

Warsaw, November 17th 2020

**QUARTERLY REPORT OF 11 BIT
STUDIOS S.A. FOR NINE
MONTHS ENDED SEPTEMBER
30TH 2020**

LETTER FROM THE MANAGEMENT BOARD

Warsaw, November 17th 2020

Dear Shareholders and Investors,

It is our pleasure to present to you the report of 11 bit studios S.A. for the nine months ended September 30th 2020. The results for this period, which proved better than we assumed in the budget, clearly demonstrate that the consistent implementation of the Company's growth strategy is bringing measurable financial results.

In the nine months ended September 30th 2020, 11 bit studios S.A. reported revenue of nearly PLN 68.16m, up 37.89% year on year, and delivered a net profit in excess of PLN 32.12m, up 277.49%. The Company generated cash from operating activities of PLN 47.61m. The value of its financial assets (cash and cash equivalents, bank deposits, trade and tax receivables) as at the end of September 2020 reached PLN 116m and, just like the financial performance for the first three quarters of the year, was the highest in the Company's history.

The record financial figures reported by 11 bit studios S.A. for the nine months to September 30th 2020 were driven by successful monetisation of the entire portfolio, including both proprietary games and the products marketed by 11 bit publishing. Worthy of a particular mention are sales of *Frostpunk* – both the basic version and paid DLCs included in the Season Pass. By the end of September 2020, more than 20% of gamers who had purchased *Frostpunk* decided to buy the game's paid DLC, which is far above the market average. The strength of the *Frostpunk* brand is also evidenced by the great interest in its planned board game version. Nearly 19,000 backers provided almost EUR 2.5m to support the project in a fundraising campaign on Kickstarter, held in October. To note, the board game producer (Glass Cannon Unplugged) had expected to raise EUR 200,000 through this channel.

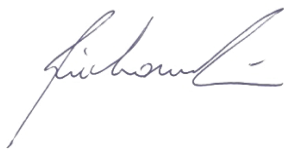
Just like in the previous periods, the games released by the publishing division also vitally contributed to the results posted by 11 bit studios S.A. for the nine months ended September 30th 2020. In that period, revenue from the sale of *Moonlighter*, *Children of Morta* and other games accounted for approximately 28% of the Company's total revenue. We are positive that both *Moonlighter* and *Children of Morta* will long continue to generate revenue. The same holds true for monetisation of our own games, especially *Frostpunk*, which, supported by appropriate promotional and marketing efforts and its launch on another hardware platform (the version for mobile devices is going to be placed on the market in 2021), will still be a major source of revenue for a long time.

We are facing further quarters of hard work on expanding the portfolio of proprietary games. The COVID-19 pandemic does not make it easier to find new employees, especially outside Poland, but the pace of work is satisfying. However, the fans of new 11 bit studios S.A.'s games such as *Project 8* and the *Dolly* and *Eleanor* projects will need to wait for the releases. This is also the case with the games produced by third-party developers, i.e.: *Foxhole*, *Botin*, *Vitriol* and *Ava*, for which

the Company acts as the publisher. In the coming months, apart from launching marketing communication for the new products, 11 bit studios S.A. will focus on acquiring new titles for the publishing portfolio and on transforming its organisation, which will include expanding development teams, to prepare even better for addressing market challenges.

Despite ongoing significant investments, the Company's record-high and growing cash resources position us to comfortably plan long-term strategic moves, well beyond the coming quarters. We hope that we will be able to unveil more details in the near future, and that our ideas will be well received by the Shareholders and Investors.

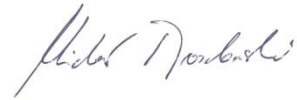
Thank you once again for the trust you place in us. We invite you to read our report.

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 September 30th 2020 - **PLN 4.5268**
- 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 Q1–Q3 2020 - **PLN 4.4200**
- Exchange rate for Q1–Q3 2019 - **PLN 4.3086**

Statement of financial position

	Sep 30 2020 (PLN)	Dec 31 2019 (PLN) <i>(restated)</i>	Sep 30 2020 (EUR)	Dec 31 2019 (EUR) <i>(restated)</i>
Total assets	187,586,047	156,668,388	41,438,99	36,789,571
Non-current assets	65,273,457	49,815,125	14,419,33	11,697,810
Intangible assets	32,693,713	24,870,505	7,222,257	5,840,203
Current assets	122,312,590	105,853,263	27,019,65	24,856,936
Cash	80,238,767	14,882,519	17,725,27	3,494,780
Bank deposits with maturities of more than 3 months	28,048,977	67,328,563	6,196,204	15,810,394
Total equity and liabilities	187,586,047	155,668,388	41,438,996	36,554,747
Equity	159,272,358	119,740,299	35,184,31	28,117,952
Liabilities and provisions	28,313,689	35,928,089	6,254,681	8,436,794

Statement of profit or loss

	Period ended Sep 30 2020 (PLN)	Period ended Sep 30 2019 (PLN) <i>(restated)</i>	Period ended Sep 30 2020 (EUR)	Period ended Sep 30 2019 (EUR) <i>(restated)</i>
Revenue	68,159,127	49,430,023	15,420,617	11,472,409
Depreciation and amortisation	7,392,768	4,580,558	1,672,572	1,063,120
Operating profit	35,108,607	11,747,487	7,943,124	2,726,521
EBITDA	42,501,375	16,328,045	9,615,696	3,789,640
Profit (loss) before tax	34,952,642	12,402,474	7,907,838	2,878,539
Net profit (loss)	32,120,127	8,508,756	6,582,066	1,974,830

Statement of cash flows

	Period ended Sep 30 2020 (PLN)	Period ended Sep 30 2019 (PLN) <i>(restated)</i>	Period ended Sep 30 2020 (EUR)	Period ended Sep 30 2019 (EUR) <i>(restated)</i>
Net cash from operating activities	43,220,674	36,630,048	9,778,433	8,501,613
Net cash from investing activities	15,537,700	(45,777,069)	3,515,317	(10,624,581)
Net cash from financing activities	6,597,874	(1,254,790)	1,492,732	(291,229)
Total net cash flows	65,356,248	(10,401,811)	14,786,481	(2,414,197)



FINANCIAL STATEMENTS OF

11 BIT STUDIOS S.A.

FOR NINE MONTHS ENDED SEPTEMBER 30TH 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). Company shares are traded in the 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 September 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 – for the nine months ended September 30th 2019,
- Statement of changes in equity – for the nine months ended September 30th 2019,
- Statement of cash flows – for the nine months ended September 30th 2019.

1.3. Composition of the Company's governing bodies as at September 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

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 issue date of the Report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Przemysław Marszał	106,500	4.51	106,500	4.51
Grzegorz Miechowski	177,413	7.52	177,413	7.52
Michał Drozdowski	84,630	3.59	84,630	3.59
Aviva Investors Poland TFI*	181,609	7.70	181,609	7.70
Other shareholders	1,810,393	76.69	1,810,393	76.69
Total	2,360,545	100.00	2,360,545	100.00

* 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 sale of 11 bit studios S.A. shares. On February 20th 2020, Przemysław Marszał sold 7,700 shares in 11 bit studios S.A. in a block transaction on the WSE at an average price of PLN 460 per share.

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

Furthermore, in Current Report No. 7/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 21st 2020 the Company received a notification under Art. 69.1.2 in conjunction with Art. 87.1.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz. U. of 2009, item 623; the "Act") from Przemysław Marszał, member of the Company's Management Board, to the effect that his interest in total voting rights at the Company's General Meeting fell below 5% as a result of disposal of 11 bit studios S.A. shares in a block transaction executed on the Warsaw Stock Exchange on February 20th 2020. Prior to the 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 Investment Partners TFI") of going below the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights at 11 bit studios S.A. changed following the sale of shares on May 26th 2020 by the NN Fundusz Inwestycyjny Otwarty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty investment funds managed by NN Investment Partners TFI. 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 Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On June 30th 2020, Marcin Kuciapski purchased a total of 150 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 488 per share.

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.

In Current Report No. 29/2020 of September 24th 2020, 11 bit studios S.A. announced that on September 24th 2020 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 by way of gift of 11 bit studios S.A. shares. On September 23th 2020, Przemysław Marszał disposed of 3,800 Company shares, at PLN 470 per share, by way of gift.

In the reporting period, the Company announced the admission and introduction to stock exchange trading of Series G shares, which were issued for the purposes of the 2017-2019 Incentive Scheme, on the basis of and in accordance with Resolution No. 05/06/2017 by the Company's Extraordinary General Meeting of June 7th 2017. In Current Report No. 23/2020 of July 3rd 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on July 3rd 2020 68,281 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 7,058,889.78. In Current Report No. 28/2020 of

September 14th 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on September 10th 2020 3,415 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 353,042.70. At the same time, the Company announced that as of September 14th 2020 the Company's share capital was PLN 235,889.5 and was divided into 2,358,895 shares with a par value of PLN 0.1 per share.

After the reporting period, in Current Report No. 31/2020 of November 12th 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on November 10th 2020 1,650 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 170,577. At the same time, the Company announced that as of November 12th 2020 the Company's share capital was PLN 236,054.5 and was divided into 2,360,545 shares with a par value of PLN 0.1 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 Sep 30 2020 (no. of shares)	Shareholding as at Dec 31 2019 (no. of shares)
Grzegorz Miechowski	President of the Management Board	177,413	177,413	162,000
Przemysław Marszał	Member of the Management Board	106,500	106,500	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, 156 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.

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

2.1. Interim statement of comprehensive income (PLN)

	Note	3 months ended Sep 30 2020	3 months ended Sep 30 2019 <i>(restated)</i>	9 months ended Sep 30 2020	9 months ended Sep 30 2019 <i>(restated)</i>
Continuing operations					
Revenue	3.3	17,990,371	18,691,058	68,159,127	49,430,023
Other income	3.4	104,684	193,852	255,622	347,794
Total operating income		18,095,055	18,884,910	68,414,749	49,777,817
Depreciation and amortisation	3.5	(2,547,914)	(1,542,415)	(7,392,768)	(4,580,558)
Raw materials and consumables used		(78,470)	(96,592)	(256,839)	(315,543)
Services	3.6	(5,277,606)	(9,215,626)	(18,915,946)	(21,163,963)
Salaries, wages and employee benefits	3.7	(1,334,289)	(5,684,283)	(5,118,485)	(10,861,207)
Taxes and charges		(68,912)	(70,032)	(255,676)	(184,136)
Other expenses	3.4	(55,303)	(216,684)	(1,396,429)	(918,567)
(Impairment)/reversal of impairment of financial instruments		0	0	0	(6,357)
Total operating expenses		(9,362,494)	(16,825,632)	(33,306,142)	(38,030,330)
Operating profit		8,732,561	2,059,279	35,108,607	11,747,487
Interest income	3.8	64,944	298,848	521,844	794,569
Other finance income	3.8	752,404	150,573	1,207,762	150,573
Finance costs	3.9	(1,279,225)	(85,798)	(1,885,572)	(290,155)
Profit before tax		8,270,683	2,422,902	34,952,642	12,402,474
Income tax expense	3.10	1,160,846	1,335,718	2,832,515	3,893,718
NET PROFIT		7,109,837	1,087,184	32,120,127	8,508,756
Earnings per share (PLN):					
Basic	3.11	3.02	0.48	13.90	3.72
Diluted	3.11	2.94	0.45	13.29	3.52
NET PROFIT		7,109,837	1,087,184	32,120,127	8,508,756
Other comprehensive income		0	0	0	0
TOTAL COMPREHENSIVE INCOME		7,109,837	1,087,184	32,120,127	8,508,756

2.2. Interim statement of financial position (PLN)

ASSETS

	Note	As at Sep 30 2020	As at Dec 31 2019 (restated)
Non-current assets			
Property, plant and equipment	3.12	26,708,763	20,375,904
Intangible assets	3.13	32,693,713	24,870,505
Perpetual usufruct of land		4,004,474	4,012,000
Deferred tax asset		1,761,894	542,022
Other assets	3.17	104,613	14,694
Total non-current assets		65,273,457	49,815,125
Current assets			
Trade and other receivables	3.14	5,827,137	17,750,932
Inventories - prepaid deliveries of goods and services		0	11,829
Income tax receivable	3.10	5,779,341	5,441,189
Other current assets	3.16	524,831	438,230
Cash and cash equivalents	3.18	80,238,767	14,882,519
Current financial assets	3.15	29,942,514	67,328,563
Total current assets		122,312,590	105,853,262
TOTAL ASSETS		187,586,047	155,668,388

EQUITY AND LIABILITIES

	Note	As at Sep 30 2020	As at Dec 31 2019 <i>(restated)</i>
Equity			
Share capital	3.19	235,890	228,720
Share premium		12,275,037	4,870,274
Statutory reserve funds		87,152,664	78,881,784
Share-based payment reserve		31,744,829	18,305,429
Retained earnings		27,863,939	17,454,092
Total equity		159,272,359	119,740,299
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.22	9,895,995	10,429,732
Deferred income	3.26	635,711	497,564
Lease liabilities - perpetual usufruct of land		334,256	334,891
Total non-current liabilities		10,865,962	11,262,187
Current liabilities			
Trade and other payables	3.23	15,965,114	11,429,892
Liabilities under contracts with customers		0	11,730,526
Short-term borrowings and other debt instruments	3.22	1,364,965	1,303,717
Lease liabilities - perpetual usufruct of land		12,653	12,653
Deferred income	3.26	104,995	189,114
Total current liabilities		17,447,727	24,665,902
Total liabilities		28,313,689	35,928,089
TOTAL EQUITY AND LIABILITIES		187,586,047	156,668,388

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
As at Jan 1 2020 before restatement:	228,720	4,870,274	78,881,784	14,257,326	21,502,195	0	0	119,740,299
- opening balance adjustments				4,048,103	(4,048,103)			0
As at Jan 1 2020	228,720	4,870,274	78,881,784	18,305,429	17,454,092	0	0	119,740,299
Net profit for the financial year	0	0	0	0	32,120,127	0	0	32,120,127
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income								
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	7,170	7,404,763	0	0	0	0	0	7,411,933
As at Sep 30 2020	235,890	12,275,037	87,152,664	31,744,829	27,863,939	0	0	159,272,359



Comparative data for nine months ended September 30th 2020

	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
As at Jan 1 2019 before restatement:	228,720	4,870,274	41,331,887	6,138,880	37,341,812	0	0	89,911,573
- opening balance adjustments	0	0	0	6,064,737	(6,064,737)	0	0	0
As at Jan 1 2019	228,720	4,870,274	41,331,887	12,203,617	31,277,075	0	0	89,911,573
Net profit for the financial year	0	0	0	0	10,021,232	0	0	10,021,232
Adjustment of Incentive Scheme costs for 2019	0	0	0	0	1,512,476	0	0	1,512,476
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income								
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	7,170	0	0	6,138,883	0	0	0	6,138,883
Adjustment of Incentive Scheme costs for 2019	0	0	0	(1,512,476)	0	0	0	(1,512,476)
As at Sep 30 2019	235,890	4,870,274	78,881,784	16,830,024	5,260,886	0	0	106,071,688

2.4. Interim statement of cash flows (PLN)

	Note	Period ended Sep 30 2020	Period ended Sep 30 2019 <i>(restated)</i>
Cash flows from operating activities			
Profit for the financial year		32,120,127	8,508,756
Adjustments:			
Depreciation and amortisation	3.5	7,392,768	4,580,558
Income tax expense recognised in profit or loss	3.10	2,832,515	3,893,718
Revaluation of intangible assets		(17,450)	33,959
Other adjustments	3.31	665,425	8,047,447
Changes in working capital:			
Increase/(decrease) in trade and other receivables		11,923,795	7,139,911
Increase/decrease in inventories		11,829	(18,389)
Increase/(decrease) in other assets		(176,519)	(1,540,569)
Increase/(decrease) in trade and other payables		4,535,221	8,059,101
Increase/(decrease) in net balance under contracts with customers		(11,730,526)	5,700,124
Increase/(decrease) in deferred income		54,028	(111,216)
Cash provided by operating activities		47,611,213	44,293,399
Income tax paid		(4,390,539)	(7,663,351)
Net cash from operating activities		43,220,674	36,630,049
Cash flows from investing activities			
Loans to employees		(1,893,537)	0
Proceeds from bank deposits upon maturity – over 3 months		136,000,000	68,000,000
Proceeds from interest		(7,720,414)	0
New bank deposits placed – over 3 months		(89,000,000)	(110,000,000)
Disposal of financial assets (TFI units)		0	5,094,282
Payments for property, plant and equipment and intangible assets		(21,848,349)	(8,871,351)
Net cash from investing activities		15,537,700	(45,777,069)
Cash flows from financing activities			
Proceeds from issue of shares		7,411,932	0
Proceeds/(payments) under credit facility		(630,000)	(945,000)
Payment of bank loan interest		(184,059)	(309,790)
Net cash from financing activities		6,597,874	(1,254,790)
Net increase /(decrease) in cash and cash equivalents		65,356,248	(10,401,810)
Cash at beginning of reporting period		14,882,519	24,250,681
CASH AT END OF REPORTING PERIOD		80,238,767	13,848,871

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 September 30th 2020. The accounting policies applied to prepare these financial statements of the Company for the nine months ended September 30th 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 three quarters of 2020, which contributed significantly to the excellent financial performance of 11 bit studios S.A. in the period (revenue rose 37.89% year on year, to PLN 68.16m, and the net profit skyrocketed 190.31%, to PLN 29.09m), 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. Sales of the third DLC, *Frostpunk: On The Edge*, commenced on August 20th 2020. Due to the date of the release and the more muted reaction of the market, its effect on the Company's performance was lesser than that of *Frostpunk: The Last Autumn*.

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 sales of *This War of Mine* was an important addition to the Company's revenue from its proprietary game portfolio in the nine months ended September 30th 2020, despite that fact that more than 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 some 28% of the total in the nine months ended September 30th 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 nine months ended September 30th 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* (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 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 nine months ended September 30th 2020, the Company recruited staff for the teams responsible the above projects, however the recruitment process was slower than expected because of the COVID-19 pandemic.

Despite the mobility restrictions due to the COVID-19 pandemic and the cancellation of all industry events, in the nine months ended September 30th 2020 the management team of the 11 bit publishing business carried out intensive acquisition activities 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 in the near future 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 nine months ended September 30th 2020, coupled with the sales of other games in the portfolio (*Beat Cop* and the *Anomaly* games series), resulted in 11 bit studios S.A. recording a total revenue of PLN 68,159,127, which means an increase of 37.89% year on year. This makes the reporting period the best first nine months of the year in terms of revenue in the nearly 11 years' history of 11 bit studios S.A., following the record-breaking first nine months of 2018, which saw the releases of *Frostpunk* and *Moonlighter*.

In the nine months ended September 30th 2020, the Company's operating expenses were PLN 33,306,142, down from PLN 38,030,330 in the corresponding period of the previous year (adjusted data – for more information see **Note 3.30**), which means a decline of 12.42%. The largest item of operating expenses in the first months of 2020 was services (PLN 18,915,946, down 10.62% year on year), including mainly royalties payable to the producers of *Moonlighter* and *Children of Morta*. In the nine months ended September 30th 2020, the Company spent PLN 5,118,485 on salaries, wages and employee benefits, down 52.87% year on year. It should be noted that a year ago this item included a non-cash provision (approximately PLN 6.2m) created each quarter to cover the costs of the Incentive Scheme for 2017–2019 (for more information, see **Note 3.30**). At PLN 7,392,768, depreciation and amortisation were a considerable item of operating expenses in the nine months ended September 30th 2020, having increased by 61.39% year on year. The increase was driven by the commencement of amortisation of the expenditure incurred to create *Frostpunk: The Last Autumn* (starting from February 2020) and *Frostpunk: On The Edge* (starting from September 2020), as well as the game *Children of Morta* (starting from December 2019).

With a decrease in operating expenses relative to revenue, the operating profit posted by 11 bit studios S.A. in the nine months ended September 30th 2020 amounted to PLN 35,108,607, up 198.86% year on year (PLN 11,747,487). Accordingly, the Company's operating profit margin rose to 51.51%, from 23.76% in the corresponding period of the previous year. A slightly negative balance of finance income and finance costs, despite a significant (albeit lower than the year before) amount of interest on bank deposits, increased profit before tax to PLN 34,952,642 in the nine months ended September 30th 2020, which means an improvement of 181.82% year on year. The Company posted a net profit of PLN 32,120,127, 277.49% more than in the comparative period. The net margin reached 47.12%, compared with 17.21% the year before. The net profit earned by

11 bit studios S.A. in the nine months ended September 30th 2020 was, just like the revenue for the period, the highest net profit figure reported for the first nine months of the year in the Company's history.

The Company's sound financial position was also confirmed by cash flows from operating activities, which amounted to PLN 47,611,213. After payment of PLN 4,390,539 of income tax (the Company decided that starting from the half-year report for H1 2020 it will reflect the IP Box relief's effect on its interim financial statements, rather than only on the end-of-year figures), net cash flows from operating activities amounted to PLN 43,220,674, up 18% year on year. As at the end of September 2020, the Company's financial assets (cash and cash equivalents, bank deposits, trade and tax receivables, and loans to employees) totalled PLN 116,008,418, up 16.05% on the end of December 2019.

3.3. Revenue (PLN)

	Period ended Sep 30 2020	Period ended Sep 30 2019
Revenue	68,159,127	49,430,023

As in the previous year, in the first nine months of 2020 the main source of the Company's revenue was sales of its own games as well as third-party games released by the Company as part of the 11 bit publishing services. Other income (including mainly grants received) accounted for approximately 0.4% of total revenue in the reporting period (0.5% in the nine months ended September 2019). The Company's revenue in the reporting period reached PLN 68,159,127, up 37.9% 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 of the last (third) Season Pass DLC for *Frostpunk*, i.e. *Frostpunk: On The Edge*, took place on August 20th 2020 and, as was the case with *Frostpunk: The Last Autumn*, 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 revenue of 11 bit studios S.A. in the nine months ended September 30th 2020. The sales of third-party developers' games accounted for 28% of the total in the reporting period. *This War of Mine* continued to deliver a sizeable revenue stream, despite the fact that more than six years had already passed since its launch on November 14th 2014.

An important part of the Company's revenue in the nine months ended September 30th 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 Sep 30 2020	Period ended Sep 30 2019	As at Sep 30 2020	As at Dec 31 2019
Poland	1,305,523	956,372	65,273,457	49,815,125
European Union	4,046,647	3,403,907	0	0
US	52,087,826	35,864,995	0	0
Japan	10,072,823	7,737,280	0	0
China	191,494	787,161	0	0
Other	454,814	680,308	0	0
Total	68,159,127	49,430,023	65,273,457	49,815,125

3.3.2. Revenue by distribution channel

The Company's revenue from sales of computer games in the nine months ended September 30th 2020, amounting to PLN 68,159,127 (vs PLN 49,430,023 the year before), included PLN 65,484,633 (PLN 49,413,910) in revenue from the Company's products sold via the selling platforms of its 10 key 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 Sep 30 2020	Period ended Sep 30 2019
Grants received	134,993	277,670
Gain on disposal of non-current non-financial assets	6,335	20,627
Other income - subject to recharge	48,687	49,497
Other income - received damages/compensations	17,149	0
Impairment losses - reversed	48,458	0
Total	255,622	347,794

3.4.2. Other expenses

	Period ended Sep 30 2020	Period ended Sep 30 2019
Impairment losses recognised on:		
Trade receivables	0	0
Other expenses:		
Liquidation of non-financial non-current assets	244,746	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	222,389	654,292
Total	1,396,429	918,567

In the nine months ended September 30th 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 654,292 in the nine months ended September 30th 2019 to PLN 222,389 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 Sep 30 2020	Period ended Sep 30 2019
Depreciation/ amortisation charges made during the year:		
Depreciation	1,248,587	372,155
Amortisation	6,959,688	4,452,560
Total	8,208,275	4,824,715
Allocation to project costs	(818,733)	(247,383)
Land (including perpetual usufruct of land)	3,226	3,226
Total	7,392,768	4,580,558

The year-on-year increase in depreciation and amortisation expense in the nine months ended September 30th 2020 was driven by the commencement of amortisation of the expenditure incurred to create *Frostpunk: The Last Autumn* and *Frostpunk: On the Edge* (*Frostpunk's* second and third paid DLCs), released in January and August 2020, respectively, and *Children of Morta*, which had its debut in autumn 2019. Depreciation of property, plant and equipment also increased (to PLN 1,248,587 in the nine months ended September 30th 2020 from PLN 372,155 the year before), due to the Company's investments in new IT equipment.

3.6. Services (PLN)

	Period ended Sep 30 2020	Period ended Sep 30 2019
Services	18,915,946	21,163,963

The decrease in the cost of services in the nine months ended September 30th 2020 compared with the corresponding period of 2019 was attributable to a slight year-on-year decrease in revenue from third-party games and favourable changes in the structure of revenue from this source (higher share of games on which the Company pays lower royalties). In the nine months ended September 30th 2019, the Company's publishing portfolio included mainly *Moonlighter*, which had been released in May 2018 and accounted for 87% of the publishing division's revenue at the time. In the reporting period, apart from *Moonlighter*, 11 bit studios S.A. generated revenues

from sales of *Children of Morta*, which was released in the second half of 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 the nine months ended September 30th 2020 was PLN 12,925,247, relative to PLN 16,457,113 in the nine months ended September 30th 2019.

3.7. Salaries, wages and employee benefits (PLN)

	Period ended Sep 30 2020	Period ended Sep 30 2019 (restated)
Salaries, wages and employee benefits	5,118,485	10,861,207

The 52.87% decrease in salaries and wages (to PLN 5,118,485 in the nine months ended September 30th 2020, from PLN 10,861,207 in the nine months ended September 30th 2019) despite a gradual increase in the Company's workforce and growing salaries and wages, was attributable to the fact that the Company finished accounting for the costs of the 2017–2019 Incentive Scheme. Historically, up until the fourth quarter of 2019 (inclusive), 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. In the nine months ended September 30th 2019, these costs exceeded PLN 6.15m. In the reporting period they were no longer recognised.

3.8. Finance income (PLN)

	Period ended Sep 30 2020	Period ended Sep 30 2019
Interest income:		
Bank deposits	521,844	794,569
Finance income:		
Gains on remeasurement of financial assets	0	0
Net foreign exchange gains (losses), including:		
a) Cash	173,573	169,499
b) Loans and receivables	1,033,094	37,820
c) Liabilities measured at amortised cost	1,095	(56,746)
Total	1,729,606	945,142

As a result of favourable changes in international currency markets in the nine months ended September 30th 2020, i.e. depreciation of the zloty against the US dollar and the euro, in which a vast majority of the Company's revenue is earned, the Company disclosed slightly higher finance income year on year. Finance income from exchange differences (primarily on revaluation of loans and receivables denominated in currencies other than the Polish zloty) amounted to PLN 1,207,762 (PLN 150,573 the year before), and its increase more than offset the year-on-year drop in interest

income from bank deposits (PLN 521,844 in the nine months ended September 30th 2020 vs PLN 794,570 in the corresponding period of 2019).

3.9. Finance costs (PLN)

	Period ended Sep 30 2020	Period ended Sep 30 2019
Other interest expense:		
Interest on public charges	623	8,963
Net foreign exchange gains (losses), including:		
a) Cash	280,699	0
b) Loans and receivables	947,679	0
c) Liabilities measured at amortised cost	0	0
Bank loan interest	171,735	0
Settlement of IRS	12,324	0
Losses on remeasurement of financial assets	472,511	281,192
Total	1,885,572	290,155

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 the cost of remeasurement of loans and receivables (PLN 947,679) and of cash (PLN 280,699). A material portion of the 11 bit studios S.A.'s finance costs in the nine months ended September 30th 2020 was attributable to interest on an investment credit facility contracted with PKO BP towards the end of 2018 to purchase real property at ul. Brzeska 2 in Warsaw (the Company's current offices).

3.10. Income tax on continuing operations (PLN)

3.10.1. Income tax recognised in profit or loss

	Period ended Sep 30 2020	Period ended Sep 30 2019
Current income tax:		
Attributable to current year	4,052,387	5,790,560
Deferred income tax:		
Attributable to current year	(1,219,872)	(1,896,842)
Tax expense recognised in current year on continuing operations	2,832,515	3,893,718

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 Sep 30 2020	Period ended Sep 30 2019 <i>(restated)</i>
Profit before tax from continuing operations	34,952,642	12,402,747
Income not classified as income for tax purposes	(2,080,224)	(143,565)
Income classified as income for tax purposes	0	0
Costs not deductible for tax purposes	14,993,595	25,224,717
Costs deductible for tax purposes	(3,114,185)	(10,031,947)
Total	44,751,828	27,451,952

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 4,450,460.

3.10.2. Current tax receivable and payable

	As at Sep 30 2020	As at Dec 31 2019
CIT refund receivable	5,779,198	5,441,189
Total	5,779,198	5,441,189

The increase in CIT receivables to PLN 5,779,198 as at the end of September 2020, from PLN 5,441,189 as at the end of December 2019, followed from the IP Box relief accounting model. The relief is disclosed in interim reports for presentation purposes, although it will only be actually settled in the end-of-year figures.

3.11. Earnings per share (PLN)

3.11.1. Basic earnings per share

	Period ended Sep 30 2020	Period ended Sep 30 2019 <i>(restated)</i>
Basic earnings per share:		
From continuing operations	13.90	3.72
Total basic earnings per share	13.90	3.72
Diluted earnings per share:		
From continuing operations	13.29	3.52
Total diluted earnings per share	13.29	3.52

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

	Period ended Sep 30 2020	Period ended Sep 30 2019 <i>(restated)</i>
Profit for the financial year attributable to shareholders	32,120,127	8,508,756
Total profit used to calculate basic earnings per share	32,120,127	8,508,756
Profit used to calculate basic earnings per share from continuing operations	32,120,127	8,508,756

	Period ended Sep 30 2020	Period ended Sep 30 2019
Weighted average number of ordinary shares used to calculate earnings per share	2,310,127	2,287,199

3.11.2. Diluted earnings per share

	Period ended Sep 30 2020	Period ended Sep 30 2019 <i>(restated)</i>
Profit for the financial year attributable to shareholders	32,120,127	8,508,756
Total profit used to calculate diluted earnings per share	32,120,127	8,508,756
Profit used to calculate diluted earnings per share from continuing operations	32,120,127	8,508,756

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 Sep 30 2020	Period ended Sep 30 2019
Weighted average number of ordinary shares used to calculate basic earnings per share	2,358,895	2,287,199
Shares expected to be issued:		
Employee stock options	58,304	130,000
Number of ordinary shares used to calculate diluted earnings per share	2,417,199	2,417,199

3.12. Property, plant and equipment (PLN)

Carrying amount:

	As at Sep 30 2020	As at Dec 31 2019
Buildings and premises	23,616,533	20,206,136
Land	4,004,474	4,007,699
Property, plant and equipment under construction	32,388	11,515
Plant and equipment	186,037	73,876
Vehicles	21,961	77,888
Other property, plant and equipment	2,851,844	10,790
Total	30,713,237	24,387,904

Gross carrying amount:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	23,970,125	348,366	11,515	1,043,464	372,854	281,408	26,027,732
Increase	29,546,825	3,663,634	292,542	523,657	0	3,224,064	37,250,722
Decrease	(29,533,128)	0	(271,669)	0	0	(22,710)	(206,478)
Reclassification	0	0	0	0	0	0	(29,621,029)
As at Sep 30 2020	23,983,821	4,012,000	32,388	1,567,121	372,854	3,482,762	33,450,947

Accumulated depreciation and impairment:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	100,356	4,301	0	969,588	294,965	270,617	1,639,827
Depreciation expense	364,503	3,226	0	411,496	55,928	373,864	1,209,017
Decrease	(95,571)	0	0	0	0	(13,563)	(111,134)
As at Sep 30 2020	367,288	7,526	0	1,381,084	350,893	630,918	2,727,709

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

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2019	18,102,269	383,283	718,580	558,705	262,161	20,024,998
Increase	328,159	0	213,524	0	17,755	559,438
Payment of bank loan interest	309,790	0	0	0	0	309,790
Reclassification	0	(39,406)	39,406	0	0	0
Decrease	0	0	0	185,851	0	185,851
As at Jun 30 2019	18,740,218	343,877	971,510	372,854	279,916	20,708,375

Accumulated depreciation and impairment:

	Buildings and structures	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2019	0	66,629	647,245	331,905	245,156	1,290,935
Depreciation expense	0	25,295	265,224	59,026	22,610	372,155
Decrease	0	0	3,143	114,608	0	117,751
As at Sep 30 2019	0	91,924	909,326	276,323	267,766	1,545,339

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 September 30th 2020 included the capitalised cost of the fourth and fifth work phases with the remaining weighted average amortisation period of 22 months.

As at September 30th 2020, the completed game development work comprised games with the remaining weighted average amortisation period of 12.6 months.

Ongoing development work:

As at September 30th 2020, expenditures on ongoing development work included mainly expenditure on the development of games, in particular the *Project 8*, *Dolly* and *Eleanor* projects and third-party games of 11 bit publishing.

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 Sep 30 2020	As at Dec 31 2019
Completed development work (game engine)	4,445,950	799,816
Completed development work (games)	9,942,303	11,402,028
Ongoing development work	18,305,460	12,668,661
Total	32,693,713	24,870,505

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	2,717,702	30,872,101	518,692	12,668,661	46,777,156
Increase	0	0	42,796	14,782,897	14,825,692
Reclassification of completed development work	4,095,929	5,050,168	0	(9,146,097)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
As at Sep 30 2020	6,813,631	35,922,269	561,488	18,305,460	61,602,848

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	1,917,886	19,470,073	518,692	0	21,906,651
Amortisation expense	449,795	6,509,893	42,796	0	7,002,484
Decrease	0	0	0	0	0
As at Sep 30 2020	2,367,682	25,979,966	561,488	0	28,909,135

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

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2019	2,717,702	24,453,528	505,551	5,112,644	32,789,425
Increase	0	0	13,141	8,298,773	8,311,914
Reclassification of completed development work	0	1,841,172	0	(1,841,172)	0
Discontinued work written off	0	0	0	(33,959)	(33,959)
As at Sep 30 2019	2,717,702	26,294,700	518,692	11,536,286	41,067,380

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2019	1,318,159	13,829,380	503,875	0	15,651,414
Amortisation expense	449,795	3,988,020	21,145	0	4,458,960
Decrease	0	(11)	(6,328)	0	(6,339)
As at Sep 30 2019	1,767,954	17,817,389	518,692	0	20,104,035

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 Sep 30 2020	As at Dec 31 2019
Trade receivables and other receivables, including:	5,930,659	17,902,912
Taxes, grants, customs duties and social security	1,300,078	1,796,510
Other	58,637	250,862
Impairment losses on trade receivables	(103,522)	(151,980)
Total	5,827,137	17,750,932

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 September 30th 2020 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Sep 30 2020	As at Dec 31 2019
Valve Corporation	1,281,486	6,319,615
Nintendo Co. Ltd	1,193,830	1,012,032
Sony Interactive Entertainment America LLC	579,870	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 Sep 30 2020	As at Dec 31 2019
60-90 days	9,091	0
91-120 days	943	140,539
121-360 days	88,919	76,784
over 360 days	150,311	0
Total	249,264	217,323

Changes in impairment losses on doubtful receivables:

	As at Sep 30 2020	As at Dec 31 2019
As at beginning of reporting period	151,980	56,807
Recognition	0	95,173
Reversal	(48,458)	0
As at end of reporting period	103,522	151,980

Ageing analysis of impaired trade receivables:

	As at Sep 30 2020	As at Dec 31 2019
60-90 days	0	0
91-120 days	0	0
121-360 days	37,398	95,173
over 360 days	66,124	56,807
Total	103,522	151,980

3.15. Current financial assets (PLN)

	As at Sep 30 2020	As at Dec 31 2019
Bank deposits with maturities of more than 3 months	28,000,000	67,000,000
Valuation – bank deposits with maturities of more than 3 months	48,977	328,563
Loans to employees	1,893,537	0
Total	29,942,514	67,328,563

3.16. Other current assets (PLN)

	As at Sep 30 2020	As at Dec 31 2019
Insurance	7,759	45,642
Domain names, licences, subscriptions	291,635	187,929
Prepaid expenses	191,326	73,596
Guarantees	0	1,144
Property tax	25,411	0
Perpetual usufruct of land	3,163	0
Royalties to be accounted for in the next period	0	129,919
Other	5,536	0
Total	524,831	438,230

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 Sep 30 2020	As at Dec 31 2019
Long-term prepayments and accrued income	104,613	14,694
Total	104,613	14,694

The main item of other assets as at September 30th 2020 was long-term prepayments (IT service licence), the same as at December 31st 2019.

3.18. Cash and cash equivalents (PLN)

	As at Sep 30 2020	As at Dec 31 2019
Cash in hand and at banks	80,238,767	7,882,518
PKO BP Bank Hipoteczny bonds	0	7,000,000
Bank deposits	28,000,000	0
Total	108,238,767	14,882,518

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

- 94,500,460 PLN,
- USD 3,167,289 (PLN 12,244,104),
- EUR 326,184 (PLN 1,476,571),
- CNY 31,073 (PLN 17,631).

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

- 8,696,229 PLN,
- 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 Sep 30 2020	As at Dec 31 2019
Share capital	235,889	228,720
Total	235,889	228,720

As at September 30th 2020, the Company's share capital consisted of 2,358,895 fully paid-up ordinary shares totalling PLN 235,889.50.

3.20. Information on dividend paid or declared

The Company did not pay any dividend in the nine months ended September 30th 2020 and September 30th 2019.

3.21. Liabilities under contracts with customers

As at September 30th 2020, the Company had no liabilities under contracts with customers. As at December 31st 2019, 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 credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. 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 September 30th 2020, the long-term portion of the facility was PLN 9,895,995 (including the measurement of the IRS - PLN 760,995), while its current portion was PLN 1,364,965 (also including the measurement of the IRS - PLN 104,965).

3.23. Trade and other payables (PLN)

	As at Sep 30 2020	As at Dec 31 2019
Trade payables	4,591,829	5,402,392
Guarantee deposits – Brzeska 2	82,333	76,784
Taxes, customs duties, insurance and other dues	426,340	556,548
Accruals and deferred income	10,821,444	5,337,339
Amounts payable to employees	1,472	15,034
Other	41,796	41,796
Total	15,965,114	11,429,893

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 15,965,114 (at the end of September 2020) from PLN 11,429,893 (at the end of 2019) was mainly attributable to an increase in accruals and

deferred income to PLN 10,821,444 (as at September 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 4,591,829 as at the end of September 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 Sep 30 2020	As at Dec 31 2019
Short-term	470,950	11,429,892
0-60 days	4,120,879	0
61-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	0
Total	4,591,829	11,429,892

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
As at Jan 1 2020	151,082	291,254	4,320,291	45,000	270,000	52,532	207,181	5,337,339
Increase:								
Recognition	554,363	975,948	21,432,687	131,500	1,483,910	281,265	518,632	25,378,297
Decrease:								
Use	294,010	236,834	10,335,053	90,590	0	237,880	33,639	11,228,006
Reversal	0	0	8,666,187	0	0	0	0	8,666,187
As at Sep 30 2020	411,435	1,030,360	6,751,738	85,910	1,753,910	95,917	692,173	10,821,444

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

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2019	241,513	165,841	3,746,669	4,154,023
Increase:				
Recognition	401,839	315,747	17,543,481	18,261,067
Decrease:				
Use	0	44,283	11,242,443	11,287,726
Reversal	0	0	(1,297,627)	(1,297,627)
As at Sep 30 2019	643,352	437,305	11,345,334	12,425,991

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 September 30th 2020 and December 31st 2019.

3.25.1. Financial assets and liabilities

Financial assets:

	As at Sep 30 2020	As at Dec 31 2019
Financial assets measured at amortised cost – cash	80,238,767	14,882,519
Financial assets measured at amortised cost – bank deposits over 3 months from acquisition date	28,048,977	67,328,563
Financial assets measured at amortised cost – loans, trade and other receivables	5,827,137	17,750,932
Loans to employees	1,893,537	0
Total	116,008,418	99,962,014

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 Sep 30 2020	As at Dec 31 2019
Liabilities measured at amortised cost – trade and other payables	15,965,114	11,429,892
Credit facility	10,395,000	11,340,001
IRS	865,960	393,448
Perpetual usufruct rights to land	338,054	347,544
Total	27,564,128	23,510,885

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 September 30th 2020, the Company held cash with two institutions: PayPal (PLN 287,371) 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 Sep 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 Sep 30 2020	As at Dec 31 2019
Government grants (a)	740,705	677,555
Other (b)	0	9,123
Total	740,705	686,678
Short-term	104,995	189,114
Long-term	635,711	497,564
Total	740,705	686,678

(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 September 30th 2020, the outstanding (not accounted for) balance of the grant was PLN 104,995 (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 635,710 (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. 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.

3.27.1. Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.27.4.**, The Company entered into the following related-party transactions in the nine months ended September 30th 2020 and September 30th 2019:

	Period ended Sep 30 2020	Period ended Sep 30 2019
Arkona - Paweł Miechowski	139,403	123,975
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	42,019	37,190
Total	181,422	161,165

3.27.2. 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 158,813.87.

In the nine months ended September 30th 2019, the Company did not advance any loans to related parties.

3.27.3. Borrowings from related parties

The Company did not receive any loans from related parties in the nine months ended September 30th 2020 and September 30th 2019.

3.27.4. 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:

	Period ended Sep 30 2020	Period ended Sep 30 2019
Short-term benefits – Management Board (including provisions for annual bonuses)	1,816,254	1,604,617
Short-term benefits – Supervisory Board:	112,050	111,240
Total	1,928,314	1,715,857

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 nine months ended September 30th 2020 and September 30th 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):

	Period ended Sep 30 2020	Period ended Sep 30 2019
Short-term benefits – Management Board (civil-law contracts):	135,000	135,000
Total	135,000	135,000

3.27.5. Other related-party transactions

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

3.28. Off-balance-sheet commitments

As at the date of issue of this report, the Company had off-balance-sheet commitments of EUR 3,565,000 and PLN 7,877,000. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.29. Contingent assets and liabilities

3.29.1. 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.

3.29.2. Contingent assets

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

3.30. 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, for the six and three months ended June 30th 2019, and for the nine and three months ended September 30th 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. Consequently, the Company decided to restate the published financial data for 2018 and 2019, for the six months ended June 30th 2019, and for the nine months ended September 30th 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
Statement of profit or loss and other income	2019			2019
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
Statement of financial position	As at Dec 31 2019			As at Dec 31 2019
Property, plant and equipment	24,043,839	0	(3,667,935)	20,375,904
Right-of-use assets	344,065	0	3,667,935	4,012,000
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
Statement of cash flows	2019			2019
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
Net cash from operating activities	41,643,258	0	0	41,643,258

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
Statement of profit or loss and other income	2018			2018
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
Statement of financial position	As at Dec 31 2018			As at Dec 31 2018
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
Statement of cash flows	2018			2018
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

Quarterly report for nine months ended September 30th 2019 (PLN)

	Value before adjustments	Adjustment A Accounting for the incentive scheme	Adjustment B Change in presentation of land value	Value after adjustment
Statement of profit or loss and other income	9 months ended Sep 30 2019			9 months ended Sep 30 2019
Salaries, wages and employee benefits	(9,348,731)	(1,512,476)	0	(10,861,207)
Net profit/total comprehensive income	10,021,232	(1,512,476)	0	8,508,756
Earnings per share (PLN per share)				
Basic	4.38	(0.66)	0	3.72
Diluted	4.15	(0.63)	0	3.52
Statement of financial position	As at Sep 30 2019			As at Sep 30 2019
Property, plant and equipment	19,163,036	0	(3,667,935)	15,495,101
Right-of-use assets	345,140	0	3,667,935	4,013,075
Share-based payment reserve	12,277,762	(8,098,055)	0	20,375,817
Retained earnings	9,813,148	8,098,055	0	1,715,093
Statement of cash flows	9 months ended Sep 30 2019			9 months ended Sep 30 2019
Net profit for the financial year	10,021,232	(1,512,476)	0	8,508,756
Other adjustments	6,534,971	1,512,476	0	8,047,447
Net cash from operating activities	36,630,049	0	0	36,630,049

Quarterly report for three months ended September 30th 2019 (PLN)

	Value before adjustments	Adjustment A Accounting for the incentive scheme	Adjustment B Change in presentation of land value	Value after adjustment
Statement of profit or loss and other income	3 months ended Sep 30 2019			3 months ended Sep 30 2019
Salaries, wages and employee benefits	(2,878,281)	(2,806,002)	0	(5,684,283)
Net profit/total comprehensive income	1,974,971	(887,787)	0	1,087,184
Earnings per share (PLN per share)				
Basic	0.86	(0.38)	0	0.48
Diluted	0.82	(0.37)	0	0.45

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
As at Jan 1 2019 before restatement:	228,720	4,870,274	41,331,887	6,138,880	37,341,812	0	0	89,911,573
- opening balance adjustments				6,064,737	(6,064,737)			0
As at Jan 1 2019	228,720	4,870,274	41,331,887	12,203,617	31,277,075	0	0	89,911,573
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
Total comprehensive income	0	0	0	0	23,726,914	0	0	23,726,914
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)
As at Dec 31 2019	228,720	4,870,274	78,881,784	18,305,429	17,454,092	0	0	119,740,299

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

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

In the nine months ended September 30th 2020, there were no unusual seasonal or cyclical changes in the Company's business.

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

In the nine months ended September 30th 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.

3.33. Events subsequent to the reporting date

No events occurred which would have an impact on these interim financial statements for the nine months ended September 30th 2020 by the date of their authorisation for issue by the Company's Management Board on November 17th 2020.

3.34. Factors with bearing on the Company's future results

Over the next quarters, including Q4 2020, 11 bit studios S.A.'s performance will chiefly be determined by future sales of *Frostpunk* and its paid DLCs in the Season Pass (the last of the Season Pass DLCs, *Frostpunk: On The Edge*, was released on August 20th 2020). The Company's strong financial performance in the nine months ended September 30th 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. The product will also be developed by adding new content and releasing versions for new hardware platforms. In the near future, it will be available in the Mac version. Work has also been under way for a few months to create a *Frostpunk* board game in a project run by Glass Cannon Unplugged. It is partly financed with funds raised through the Kickstarter platform. The fundraising campaign ended on October 29th 2020 and proved a great success, with EUR 2,496,308 raised from 18,976 backers (the board game producer expected to raise EUR 200,000 using the platform). On February 14th 2020, the Company also announced that it had 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 tangible 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*.

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 the last months of 2020 and over the next years. In the nine months ended September 30th 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 has been available to gamers on selected markets since November 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-Biala. 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 a few more publishing projects and plans to sign at least one new publishing agreement in the near future. 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 3,565,000 and PLN 7,877,000.

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 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 *Dolly* (formerly *Project 9*) and the *Eleanor* (formerly *Project 10*). The work is well-paced, which brings the Company much closer to the achievement of its medium-term objective: 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 the first months of 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, as

well as falling household 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.

3.35. 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.

3.36. Management Board's representation

We represent that, to the best of our knowledge, these interim condensed financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union, and that they give a clear, true and fair view of the Company's assets, financial position and financial performance.

These interim condensed financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to September 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 – nine months ended September 30th 2019,
- Statement of changes in equity – nine months ended September 30th 2019,
- Statement of cash flows – nine months ended September 30th 2019.

These interim condensed financial statements have been prepared on a historical cost basis. These interim condensed financial statements do not include all information and disclosures required in full-year financial statements and should be read in conjunction with the 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 separate financial statements has not been and will not be audited by an independent auditor.

3.37. Authorisation of financial statements

The Company's financial statements were authorised for issue by the Management Board on November 17th 2020.

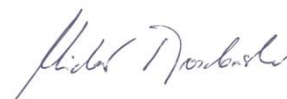
Signed by:



*Grzegorz Miechowski,
President of the
Management Board*



*Przemysław Marszał,
Member of the
Management Board*



*Michał Drozdowski,
Member of the
Management Board*

Warsaw, November 17th 2020