

WARSAW, May 13th 2021

**QUARTERLY REPORT OF
11 BIT STUDIOS S.A. FOR
THE THREE MONTHS ENDED
MARCH 31ST 2021**

LETTER FROM THE MANAGEMENT BOARD

Warsaw, May 13th 2021

Dear Shareholders and Investors,

It is our pleasure to present to you this report of 11 bit studios S.A. for the first quarter of 2021. During the first three months of the year, 11 bit studios S.A. generated more than PLN 14.84m in revenue. Our EBITDA came in at PLN 6.38m, operating profit was PLN 3.44 m, and net profit reached almost PLN 3.56m. To note, the net profit figure would have been higher but for the non-cash provision recognised in connection with our 2021–2025 Incentive Scheme. It was PLN 1,039,104, and the same amount will be charged against our profits in the following quarters up until Q4 2025 (inclusive), starting from Q1 2021.

As in previous periods, the solid figures for the three months ended March 31st 2021 were due to the very good monetisation of our entire proprietary game portfolio, supported by successful promotional campaigns on major sale platforms, including Steam. The revenue in the period also benefited from the release of the Mac version of *Frostpunk* (on February 24th). Other material positive contributors to our performance in the first months of 2021 were the games offered by the publishing division, led by *Moonlighter* and *Children of Morta*. Revenue from sale of third-party developed games accounted for 27% of the Company's total revenue in the period.

Although the results posted by 11 bit studios S.A. for the three months ended March 31st 2021 were weaker year on year, which is explained by the very high base (a year ago we released the paid add-on for *Frostpunk: Frostpunk: The Last Autumn*, very well received by the market), it was yet another successive quarter when our financial condition measured by the size of cash resources improved. As at March 31st 2021, the total value of our financial assets (cash in bank accounts and secure financial instruments), plus trade receivables, totalled nearly PLN 107.8 million, a level previously unseen in the 11 bit studios S.A.'s over 11-year history.

The first months of 2021 saw an acceleration of work on new proprietary productions (*Project 8* and the *Dolly* and *Eleanor* projects), as well as further games in the 11 bit publishing's portfolio, which will drive our performance in the coming years. Total expenditure on those projects reached PLN 7,928,100 in the first quarter of 2021. It should be assumed that in future periods, with our increasing headcount (already approaching 180, with intensive recruitment process still ongoing) and expansion of our publishing portfolio, the capital expenditure on new games will continue to grow, which will have a positive effect on 11 bit studios S.A.'s future revenues and profits.

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

We also want to invite all interested parties to our annual Investor Conference, currently planned to be held on Thursday, June 10th. We hope that the information we will provide there will prove useful and interesting. More details of the event will be announced in due course.

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

Przemysław Marszał
President of the
Management Board

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

Grzegorz Miechowski
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 rates specified below.

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

- Exchange rate as at March 31st 2021 – PLN 4.6603,
- Exchange rate as at December 31st 2020 – PLN 4.6148.

Items of the statement of profit or loss and statement of cash flows were translated 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 in the three months ended March 31st 2021 – PLN 4.5721,
- Exchange rate in the three months ended March 31st 2020 – PLN 4.3963.

Statement of financial position

	Mar 31 2021 (PLN)	Mar 31 2021 (EUR)	Dec 31 2020 (PLN)	Dec 31 2020 (EUR)
Total assets	192,479,930	41,302,047	186,339,222	40,378,613
Non-current assets	75,609,877	16,224,251	70,397,597	15,254,745
Intangible assets	42,770,833	9,177,699	37,859,517	8,203,934
Current assets	116,870,053	25,077,796	115,941,625	25,123,868
Cash	20,419,749	4,381,638	24,134,648	5,229,836
Total equity and liabilities	192,479,930	41,302,047	186,339,222	40,378,613
Equity	169,339,203	36,336,546	164,648,124	35,678,279
Liabilities and provisions	23,140,727	4,965,502	21,691,098	4,700,334

Statement of profit or loss

	Period ended Mar 31 2021 (PLN)	Period ended Mar 31 2021 (EUR)	Period ended Mar 31 2020 (PLN) <i>(restated)</i>	Period ended Mar 31 2020 (EUR) <i>(restated)</i>
Revenue	14,836,980	3,245,113	30,523,609	6,943,022
Depreciation and amortisation	2,941,542	643,368	2,371,763	539,491
Operating profit	3,441,572	752,733	19,265,629	4,382,237
EBITDA	6,383,114	1,396,101	21,637,392	4,921,728
Profit (loss) before tax	4,288,361	937,941	19,877,028	4,521,308
Net profit (loss)	3,558,934	778,402	16,532,096	3,760,457

Statement of cash flows

	Period ended Mar 31 2021 (PLN)	Period ended Mar 31 2021 (EUR)	Period ended Mar 31 2020 (PLN) <i>(restated)</i>	Period ended Mar 31 2020 (EUR) <i>(restated)</i>
Net cash from operating activities	7,770,541	1,699,556	24,321,286	5,532,217
Net cash from investing activities	(11,179,557)	(2,445,169)	(1,711,514)	(389,308)
Net cash from financing activities	(305,884)	(66,902)	151,132	34,377
Total net cash flows	(3,714,900)	(812,515)	22,760,904	5,177,286

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**FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A.
FOR THE THREE MONTHS
ENDED MARCH 31ST 2021**

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: Business Activities – computer programming activities (62.01.Z)
in accordance with the Polish Classification of

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 March 31st 2021 and contain comparative data for the period from January 1st to March 31st 2020.

1.3. Composition of the Company's governing bodies as at March 31st 2021

Management Board

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – 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.

After the reporting period, on April 15th 2021, Wojciech Ozimek, Chairman of the Supervisory Board, resigned with immediate effect from membership of the Supervisory Board, including from his position as Chairman of the Supervisory Board. Therefore, at its meeting held on April 15th 2021, the Supervisory Board appointed Artur Konefał as Member of the Company's Supervisory Board for the joint term of office ending on May 23rd 2022. At the same time, the Supervisory Board appointed Radosław Marter, previously serving as Member of the Supervisory Board, as Chairman of the Supervisory Board.

The joint 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 full-year 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 had not previously engaged 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	7.51	177,413	7.51
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	142,698	6.04	142,698	6.04
Other shareholders	1,851,902	78.36	1,851,902	78.36
Total	2,363,143	100.00	2,363,143	100.00

* Number of shares registered at the Extraordinary General Meeting held on January 21st 2021.

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

In Current Report No. 8/2021 of March 4th 2021, 11 bit studios S.A. announced that on March 4th 2021 the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Marcin Kuciapski, Member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On March 4th 2021, 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 519.87 per share.

In Current Report No. 7/2021 of February 12th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on February 11th 2021 900 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 93,042. The shares were issued for the purposes of the 2017–2019 Incentive Scheme. At the same time, the Company announced that as of February 12th 2021 the Company's share capital was PLN 236,144.5 and comprised 2,361,445 shares with a par value of PLN 0.1 per share.

Subsequent to the reporting period and prior to the issue date of this report, there were further changes in the shareholding structure of 11 bit studios S.A.

In Current Report No. 11/2021 of April 23rd 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on April 23rd 2021 1,698 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 175,539. At the same time, the Company announced that as of April 23rd 2021 the Company's share capital was PLN 236,314.3 and comprised 2,363,143 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 Mar 31 2021 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	106,500	106,500
Grzegorz Miechowski	Member of the Management Board	177,413	177,413	177,413
Michał Drozdowski	Member of the Management Board	84,630	84,630	84,630
Marcin Kuciapski	Member of the Supervisory Board	700	700	550

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

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

1.7. Headcount

As at the date of issue of these financial statements, 178 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.8. 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. Statement of profit or loss and other comprehensive income (PLN)

	Note	Period ended Mar 31 2021	Period ended Mar 31 2020 <i>(restated)</i>
Continuing operations			
Revenue	3.3	14,836,980	30,523,609
Other income	3.4	47,892	65,459
Total operating income		14,884,872	30,589,068
Depreciation and amortisation	3.5	(2,941,542)	(2,371,763)
Raw materials and consumables used		(134,017)	(96,765)
Services	3.6	(5,450,345)	(6,990,292)
Salaries, wages and employee benefits	3.7	(2,490,307)	(1,442,008)
Taxes and charges		(69,906)	(69,478)
Other expenses	3.4	(357,183)	(353,132)
Total operating expenses		(11,443,300)	(13,347,489)
Operating profit		3,441,572	19,265,629
Interest income	3.8	1,944	262,741
Other finance income	3.8	937,533	1,139,526
Finance costs	3.9	(92,688)	(790,868)
Profit before tax		4,288,361	19,877,028
Income tax expense	3.10	729,427	3,344,932
NET PROFIT		3,558,934	16,532,096
Earnings per share (PLN):			
Basic	3.11	1.54	7.23
Diluted	3.11	1.47	6.84
NET PROFIT		3,558,934	16,532,096
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		3,558,934	16,532,096

2.2. Statement of financial position (PLN)

ASSETS

	Note	As at Mar 31 2021	As at Dec 31 2020
Non-current assets			
Property, plant and equipment	3.12	26,537,374	26,889,502
Intangible assets	3.13	42,770,833	37,859,517
Perpetual usufruct of land	3.12	4,426,158	4,003,398
Deferred tax asset		1,765,894	1,517,590
Other assets	3.18	109,618	127,590
Total non-current assets		75,609,877	70,397,597
Current assets			
Trade and other receivables	3.14	11,612,093	11,601,506
Income tax and VAT receivables	3.15	8,437,726	7,623,047
Other current assets	3.17	668,848	583,598
Cash and cash equivalents	3.19	20,419,749	24,134,648
Current financial assets	3.16	75,731,637	71,998,826
Total current assets		116,870,053	115,941,625
TOTAL ASSETS		192,479,930	186,339,222

EQUITY AND LIABILITIES

	Note	As at Mar 31 2021	As at Dec 31 2020
Equity			
Share capital	3.20	236,145	236,055
Share premium		12,500,585	12,407,633
Statutory reserve funds		87,152,664	87,152,664
Share-based payment reserve		32,783,933	31,744,829
Retained earnings		36,665,876	33,106,943
Total equity		169,339,203	164,648,124
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.22	8,944,096	9,499,650
Deferred income	3.26	635,711	635,711
Lease liabilities - perpetual usufruct of land		745,372	334,041
Total non-current liabilities		10,325,179	10,469,402
Current liabilities			
Trade and other payables	3.23	11,449,671	9,791,955
Short-term borrowings and other debt instruments	3.22	1,325,051	1,357,093
Lease liabilities - perpetual usufruct of land		25,827	12,653
Deferred income	3.26	14,999	59,997
Total current liabilities		12,815,548	11,221,696
Total liabilities		23,140,727	21,691,098
TOTAL EQUITY AND LIABILITIES		192,479,930	186,339,222

2.3. 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 2021	236,055	12,407,633	87,152,664	31,744,829	33,106,943	0	0	164,648,124
Net profit for the financial year	0	0	0	0	3,558,934	0	0	3,558,934
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	0	0	0	0	0	0
Share-based payments	90	92,952	0	1,039,104	0	0	0	1,132,146
As at Mar 31 2021	236,145	12,500,585	87,152,664	32,783,933	36,665,877	0	0	169,339,204

	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	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	16,532,096	0	0	16,532,096
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	16,532,096	0	0	16,532,096
Allocation of profit to statutory reserve funds	0	0	0	0	0	0	0	0
Share-based payments	0	0	0	2,024,051	0	0	0	2,024,051
As at Mar 31 2020	228,720	4,870,274	78,881,784	20,329,480	33,986,188	0	0	138,296,446

2.4. Statement of cash flows (PLN)

	Note	Period ended Mar 31 2021	Period ended Mar 31 2020 <i>(restated)</i>
Cash flows from operating activities			
Profit for the financial year		3,558,934	16,532,096
Adjustments:			
Depreciation and amortisation	3.5	2,941,542	2,371,763
Income tax expense recognised in profit or loss	3.10	729,542	3,344,932
Remeasurement of intangible assets		(17,972)	21,469
Other adjustments		816,168	641,691
Changes in working capital:			
Increase/(decrease) in trade and other receivables		(10,588)	6,678,612
Increase/(decrease) in other assets		(67,278)	22,990
Increase/(decrease) in trade and other payables		1,657,716	6,571,710
Increase/(decrease) in net contract assets/liabilities		0	(7,573,196)
Increase/(decrease) in deferred income		(44,998)	(9,123)
Cash provided by operating activities		9,562,951	28,602,944
Income tax paid		(1,792,411)	(4,281,658)
Net cash from operating activities		7,770,541	24,321,286
Cash flows from investing activities			
Loans to employees		1,301,531	0
Proceeds from bank deposits upon maturity – over 3 months		0	67,000,000
New bank deposits placed – over 3 months		0	(57,000,000)
Purchase of financial assets		(4,992,409)	0
Payments for property, plant and equipment and intangible assets		(7,488,679)	(11,711,514)
Net cash from investing activities		(11,179,557)	(1,711,514)
Cash flows from financing activities			
Proceeds from issue of shares		93,042	0
Interest on bank deposits		0	466,132
Proceeds/(payments) under credit facility		(315,000)	(315,000)
Payment of bank loan interest		(83,926)	0
Net cash from financing activities		(305,884)	151,132
Net increase /(decrease) in cash		(3,714,900)	22,760,903
Cash at beginning of reporting period		24,134,648	14,882,519
CASH AT END OF REPORTING PERIOD		20,419,748	37,643,422

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. Reporting in accordance with IFRSs

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

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

3.1.1. Statement of compliance

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

The Company applied the IFRSs as effective on March 31st 2021. The accounting policies applied to prepare these financial statements of the Company for the three months ended March 31st 2021 are consistent with the policies applied to prepare the Company’s full-year financial statements for 2020, except for the changes described below. The same policies have been applied for the current and comparative periods.

3.1.2. Amendments to existing standards applied for the first time in the Company’s financial statements for 2019

The following new standards and amendments to existing standards effective from January 1st 2021 were applied for the first time in these financial statements:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to IBOR reform**
In connection with the expected reform of the reference rates (the IBOR reform), the International Accounting Standards Board published Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments address accounting issues that will emerge after IBOR is replaced as interest rate benchmark for financial instruments with alternative interest rates. The amendments introduce a number of guidelines and exemptions, including in particular: a practical expedient to be applied in the event of lease modification that is required by the IBOR reform, which will be recognised by using a revised effective interest rate; exemption from the requirement to discontinue hedge accounting; temporary exemption from the requirement to designate the risk component; and the requirement to provide additional disclosures.
- **Amendments 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 January 1st 2023, which is the effective date of IFRS 17 *Insurance Contracts*.

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

The Company resolved not to early adopt in these financial statements 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 practices 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 was not yet 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 2023.
As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **IFRS 3 *Business Combinations***
The amendments to the standard issued in May 2020 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 amendments were not yet endorsed by the European Union.
- **Amendment 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, the 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 was not yet endorsed by the European Union.
- **Amendments 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 amendments are effective for financial statements for periods beginning on or after January 1st 2022. As at the date of these financial statements, the amendments were not yet 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 were not yet endorsed by the European Union.

- **Amendment to IAS 1 *Presentation of Financial Statements* and the IASB Practice Statement on Disclosure of Accounting Policies**

The amendment to IAS 1 requires entities to disclose their material accounting policy information, which is defined in the Standard. It clarifies that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements. In addition, the IASB's guidance was amended with respect to the application of the materiality concept in practice, to provide guidance on the application of the materiality concept to accounting policy disclosures. As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

- **Amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***

In February 2021, the IASB issued an amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as regards the definition of accounting estimates. The amendment clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.

- **IFRS 16 *Leases***

In connection with the coronavirus (COVID-19) pandemic, IFRS 16 was amended in 2020 by introducing a practical expedient with respect to assessing whether a COVID-19-related amendment to a lease contract is a lease modification. As a result, lessees are provided with a practical relief in the form of exemption from applying IFRS 16 guidance regarding lease modifications. Since the amendment was limited to rent concessions for which any reduction in lease payments affected only payments originally due on or before June 30th 2021, in February 2021 the IASB proposed extension of the time period over which the practical expedient was available, permitting lessees to apply it to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2022. As at the date of these financial statements, the amendments were not yet 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 28 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

In the first three months of 2021, 11 bit studios S.A. focused on monetising existing games in its proprietary and publishing portfolios. This revenue stream contributed to building cash resources necessary to finance our ambitious growth projects, which have been running for a few quarters now.

In the sales area, the Company worked actively to ensure good visibility of its products on the key sale platforms. These efforts, basing on many-year relationships with our key business partners, delivered positive results, placing the 11 bit studios S.A.'s games (both proprietary and marketed by the publishing division) in high positions in the bestseller rankings during sale campaigns on Steam and other distribution platforms. Particularly worth mentioning are the Winter Sale (at the end of 2020 and at the beginning of 2021) and Lunar Sale (in February 2021) on Steam. An important development in the context of the Company's performance in the reporting period was the release of *Frostpunk* for Mac computers (February 24th), supported by a marketing campaign in selected channels, which boosted the period's sales volumes of this iconic game from our portfolio. As in previous periods, 11 bit studios S.A.'s results in the three months ended March 31st 2021 were positively impacted by sales of *This War of Mine*, although the game had been on the market for more than seven years now. Games from the publishing portfolio, led by *Moonlighter* and *Children of Morta*, had a sizeable contribution to the revenue as well. Revenue from the sale of third-party developed games accounted for 27% of total revenue in the period.

In the three months ended March 31st 2021, revenue from third-party games amounted to PLN 14,836,980, down 51.4% on the corresponding period of 2020, when it reached PLN 30,523,609. This year-on-year decrease was mainly attributable to the very high comparative base: the first quarter of 2020, when the second paid add-on for *Frostpunk – Frostpunk: The Last Autumn* was released, was the second best quarter in terms of revenue in the 11 bit studios S.A.'s more than 11-year history, following the record-breaking second quarter of 2018, which saw the releases of *Frostpunk* and *Moonlighter*.

Operating expenses in the three months ended March 31st were PLN 11,443,301, which means a slight increase year on year. The largest item of operating expenses was services (PLN

5,450,345), including chiefly royalties payable to the producers of *Moonlighter* and *Children of Morta*. In the three months ended March 31st 2021, the Company spent PLN 2,490,307 on salaries and wages, but it should be noted that this item includes a non-cash provision (PLN 1,039,104) recognised every quarter (until Q4 2025 inclusive) for the costs of the 2021–2025 Incentive Scheme.

At PLN 2,941,542, depreciation and amortisation were a considerable item of operating expenses in the period, having increased by 24.0% year on year. The increase was attributable to the gradual expansion of the product portfolio and the commencement (in Q4 2020) of the amortisation of expenditure on the development of the game engine (phase 5).

The year-on-year decline in revenue, with operating expenses remaining at a comparable level, translated into an operating profit of PLN 3,441,572 for the three months ended March 31st 2021, down 82.1% year on year. Accordingly, the Company's operating profit margin went down to 23.19%, from 63.1% in the corresponding period of the previous year. Profit before tax came in at PLN 4,288,361 in the three months ended March 31st 2021, driven by a positive balance of finance income and finance costs, resulting from favourable changes in international currency markets (depreciation of the zloty against foreign currencies). To compare, in the corresponding period of the previous year profit before tax stood at PLN 19,877,028. The Company posted a net profit of PLN 3,558,934, 78.47% less than in the reference period. As a result, the net margin reached 23.99%, compared with 54.16% the year before.

The year-on-year deterioration of the Company's results had hardly any effect on its financial condition, which remains very good, as demonstrated, for example, by cash flows from operating activities of PLN 9,562,951. After the payment of PLN 1,792,411 in income tax, net operating cash flows stood at PLN 7,770,541. As at the end of March 2021, the total value of the Company's financial assets (cash and cash equivalents, financial instruments and trade receivables) reached PLN 107,763,478, despite growing capital expenditure. This means an increase relative to the end of 2020, to a level previously unseen in the Company's over 11-year history.

In the proprietary games area, in the three months ended March 31st 2021 we focused on expanding three in-house development teams responsible for the titles that will drive our performance in the coming years, i.e. *Project 8*, *Dolly* and *Eleanor* (the projects' code names). The headcount in the respective teams is approximately 45, 20 and over 50. We conducted an intensive recruitment campaign (which accelerated in December 2020) with a view to expanding each team to 60-70 people. This target is expected to be achieved within a few quarters. The growing production resources translated into increased spending on game development, which reached PLN 7,928,100 in the three months ended March 31st 2021.

This amount includes expenditure on the financing of games in the publishing division. As at the reporting date, 11 bit studios' publishing portfolio included four products: 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 *Moonlighter*), and a game under the working title *Ava*, produced by the Spanish development studio Chibig. In the three months ended March 31st the 11 bit publishing team engaged in active acquisition efforts to increase the size of its portfolio, which are expected to result in new contracts by the end of the year.

In order to prepare for a larger number of publishing projects (in the medium term, we intend to manage 9-12 third-party projects at the same time), build our in-house production resources and develop other divisions, in the three months ended March 31st 2021 we worked intensively to increase our workforce. As at the reporting date, 11 bit studios used the services of 178 employees and independent contractors. By the end of the year, the number of employees should grow to approximately 200, and then it is expected to continue to rise in 2022, to the target of 250–300 people.

An important development for the Company, its employees and independent contractors (as well as in the context of the recruitment activities) in the three months ended March 31st 2021 was the launch of a new Incentive Scheme for 2021–2025. The relevant resolution was passed by the Extraordinary General Meeting on January 21st 2021. For detailed information on the 2021–2025 Incentive Scheme, see **Note 3.27.** to this report. Starting from the first quarter of 2021, non-cash costs of the Incentive Scheme will be recognised in the Company's periodic financial statements – under salaries and wages in the statement of profit or loss and other comprehensive income. The total cost of the 2021–2025 Incentive Scheme will be PLN 20,782,105. It will be recognised on a straight-line basis (up until Q4 2025, inclusive), which gives PLN 1,039,104 in each quarter and PLN 4,156,421 in each year.

3.3. Revenue (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020
Revenue	14,836,980	30,523,609

As in the previous year, in the three months ended March 31st 2021 the main source of our revenue was sales of proprietary games as well as third-party games marketed as part of the 11 bit publishing services. Other income (including mainly grants received) accounted for just 0.32% of total revenue in the reporting period (0.21% in the three months ended March 31st 2019). Revenue in the reporting period came in at PLN 14,836,980, down 51.39% year on year.

The decline in revenue was mainly attributable to the very high base of Q1 2020, which was the time of the very successful release (on January 21st 2020) of *Frostpunk: The Last Autumn*, the second paid add-on for *Frostpunk*. It became very popular with game fans and its high quality earned it rave reviews from industry media and players. The release of *Frostpunk: The Last Autumn* (the second of the three paid DLCs in the Season Pass) boosted sales of the game's basic version, as well as of *Frostpunk: Game of The Year (GOTY)*, which includes the main version and the Season Pass. An important portion of revenue in the three months ended March 31st 2021 was represented by 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.

As mentioned above, in the three months ended March 31st 2021, the our revenue was driven by current sales of both proprietary and third-party developed games, supported by periodic promotional campaigns on key sale platforms, including the Winter Sale and Lunar Sale on Steam. Another positive contributor to 11 bit studios S.A.'s revenue in the three months ended March 31st

2021 was the release of the Mac version of *Frostpunk* (supported by a promotional campaign on Steam) at the end of February 2021.

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 revenue from third-party customers by geographical area. The classification is based on the place of registration of the third-party customers (mainly online platforms).

	Period ended Mar 31 2021	Period ended Mar 31 2021
Poland	483,588	498,484
European Union	382,424	1,379,047
US	11,484,305	24,426,812
Japan	1,571,325	3,967,514
China	36,048	85,626
Other	879,290	166,126
Total	14,836,980	30,523,609

3.3.2. Revenue by distribution channel

Revenue from sales of computer games in the three months ended March 31st 2021, amounting to PLN 14,836,980 (vs PLN 30,523,609 the year before), included PLN 14,050,861 (PLN 29,983,850 the year before) in revenue from products sold via the sale platforms of our 10 key business partners, including Steam, Nintendo, Microsoft, Google, Apple and Sony.

3.4. Other income and expenses (PLN)

3.4.1. Other income

	Period ended Mar 31 2021	Period ended Mar 31 2020
Grants received	44,998	44,998
Gain on disposal of non-current non-financial assets	2,894	2,481
Other income - subject to recharge	0	14,186
Other income - received damages/compensations	0	3,794
Total	47,892	65,459

3.4.2. Other expenses

	Period ended Mar 31 2021	Period ended Mar 31 2020
Impairment losses recognised on:		
Trade receivables	0	0
Other expenses:		
Costs of discontinued projects	323,799	0
Donations	3,627	0
Non-recoverable withholding tax	11,444	0
Liquidation of non-financial non-current assets	0	244,745
Other expenses by nature	18,313	108,387
Total	357,183	353,132

In the three months ended March 31st 2021, the main item of other expenses was cost of discontinued projects (PLN 323,799), including an impairment loss on expenditure related to the development of the game engine (phase 6) incurred in the current period. The decrease in other expenses by nature from PLN 108,387 in the three months ended March 31st 2020 to PLN 18,313 was attributable to a reduction in business travel, advertising and insurance expenses in consequence of the COVID-19 pandemic. In the three months ended March 31st 2020, the largest item of other expenses (PLN 244,745) was the cost of 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).

3.5. Depreciation and amortisation (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020
Depreciation/ amortisation charges made during the year:		
Depreciation	623,954	308,090
Amortisation	2,695,999	2,230,900
Total	3,319,953	2,538,990
Allocation to project costs	(380,561)	(168,508)
Land (including perpetual usufruct of land)	2,150	1,281
Total	2,941,542	2,371,763

The year-on-year increase in amortisation expense in the three months ended March 31st 2021 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 expenditure on the development of the game engine (phase 5). The higher depreciation charge for property, plant and equipment (which rose to PLN 623,954 in the three months ended March 31st 2021, from PLN 308,090 the year before), was due to the Company's investments in new IT equipment.

3.6. Services (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020
Services	5,450,345	6,990,292

The year-on-year drop in cost of services in the three months ended March 31st 2021 was chiefly driven by a year-on-year decline in revenue from sale of third-party games, due to their natural ageing. *Moonlighter* and *Children of Morta*, the two key titles in the publishing divisions' portfolio, were first released in spring 2018 and autumn 2019, respectively. The Company paid royalties on revenue generated from the two products to the respective game developers: Digital Sun studio based in Spain and Dead Mage of the US. In the three months ended March 31st 2021, the royalties amounted to PLN 3,281,790, relative to PLN 5,213,801 in the previous year.

3.7. Salaries, wages and employee benefits (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020 (restated)
Salaries, wages and employee benefits	2,490,307	1,442,008

The significant increase in salaries and wages in the first three months of 2021, of 72.7%, to PLN 2,490,307 from PLN 1,442,008 the year before, was driven by a steady growth of headcount and rising pay levels. However, the main reason for this very large increase was the fact that in the three months ended March 31st 2021 salaries, wages and employee benefits included non-cash provisions of PLN 1,039,104 recognised in connection with the Company's 2021–2025 Incentive Scheme. The provision will also be charged, in a fixed amount, against the Company's results in the following quarters, up until Q4 2025 (inclusive).

3.8. Finance income (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020
Interest income:		
Bank deposits	1,944	262,741
Finance income:		
Gains on remeasurement of financial assets	39,554	0
Remeasurement of IRS	274,974	0
Net foreign exchange gains (losses)	623,005	1,139,526
Total	939,477	1,363,372

As a result of favourable changes in international currency markets in the three months ended March 31st 2021, i.e. depreciation of the zloty against the US dollar and the euro, in which a vast majority of the our revenue is earned, in the reporting period 11 bit studios S.A. generated a

significant (albeit lower year on year) amount of finance income from currency exchange gains. It was PLN 623,005, down from PLN 1,139,526 in the corresponding period of the previous year. In the three months ended March 31st 2021, the Company also earned PLN 274,974 in finance income from remeasurement of an interest rate swap (IRS) hedging interest rate risk over the term of the investment facility (PLN 12,600,000) contracted by the Company at the end of 2018 with PKO BP S.A. for the purchase of a new office. 11 bit studios S.A.'s finance income in the three months ended March 31st 2021 totalled PLN 939,477, relative to PLN 1,363,372 in the corresponding period of the previous year.

3.9. Finance costs (PLN)

	Period ended Mar 31 2021	Period ended Mar 31 2020
Interest on public charges	(2,839)	0
Net foreign exchange gains (losses)	0	(373,399)
Bank loan interest	(27,195)	0
Settlement of IRS	(56,731)	0
Losses on remeasurement of derivative contracts (IRS)	0	(417,469)
Losses on remeasurement of financial assets	0	0
Other	(5,923)	0
Total	(92,688)	(790,868)

In the reporting period, the largest item of finance costs was the costs related to the investment credit facility of PLN 12,600,000 contracted with PKO BP S.A. at the end of 2018 to finance the purchase of new offices. In the three months ended March 31st 2021, interest expense on the facility was PLN 27,195. In addition, the Company incurred PLN 56,731 in costs connected with the settlement of an interest rate swap (IRS) hedging interest rate risk over the term of the facility. Finance costs incurred by 11 bit studios S.A. in the three months ended March 31st 2021 totalled PLN 92,688, compared with PLN 790,868 in the corresponding period of the previous year, when the main component of the item was remeasurement of the IRS (PLN 417,469). A significant portion of finance costs in the three months ended March 31st 2020 was non-cash costs resulting from remeasurement (due to exchange differences) of the Company's liabilities towards one of its trading partners (sale platform), which totalled PLN 370,446.

3.10. Income tax on continuing operations (PLN)

3.10.1. Income tax recognised in profit or loss

	Period ended Mar 31 2021	Period ended Mar 31 2020
Current income tax:		
Attributable to current year	977,732	4,556,071
Deferred income tax:		
Attributable to current year	(248,305)	(1,211,139)
Tax expense recognised in current year on continuing operations	729,427	3,344,932

With respect to income tax, 11 bit studios S.A. 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, and its fiscal and accounting year is the same as the calendar year.

Reconciliation of the Company's tax and accounting profit:

	Period ended Mar 31 2021	Period ended Mar 31 2020
Profit before tax from continuing operations	4,288,361	17,852,977
Income tax expense at 19% (2020: 19%)	814,789	3,392,066
Tax effect of income which is not classified as income for tax purposes	(361,970)	(49,164)
Tax effect of income which is classified as income for tax purposes	(7,515)	86,162
Tax effect of costs which are not deductible for tax purposes	(1,260,797)	637,696
Tax effect of costs which are deductible for tax purposes	2,058,017	489,311
Effect of IP Box tax relief settlement at 5% tax rate	(264,790)	0
Total	977,732	4,556,071

The tax rate applied in the above reconciliation in 2021 and 2020 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate in the three months ended March 31st 2021 was 17.01%. For the whole of 2020, it was 8.09%.

The reason behind the significant year-on-year increase in the effective tax rate in the three months ended March 31st 2021 was that the cost of royalties presented for the period was not recognised for tax purposes. The cost of royalties was recognised on the basis of calculation of costs the invoices for which were not received until the following quarter.

With respect to sales of proprietary games the Company uses 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 the sale of qualifying intellectual

property rights (games) multiplied by the nexus index was taxed at a preferential CIT rate (5%). In the three months ended March 31st 2021, the IP Box relief amounted to PLN 264,790. In the comparative period, the Company did not use the IP Box relief.

3.10.2. Current tax receivable and payable

	As at Mar 31 2021	As at Dec 31 2020
CIT refund receivable	(8,245,722)	(7,623,047)
VAT refund receivable	0	0
Income tax payable	0	0
Total	(8,245,722)	(7,623,047)

The tax receivables included the IP Box tax relief described in Note 3.10.1 (PLN 5,021,831 as at March 31st 2021), the tax remaining to be deducted upon receipt of returns from trading partners, and non-recovered withholding tax.

3.10.3. Deferred tax (net)

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

	As at Mar 31 2021	As at Dec 31 2020
Deferred tax asset	1,775,620	1,592,151
Deferred tax liability	(9,725)	(74,561)
Total	1,765,895	1,517,590

All deferred tax assets are classified as current assets. The Company expects the assets to be reversed in full within 12 months from the reporting date.

Period ended March 31st 2021:

	At beginning of period	Recognised in profit or loss	Recognised in other comprehensive income	At end of period
Accruals and deferred income	(39,809)	39,809	0	0
Prepaid expenses	937,738	(702,476)	0	235,262
Remeasurement of derivative contracts (IRS)	89,773	(141,567)	0	(51,794)
Interest accrued on investments with maturities of more than 3 months from acquisition date	(12,133)	76,969	0	64,836
Total deferred tax asset (liability)	975,569	(727,265)	0	248,304

Period ended December 31st 2020:

	At beginning of period	Recognised in profit or loss	Recognised in other comprehensive income	At end of period
Accruals and deferred income	127,920	(167,729)	0	(39,809)
Prepaid expenses	401,774	1,339,512	0	937,738
Remeasurement of derivative contracts (IRS)	74,754	164,527	0	89,773
Interest accrued on investments with maturities of more than 3 months from acquisition date	(62,426)	(74,560)	0	(12,134)
Total deferred tax asset (liability)	542,022	1,261,750	0	975,568

3.11. Earnings per share (PLN)

3.11.1. Basic earnings per share

	Period ended Mar 31 2021	Period ended Mar 31 2020
Basic earnings per share:		
From continuing operations	1.54	7.23
Total basic earnings per share	1.54	7.23
Diluted earnings per share:		
From continuing operations	1.47	6.84
Total diluted earnings per share	1.47	6.84

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

	Period ended Mar 31 2021	Period ended Mar 31 2020
Profit for the financial year attributable to shareholders	3,558,934	16,532,096
Total profit used to calculate basic earnings per share	3,558,934	16,532,096
Profit used to calculate basic earnings per share from continuing operations	3,558,934	16,532,096

	Period ended Mar 31 2021	Period ended Mar 31 2020
Weighted average number of ordinary shares used to calculate earnings per share	2,310,149	2,287,199

3.11.2. Diluted earnings per share

	Period ended Mar 31 2021	Period ended Mar 31 2020
Profit for the financial year attributable to shareholders	3,558,934	16,532,096
Total profit used to calculate diluted earnings per share	3,558,934	16,532,096
Profit used to calculate diluted earnings per share from continuing operations	3,558,934	16,532,096

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 Mar 31 2021	Period ended Mar 31 2020
Weighted average number of ordinary shares used to calculate basic earnings per share	2,310,149	2,287,199
Shares expected to be issued:		
Employee stock options	107,500	130,000
Weighted average number of ordinary shares used to calculate diluted earnings per share	2,417,649	2,417,199

3.12. Property, plant and equipment (PLN)

Carrying amount:

	As at Mar 31 2021	As at Dec 31 2020
Buildings and premises	23,487,986	23,645,432
Land	4,426,158	4,003,398
Property, plant and equipment under construction	45,541	102,242
Plant and equipment	466,464	437,767
Vehicles	0	9,448
Other property, plant and equipment	2,537,383	2,694,614
Total	30,963,532	30,892,901

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 2021	24,200,705	4,012,000	102,242	1,953,626	372,854	3,492,462	34,133,888
Increase	0	424,910	118,561	152,905	0	0	696,376
Decrease	(1,340)	0	0	0	0	0	(1,340)
Reclassification	33,360	0	(175,262)	141,902	0	0	0
As at Mar 31 2021	24,232,725	4,436,910	45,541	2,248,433	372,854	3,492,462	34,828,924

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 2021	555,273	8,602	0	1,515,859	363,406	797,848	3,240,988
Depreciation expense	189,466	0	0	267,810	9,448	157,231	623
Decrease	0	2,150	0	(1,700)	0	0	450
As at Mar 31 2021	744,739	10,752	0	1,781,969	372,854	955,079	3,865,392

Comparative data for the period from January 1st to March 31st 2020

Gross carrying amount:

	Buildings and structures	Property, plant and equipment under construction	Land	Buildings and premises	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	23,637,763	343,877	0	0	1,043,464	372,854	281,408	25,679,366
Increase	5,994,781	0	4,433,070	22,674,822	324,177	0	2,874,834	36,301,684
Decrease		0	0	(333,169)	0	0	(22,710)	(355,879)
Reclassification	(11,515)	(343,877)	0	343,877	11,515	0	0	0
Settlement of the Brzeska 2 investment project	(29,621,029)	0	0	0	0	0	0	(29,621,029)
As at Mar 31 2020	0	0	4,433,070	22,685,530	1,379,156	372,854	3,133,532	32,004,141

Accumulated depreciation and impairment:

	Buildings and structures	Property, plant and equipment under construction	Land	Buildings and premises	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	0	100,356	0	0	969,588	294,965	270,618	1,635,526
Depreciation expense	0	0	5,376	105,509	232,988	18,643	8,716	371,231
Decrease	0	(100,356)	0	(97,571)	0	0	(13,563)	(211,490)
As at Mar 31 2020	0	0	5,376	7,939	1,202,576	313,608	265,770	1,795,268

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 March 31st 2021 included the capitalised cost of the fourth and fifth work phases with the remaining weighted average amortisation period of 16 months.

As at March 31st 2021, completed video games development work comprised games with the remaining weighted average amortisation period of 8.5 months.

Ongoing development work:

As at March 31st 2021, 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 five years from the forecast release date, and then discounts them with the weighted average cost of capital (WACC). The discount rate applied is 5.9%.

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.

Following an analysis, in the reporting period the Company wrote off expenditure on discontinued work of PLN 323,799. In 2020, the amount of written off expenditure on discontinued work was PLN 997,116.

Carrying amount:

	As at Mar 31 2021	As at Dec 31 2020
Completed development work (game engine)	3,463,500	3,954,725
Completed development work (games)	6,721,640	8,004,182
Ongoing development work	32,275,827	25,545,704
Licences	309,866	354,906
Total	42,770,833	37,859,517

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	6,813,631	36,216,197	932,759	25,545,704	69,508,291
Increase	0	0	3,015	7,928,100	7,931,114
Reclassification of completed development work	0	874,177	0	(874,177)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	323,799	323,799
As at Mar 31 2021	6,813,631	37,090,374	935,774	32,275,827	77,115,606

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	2,858,907	28,212,015	577,853	0	31,648,775
Amortisation expense	491,225	2,156,719	48,055	0	2,695,999
Decrease	0	0	0	0	0
As at Mar 31 2021	3,350,132	30,368,734	625,908	0	34,344,774

Comparative data for the period from January 1st to March 31st 2020
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	4,857,566	4,900,361
Reclassification of completed development work	0	3,177,819	0	(3,177,819)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
As at Mar 31 2020	2,717,702	34,049,920	561,488	14,348,407	51,677,517

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	149,932	2,080,968	42,796	0	2,273,696
Decrease	0	0	0	0	0
As at Mar 31 2020	2,067,818	21,551,041	561,488	0	24,180,347

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 Mar 31 2021	As at Dec 31 2020
Trade and other receivables, including:	11,701,290	11,690,703
Taxes, grants, customs duties and social security	3,028,820	1,711,782
Other	63,012	59,885
Impairment losses on trade receivables	(89,197)	(89,197)
Total	11,612,093	11,601,506

3.14.1. Trade receivables

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

The balances disclosed as at March 31st 2021 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Mar 31 2021	As at Dec 31 2020
Microsoft Corporation XC	2,815,246	26,401
Valve Corporation	1,571,658	3,663,436
Sony Interactive Entertainment America LLC	595,140	577,003
Nintendo Co. Ltd	446,957	775,040
Google LLC	414,782	706,687

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 receivables:

	As at Mar 31 2021	As at Dec 31 2020
Short-term	7,718,711	9,653,654
60-90 days	355,722	20,050
91-120 days	360,550	4,387
121-360 days	60,922	85,933
over 360 days	113,555	155,012
Total	8,609,460	9,919,036

Changes in impairment losses on doubtful receivables:

	As at Mar 31 2021	As at Dec 31 2020
As at beginning of reporting period	89,197	151,980
Recognition	0	0
Reversal	0	(62,783)
As at end of reporting period	89,197	89,197

Ageing analysis of impaired trade receivables:

	As at Mar 31 2021	As at Dec 31 2020
60-90 days	0	0
91-120 days	0	0
121-360 days	0	23,141
over 360 days	89,197	66,056
Total	89,197	89,197

3.15. Income tax receivable (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Income tax receivable	8,437,726	7,623,047
Total	8,437,726	7,623,047

The quarter-on-quarter increase in the Company's income tax receivable as at March 31st 2021 was attributable to the settlement of tax reliefs, including primarily the IP Box tax relief. The effect of the IP Box tax relief settlement on the income tax amount in the three months ended March 31st 2021 was PLN 264,790 (2020: PLN 4,757,040).

3.16. Current financial assets (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Financial instruments	74,966,564	69,932,222
Loans to employees	765,073	2,066,604
Total	75,731,637	71,998,826

3.17. Other current assets (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Insurance	36,185	48,053
Domain names, licences, subscriptions	333,644	341,643
Prepaid expenses	185,150	192,117
Property tax	77,166	0
Perpetual usufruct of land	18,980	0
Other	17,723	1,785
Total	668,848	583,598

Other current assets 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 (11 bit studios S.A.'s headquarters).

3.18. Other assets (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Long-term prepayments and accrued income	109,618	127,590
Total	109,618	127,590

Long-term prepayments and accrued income as at the end of the three months ended March 31st 2021 and as at the end of 2020 included fees for Internet domains and trademarks.

3.19. Cash and cash equivalents (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Cash in hand and at banks	20,419,748	24,134,648
Total	20,419,748	24,134,648

Cash in hand and at banks and term deposits as at March 31st 2021, by currency:

- PLN 12,196,315,
- USD 1,591,483 (PLN 6,314,369),
- EUR 409,505 (PLN 1,908,414),
- CNY 1,073 (PLN 650).

Cash in hand and at banks and term deposits as at December 31st 2020, by currency:

- PLN 16,524,055,
- USD 1,701,202 (PLN 6,393,796),
- EUR 263,539 (PLN 1,216,181),
- CNY 1,073 (PLN 617).

3.20. Share capital (PLN)

	As at Mar 31 2021	As at Dec 31 2020
Share capital	236,145	228,720
Total	236,145	228,720

As at March 31st 2021, the Company's share capital consisted of 2,361,445 fully paid-up ordinary shares totalling PLN 236,144.50.

3.21. Information on dividend paid or declared

The Company did not pay any dividend in the three months ended March 31st 2021 or three months ended March 31st 2020.

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 final repayment date is December 11th 2028 (payments are made in monthly instalments). The facility 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 land and 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 March 31st 2021, the long-term portion of the facility was PLN 8,944,096 (end of 2020: PLN 9,499,650), while its short-term portion (including remeasurement of the interest rate swap) was PLN 1,325,051 (PLN 1,357,093).

3.23. Trade and other payables

	As at Mar 31 2021	As at Dec 31 2020
Trade payables	1,187,245	310,441
Guarantee deposits – Brzeska 2	82,484	82,634
Taxes, customs duties, insurance and other dues	467,613	1,184,903
Accruals and deferred income	9,667,782	8,171,037
Amounts payable to employees	2,751	1,143
Other	41,796	41,796
Total	11,449,671	9,791,954

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

The increase in trade payables to PLN 11,449,671 as at the end of March 2021, from PLN 9,791,954 as at the end of 2020, was due mainly to the higher amount of accruals and deferred income, which rose to PLN 9,667,782 from PLN 8,171,037, in line with the settlement schedules with third-party game developers to whom the Company provides publishing services. The increase in trade payables to PLN 1,187,245 as at the end of March 2021, from PLN 310,441 three months earlier, was attributable to the payment (made after the end of the reporting period) of amounts due to a third-party developer for work completed (project milestone) in the process of production of a game for the 11 bit publishing portfolio.

Ageing analysis of trade and other payables:

	As at Mar 31 2021	As at Dec 31 2020
Short-term	11,449,671	9,791,955
0-60 days	0	0
61-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	0
Total	11,449,671	9,791,955

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

	Accrued holiday entitlements	Accrued royalties	Accrued audit costs	Accrued bonuses for Management Board members and employees	Accruals for other invoices	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2021	322,904	7,050,065	84,485	390,000	176,216	147,368	8,171,037
Increase:							
Recognition	305,043	8,575,170	52,000	89,658	155,151	292,513	9,469,535
Decrease:							
Use	(167,074)	(2,109,052)	(58,186)	0	(140,581)	(44,668)	(2,519,560)
Reversal	0	(5,417,596)	0	0	(35,635)	0	(5,453,231)
As at Mar 31 2021	460,873	8,098,587	78,299	479,658	155,151	395,213	9,667,781

Comparative data for the period from January 1st to March 31st 2020

	Accrued bonuses for management and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2020	270,000	207,181	4,860,159	5,337,340
Increase:				
Recognition	285,000	91,286	6,125,736	6,502,022
Decrease:				
Use	0	13,855	2,738,467	2,752,322
Reversal	0	0	(576,809)	(576,809)
As at Mar 31 2020	555,000	284,612	7,670,619	8,510,231

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

3.25. Financial instruments (PLN)

As at the reporting date, the Company analysed its financial assets and concluded that the carrying amounts of the instruments measured at amortised cost did not differ from their fair value both as at March 31st 2021 and December 31st 2020. In the case of instruments measured at fair value, the measurement was based on their market value as at the reporting date.

3.25.1. Financial assets and liabilities

Financial assets:

	As at Mar 31 2021	As at Dec 31 2020
Financial assets measured at amortised cost – cash	20,419,748	24,134,648
Financial assets measured at fair value – investment fund units	30,001,280	30,010,534
Financial assets measured at amortised cost – PKO Leasing notes and PKO Bank Hipoteczny bonds	44,965,284	39,921,688
Financial assets measured at amortised cost – trade and other receivables	11,612,093	11,601,604
Loans to employees measured at amortised cost	765,073	2,066,604
Total	107,763,478	107,735,078

Financial liabilities:

	As at Mar 31 2021	As at Dec 31 2020
Liabilities measured at amortised cost – trade and other payables	11,449,671	9,791,955
Credit facility	9,765,000	10,080,000
IRS	504,147	776,743
Perpetual usufruct rights to land	761,702	338,054
Total	22,480,520	20,986,751

The Company measures the credit facility and liabilities under perpetual usufruct of land at amortised cost. The IRS is measured at fair value.

Ageing analysis of trade and other payables:

	As at Mar 31 2021	As at Dec 31 2020
Short-term	11,449,671	9,791,955
0–60 days	0	0
61–90 days	0	0
91–120 days	0	0
121–360 days	0	0
over 360 days	0	0
Total	11,449,671	9,791,955

Trade and other payables are due in up to three months.

3.25.2. Credit risk

Trade receivables, investment fund units, bonds, notes, 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 calculated as expected credit 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 regularly monitors payments from trading partners and has not identified any problems in this area.

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at March 31st 2021, the Company held cash with two institutions: PayPal (PLN 336,645) and the PKO BP Group (the balance).

Measurement of investment fund units may be subject to periodic fluctuations as a result of marking to market. The Company assesses the market risk as low as the funds are held with in safe financial institutions – open-ended investment funds.

3.25.3. Fair value measurement methods

The Company did not change the methods used to measure financial instruments relative to the prior reporting period.

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 and notes is measured at cost, plus any outstanding interest and discount determined using the effective interest rate. The fair value of investment fund units is determined based on market prices (daily valuations).

Financial assets:

	As at Mar 31 2021	As at Dec 31 2020	Fair value hierarchy
Bonds and notes	44,965,284	39,921,688	Level 2
Investment fund units	30,001,280	30,010,534	Level 1
Loans to employees	765,073	2,066,604	Level 2

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

3.26. Deferred income

	As at Mar 31 2021	As at Dec 31 2020
Government grants (a)	650,710	695,708
Total	650,710	695,708
Short-term	14,999	59,997
Long-term	635,711	635,711
Total	650,710	695,708

(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 March 31st 2021, the outstanding (not accounted for) balance of the grant was PLN 14,999 (December 31st 2020: PLN 59,997).
- 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 635,711 (December 31st 2020: PLN 635,711).

3.27. Share-based payments (PLN)

3.27.1. Employee stock option plan for 2021–2025

Pursuant to Resolution No. 03/01/2021 of the Company's Extraordinary General Meeting of January 21st 2021, the Company operates an Incentive Scheme for members of the Management Board, employees and independent contractors. Persons who signed Incentive Scheme participation agreements with the Company will be entitled to acquire Series C subscription warrants convertible into Series H shares, subject to meeting the targets set for the Company and defined in the Incentive Scheme Rules.

The Incentive Scheme covers the years 2021–2025. Persons who have the right to acquire the warrants will be entitled to exercise them by subscribing for Series H shares by June 30th 2029.

Pursuant to Resolution No. 05/01/2021 of the Extraordinary General Meeting of January 21st 2021, the Company may issue up to 125,000 Series H shares with a par value of PLN 0.10 per share and total par value of PLN 12,500 for the purposes of the Incentive Scheme. Upon proposal from the Company's Management Board, the Supervisory Board will pass a resolution, promptly after the Annual General Meeting approving the Company's financial statements for the financial year 2025, to grant Series C subscription warrants to the Incentive Scheme participants, in such number as specified in the Management Board's proposal.

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

Total revenue of 11 bit studios S.A., 2021–2025	656,000,000
Total profit before tax of 11 bit studios S.A., 2021–2025	328,000,000

If the financial targets are not fully met, the pool of shares offered under the Incentive Scheme will be reduced by 4% for each 1% of the underperformance.

If the financial targets are exceeded, the issue price of Series H shares will be reduced by 1% for each incremental 2% of the overperformance, however, the discount amount may not exceed 10% of the issue price.

The issue price of Series H shares under the 2021–2025 Incentive Scheme was set at PLN 474.93.

3.27.2. Recognition of the Incentive Scheme

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

Grant date (date of signing the participation agreements)	March 10th 2021
Vesting date	December 31st 2025
11 bit studios S.A. share price on the grant date (PLN)	517
Six-month volatility of 11 bit studios S.A. share price (%)	34.43%
Risk-free rate (%)	0.86%
Number of Incentive Scheme warrants	125,000
Measurement of warrants (PLN)	166.26
Total Incentive Scheme cost as at Mar 31 2021 (PLN)	1,039,104
Total Incentive Scheme cost as at Dec 31 2025 remaining to be recognised (PLN)	19,742,999
Statement of profit or loss – employee benefits expense (PLN) in 2021	1,039,104
Statement of profit or loss – employee benefits expense (PLN) in 2020	0

3.28. Related-party transactions (PLN)

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

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board
- Wojciech Ozimek – Chairman of the Supervisory Board (resigned from the Supervisory Board on April 15th 2021)
- Jacek Czykiel – Deputy Chairman of the Supervisory Board
- Radosław Marter – Member of the Supervisory Board, Chairman of the Supervisory Board since April 15th 2021
- Marcin Kuciapski, Member of the Supervisory Board
- Piotr Wierzbiński – 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 – Marketing Manager, brother of Grzegorz Miechowski, Member of the Management Board
- Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek (law office); Agnieszka Rabenda-Ozimek is married to Wojciech Ozimek, Chairman of the Supervisory Board (until April 15th 2021)

3.28.1. 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 three months ended March 31st 2021 and three months ended March 31st 2020:

	Period ended Mar 31 2021	Period ended Mar 31 2020
Arkona – Paweł Miechowski	55,500	45,182
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	7,739	13,263
Total	63,239	58,445

3.28.2. Loans advanced to related parties

On June 15th 2020, in accordance with Art. 245.1, Art. 245.4 and Art. 245.8 of the Commercial Companies Code and pursuant to Resolution No. 22/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company signed a loan agreement with Paweł Miechowski (related party) to directly finance the acquisition of shares offered as part of the 2017–2019 Incentive Scheme. As at the end of the reporting period, the outstanding loan amount (including interest) was PLN 159,209.

3.28.3. Borrowings from related parties

The Company did not receive any loans from related parties in the three months ended March 31st 2021 or March 31st 2020.

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

The Company's key management personnel are its Management Board. In the three months ended March 31st 2021 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 Mar 31 2021	Period ended Mar 31 2020
Short-term benefits – Management Board:	408,570	414,192
Short-term benefits – Supervisory Board:	37,350	32,400
Total	445,920	446,592

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 tab.

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 three months ended March 31st 2021 or three months ended March 31st 2020. However, they participate in the 2017–2019 Incentive Scheme and the 2021–2025 Incentive Scheme, as described in detail (together with the valuation) in **Note 3.31** to the full-year report of 11 bit studios S.A. for 2020.

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

Short-term benefits – Management Board:

	Period ended Mar 31 2021	Period ended Mar 31 2020
Short-term benefits – Management Board (civil-law contracts):	45,000	45,000
Total	45,000	45,000

3.28.5. Other related-party transactions

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

3.29. Off-balance-sheet commitments

As at the date of issue of this report, the Company had off-balance-sheet commitments of EUR 3,680,000 and PLN 6,777,090. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.30. Contingent assets and liabilities

3.30.1. Contingent liabilities

Security for an investment credit facility contracted with PKO BP S.A. in December 2018 to finance a part of the purchase price for the property at ul. Brzeska 2 in Warsaw, comprising a blank promissory note issued by the Company, together with a promissory note declaration, contractual mortgage of up to PLN 20,223,000.00 over perpetual usufruct of land and ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP.

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

Promissory note declaration (blank promissory note) in favour of the National Centre for Research and Development as security for the proper performance of obligations under co-funding agreement No. POIR.01.01.01-00-0231/20-00.

3.30.2. Contingent assets

As at March 31st 2021 and in the comparative period, the Company did not recognise any contingent assets.

3.31. Correction of previous years' errors

During the preparation of the Company's interim condensed financial statements for the six months ended June 30th 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 the second quarter of 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, the six months ended June 30th 2019, and the three months ended June 30th 2020.

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

months ended June 30th 2019. The change had no effect on the financial data for the three months ended March 31st 2020.

The tables below present the restated presentation data.

Quarterly report for the three months ended March 31st 2020 (PLN)

	Value before adjustments	Adjustment A Recognition of the Incentive Scheme	Adjustment B Change in presentation of land value	Value after adjustments
Statement of profit or loss and other income	For the three months ended March 31st 2020			For the three months ended March 31st 2020
Salaries, wages and employee benefits	(3,466,059)	2,024,051	0	(1,442,008)
Net profit/total comprehensive income	14,508,045	2,024,051	0	16,532,096
Earnings per share				
Basic	6.34	0.89	0	7.23
Diluted	6.00	0.83	0	6.84
Statement of financial position	As at Mar 31 2020			As at Mar 31 2020
Share-based payment reserve	16,281,377	(2,024,051)	0	14,257,326
Retained earnings	36,010,240	2,024,051	0	38,034,291
Statement of cash flows	For the three months ended March 31st 2020			For the three months ended March 31st 2020
Net profit for the financial year	14,508,045	2,024,051	0	16,532,096
Other adjustments	2,665,742	(2,024,051)	0	641,691

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

In the three months ended March 31st 2021, the Company did not record any unusual seasonal or cyclical fluctuations.

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

In the three months ended March 31st 2021, there were no factors or events of a non-recurring nature that had an impact on the Company's financial results for that period.

3.34. Events subsequent to the reporting date

No events occurred which would have an impact on these interim condensed financial statements for the three months ended March 31st 2021 by the date of their authorisation for issue by the Company's Management Board on May 13th 2021.

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

Over the next few quarters, including in 2021, 11 bit studios S.A.'s performance will be determined chiefly by future sales of *Frostpunk* and paid DLCs released for this title as part of the Season Pass. Our strong financial performance in the three months ended March 31st 2021, 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*. We intend to maintain gamers' interest in *Frostpunk* through promotional and marketing activities, and to capitalise on this IP in other, non-digital fields, a case in point being the board game version of the title that has been produced for a few months now by Glass Cannon Unplugged. A noteworthy event will be the upcoming release of the game's mobile version, being developed by 11 bit studios S.A.'s Chinese partner, NetEase, a global leader in the segment of games for mobile devices. The release is planned for 2021.

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

In the longer term, i.e. in a few years, 11 bit studios S.A. intends to markedly scale up its proprietary game production and publishing activities. To this end, for a few quarters it has been expanding its three in-house development teams, which are planned to reach the target size of 60-70 people each. The first team, currently consisting of approximately 45 people, is working on a game under the working title *Project 8*. The Company expects to release *Project 8* simultaneously for PCs and gaming consoles, which should enhance its commercial potential. The budget of the game, which is to be created based on Unreal Engine, will exceed PLN 20m. The second in-house team (currently consisting of approximately 20 people), which is being built based on the employees who until 2019 worked on *This War of Mine*, including the *TWoM: Stories* DLCs, is now developing a project under the working name *Dolly*. The last team, created based on the team that was responsible for the success of *Frostpunk*, is involved in the production of a game under the working name *Eleanor*. It currently consists of about 50 people.

11 bit studios S.A. assumes that with three in-house development teams, and the production cycle of about three to four years for each game maintained, in the medium term it will be able to release one proprietary title a year.

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 2021 and beyond. In the three months ended March 31st 2021, revenue from this source accounted for 27% of the

Company's total revenue. In the whole of 2020, it was 29%. 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 and still enjoy great popularity with fans, as demonstrated by robust sales. The developers who produced the two titles are working on further development of this IP. After the reporting period, on April 7th 2021, Dead Mage (the studio behind *Children of Morta*) released a large free-of-charge add-on *Family Trials*, which significantly expanded the gameplay and was very positively received by the game's fans. The studio is also working on the cooperative mode for *Children of Morta*, much awaited by the community and planned to be ready in a few months.

In the longer term (more than a 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 projects. The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. Two other agreements were concluded with Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. It is working on the *Foxhole* and *Botin* projects (code names). The last (most recent) project is *Ava* (working name), which is also being developed by a Spanish studio, Chibig.

In line with the concept modified a few quarters ago, spending on a single publishing project is capped at PLN 5 million (deviations from this rule are permitted), which considerably improves the capability of acquiring commercially valuable projects for the Company's publishing portfolio. The medium-term strategy of 11 bit studios S.A. for the publishing area assumes that third-party developed games would be launched every quarter. If the number of new releases in the 11 bit publishing division increases to a few per year, this should have a positive effect on the Company's performance in terms of both volume and stability.

An external factor with a potentially large impact on the development of 11 bit studios S.A is the condition of the global gaming industry, whose growth accelerated sharply in 2020 due to the additional time spent by players at home as a result of the COVID-19 pandemic. Because of the high base of 2020, Newzoo, a Dutch provider of games analytics, believes that in 2021 the value of the global computer games market may fall slightly for the first time in history (by 1.1% relative to 2020), to USD 175.8bn, with the largest decline, of some 8.9%, to be seen in the console segment. A positive growth rate will be maintained by the mobile game segment, which is expected to expand by 4.4% year on year and to reach USD 90.7bn. According to Newzoo, in subsequent years the gaming industry will return to a dynamic growth path, with the expected CAGR for 2019–2023 at 7.2%, which means that in 2023 the value of the global gaming industry would be USD 204.6bn.

3.36. 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.

3.37. 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 March 31st 2021 and contain comparative data for the period from January 1st to March 31st 2020.

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 2020, including notes, for the period of 12 months ended December 31st 2020, prepared in accordance with the IFRS as endorsed by the EU.

These interim condensed separate financial statements have not been and will not be audited by an independent auditor.

3.38. Authorisation of financial statements

These interim condensed financial statements were authorised for issue by the Management Board on May 13th 2021.

Signed by:



Przemysław Marszał
President of the
Management Board



Grzegorz Miechowski
Member of the
Management Board



Michał Drozdowski
Member of the
Management Board

Warsaw, May 13th 2021