* for mobile devices is the Chinese NetEase, one of the world's largest gaming companies, and the *Frostpunk* for mobile devices will be offered in the F2P (free-2-play) model. The Company will communicate other details of the agreement with NetEase in future periods.

*This War of Mine*, which has been on the market since November 2014, will also be a significant revenue driver for 11 bit studios S.A. over the next quarters, although its contribution will gradually decrease due to the natural obsolescence of the game. Since Q4 2019, the Company has no longer carried out any development work on *TWoM*. The team responsible for this project is now working on a prototype of a new game under the working title *Dolly Project* (formerly *Project 9*).

Sales of games created by third party developers for which the Company provides publishing services will be an important source of revenue for 11 bit studios S.A. in 2020 and beyond. In H1 2020, revenue from this source accounted for 30% of the Company's total revenue. Throughout 2019, the proportion was as high as 40%, the highest in the history of 11 bit studios S.A. To date,

the Company has released five games created by third party developers through its 11 bit publishing division, of which the last two, *Moonlighter* (released in May 2018) and *Children of Morta* (autumn 2019) have been a remarkable market success. Over the next few quarters, both games should continue to contribute significantly to the Company's performance as add-ons and new platform versions are developed (*Moonlighter* for mobile devices will have be launched by the end of 2020). In the long term (the next few years), the performance of the publishing division should be driven by new releases. The publishing portfolio of 11 bit studios S.A. currently consists of four new items. The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The producer of two further games (under the working titles of *Foxhole* and *Botin*) is Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The producer of the fourth game is another Spanish studio, Chibig (the Company announced the execution of the agreement on June 29th 2020). The game has the code name *Ava*. 11 bit studios S.A. is advanced in negotiations to acquire several more publishing projects and plans to sign at least one new publishing agreement by the end of the year. In line with the concept modified a few quarters ago, spending on a single project is capped at PLN 5m (deviations from this rule are permitted), which considerably improves the capability of acquiring commercially valuable projects for the Company's publishing portfolio. The total value of the four projects in the portfolio (understood as the value of the Company's investment) is approximately PLN 25m (some of the payments have already been made to the game developers). As at the reporting date, the total value of the Company's liabilities under those projects was EUR 3,610,000 and PLN 5,834,322.

The medium-term strategy of 11 bit studios S.A. for the publishing area assumes that third-party games would be launched every quarter.

Likewise, 11 bit studios S.A. intends to scale up its own games production and publishing activities over a few years. At present, the Company is focused on the production of a game under the working title *Project 8*, which presents a huge challenge due to its size and the resulting budget, far higher than that of *Frostpunk*, as well as the plan to release PC and console versions at the same time. In the reporting period, the Company decided, in connection with the expansion of the concept for *Project 8*, to change the game engine based on which the game is being developed from an in-house solution used in the Company's earlier productions to Unreal Engine 5. In parallel, 11 bit studios S.A. is prototyping two further in-house productions, known as the *Dolly Project* (formerly *Project 9*) and the *Eleanor Project* (formerly *Project 10*). The work is well-paced, which brings the Company much closer to the achievement of its medium-term objective, which is to release one in-house developed game every 12-18 months.

As regards external drivers, the condition of the global gaming industry, whose excellent prospects could be compromised by the COVID-19 pandemic, is likely to have a strong bearing on the development of 11 bit studios S.A. Although initially the outbreak of the pandemic had a positive impact on global game sales, which was reflected in the Company's performance in H1 2020, negative impacts are likely to emerge in the long term, which are difficult to estimate today. The expected economic slowdown and resulting increase in unemployment and falling incomes

and thus entertainment spending could result in a decline in demand for games, also those from the premium segment in which 11 bit studios S.A. operates.

### **3.38. 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.

### **3.39. Authorisation of financial statements**

The Company's financial statements were authorised for issue by the Management Board on August 27th 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, August 27th 2020

A stylized illustration in a dark red color on a red and white background. The illustration depicts a hand holding a magnifying glass over a globe, symbolizing focus and analysis. Below the globe, there is a tree-like structure with branching lines, possibly representing a network or organizational structure. The background is split diagonally from the top-left to the bottom-right, with the top-left being white and the bottom-right being red.

**DIRECTORS' REPORT ON THE OPERATIONS  
OF 11 BIT STUDIOS S.A. FOR H1 2020**

## 4.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.

### 4.1. 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: 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.

### 4.2. Composition of the Company's governing bodies as at June 30th 2020

#### 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 Company's Management or Supervisory Boards. 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 term of office of the current Supervisory Board expires on May 23rd 2022.

### 4.3. Share capital

As at the date of issue of this report, the Company's share capital amounted to PLN 235,548 and was divided into 2,355,480 shares with a par value of PLN 0.1 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.
- 68,281 Series G bearer shares.

### 4.4. Shareholding structure as at the date of issue of the half-year report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	177,413	7.53	177,413	7.53
Przemysław Marszał	110,300	4.68	110,300	4.68
Michał Drozdowski	84,630	3.59	84,630	3.59
Aviva Investors Poland TFI*	181,609	7.71	181,609	7.71
Other shareholders	1,801,528	76.49	1,801,528	76.49
<b>Total</b>	<b>2,355,480</b>	<b>100.00</b>	<b>2,355,480</b>	<b>100.00</b>

\* Number of shares registered at the Annual General Meeting held on June 9th 2020.

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A. For details, see **Note 1.5**.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Jun 30 2020 (no. of shares)	Shareholding as at Dec 31 2019 (no. of shares)
Grzegorz Miechowski	President of the Management Board	177,413	159,000	162,000
Przemysław Marszał	Member of the Management Board	110,300	110,300	118,000
Michał Drozdowski	Member of the Management Board	84,630	84,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	550	550	400

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**.

#### 4.6. Auditors

PricewaterhouseCoopers Polska., Sp. z o.o. Audyt Sp.k. ul. Polna 11

00-633 Warsaw

In Current Report No. 2/2020 of February 6th 2020 the Company announced that in accordance with the applicable laws and professional standards the competent body, i.e. the Company's Supervisory Board, at a meeting held on February 5th 2020, acting pursuant to Art. 66.4 of the Accounting Act of September 29th 1994, Art. 8.4 of the Company's Articles of Association, and Section 7.3 of the Rules of Procedure for the Company's Supervisory Board, and having considered the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., with registered office at ul. Polna 11, 00-633 Warsaw, to audit the Company's financial statements and review its interim financial statements for the financial years ending December 31st 2020 and 2021. PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. is entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors under Reg. No.

144. The Company did not previously engage PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k. to audit or review its financial statements or provide any other advisory services.

#### 4.7. Related-party transactions

Related parties include members of the Management Board and the Supervisory Board and key personnel of the Company (key management). For a detailed description of the related-party transactions, see **Note 3.28**.

#### 4.8. Management of the Company's risks

The Company's business, financial position and results of operations have been and may in the future be adversely affected by a number of risks, both specific to the video games industry and typical for entities conducting business in Poland and worldwide. For a detailed description of the risks, see **Note 5.16** to the Directors' Report on the operations of 11 bit studios S.A. in 2019, which is a part of 11 bit studios S.A. report for 2019.

#### 4.9. Major achievements in the first half of 2020 and until the date of release of this report

The key drivers of 11 bit studios S.A.'s revenue in the first half of 2020 (the second best half-year in the Company's history) were good sales of *Frostpunk*, *Moonlighter* and *Children of Morta* (the last two are the publishing division's titles) supported by robust revenues from sales of other products (the back catalogue), led by *This War of Mine*.

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. On October 11th 2019, the Company's newest product was also released for Xbox One and PS4. By the end of June 2020, revenue from sales of *Frostpunk* on all platforms and paid add-ons totalled nearly PLN 110m.

*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. In the fourth quarter of 2018, this Spanish game was also released for Nintendo Switch. Like *Frostpunk*, *Moonlighter* was very well received by the market, and the strong interest in the game, supported by add-ons (including paid ones), boosted its sales to well over 1 million copies since its release.

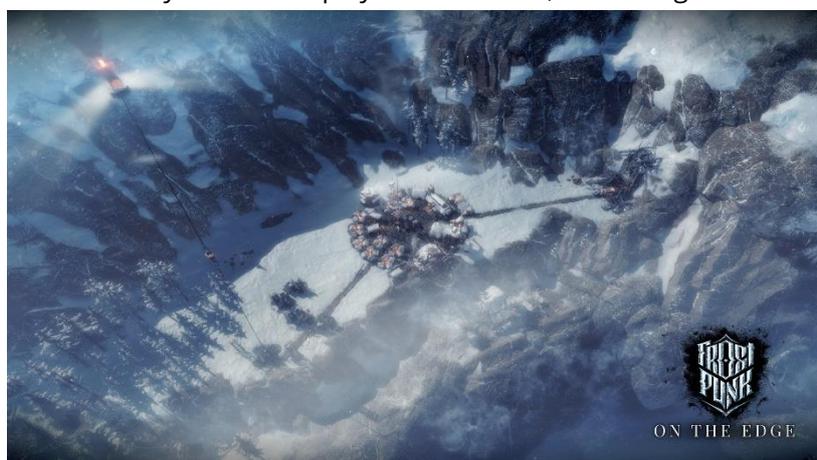
*Children of Morta*, produced by the American studio Dead Mage, was placed on the market (in the PC version) on September 3rd 2019. On October 15th 2019, it was released in the Xbox One and PS4 versions, and on November 20th 2019 in the version for Nintendo Switch.

*This War of Mine* continued to contribute positively to the Company's results in the first half of 2020 (the PC version of the game was released on November 14th 2014), invariably enjoying strong interest among fans. The game has generated total revenue of more than PLN 100m since its debut.

### 4.9.1. Game development

In H1 2020, 11 bit studios S.A. focused on further development of *Frostpunk* to extend the game's life cycle. The highlight of H1 2020, which determined the excellent financial performance of 11 bit studios S.A. in that period, was the release of a paid add-on to *Frostpunk* – *Frostpunk: The Last Autumn*. It was the second of the three DLCs announced by the Company several quarters ago as part of the Season Pass. The first add-on in the series, *Frostpunk: The Rifts*, had its debut in late August 2019. The third DLC, under the working name of *Frostpunk: On The Edge*, was released on August 20th 2020, after the reporting period.

The launch of *Frostpunk: The Last Autumn* on January 21st 2020 was a huge success. The add-on was high on the Steam top sellers list for a long time and received great reviews and ratings from industry media and players. Moreover, the strong sales of *Frostpunk: The Last Autumn* and the



entire Season Pass drove up the sales of the game's basic version as well. Many buyers decided to purchase *Frostpunk: Game of The Year (GOTY)*, the edition containing the main version and the Season Pass, which effectively increased the Company's revenue in the reporting period. At the Annual

Investors Conference held on June 29th 2020, the Company announced that as many as 25% of those who bought *Frostpunk* in the first six months of 2020 chose *Frostpunk: GOTY*. The conversion rate (the proportion of the owners of the basic version of *Frostpunk* who also purchased the Season Pass) has already reached 15%, which is a very good result.

In the first half of 2020, besides extending the game with add-ons, the Company also took a number of other steps to maintain interest in and keep monetising *Frostpunk*. The Company's flagship product was offered through a number of promotion and sale campaigns on major global platforms, including Steam, which had a positive impact on sales volumes. The Publisher Sale on Steam (Q2 2020), during which the fans could purchase all games from the Company's portfolio at attractive prices, should be considered a particularly successful event. In H1 2020, 11 bit studios S.A. also commenced operational cooperation with a Japanese partner, DDM, responsible for the debut of *Frostpunk* (PC and PS4 versions) on the Japanese market. The debut was impressive, as evidenced by the Gold Medal awarded to the game by *Famitsu*, the leading Japanese computer game magazine.

In 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 to produce *Frostpunk* for mobile 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 the second quarter of 2020, 11 bit studios S.A. announced that *Frostpunk*

for mobile devices will be produced by NetEase of China, a gaming industry giant with a very strong position in the mobile gaming market. The mobile version of *Frostpunk* is planned to be released in 2021.

Revenue from sale of *This War of Mine* was an important addition to the Company's revenue from its proprietary game portfolio, despite that fact that more than 57 months had passed since the release of the game on November 14th 2014. The refreshed interest in *Frostpunk* and its add-ons encouraged some fans to buy this previous title from 11 bit studios S.A. and, as a result, its sales were quite good, only slightly lower than a year earlier.

In the first half of 2020, the Company also continued its work (started several 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 approximately 30 members, but is due to be strongly expanded through the 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 production 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 the reporting period, the Company decided to change the game engine from the proprietary solution on which the Company's earlier games had run to Unreal Engine 5. The decision was dictated by the expansion of *Project 8* – Unreal Engine 5 is better suited to the Company's needs related to the project.

In parallel with the development of *Frostpunk* and production of *Project 8*, in the first half of 2020 the Company was also engaged in conceptual work on two further in-house productions. The *Dolly Project* (formerly *Project 9*) is being developed by a team of more than a dozen people who, until the end of 2019, had been involved in developing and supporting *This War of Mine*. To date, the Company has not disclosed any details of this production except that it is based on a brand new IP. The other game, *Eleanor Project* (formerly *Project 10*), is being created by a team of more than 20 people from the team responsible for developing *Frostpunk*. The game is to be considerably larger than *Frostpunk* and will run on the Company's proprietary engine.

#### 4.9.2. Publishing division

In the first half of 2020, 11 bit studios S.A.'s publishing division focused on monetising the titles released in previous quarters, i.e. *Moonlighter* and *Children of Morta*.

The first one, developed by Spain's Digital Sun, 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.

In addition to its continued development (expanded content and new language versions) and participation in promotional and sale campaigns, the game's monetisation efforts in the post-release period included sales of a large paid add-on called *Moonlighter - Between Dimensions*, which came to stores on July 23rd



2019. In the reporting period (on May 29th 2020), the add-on also became available to console owners (including Nintendo Switch owners), which boosted the sales of the game in that period. The development team also worked on the game's version for mobile devices running on iOS or Android. This version is to be released by the end of 2020.

The other title from the publishing division, that is *Children of Morta*, which significantly contributed to 11 bit studios S.A.'s performance in the first half of 2020, represents the Action-RPG genre. Developed by Dead Mage of Austin, USA, the game is distinguished by its 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 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.

In the periods following its launch, sales of *Children of Morta* were satisfying. Its sales were supported by promotional and marketing activities carried out by 11 bit studios S.A. and further expansion by the developer (additional content). Examples of such efforts include the release, after the end of the reporting period (on August 24th 2020), of the add-on *Children of Morta: Paws and Claws*, which introduces animal characters in the game. The DLC was well received by the gaming community,

especially as all proceeds from its sale will be donated to the Humane Society International foundation.

In addition to the constant expansion and monetisation of *Moonlighter* and *Children of Morta*, in 2020 the 11 bit publishing team actively supported sales of its older games, mainly *Beat Cop* (released for PCs in March 2017). In 2019, the Company decided to release *Beat Cop* in versions dedicated to mobile devices, PS4, Xbox One and Nintendo Switch. As announced by the Company at the Investor Conference held in June, aggregate revenue from sales of *Beat Cop* (since its release) exceeded USD 1m by the end of the reporting period.

Despite restrictions on movement and cancellation of all trade events, in the first half of 2020 the 11-bit publishing management team also took active steps to expand the publishing portfolio. The results of these efforts translated into another publishing agreement, as announced by the Company in a current report at the end of June 2020. As at the issue date of this Report, 11 bit studios S.A.'s publishing portfolio comprised four projects, with the related investment commitments totalling PLN 25m (to compare: 11 bit studios S.A.'s total investment in *Moonlighter* and *Children of Morta* was approximately PLN 5m). The first of the agreements provides for publishing 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*. *Foxhole* is planned for release in 2021. Digital Sun is also responsible for developing the third game, to be published by the Company under the code name of *Botin*. The fourth game, with a working title of *Ava*, is being developed by Chibig, also a Spanish studio. The Company intends to sign at least one more publishing agreement by the end of 2020.

### 4.9.3. Other developments

The COVID-19 pandemic which hit Poland in the first decade of March 2020, and whose consequences were still experienced on the date of authorisation of this Report, did not have any major effect on the operations and financial performance of 11 bit studios S.A. in the reporting period. Upon the first reports of the COVID-19 threats, the Company took steps to mitigate the risk of infection among its employees and associates. Once the required changes were made to the network infrastructure and software, since Monday, March 16th 2020, all employees of 11 bit studios S.A. have been working from home. The Company has implemented appropriate tools to oversee, control and enforce the performance of job duties by the employees in this working regime. Looking back at the past few months, it could be said that in all key areas, including game production, 11 bit studios S.A. has operated without disruptions. Similarly, based on information received from the management boards of third party companies with whom 11 bit studios S.A. has signed publishing agreements, the COVID-19 pandemic has a negligible or very limited impact on their operations, and thus on the timely execution of the projects carried out in cooperation with 11 bit studios S.A.

On February 6th 2020, the Company announced that 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 share disposal notifications from 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.

Relocation to the new headquarters was a significant event for the Company and its employees. 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.

On June 1st 2020, 11 bit studios S.A. received a notification from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. (the "Management Company") that two of the funds managed by the Management Company, namely NN Fundusz Inwestycyjny Otwarty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty, sold some of the Company shares, following which NN Investment Partners TFI's equity interest in the Company fell below the 5% threshold. Prior to the change, the investment funds managed by NN TFI held in aggregate 120,334 shares in 11 bit studios S.A., representing 5.26% of its share capital. After the change, the investment funds managed by NN TFI held in aggregate 110,804 shares in 11 bit studios S.A., representing 4.84% of its share capital.

On June 9th 2020, the Annual General Meeting of 11 bit studios S.A. decided to allocate the entire net profit earned by the Company in 2019, of PLN 21,710,280, to statutory reserve funds.

On June 19th 2020, the Company announced that in connection with the implementation of the objectives set in the 2017–2019 Incentive Scheme for 11 bit studios S.A.'s employees, associates and Management Board members, a total of 130,000 Series B subscription warrants were granted. Each warrant entitles its holder to subscribe for 1 (one) Series G ordinary bearer share at the issue price of PLN 103.38 per share.

After the end of the reporting period, on July 3rd 2020, the Company received a notification of share acquisition as part of the settlement of the 2017–2019 Incentive Scheme, submitted by Grzegorz Miechowski, President of the Company's Management Board. According to the notification, Grzegorz Miechowski acquired 18,413 shares in 11 bit studios S.A. for PLN 103.38 per share.

Also on July 3rd 2020, the Company announced, based on the information received from DM BOŚ S.A. (the brokerage house which supported the Company in the implementation of the 2017–2019 Incentive Scheme) that on that day 68,281 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 7,058,889.78. As of

that date, the share capital of 11 bit studios S.A. comprises 2,355,480 Series A-G shares. In accordance with the Rules of the 2017–2019 Incentive Scheme, the eligible persons who acquired the warrants offered under the Scheme may convert them into Series G shares by June 30th 2023.

#### **4.10. Events subsequent to the reporting date**

No events occurred which would have an impact on this H1 2020 interim report by the date of its authorisation for issue by the Company's Management Board on August 27th 2020.

#### **4.11. Description of material proceedings pending before a court, arbitration body or state administration authority**

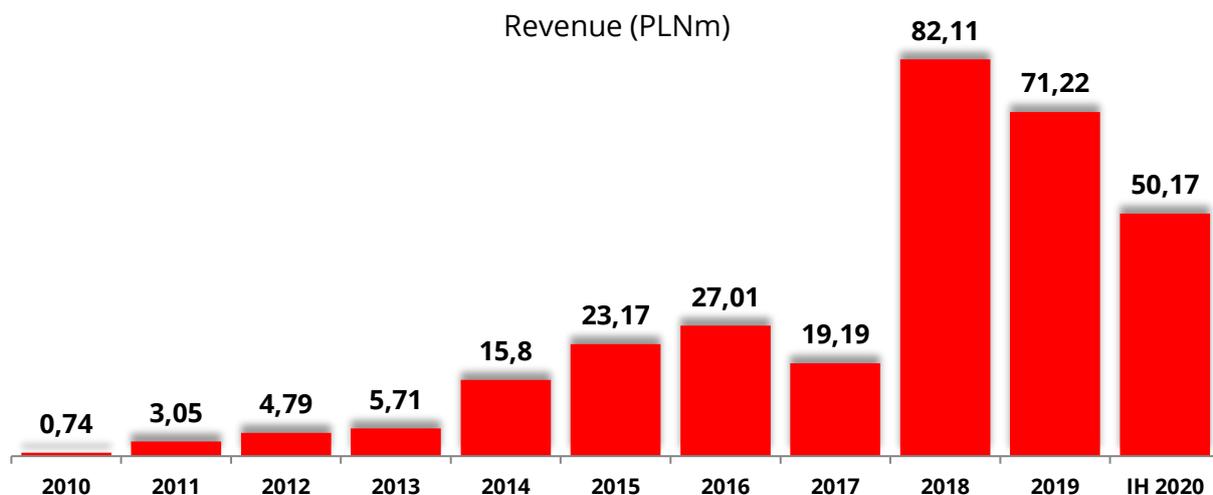
The Company is neither the subject of nor a party to any material proceedings pending before a court, a competent arbitration body or a state administration authority.

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

## 5.1. Statement of profit or loss (PLN)

	6 months ended Jun 30 2020	6 months ended Jun 30 2019 <i>(restated)</i>	Change y/y (%)
<b>Continuing operations</b>			
Revenue	50,168,756	30,738,966	63.21
Other income	150,938	153,941	-1.95
<b>Total operating income</b>	<b>50,319,694</b>	<b>30,892,907</b>	<b>62.88</b>
Depreciation and amortisation	(4,844,854)	(3,038,143)	59.47
Raw materials and consumables used	(178,369)	(218,950)	-18.53
Services	(13,638,340)	(11,948,337)	14.14
Salaries, wages and employee benefits	(3,784,196)	(5,176,924)	-26.90
Taxes and charges	(156,763)	(114,105)	37.38
Other expenses	(1,341,126)	(701,883)	91.08
(Impairment)/reversal of impairment of financial instruments	0	(6,357)	
<b>Total operating expenses</b>	<b>(23,943,648)</b>	<b>(21,204,699)</b>	<b>12.92</b>
<b>Operating profit</b>	<b>26,376,046</b>	<b>9,688,208</b>	<b>172.25</b>
Interest income	456,901	495,721	-7.83
Other finance income	455,358	0	0
Finance costs	(606,346)	(204,357)	440.37
<b>Profit before tax</b>	<b>26,681,959</b>	<b>9,979,572</b>	<b>167.37</b>
Income tax expense	(1,671,669)	(2,558,000)	(34.65)
<b>NET PROFIT</b>	<b>25,010,290</b>	<b>7,421,572</b>	<b>236.99</b>
<b>Earnings per share (PLN):</b>			
Basic	10.93	3.24	237.35
Diluted	10.35	3.07	237.13
<b>NET PROFIT</b>	<b>25,010,290</b>	<b>7,421,572</b>	<b>236.99</b>
Other comprehensive income	0	0	
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>25,010,290</b>	<b>7,421,572</b>	<b>236.99</b>

In the first half of 2020, revenue earned by 11 bit studios S.A. reached PLN 50,168,756, having increased year on year by as much as 63.21%, from PLN 30,738,966. This sharp increase is mainly attributable to the very successful release (in January) of *Frostpunk: The Last Autumn*, a DLC for *Frostpunk*. It was the second out of the three paid DLCs for 11 bit studios S.A.'s flagship game, announced a few quarters earlier as part of the Season Pass. The first DLC released as part of the Season Pass, *Frostpunk: The Rifts*, was released on August 27th 2019. The last DLC from the series, *Frostpunk: On The Edge*, was launched on August 20th 2020. The successful debut of *Frostpunk: The Last Autumn*, supported by promotional and marketing campaigns, also gave a boost to sales of the game's basic version.



Also sales of *Moonlighter* and *Children of Morta*, games created by third-party development studios which 11 bit studios S.A. provides with publishing services, were a major driver of 11 bit studios S.A.'s revenue in the first six months of 2020. The first game, developed by Spain's Digital Sun, has been available on the market since May 2018 (its version for Nintendo Switch was released in late 2018). The other one, created by Dead Mage of the United States, was released in the autumn of 2019. In the first half of 2020, revenue from sales of games in the publishing segment accounted for 30% of 11 bit studios S.A.'s total revenue.

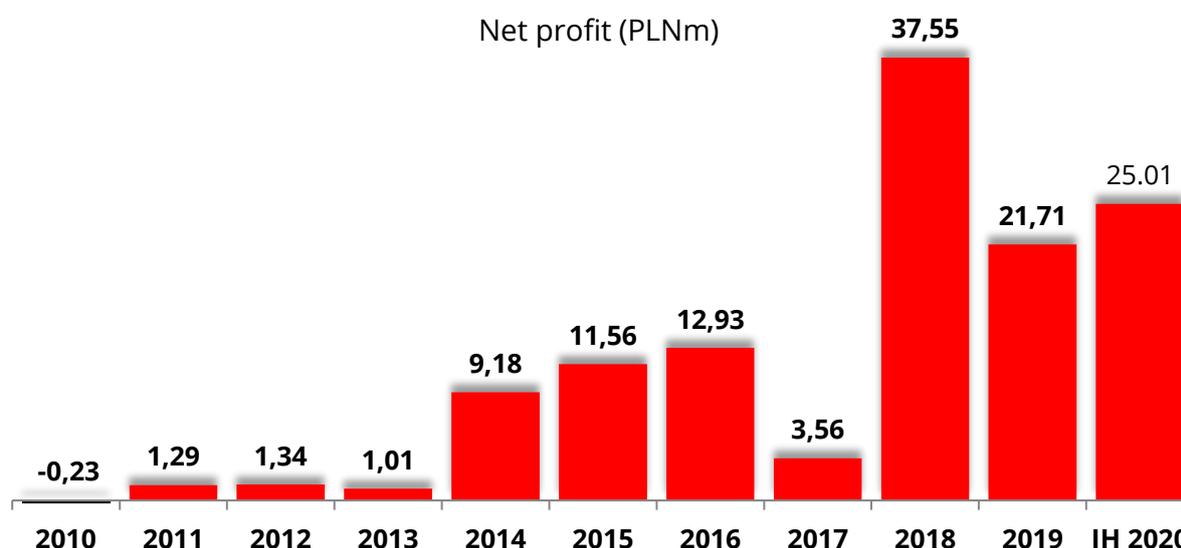
In H1 2020, a firm grip on operating expenses was maintained. The expenses amounted to PLN 23,943,648, up 12.92% from PLN 21,204,699 in H1 2019. The fact that operating expenses in the first half of 2020 grew at a much lower rate than revenue was partly attributable to change in the method of accounting for the costs of the 2017–2019 Incentive Scheme. During the preparation of the H1 2020 report, the Company decided that all costs related to the 2017–2019 Incentive Scheme would be accounted for by the end of 2019 and not, as previously assumed, by and including the end of Q2 2020. Therefore, the Company made appropriate adjustments to the presentation data for earlier periods (for information on the adjustments, see **Note 3.32**), and the costs of the reporting period (the 'salaries and wages' item) were not, unlike in H1 2019, increased by non-cash costs of approximately PLN 4.05m relating to the 2017–2019 Incentive Scheme.

The higher operating expenses in the first half of 2020 were attributable, among other things, to higher depreciation and amortisation (PLN 4,844,854, compared with PLN 3,038,143 in the first

half of 2019), which resulted from the amortisation of expenses incurred to develop *Children of Morta* and the first two paid add-ons to *Frostpunk*, issued as part of the Season Pass. A material item of the Company's operating expenses in H1 2020 were, as in 2019, costs of services (up 14.14%, to PLN 13,638,340), which include royalties for third-party game developers which 11 bit studios S.A. provides with publishing services.

The strong revenue growth in the first six months of 2020 compared with the first six months of 2019, with a significantly lower rise in operating expenses, translated into a significant increase in the Company's operating profit in that period. Operating profit came in at PLN 26,376,046, up by as much as 172.25% on 2019 (PLN 9,688,208), with the operating margin at 52.57% in H1 2020 (H1 2019: 31.58%). In the first six months of 2020, the Company's EBITDA came in at PLN 31,220,900, compared with PLN 12,726,351 in the comparative period. The EBITDA margin went up to 62.23%, from 41.40% in H1 2019.

Given the year-on-year increase in cash, the Company's interest income in the first half of 2020 was only slightly lower than in H1 2019 despite a steep decrease in rates of interest on bank deposits. Interest income amounted to PLN 456,901, compared with PLN 495,721 in H1 2019. Also exchange differences (depreciation of the złoty) had a positive effect on financial transactions in the first half of 2020 as a vast majority of the Company's revenue is denominated in foreign currencies. The increase in finance costs in H1 2020 to PLN 606,346, from PLN 204,357 a year earlier, was mainly attributable to revaluation of an interest rate swap which hedges the Company against interest rate risk in connection with an investment credit facility (PLN 12,600,000) the Company was granted by PKO BP S.A. at the end of 2018. However, the total balance of the Company's financial transactions in the first half of 2020 (approximately PLN +0.3m) was close to that for the first half of 2019.



Thanks to the positive impact of financial transactions, 11 bit studios S.A.'s profit before tax reached PLN 26,681,959 in the first six months of 2020, compared with PLN 9,979,572 a year earlier (up by 167.37%). However, income tax for the first six months of 2020 was 34.65% lower than a year earlier (only PLN 1,671,669), as the Company decided that starting from the report for the first

half of 2020 the Company will present the effect of the IP Box relief on its financial performance for a given period rather than, as previously planned, on an annual basis. The effect of the change on income tax for H1 2020 was approximately PLN 3.5m.

As a result, 11 bit studios S.A.'s net profit for the reporting period was PLN 25,010,290, compared with PLN 7,421,572 in H1 2019, having increased by as much as 236.99%. The Company's net margin rose to 49.85% from 24.14% a year earlier.

## 5.2. Statement of financial position (PLN)

As at June 30th 2020, the Company's total assets amounted to PLN 176,651,910, up by 13.70% from PLN 155,247,318 as at December 31st 2019.

### ASSETS

	As at Jun 30 2020	Share (%)	As at Dec 31 2019 (restated)	Share (%)
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	25,881,583	14.67	20,380,205	13.09
Intangible assets	29,582,512	16.77	24,870,505	15.98
Perpetual usufruct of land	4,005,549	2.27	4,007,699	2.57
Deferred tax asset	2,216,060	1.26	542,022	0.35
Other assets	11,654	0.01	14,694	0.01
<b>TOTAL NON-CURRENT ASSETS</b>	<b>61,697,358</b>	<b>34.98</b>	<b>49,815,125</b>	<b>32.00</b>
<b>CURRENT ASSETS</b>				
Trade and other receivables	14,909,674	8.45	17,750,932	11.43
Inventories - prepaid deliveries of goods and services	11,830	0.01	11,830	0.01
Income tax receivable	3,952,947	2.24	5,441,189	3.50
Other current assets	455,681	0.26	438,230	0.28
Cash and cash equivalents	29,050,705	16.47	14,882,519	9.56
Current financial assets	66,310,797	37.59	67,328,563	43.25
<b>TOTAL CURRENT ASSETS</b>	<b>114,691,632</b>	<b>65.02</b>	<b>105,853,262</b>	<b>68.00</b>
<b>TOTAL ASSETS</b>	<b>176,388,990</b>	<b>100.00</b>	<b>155,668,388</b>	<b>100.00</b>

### EQUITY AND LIABILITIES

	As at Jun 30 2020	Share (%)	As at Dec 31 2019 (restated)	Share (%)
<b>EQUITY</b>				
Share capital	228,720	0.13	228,720	0.15
Share premium	4,870,274	2.76	4,870,274	3.13

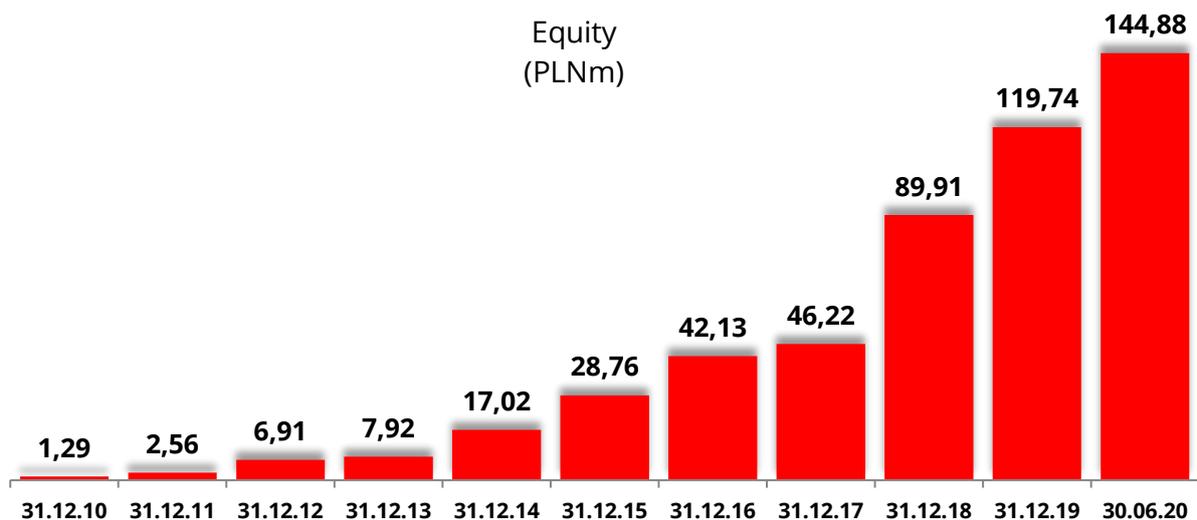
Statutory reserve funds	87,152,664	49.37	78,881,784	50.67
Share-based payment reserve	31,744,829	17.98	18,305,429	11.76
Retained earnings	20,754,102	11.83	17,454,092	11.21
<b>TOTAL EQUITY</b>	<b>144,750,589</b>	<b>82.08</b>	<b>119,740,299</b>	<b>76.92</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings and other debt instruments	10,249,710	5.81	10,429,732	6.70
Deferred income	437,567	0.25	497,564	0.32
Lease liabilities - perpetual usufruct of land	334,470	0.13	334,891	0.22
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>11,021,747</b>	<b>6.24</b>	<b>11,262,187</b>	<b>7.23</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	14,599,039	8.27	11,429,892	7.34
Liabilities under contracts with customers	4,488,341	2.54	11,730,526	7.54
Short-term borrowings and other debt instruments	1,366,628	0.77	1,303,717	0.84
Lease liabilities - perpetual usufruct of land	12,653	0.01	12,653	0.01
Deferred income	149,993	0.08	189,114	0.12
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,616,654</b>	<b>11.68</b>	<b>24,665,902</b>	<b>15.85</b>
<b>TOTAL LIABILITIES</b>	<b>31,638,401</b>	<b>17.92</b>	<b>35,928,089</b>	<b>23.08</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>176,388,990</b>	<b>100.00</b>	<b>155,668,388</b>	<b>100.00</b>

As at the end of June 2020, current assets represented the majority (65.02%) of the Company's total assets. From PLN 105,853,262 at the end of December 2019, current assets rose by 8.29%, to PLN 114,691,632. As in previous periods, 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 66,310,797 (end of 2019: PLN 67,328,563), i.e. 37.59% of total assets. Cash and cash equivalents of PLN 29,050,705 at the end of H1 2020 can be added to that figure. As at the end of 2019, they were PLN 14,882,519. Trade and other receivables of PLN 14,909,674 were also a significant component of the Company's current assets. Their balance was slightly higher six months earlier, when they amounted to PLN 17,750,932.

As at the end of June 2020, the Company's non-current assets stood at PLN 61,697,357, compared with PLN 49,815,125 as at the end of December 2019. They rose 23.85% year on year and accounted for 34.98% of total assets, compared with 32% at the end of 2019. Intangible assets, the main component of non-current assets, amounted to PLN 29,582,512 (end of 2019: PLN 24,870,505). They increased by 18.95% and their share in the Company's total assets grew to 16.77% from 15.98% at the end of 2019. 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*, *Dolly Project* (formerly *Project 9*),

*Eleanor Project* (formerly *Project 10*), and new games of 11 bit publishing, as well as 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 25,881,583 at the end of June 2020. As at the end of 2019, property, plant and equipment amounted to PLN 20,380,205. 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 convert it into its new office. As at the end of June 2020, the value of the property (including perpetual usufruct of land) in the Company's statement of financial position was PLN 26,926,677, compared with PLN 23,637,763 as at the end of December 2019. 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 87,152,664 as at the end of June 2020, i.e. 49.41% of total equity and liabilities. As at the end of 2019, the respective figures were PLN 78,881,784 and 50.67% of total equity and liabilities. Statutory reserve funds increased following the transfer of the Company's net profit for 2019. The decision to allocate the entire profit for 2019 (PLN 21,710,280) to statutory reserve funds was made at the General Meeting held on June 9th 2020. As at the end of June 2020, retained earnings were a significant component of the Company's equity and liabilities. At PLN 20,754,102, they accounted for 11.77% of total equity and liabilities. As at the end of 2019, retained earnings amounted to PLN 17,454,092 (11.21% of total equity and liabilities). As at June 30th 2020, a growing item of equity and liabilities of 11 bit studios S.A. (compared with the end of 2019) was the share-based payment reserve related to the Company's Incentive Scheme for 2017–2019. It amounted to PLN 31,744,829, representing 18.00% of total equity and liabilities. This compares with PLN 18,305,429 (11.76% of total equity and liabilities) as at the end of 2019.



As at June 30th 2020, the Company's total liabilities amounted to PLN 31,638,401, compared with PLN 35,928,089 as at the end of December 2019. They decreased by 11.94% on the end of 2019 and represented 17.94% of total equity and liabilities (end of 2019: 23.08%).

As at the end of June 2020, the Company's non-current liabilities stood at PLN 11,021,747, relative to PLN 11,262,187 as at December 31st 2019. 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 being repaid in a timely manner.

As at the end of June 2020, the Company's current liabilities stood at PLN 20,616,654, relative to PLN 24,665,902 at the end of 2019. They fell 16.42% year on year, accounting for 11.69% of total equity and liabilities (end of 2019: 15.85%), with the decrease chiefly attributable to lower liabilities under contracts with customers, amounting to PLN 4,488,341 (end of 2019: PLN 11,730,526). Thus, they accounted for 2.54% of total equity and liabilities (December 31st 2019: 7.54%). The item comprised advance payments received by the Company from its business partners (game distributors) towards future sales of the Company's products (games). As at the end of June 2020, trade payables were a significant item of current liabilities, having grown 27.73% on H2 2019, to PLN 14,599,039, compared with PLN 11,429,893 six months earlier. Thus, they accounted for 8.28% of total equity and liabilities (7.34% in the second half of 2019), and included mainly accruals and deferred income, i.e. royalties for third-party developers who the Company provides with publishing services.

### 5.3. Statement of cash flows (PLN)

	Period ended Jun 30 2020	Period ended Jun 30 2019 <i>(restated)</i>
<b>Cash flows from operating activities</b>		
<b>Profit for the financial year</b>	<b>25,010,290</b>	<b>7,421,572</b>
<b>Adjustments:</b>		
Depreciation and amortisation	4,844,854	3,038,143
Income tax expense recognised in profit or loss	1,671,669	2,558,000
Revaluation of intangible assets	(17,450)	33,959
Other adjustments	611,661	3,349,146
<b>Changes in working capital:</b>		
Increase/(decrease) in trade and other receivables	2,841,258	993,069
Increase/(decrease) in other assets	14,410	(149,771)
Increase/(decrease) in trade and other payables	3,169,146	1,819,958
Increase/(decrease) in net balance under contracts with customers	(7,242,184)	5,132,642
Increase/(decrease) in deferred income	(99,118)	(79,558)
<b>Cash provided by operating activities</b>	<b>30,775,715</b>	<b>24,117,160</b>
Income tax paid	(1,857,464)	(4,188,427)
<b>Net cash from operating activities</b>	<b>28,918,250</b>	<b>19,928,733</b>

<b>Cash flows from investing activities</b>		
Loans to employees	(4,108,945)	0
Proceeds from bank deposits upon maturity – over 3 months	94,000,000	43,000,000
New bank deposits placed – over 3 months	(89,000,000)	(59,000,000)
Proceeds from interest on financial assets	126,710	0
Payments for property, plant and equipment and intangible assets	(15,044,965)	(5,308,089)
<b>Net cash from investing activities</b>	<b>(14,027,199)</b>	<b>(21,308,089)</b>
<b>Cash flows from financing activities</b>		
Proceeds/(payments) under credit facility	(630,000)	(525,000)
Payment of bank loan interest	(92,866)	(174,061)
<b>Net cash from financing activities</b>	<b>(722,866)</b>	<b>(699,061)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>14,168,186</b>	<b>(2,078,417)</b>
Cash and cash equivalents at beginning of reporting period	14,882,519	24,250,681
<b>CASH AT END OF REPORTING PERIOD</b>	<b>29,050,705</b>	<b>22,172,264</b>

In H1 2020, the Company generated cash flows from operating activities of PLN 30,775,715, 27.61% more than in the same period of the previous year, despite no new game releases significantly contributing to its performance, with the exception of a paid DLC for *Frostpunk – Frostpunk: The Last Autumn*, released in January. The impressive cash flows from operating activities were attributable to very good sales of the games marketed by 11 bit studios S.A. in the previous periods, mainly *Frostpunk* and *Moonlighter* (the games were launched in Q2 2018) and *Children of Morta* (released in the autumn of 2019). Continued strong sales of *This War of Mine* were also a significant contributor to top-line performance despite the natural aging of the product, which was launched in November 2014.

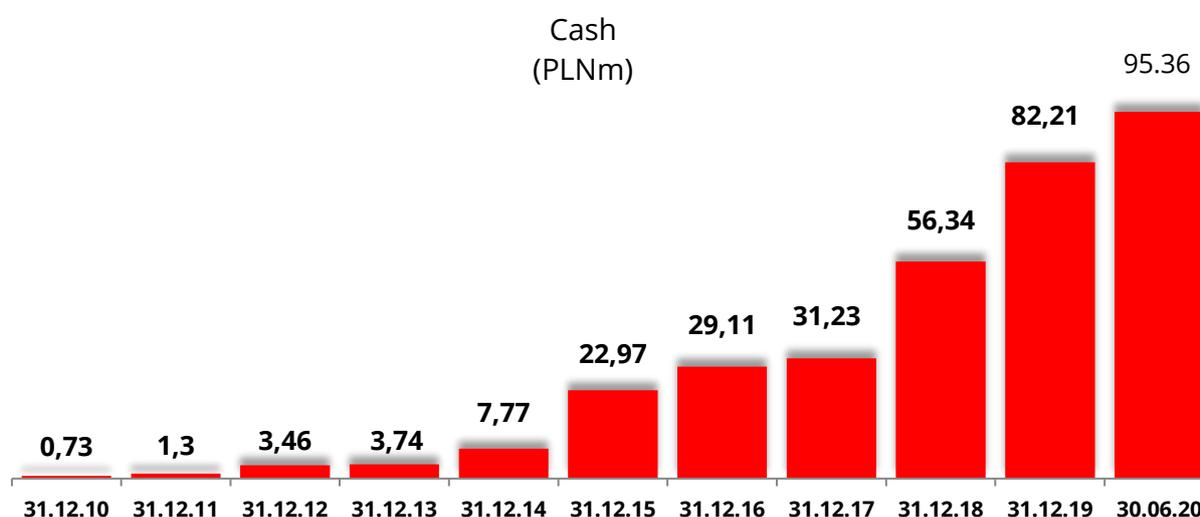
The higher profit earned by the Company in the first half of 2020 did not entail higher income tax due to the fact that starting with the H1 2020 report the Company presents the effect of the IP Box relief on its financial results for a given period rather than, as previously planned, for an annual period. As a result, the income tax paid for the reporting period was only PLN 1,857,464, compared with PLN 4,188,427 a year earlier. Consequently, net cash provided by the Company's operating activities in H1 2020 amounted to PLN 28,918,250 relative to PLN 19,928,733 in the comparative period, having increased by 45.11%.

At the same time, in H1 2020 the Company allocated PLN 14,027,199 to investments, down from PLN 21,308,089 in H1 2019. 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 15,044,965). In the first half of 2019, the payments were more than 60% lower and amounted to PLN 5,308,089. The increase in expenditure was attributable to commencing work on new in-house projects (*Dolly* and *Eleanor*) and adding new titles to the

publishing portfolio. The new item in the first half of 2020, not reported a year earlier, were loans advanced by the Company to its employees and associates for the purchase of shares under the 2017–2019 Incentive Scheme. As at the reporting date, most of the loans had been repaid.

As in the previous year, the main item of cash flows from financing activities in H1 2020 were payments related to the servicing of the 10-year investment credit facility with PKO BP, taken out by the Company in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. In H1 2020, 11 bit studios S.A. spent PLN 630,000 to repay the credit facility (PLN 525,000 in the comparative period). Another PLN 92,866 was spent to repay interest on the borrowed funds (PLN 174,061). In consequence, net cash from financing activities was negative at PLN 722,866 (H1 2019: PLN - 699,061).

As at June 30th 2020, the Company held cash and cash equivalents of PLN 29,050,705 vs PLN 14,882,519 at the end of 2019. This means an increase of 95.20% compared with December 31st 2019. It should also be noted that at the end of the reporting period the Company also held PLN 66,310,797 in bank deposits with maturities of more than three months. As at the end of 2019, the value of such deposits was PLN 67,328,563. This means that 11 bit studios S.A.'s total cash held as at June 30th 2020 amounted to as much as PLN 95,361,502, almost 16% more than as at the end of December 2019 (PLN 82,211,082). Inclusive of trade receivables (PLN 14,909,674 as at the end of June 2020 vs PLN 17,750,932 as at December 31st 2019) and income tax receivable (PLN 3,893,765 relative to PLN 5,441,189 in the previous year), 11 bit studios S.A.'s total financial assets as at the end of the reporting period hit an all-time high of PLN 114,224,123.



## 5.4. Other information

### 5.4.1. Bank and non-bank borrowings in the first half of 2020

In the first half of 2020, the Company did not contract any new bank or non-bank borrowings. The Company's only liability of this kind is an investment credit facility with PKO BP S.A. (the agreement was signed in December 2018), described in detail in **Note 3.23**. As at June 30th 2020, the non-current portion of the facility was PLN 10,249,710 (including the measurement of the

interest rate swap), while its current portion was PLN 1,366,628 (also including the measurement of the interest rate swap).

#### **5.4.2. Loan advanced in the first half of 2020**

On June 15th 2020, in accordance with Art. 245.1, Art. 245.4 and Art. 245.8 of the Commercial Companies Code and pursuant to Resolution No. 22/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company and its employees entered into 23 loan agreements to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loans totalled PLN 4,112,163. As at the end of the reporting period, the outstanding amount of the loans (including interest) was PLN 4,108,937.55.

#### **5.4.3. Sureties and guarantees provided in the first half of 2019 and other material off-balance-sheet items**

The Group did not provide any sureties or guarantees in the first half of 2020, Neither did it have any material off-balance-sheet items other than those listed in **Note 3.29**.

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

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

#### **5.4.5. Description and assessment of factors and non-recurring events with bearing on the results of the Group's operations in the first half of 2020**

In the first half of 2020, there were no events of a non-recurring nature which would affect results of the Company's operations.

#### **5.4.6. Explanation of differences between financial results disclosed in the full-year report and previously published financial forecasts for the first half of 2020**

The Company did not publish any financial forecasts for the first half of 2020.

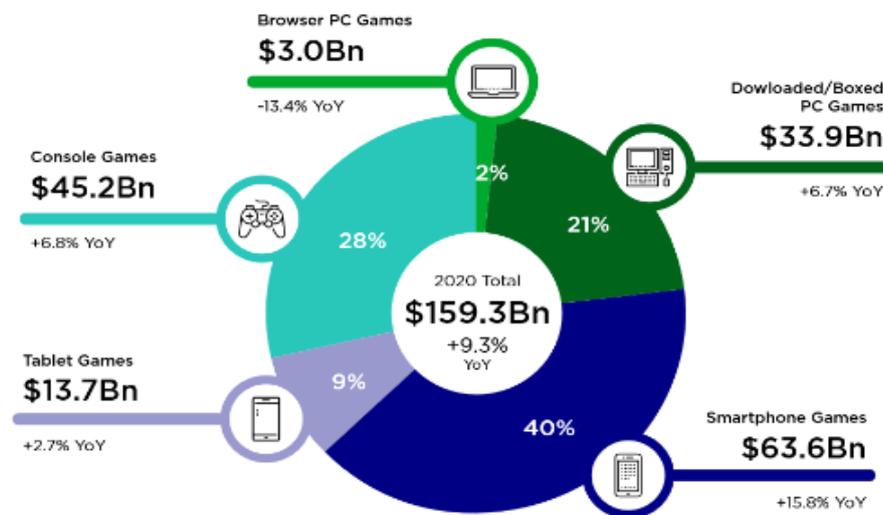


# 6. DEVELOPMENT AND PROSPECTS OF 11 BIT STUDIOS S.A.

## 6.1. 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.

2020 Global Games Market  
Per Segment



Source: 'The Global Games Market 2020', Newzoo.

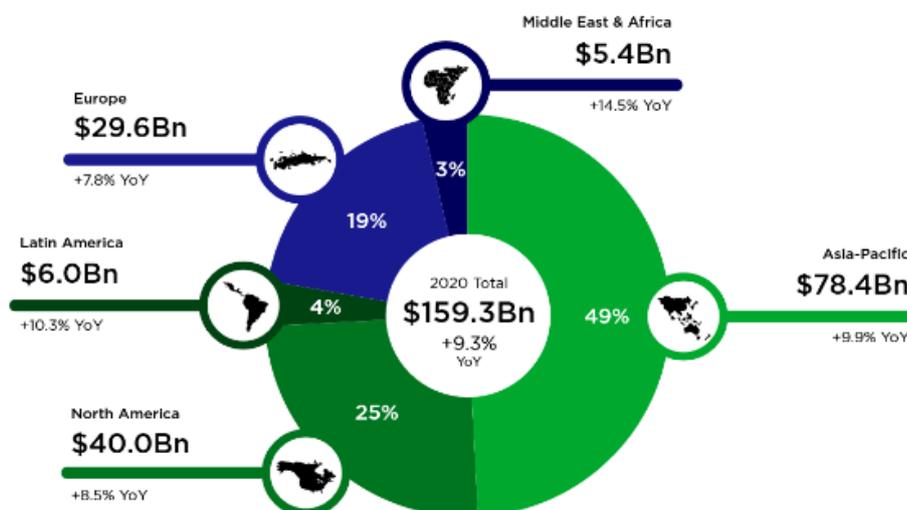
Growth forecasts for the gaming market for 2020, prepared by Newzoo (chart on the next page), are equally promising. According to specialists, sales of games will increase by 9.3% compared with 2019, to USD 159.3bn, the highest figure on record. A further increase in demand for computer games in the current year is mainly attributable to the COVID-19 pandemic, which has made gamers spend more time at home (this was particularly evident in Q1 and Q2). Producers of games for mobile devices (smartphones) are among the largest beneficiaries of the lockdown. According to Newzoo, in 2020 smartphone owners will spend USD 63.6bn on such games, 15.8% more than a year before, which means that games for mobile devices will account for as much as 40% of the entire gaming market in 2020. The strong growth of this segment, far outpacing the

growth of the whole industry, is driven by a sharp increase in the number smartphones used globally and the fact that games dedicated for such devices are sold at low prices or provided under the F2P (free to play) model. This means a low entry barrier to the world of games for a person who has never been interested in this type of entertainment.

As in the previous year, the console games segment will remain the second largest segment of the gaming market this year. Newzoo expects the value of that segment to grow 6.8% year on year, to USD 45.2bn, accounting for 28% of the global gaming market. The PC games segment will grow equally fast, up 6.7% year on year. According to Newzoo, in 2020 PC owners will spend USD 33.9bn on computer games, which will represent a 21% share in the gaming market.

Similarly to previous years, the other segments of the gaming market will perform much worse this year and lose importance. According to Dutch experts, the tablet games segment will grow by a mere 2.7% in 2020 (compared with 2019), to USD 13.7bn, which will translate into a 9% market share. The segment of browser games (titles made available in social media, etc.) will continue to lose its already small market share. Its value will decrease to USD 3bn in 2020, which means a 13.4% decrease compared with 2019 and a mere 2% share in the global gaming market.

**2020 Global Games Market**  
Per Region



Source: 'The Global Games Market 2020', Newzoo.

In geographical terms, Asia – including in particular China, which outranked the US as early as in 2016 – will again be the world’s most important gaming market in 2020. According to Newzoo, in 2020 customers in Asia will spend USD 78.4bn on computer games, 9.9% more than in 2019, which will account for as much as 49% of the entire gaming market in the world. In 2019, the Asian market grew at a slower rate (7.6% down on 2018) 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 in 2020 will be North America, led by the United States (ranking second with regard to individual countries). Game enthusiasts from North America will spend USD 40.0bn on video games in 2020, which will represent a 8.5% change on the previous year and a 25% share in the global gaming market.

Europe is forecast to rank third, accounting for 19% of the global gaming market in 2020. In 2020, European customers will spend USD 29.6bn on computer games, 7.8% more than in 2018. Latin America's gaming market will grow at a significantly quicker pace (10.3%) in 2020. Its value increased to USD 6.0bn, representing 4% of the global gaming market. Africa and the Middle East will represent 3% of the global gaming market, spending USD 5.4bn on computer games in 2020 (14.5% more than in 2019).

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. In 2021 and 2022, spending on games 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 North America, that is mainly from the United States, will represent 26% of the market. Europe, Middle East and Africa will account for 22%–23% of the gaming market, and Latin America – for 4%.

There will be no major changes in the computer gaming industry's product structure, either, in the years to come. Newzoo analysts 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. This growth will come at the expense of the PC and web browser games segments. 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. Likewise, games for tablets are predicted to retain their almost 10% share in the gaming market in 2020–2022.

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 Poles spent USD 574.4m on computer games, 5.9% more than in 2018 (USD 541.5m). 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.

## 6.2. Growth prospects

11 bit studios S.A. is a producer of cross-platform video games sold all over the world, mainly through specialised online platforms, with Steam in the lead. Export sales accounted for nearly 98.25% of the Company's total revenue in H1 2020 (H1 2019: 98.21%). 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 159.3bn, a 9.3% increase on 2019. In 2021 and 2022, spending on games will reach, respectively, USD 178.2bn and USD 196bn.

The objective of 11 bit studios S.A. is to grow much faster 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 H1 2019, revenue from its sales exceeded PLN 100m. The success of *Frostpunk* (launched less than two years ago, the title and related add-ons generated revenue of close to PLN 110m 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 studio S.A.'s 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. This is the case with the game under the working title *Project 8*, which is based on Unity Engine 5. The production, promotion and sale of the 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*, that is *Project 8*. The *Project 8* team comprises almost 30 people and is being gradually expanded. The COVID-19 pandemic did not have a major impact on the recruitment schedule for this project. It is initially assumed that the team 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. also started the creation of another development team, based on the employees who until recently worked on further development of *This War of Mine*, including the *TWoM: Stories* DLCs. The last add-on of the series, entitled *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 *Dolly Project* (formerly *Project 9*). In the reporting period, the Company also worked on the concept of on another title, *Eleanor Project* (formerly *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 in the reporting period (on January 21st 2020). The DLC was very well received by the market (excellent reviews and sales). After the reporting period, on August 20th 2020, the Company released the third DLC to *Frostpunk* – *Frostpunk: On The Edge*, which was also well received by fans. *Frostpunk* will be developed further, including by releasing versions for new hardware platforms. On February 14th 2020, the Company announced that it signed an agreement with a leading global player on the mobile games market to develop *Frostpunk* for mobile devices. On June 29th 2020, at the Annual Investors Conference, the Company disclosed that the partner responsible for creating the version of *Frostpunk* for mobile devices is the Chinese NetEase, one of the world's largest gaming companies, and the *Frostpunk* for mobile devices will be offered in the F2P (free-2-play) model. The Company will communicate other details of the agreement with NetEase 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 discontinued 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 *Dolly Project* (formerly *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. To date, 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 importance of the 11 bit publishing division is demonstrated by the fact that in H1 2019 revenue from the sale of games created by third-party developers accounted for 30% of the Company's revenue. In 2019, the share was 40%. 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, to be released by the end of the year.

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. The cap has been increased

to PLN 5m (and should be treated flexibly). This change considerably expands 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 four publishing agreements with third-party development teams. The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. 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*. This Spanish studio is also the producer of the third game to be published by the Company, under code name *Botin*. The producer of the fourth game, given the working title *Ava*, is another Spanish studio, Chibig (the Company announced the execution of the relevant contract on June 29th 2020).

### 6.3. 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 in the 2019 Annual Report (**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, in H1 2020 the Company continued to build other development teams, 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 under the working title *Dolly Project* (formerly *Project 9*), which was built around people that had previously created *This War of Mine*. The Company has also started work on a game under the working title *Eleanor Project* (formerly *Project 10*). The project team currently comprises

over 20 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.

#### 6.4. Feasibility of investment plans

As at June 30th 2020, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 21,050,705. As at the end of 2019, cash and cash equivalents stood at PLN 14,882,519 (including PKO BP Bank Hipoteczny bonds). As at the end of June 2020, 11 bit studios S.A. also held PLN 70,201,853 in bank deposits with maturities of more than three months. This means that the total cash resources available to the Company at the end of H1 2020 amounted to PLN 91,252,558, an 11.0% increase over January 1st 2020, when they stood at PLN 82,211,082. PLN 14,909,674 of receivables (mainly trade receivables) should be added to that amount (end of 2019: PLN 17,750,932). The total value of 11 bit studios S.A.'s financial assets reported as at June 30th 2020 was an impressive PLN 106,162,231 (December 31st 2019: PLN 99,962,014), which represents a 6.20% increase.

The total value of liabilities (current and non-current) was PLN 31,638,401 as at June 30th 2020, compared with PLN 35,928,089 as at December 31st 2019. Of that amount PLN 11,616,338 was a credit facility (including an interest rate swap 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 interest rate swap) as at the end of 2018 was PLN 11,733,449.

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.

Signed by:

*Grzegorz Miechowski,  
President of the  
Management Board*

*Przemysław Marszał,  
Member of the  
Management Board*

*Michał Drozdowski,  
Member of the  
Management Board*

Warsaw, August 27th 2020