WARSAW, April 28th 2021

ANNUAL REPORT OF 11 BIT STUDIOS S.A. FOR 2020

Make your mark 11bit studios

LETTER FROM THE MANAGEMENT BOARD

Warsaw, April 28th 2021

Dear Shareholders and Investors,

please be invited to read 11 bit studios S.A.'s Annual Report for 2020. W admit that 2020 was a year of major challenges in terms of company and business management due to the COVID-19 pandemic. That said, we are all the more proud of what we were able to achieve last year: the highest revenue in the Company's history, very high profits at the operating and net levels, and record-high financial resources.

So what does it look like in detail? In 2020, 11 bit studios S.A. generated revenue of PLN 87.1m, up 22.3% year on year and up 6.1% on 2018, which had been historically our best year, with the first-time releases of *Frostpunk* and *Moonlighter*. In 2020, the Company's operating profit came in at PLN 40.79m, that is 57.6% more than in 2019. In the case of net profit, the increase was 57.5%, giving net profit figure of PLN 37.36m. As at the end of December 2020, cash deposited in bank accounts and invested in secure financial instruments was PLN 96.13m, up 16.9% year on year, despite the rapidly growing expenditure on new games in the proprietary and publishing division's portfolio. This means that in aggregate with trade receivables of PLN 11.6m, our total financial resources as at the end of 2020 stood at PLN 107.7m. Never in our more than 10-year history had they reached such a high level.

The robust financial performance in 2020 was driven by successful monetisation of our portfolio of proprietary games, i.e. *Frostpunk* and *This War of Mine*, as well as the portfolio of 11 bit publishing, including *Moonlighter* and *Children of Morta*. We are particularly satisfied with the performance of *Frostpunk* and its paid DLCs available as part of the Season Pass, whose sales are still strong although more than three years have passed since the game's release in spring 2018. This is a positive testament to the strength of our IP, which we continue to develop. By way of an example, our Chinese partner, NetEase, is working on the mobile version of *Frostpunk*, while its board game version is being produced by Glass Cannon Unplugged. As in previous periods, the productions released by our publishing division had a significant contribution to our record-high performance in 2020, with their sales accounting for 29% of the Company's revenue in the period. This by no means satisfies our appetite but does inspire us to step up our efforts and expenditure on the expansion of this part of 11 bit studios S.A.'s business.

We are facing further quarters of hard work on developing the portfolio of proprietary and third-party developed games. However, the financial resources we have at our disposal give us a lot of flexibility in planning the future beyond the next few years. The satisfying pace of work on new proprietary productions, i.e. *Project 8, Dolly Project* and *Eleanor Project*, as well as the third-

party studios' games, warrant an expectation that we will soon be able to present them in more detail to our Shareholders and Investors.

The major organisational changes we made in recent months, giving further strength to the Company's foundations, are set to support a sharp growth of our business scale. We are making an effort to prepare properly for this by recruiting the best specialists on the market, and not only for our development teams, which is not easy given the ongoing COVID-19 pandemic. At our offices at ul. Brzeska 2 in Warsaw we have space for more than 300 employees. At present, our headcount is more than 170 and is rapidly growing. Our target of more than 200 employees by the end of 2021 appears to be within reach.

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, planned to be held in the next few weeks, where we intend to tell you more about our plans for the future. More details of the event will be provided in due course.

Przemysław Marszał
President of the Management Board

Grzegorz Miechowski
Member of the Management Board

Michał Drozdowski
Member of the Management Board

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

The selected financial data presented in the tables below was translated into the euro at the 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 December 31st 2020 – PLN 4.6148
- Exchange rate as at December 31st 2019 – PLN 4.2585

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 for 2020 – PLN 4.4742
- Exchange rate for 2019 – PLN 4.3018

Statement of financial position

	Dec 31 2020 (PLN)	Dec 31 2020 (EUR)	Dec 31 2019 (PLN) *(restated)*	Dec 31 2019 (EUR) *(restated)*
Total assets	186,339,222	40,378,613	155,668,388	36,554,747
Non-current assets	70,397,597	15,254,745	49,815,126	11,697,810
Intangible assets	37,859,517	8,203,934	24,870,505	5,840,203
Current assets	115,941,625	25,123,868	105,853,262	24,856,936
Cash	24,134,648	5,229,836	14,882,519	3,494,780
Bank deposits with maturities of more than 3 months	0	0	67,328,563	15,810,394
Total equity and liabilities	186,339,222	40,378,613	155,668,388	36,554,747
Equity	164,648,124	35,678,279	119,740,299	28,117,952
Liabilities and provisions	21,691,098	4,700,334	35,928,089	8,436,794

Statement of profit or loss

	Period ended Dec 31 2020 (PLN)	Period ended Dec 31 2020 (EUR)	Period ended Dec 31 2019 (PLN) *(restated)*	Period ended Dec 31 2019 (EUR) *(restated)*
Revenue	87,101,774	19,467,564	71,221,248	16,556,150
Depreciation and amortisation	10,265,214	2,294,313	6,424,309	1,493,400
Operating profit	40,791,867	9,117,131	25,887,955	6,017,936
EBITDA	51,057,081	11,411,444	32,312,264	7,511,336
Profit (loss) before tax	40,651,821	9,085,830	27,046,777	6,287,316
Net profit (loss)	37,363,131	8,350,796	23,726,914	5,515,578

Statement of cash flows

	Period ended Dec 31 2020 (PLN)	Period ended Dec 31 2020 (EUR)	Period ended Dec 31 2019 (PLN) *(restated)*	Period ended Dec 31 2019 (EUR) *(restated)*
Net cash from operating activities	37,664,667	8,418,190	41,643,258	9,680,426
Net cash from investing activities	(34,424,689)	(7,694,043)	(49,342,348)	(11,470,163)
Net cash from financing activities	6,012,151	1,343,738	(1,669,072)	(387,994)
Total net cash flows	9,252,130	2,067,885	(9,368,162)	(2,177,730)

FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A.
FOR 2020

1.OVERVIEW

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

1.1. Company overview

Business name:	11 bit studios Spółka Akcyjna
Abbreviated name:	11 bit studios S.A.
Registered office:	Warsaw, Poland
Registered address:	ul. Brzeska 2, 03-737 Warsaw, Poland
Principal business activity:	in accordance with the Polish Classification of Business Activities – computer programming activities (62.01.Z)
Registry court:	District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division
National Court Register (KRS) No.:	0000350888
Tax Identification Number (NIP):	1182017282
Industry Identification Number (REGON):	142118036

The Company was established for indefinite time.

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

The Company's principal business activity includes:

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

The Company does not have any subsidiaries, associates or interests in joint ventures.

1.2. Covered periods

The 2020 financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to December 31st 2020 and contain comparative data for the period from January 1st to December 31st 2019.

1.3. Composition of the Company's governing bodies as at December 31st 2020

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

The composition of the Management Board of 11 bit studios S.A. changed in the reporting period. At its meeting on November 24th 2020, the Company's Supervisory Board accepted the resignation of Grzegorz Miechowski as President of the Management Board and appointed him as Member of the Management Board. At the same time, the Supervisory Board appointed Przemysław Marszał, previously serving as Member of the Management Board, to the position of President of the Management 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.

In the reporting period, there were no changes in the composition of the Supervisory Board of 11 bit studios S.A. 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.

1.4. Auditors

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

In Current Report No. 2/2020 of February 6th 2020 the Company announced that in accordance with the applicable laws and professional standards the competent body, i.e. the Company's Supervisory Board, at a meeting held on February 5th 2020, acting pursuant to Art. 66.4 of the Accounting Act of September 29th 1994, Art. 8.4 of the Company's Articles of Association, and Section 7.3 of the Rules of Procedure for the Company's Supervisory Board, and having considered the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska

Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., with registered office at ul. Polna 11, 00-633 Warsaw, to audit the Company's 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

Shareholding structure as at December 31st 2020

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

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

Shareholding structure as at December 31st 2019

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	162,000	7.08	162,000	7.08
Przemysław Marszał	118,000	5.16	118,000	5.16
Michał Drozdowski	89,630	3.92	89,630	3.92
NN TFI*	137,771	6.02	137,771	6.02
Aviva Investors Poland TFI*	204,225	8.93	204,225	8.93
Other shareholders	1,575,573	68.89	1,575,573	68.89
Total	**2,287,199**	**100.00**	**2,287,199**	**100.00**

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

In the reporting period and by the date of issue of this Report, there were changes in the shareholding structure of 11 bit studios S.A. For details, see **Note 5.5**.

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 Dec 31 2020 (no. of shares)	Shareholding as at Dec 31 2019 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	106,500	118,000
Grzegorz Miechowski	Member of the Management Board	177,413	177,413	162,000
Michał Drozdowski	Member of the Management Board	84,630	84,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	700	550	400

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

In the reporting period, there were changes in holdings of Company shares by the management and supervisory staff. For details, see **Note 5.5**.

After the reporting period, there were no changes in the holdings of Company shares by the management and supervisory staff.

1.7. Commentary on estimates of financial results

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

1.8. Headcount

As at the date of issue of these financial statements, 173 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.9. Functional and presentation currency

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

monitors its economic environment for any material changes that could affect its choice of functional currency.

1.10. Management Board's representation

We hereby represent that this 2020 Annual Report of 11 bit studios S.A. includes: Letter from the President of the Management Board, financial highlights, financial statements, Directors' Report on the operations of 11 bit studios S.A. in 2020, and the corporate governance report.

We represent that, to the best of our knowledge, the financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union, and that they give a clear, true and fair view of the Company's assets, financial position and financial performance, and that the Directors' Report on the Company's operations in 2020 gives a fair view of the Company's development, achievements and position and describes the key risks and threats.

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

- The audit firm which audited the financial statements of 11 bit studios S.A. for the year ended December 31st 2020 was appointed in accordance with applicable laws, including regulations governing the selection of an audit firm and the relevant selection procedure;
- The audit firm and members of the audit team met the conditions required to prepare an impartial and independent audit report on full-year financial statements in accordance with applicable laws, professional standards and rules of ethics;
- 11 bit studios S.A. complied with applicable laws and regulations concerning the required rotation of audit firms and lead statutory auditors, as well as the mandatory grace periods;
- 11 bit studios S.A. has a policy in place for the selection of an audit firm and for the provision of additional non-audit services to the issuer by the audit firm, its associate or member of its network, including services conditionally exempted from the prohibition of providing non-audit services by the audit firm.

Signed by:

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

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

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

	Note	Period ended Dec 31 2020	Period ended Dec 31 2019 *(restated)*
Continuing operations			
Revenue	3.4	87,101,774	71,221,248
Other income	3.5	325,158	461,634
Total operating income		**87,426,932**	**71,682,882**
Depreciation and amortisation	3.6	(10,265,214)	(6,424,309)
Raw materials and consumables used		(353,338)	(438,947)
Services	3.7	(25,871,505)	(26,394,183)
Salaries, wages and employee benefits	3.8	(6,846,529)	(10,274,406)
Taxes and charges		(304,981)	(247,777)
Other expenses	3.5	(2,993,498)	(1,915,407)
(Impairment)/reversal of impairment of financial instruments		0	(99,898)
Total operating expenses		**(46,635,065)**	**(45,794,927)**
Operating profit		**40,791,867**	**25,887,955**
Interest income	3.9	530,675	1,089,576
Other finance income	3.9	13,012	273,796
Finance costs	3.10	(683,733)	(204,550)
Profit before tax		**40,651,821**	**27,046,777**
Income tax expense	3.11	3,288,690	3,319,863
NET PROFIT		**37,363,131**	**23,726,914**
Earnings per share (PLN):			
Basic	3.12	16.13	10.37
Diluted	3.12	15.64	9.82
NET PROFIT		**37,363,131**	**23,726,914**
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		**37,363,131**	**23,726,914**

2.2. Statement of financial position (PLN)

ASSETS

	Note	As at Dec 31 2020	As at Dec 31 2019 *(restated)*	As at Jan 1 2019 *(restated)*
Non-current assets				
Property, plant and equipment	3.13	26,889,502	20,380,205	14,722,064
Intangible assets	3.14	37,859,517	24,870,505	17,138,011
Perpetual usufruct of land	3.13	4,003,398	4,007,699	4,012,000
Deferred tax asset	3.11	1,517,590	542,022	158,033
Other assets	3.19	127,590	14,695	192,503
Non-current financial assets		0	0	5,094,282
Total non-current assets		**70,397,597**	**49,815,126**	**41,316,894**
Current assets				
Trade and other receivables	3.15	11,601,506	17,750,932	14,552,625
Inventories – prepaid deliveries of goods and services		0	11,830	0
Income tax receivable	3.16	7,623,047	5,441,189	1,845,130
Other current assets	3.18	583,598	438,230	297,492
Cash and cash equivalents	3.20	24,134,648	14,882,519	24,250,681
Current financial assets	3.17	71,998,826	67,328,563	27,000,000
Total current assets		**115,941,625**	**105,853,262**	**67,945,928**
TOTAL ASSETS		**186,339,222**	**156,668,388**	**109,262,821**

EQUITY AND LIABILITIES

	Note	As at Dec 31 2020	As at Dec 31 2019 *(restated)*	As at Jan 1 2019 *(restated)*
Equity				
Share capital	3.21	236,055	228,720	228,720
Share premium	3.21	12,407,633	4,870,274	4,870,274
Statutory reserve funds		87,152,664	78,881,784	41,331,887
Share-based payment reserve		31,744,829	18,305,429	12,203,617
Retained earnings		33,106,943	17,454,092	31,277,075
Total equity		**164,648,124**	**119,740,299**	**89,911,573**
Liabilities				
Non-current liabilities				
Long-term borrowings and other debt instruments	3.26	9,499,650	10,429,732	11,340,000
Deferred income	3.30	635,711	497,564	677,555
Lease liabilities – perpetual usufruct of land		334,041	334,891	0
Total non-current liabilities		**10,469,402**	**11,262,187**	**12,017,555**
Current liabilities				
Trade and other payables	3.25	9,791,955	11,429,892	5,122,519
Contract liabilities	3.24	0	11,730,526	557,145
Short-term borrowings and other debt instruments	3.26	1,357,093	1,303,717	1,452,203
Lease liabilities – perpetual usufruct of land		12,653	12,653	0
Deferred income	3.30	59,997	189,114	201,826
Total current liabilities		**11,221,696**	**24,665,902**	**7,333,693**
Total liabilities		**21,691,098**	**35,928,089**	**19,351,248**
TOTAL EQUITY AND LIABILITIES		**186,339,222**	**155,668,388**	**109,262,821**

2.3. Statement of changes in equity (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 2020 before restatement	**228,720**	**4,870,274**	**78,881,784**	**14,257,326**	**21,502,195**	**0**	**0**	**119,740,299**
- opening balance adjustments				4,048,103	(4,048,103)			**0**
As at Jan 1 2020	**228,720**	**4,870,274**	**78,881,784**	**18,305,429**	**17,454,092**	**0**	**0**	**119,740,299**
Net profit for the financial year	0	0	0	0	37,363,131	0	0	37,363,131
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**
Creation of capital reserve	0	0	(13,439,400)	13,439,400	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	21,710,280	0	(21,710,280)	0	0	0
Recognition of share-based payments	7,335	7,537,359	0	0	0	0	0	7,544,694
As at Dec 31 2020	**236,055**	**12,407,633**	**87,152,664**	**31,744,829**	**33,106,943**	**0**	**0**	**164,648,124**

In 2020, pursuant to relevant resolutions of the Annual General Meeting of June 9th 2020 (No. 22/06/2020 and 23/06/2020), the Company created a capital reserve of PLN 13,439,400 through the transfer of an appropriate amount from statutory reserve funds. The capital reserve is to be used for loans to be advanced to employees, independent contractors and Members of the Company's Management Board to finance acquisition of shares under the 2017–2019 Incentive Scheme.

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

2.4. Statement of cash flows (PLN)

	Note	Period ended Dec 31 2020	Period ended Dec 31 2019 *(restated)*
Cash flows from operating activities			
Profit for the financial year		**37,363,131**	**23,726,914**
Adjustments:			
Depreciation and amortisation		10,265,214	6,424,309
Income tax expense recognised in profit or loss		3,288,691	3,319,863
Remeasurement of intangible assets		(17,450)	33,959
Other adjustments		667,640	6,344,139
Changes in working capital:			
Increase/(decrease) in trade and other receivables		6,149,427	(3,198,307)
Increase/(decrease) in inventories		11,829	(11,829)
Increase/(decrease) in other assets		(258,263)	37,072
Increase/(decrease) in trade and other payables		(1,637,938)	1,286,372
Increase/(decrease) in net contract assets/liabilities		(11,730,526)	11,173,381
Increase/(decrease) in deferred income		9,030	(192,704)
Cash provided by operating activities		**44,110,783**	**48,943,169**
Income tax paid		(6,446,116)	(7,299,911)
Net cash from operating activities		**37,664,667**	**41,643,258**
Cash flows from investing activities			
Loans to employees		(2,066,604)	0
Proceeds from bank deposits upon maturity – over 3 months		164,328,563	94,000,000
New bank deposits placed – over 3 months		(97,000,000)	(134,000,000)
Proceeds from sale of financial assets		0	5,094,282
Purchase of financial assets		(69,932,222)	0
Payments for property, plant and equipment and intangible assets		(29,754,426)	(14,436,630)
Net cash from investing activities		**(34,424,689)**	**(49,342,348)**
Cash flows from financing activities			
Proceeds from issue of shares		7,544,694	0
Proceeds/(payments) under credit facility		(1,260,000)	(1,260,000)
Payment of bank loan interest		(272,543)	(409,072)
Net cash from financing activities		**6,012,151**	**(1,669,072)**
Net increase /(decrease) in cash		9,252,130	(9,368,162)
Cash at beginning of reporting period		14,882,519	24,250,681
CASH AT END OF REPORTING PERIOD		**24,134,649**	**14,882,519**

3.NOTES TO THE FINANCIAL STATEMENTS

3.1. Application of IFRSs

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

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

3.1.1. Statement of compliance

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

The Company has applied the IFRSs effective as at December 31st 2020. The accounting policies applied to prepare these 2020 financial statements are consistent with the policies applied to prepare the Company's full-year financial statements for 2019, except for the changes described below. The same policies have been applied for the current and comparative periods.

3.1.2. Amendments to existing standards applied for the first time in the Company's financial statements for 2020

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

- **IFRS 3 *Business Combinations***
  The amendments to IFRS 3 include a change in the definition of 'business'. Under the amended standard, the scope of the definition is narrower and will probably increase the proportion of acquisitions classified as asset acquisition.
  In the Company's opinion, the application of the above amendments does not affect the financial statements as the Company did not carry out any business combinations in recent years.
- **Amendments to IFRS 9, IAS 39 and IFRS 7 related to IBOR reform**
  Amendments to IFRS 9, IAS 39 and IFRS 7, issued in 2019, revise certain specific hedge accounting requirements, primarily to have the effect that the interest rate benchmark reform (IBOR reform) should not generally cause hedge accounting to terminate. They have no effect on the Company's financial statements.
- **IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors***
  The IASB published a new definition of 'materiality'. Amendments to IAS 1 and IAS 8 clarify the definition of materiality and improve the standards' consistency but are not expected to have a material effect on the preparation of financial statements.

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

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

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

- **IFRS 17 *Insurance Contracts* and amendments to IFRS 17**
  IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board on May 18th 2017 and amendments to IFRS 17 were issued on June 25th 2020. The amended standard is effective for annual periods beginning on or after January 1st 2023.
  IFRS 17 *Insurance Contracts* will replace existing IFRS 4, which provides for diverse practices in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.
  The Company will apply IFRS 17 following its endorsement by the European Union. As at the date of these financial statements, the new standard 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 2020.
  As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **Amendments to IFRS 3 *Business Combinations***
  The amendments to the standard are intended to update the relevant references to the Conceptual Framework in IFRS without introducing any substantive changes to accounting for business combinations. As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **Amendments to IAS 16 *Property, Plant and Equipment***
  The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendment is effective for financial statements for periods beginning on or after January 1st 2022. As at the date of these financial statements, the amendment 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.
- **IFRS 16 *Leases***
  On May 28th 2020, the Board issued an amendment to IFRS 16 as a response to changes regarding lease contracts in connection with the coronavirus pandemic (COVID-19). Lessees have the right to various reliefs and concessions, such as deferral of or exemption from lease payments. In view of the above, the Board introduced a practical expedient regarding assessment whether the changes are a lease modification. Lessees are provided with a practical relief in the form of exemption from applying IFRS 16 guidance regarding lease modifications. This will result in the recognition of lease reliefs and exemptions as variable lease payments in the period in which the event or condition that reduces payment occurs. The amendment has been effective since June 1st 2020, but it is yet to be endorsed by the European Union.
- **Amendment to IFRS 4: Application of IFRS 9 *Financial Instruments***
  The amendment to IFRS 4 *Insurance Contracts* postpones the application of IFRS 9 *Financial Instruments* until 2021. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to IBOR reform**
  In response to the expected reform of the reference rates (the IBOR reform), the International Accounting Standards Board published the second part of amendments to IFRS 7, IAS 39, IFRS 7, IFRS 4 and IFRS 16. 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 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. Statement of accounting policies

3.2.1. Reporting period and scope of disclosure

These financial statements present data for the reporting period from January 1st to December 31st 2020 and contain comparative data for the period from January 1st to December 31st 2019.

3.2.2. Going concern

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

3.2.3. Recognition of revenue

Under IFRS 15 *Revenue from Contracts with Customers*, revenue is recognised in the amount of consideration that an entity expects to be entitled to receive in exchange for transferring the promised goods or services to a customer. The standard provides for a five-step model of recognising revenue from contracts with customers:

1. Identifying the contracts with customers,
2. Identifying the performance obligations in the contract,
3. Determining the transaction price,
4. Allocating the transaction price to each performance obligation,
5. Recognising revenue when a performance obligation is satisfied.

The Company recognises revenue from contracts with customers when the performance obligation is satisfied by transferring promised goods to a customer, which is when the customer obtains control of the goods.

Revenue from contracts with customers is recognised when the Company satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that good or service. Revenue from sale of goods and the rendering of services to customers is recognised in accordance with the principle that the entity

recognises revenue so as to reflect the transfer to a customer of promised goods and services, in the amount of consideration that the entity expects to receive in exchange for transferring the goods or services.

Revenue from the sale of goods and the rendering of services comprises sales of products which are developed by the Company and to which it holds exclusive rights as their producer, or goods which the Company is licensed to release and distribute, and rendering of services to third parties.

The Company analysed its contracts with customers for the application of IFRS 15 in the following categories:

a. Sale of licences for the distribution of games

The Company licenses software (intellectual property) to game distributors. A licence that is transferred for a prescribed period of time gives distributors access to the intellectual property in the form in which it exists during the term of the licence. Proceeds from the sale of game distribution licences are the basis for revenue recognition. Such revenue depends on the volume of a distributor's sales to end users (players) at a given time during the reporting period. Thus, revenue from the sale of a given product is recognised in the period when the sale takes place but not earlier than after the delivery of materials enabling the actual distribution of the finished game to commence, based on sales to end users specified in reports by game distributors.

In the case of certain agreements, the Company transfers the right to unrestricted use the licence for the amount specified in the agreement. Revenue from such contracts is recognised on a one-off basis upon transfer of control of the licence to the customer.

Revenue is recognised at the fair value of the consideration received or receivable, net of the amount of any expected trade discounts, goods returned by customers, and other similar decreases, including VAT and other taxes relating to sales.

b. Sale with a right of return

IFRS 15 also provides guidance on the sale of products with a right of return where the customer has taken control of the product while retaining the right to return the product. The right of return applies to certain contracts with distributors and results in variable revenues as the proceeds from sale may change. Therefore, the Company recognises revenue at a probable amount, taking into account historical data. Recognition of the effects of a contract that provides for a right of return or expectations to exercise that right by the customer involves recording:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (i.e. after adjustment for the portion of revenue relating to products that may be returned);
- a refund liability, comprising a part or all of the consideration already received or receivable for which the entity does not expect to be entitled;
- an asset for its right to recover products from customers (right-of-return asset), at the initial carrying amount of the asset (product, good) less expected cost of return and impairment, if any.

c. Advance payments received from customers

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

d. Revenue in transactions in which the Company is an agent

Revenue is recognised by the Company in the amount of the fee or commission it receives in the transaction, net of any fees paid to third parties.

Other income

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

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

Finance income

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

3.2.4. Expenses

The Company prepares the statement of profit or loss and other comprehensive income by nature of expense.

3.2.5. Foreign currency transactions

Transactions carried out in a currency other than the functional currency (foreign currency transactions) are reported using the exchange rate effective at the date of the transaction. As at the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate effective on that date. Non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rate effective on the date of the fair value measurement. Non-monetary items are measured at historical cost.

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

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

3.2.6. Government grants

A government grant is not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Grants whose primary condition is purchase, construction or other form of acquisition of non-current assets are recognised as deferred income in the statement of financial position and released, in reasonably determined amounts, to profit or loss on a systematic basis over the useful life of the asset.

Government grants that become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss of the period in which they become receivable.

3.2.7. Tax

The entity's income tax comprises current tax and deferred tax.

Current tax

Current tax expense is calculated based on tax profit or loss (taxable income) for a given reporting period. Tax profit (loss) differs from accounting profit (loss) in that it does not include temporarily non-taxable income, temporarily non-deductible expenses, or income or cost items that will never be taxable or deductible. Tax expenses are calculated based on tax rates applicable in a given financial year.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date; where expected tax profit is insufficient to recover a deferred tax asset in whole or in part, the asset is written down accordingly.

Deferred tax is calculated at tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax liabilities and deferred tax assets are measured so

as to account for the tax consequences of expected recovery (settlement) of the carrying amount of assets (liabilities) as at the reporting date.

Current and deferred tax for the current period

Current and deferred tax is recognised in profit or loss, except for tax arising on items recognised in other comprehensive income or directly in equity. For such items, current and deferred tax is also recognised in other comprehensive income or equity, as appropriate.

Tax reliefs

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 sale of qualifying intellectual property rights (games) multiplied by the nexus index is taxed at a preferential CIT rate (5%).

3.2.8. Intangible assets

The Company's intangible assets comprise acquired intangible assets and internally generated intangible assets.

Acquired intangible assets

Acquired intangible assets with a definite useful life are carried at cost less accumulated amortisation and impairment losses. Such assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, and the effects of any changes in estimates are accounted for prospectively. Acquired intangible assets with an indefinite useful life are carried at cost less accumulated impairment losses.

Licences are recognised at cost less accumulated amortisation charges and impairment losses. Licences (intangible assets with a value in excess of PLN 1,000) are amortised on a straight-line basis over their expected useful lives (2–5 years).

Internally generated intangible assets – research and development costs

Research costs are recognised as an expense as incurred.

Intangible assets arising from development are recognised in the statement of financial position only if all of the following conditions are met:

- Completion of the intangible asset for use or sale is technically feasible;
- The intention to complete the intangible asset and use or sell it can be demonstrated;
- The asset can be used or sold;
- It can be demonstrated how the intangible asset will generate future economic benefits;
- Adequate technical and financial resources will be available to complete the development work and to use or sell the intangible asset;
- The development expenditure can be reliably estimated.

The initial value of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria as described above. If

internal development expenditure cannot be recognised in the statement of financial position, it is charged to expenses when incurred.

After initial recognition, internally generated intangible assets are carried at cost less accumulated amortisation and impairment losses on the same basis as acquired intangible assets.

Amortisation

Intangible assets arising from development comprise ongoing development work and completed development work.

Completed development work related to the development of video games is amortised on a straight-line basis over a period of 12 to 36 months, based on the future economic benefits from capitalised costs and future revenue as estimated by the Company's Management Board.

Ongoing development work is not amortised and is tested for impairment at least once a year.

The costs of the game engine used to develop video games are amortised for 36 months and capitalised in the value of developed games.

Derecognition of intangible assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their further use or disposal. The gain or loss arising from the derecognition of an intangible asset (determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is recognised in profit or loss for the period when the asset is derecognised.

3.2.9. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated impairment. Items of property, plant and equipment are depreciated from the moment they are brought into use, in accordance with the policies applicable to the Company's other non-current assets.

An asset is depreciated on a straight-line basis so as to write down its cost or measured value to its residual value. Expected useful lives, residual values and depreciation methods are reviewed at the end of each reporting period (with any changes in estimates accounted for prospectively).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use. Any gains or losses arising from the disposal or retirement of an item of property, plant and equipment (determined as the difference between the disposal proceeds, if any, and the carrying amount of the asset) are recognised in profit or loss for the period when the item is derecognised.

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

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

Land owned by the State Treasury or local government units may be held in perpetual usufruct. Perpetual usufruct is a specific type of property right which entitles a natural or legal

person to use land to the exclusion of other persons. The perpetual usufructuary may also dispose of its perpetual usufruct right. Perpetual usufruct of land is granted for a period of 99 years or, in exceptional cases where the economic purpose of the perpetual usufruct does not require the land to be held for such a period of time, for a shorter period, which may not be less than 40 years. The Company recognises perpetual usufruct of land in accordance with IFRS 16 as leases. The right to use a leased asset is presented in the statement of financial position as perpetual usufruct of land. As at the date of issue of these financial statements, the Company had one effective agreement on perpetual usufruct of land, concerning developed property at ul. Brzeska 2 in Warsaw.

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

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to identify any indications of impairment. If such indications are found, the recoverable amount of a given asset is estimated in order to determine a potential impairment loss.

Intangible assets with an indefinite useful life or ones not yet available for use are tested for impairment on an annual basis and, additionally, if there are indications of impairment.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The latter is the present value of estimated future cash flows, discounted using a pre-tax discount rate reflecting the current market assessment of the time value of money and the risks specific to the asset.

The Management Board of 11 bit studios S.A. monitors on a continuous basis, and particularly closely at year-end, development of all of its products (games) to review progress made on them against the adopted schedule as well as their programming quality, gameplay quality, and sales potential.

If the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense in the period it which it occurs.

Right-of-use assets are initially recognised at cost, with the carrying amount subsequently reduced by depreciation charges and impairment losses, if any. A right-of-use asset is amortised on a straight-line basis over the period corresponding to the estimated useful life of the asset.

3.2.11. Trade and other receivables

Trade receivables are measured in the accounting books at amounts corresponding to transaction prices adjusted for impairment, if any, in accordance with the expected loss model.

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

Since the Company has cooperated for years with the same trading partners with a very high financial standing and has never experienced any payment problems in those relations, it applies simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date

for payment is not long. Historically, there have been only minor changes to the list of trading partners through which the Company sells games.

The Company estimates expected credit losses ("ECLs") related to debt instruments measured at amortised cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

The Company applies a three-stage impairment model with respect to financial assets other than trade receivables:

- Stage 1 – financial instruments on which the credit risk has not increased significantly since initial recognition. Expected credit losses are determined based on the probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur within the next 12 months);
- Level 2 – balances for which there has been a significant increase in credit risk since initial recognition, but there is no objective evidence of impairment; expected credit losses are determined on the basis of the probability of default over the contractual life of the asset;
- Stage 3 – instruments for which there is objective evidence of impairment.

To the extent it is necessary to assess whether there has been a significant increase in credit risk in accordance with the above model, the Company considers in particular that a delay in repayment of 30 days represents an increase in credit risk.

Financial assets are written off, in whole or in part, when the Company has used practically all measures to collect them and determines that they cannot be reasonably expected to be recovered. This is usually the case when the asset is past due at least 360 days.

Other receivables include in particular advance payments made for future purchases of property, plant and equipment and intangible assets.

Receivables from the state budget are presented under trade and other receivables, except corporate income tax receivable, which is disclosed as a separate item of the statement of financial position.

3.2.12.Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits with banks, and other highly liquid short-term investments with original maturities of up to three months.

3.2.13.Trade and other payables

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

Employee benefit obligations comprising wages and salaries, paid annual leaves and sick leaves are recognised in the period in which an employee renders the related service, at the undiscounted amount of benefits expected to be paid in exchange for that service.

3.2.14.Provisions and contingent liabilities

Provisions are recognised if the Company has a legal or constructive obligation resulting from a past event, the amount of such obligation can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Company's contingent liabilities represent potential future obligations to make a payment or provide a service which may arise upon the occurrence or non-occurrence of one or more uncertain future events that the Company does not fully control, as well as present obligations which have not been recognised in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. The amounts of contingent liabilities are presented in the notes to these financial statements.

3.2.15.Equity

The share capital comprises the share capital of the Company, that is 11 bit studios S.A., which is governed by the regulations contained in the Commercial Companies Code and reflects the par value of shares paid up with cash. The share capital is recognised at par value of the shares (as stated in the Company's Articles of Association and the relevant entry in the National Court Register).

Statutory reserve funds are created out of profit and are used as provided for in the Company's Articles of Association.

Retained earnings/(deficit) include:

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

3.2.16.Earnings and diluted earnings per share

Earnings per share for each reporting period are calculated as the quotient of the net profit for the given period and the weighted average number of shares outstanding in the given period.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares for the effects of conversion of all potentially dilutive ordinary shares. As the Company has issued dilutive instruments (subscription warrants), it presents diluted earnings per share.

3.2.17.Capital management

The overall purpose of capital management (capital meaning equity in the statement of financial position) is to keep the optimum capital structure in the long term, as well as to maintain a robust financial standing to support the Company's operations and increase shareholder value. The Company's Management Board monitors the changing economic conditions in which the Company is operating and responds by making appropriate adjustments to its capital

management. In the Company's opinion, as at the end of the reporting period and in comparative periods, the debt-to-equity ratio remained at safe levels.

3.2.18.Share-based payments

Equity-settled share-based payments to employees and other persons providing similar services are measured at the fair value of equity instruments as at the grant date. For details on the determination of the fair value of equity-settled share-based payments, see **Note 3.32**.

The fair value of equity-settled share-based payments measured as at the grant date is recognised as an expense with the straight-line method during the vesting period, based on the Company's estimates regarding equity instruments to be vested. At the end of each reporting period, the Company reviews its estimates of the number of equity instruments to be granted. The effects of a revision to previous estimates, if any, are recognised in the statement of profit or loss over the remainder of the vesting period, with a corresponding adjustment made to the share-based payment reserve.

3.2.19.Financial instruments

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

Financial assets and liabilities are initially measured at fair value. On initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus (in the case of a financial asset or a financial liability other than measured at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. Transactions costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.2.20.Financial assets

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

Initial recognition of financial instruments

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

Classification and subsequent measurement of financial assets

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

- The Company's business model for financial asset management, and
- The profile of contractual cash flows related to a given financial asset.

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

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

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

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

Reclassification

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

Impairment of financial assets

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

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

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

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

Measurement of expected credit losses

The Company measures the allowance for expected credit losses on a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since its initial recognition.

Fair value measurement and measurement procedures

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

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

- Level 1 – inputs are (unadjusted) prices quoted in active markets for identical assets or liabilities, as such prices are available at the measurement date;
- Level 2 – inputs other than quoted prices considered at Level 1 that are observable for the asset or liability, either indirectly or directly (e.g. prices of similar assets or liabilities quoted on active or inactive markets, inputs other than quoted prices that are observable for the

asset or liability (interest rates, yield curves observable in commonly accepted quotation ranges, assumed volatility and spreads), or inputs confirmed by the market);

- Level 3 – inputs are unobservable input data for the asset or liability (the best information available in the circumstances that may include the entity's own data).

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

3.2.21.Financial liabilities

A financial liability is any liability that is:

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

- A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Initial recognition

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

Classification and carrying amount

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

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

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

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

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

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

3.2.22.Statement of cash flows

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

3.2.23.Segment reporting

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

- That engage in business activities from which they may earn revenues and incur expenses,
- Whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

The Company's chief operating decision maker that makes decisions about allocation of resources and assesses segment performance is the Management Board of 11 bit studios S.A.

The Company has identified one operating segment: video games production and publishing.

3.3. Significant judgements and estimates

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

3.3.1. Professional judgement in accounting

Below are presented principal judgements, other than those involving estimates (see Note 3.3.2), which the Company's Management Board made in the process of applying the adopted accounting policies and which have the most significant effect on the amounts recognised in these financial statements.

Functional currency

The Company's functional currency is the Polish złoty.

The functional currency was determined by the Company's Management Board based on its judgement concerning the currency in which the Company generates revenue and incurs costs. In accordance with IAS 21.9., an entity considers the following factors in determining its functional currency:

a) The currency:
   (i) that mainly influences selling prices for goods and services (this will often be the currency in which selling prices for its goods and services are denominated and settled); and
   (ii) of the country whose competitive forces and regulations mainly determine the selling prices of its goods and services;
b) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The Company's revenue from the sale of goods (video games) is generated in USD and EUR (from sales in Europe). This would suggest, in accordance with IAS 21.9.a.i. alone, that the Company's functional currency is the US dollar or euro. However, upon consideration of IAS 21.9a.ii., the functional currency seems less obvious – the prices of video games sold by the Company are not affected by the competitive forces or regulations in the United States or Europe. Our selling prices are denominated in the US dollar or euro because the video games market is a global market, with prices set at the same levels for players from across the globe. Accordingly, the selling prices of the Company's games are the same for players regardless of whether a player comes from Europe (including Poland), Asia or the United States.

From the cost perspective, if construed independently of the other rules laid down in the standard, IAS 21.9.b. indicates that PLN is the Company's functional currency as the Company incurs most of its costs, including game development costs (primarily attributable to salaries and wages), in the Polish złoty.

The Company's Management Board also considered IAS 21.10.

The following factors may also provide evidence of an entity's functional currency:

a) The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated;
b) The currency in which receipts from operating activities are usually retained.

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

Accordingly, the Company's Management Board has determined that the Company's functional currency is the Polish złoty. The Company's reporting currency is also the Polish złoty.

Principal versus agent considerations

IFRS 15 has introduced a new model for assessing whether an entity is acting as a principal or an agent. Based on an analysis of sale contracts, the Company's Management Board found that in the case of games for PCs and consoles, as well as games for mobile platforms, revenue is

recognised by the Company after deduction of amounts retained by the platforms. The Company also sells games produced by third-party developers as part of its publishing business. As the Company controls key parameters, it is the principal. In the case of games sold by the Company as the publisher, royalties due to the developer are disclosed under services in the statement of profit or loss.

3.3.2. Uncertainty of estimates

Discussed below are critical assumptions concerning the future and other key sources of estimation uncertainty at the reporting date which entail a significant risk that material adjustments may be required to the carrying amounts of assets and liabilities in the next financial year.

Recoverability of internally generated intangible assets

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

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

Amortisation periods for intangible assets

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

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

For the technology required to develop video games (game engine), the Company adopted an amortisation period of 36 months because of the rapid pace at which technological innovations are introduced in the game development industry, leading to regular shifts (on average, every 36 months) in technologies used to develop games.

3.4. Revenue (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019
Revenue	87,101,774	71,221,248

As in the previous year, in 2020 the main source of the Company's revenue was sales of its own games as well as third-party games released by the Company as part of the 11 bit publishing services. The Company's other income (including mainly grants received) accounted for just 0.37% of total revenue in the reporting period (0.64% in 2019). The Company's revenue in the reporting period reached PLN 87,101,774, up 22.3% year on year.

This marked increase was largely attributable to the very successful release (on January 21st 2020) of *Frostpunk*: *The Last Autumn*, the second paid add-on for Frostpunk. The release of the last

(third) Season Pass DLC for *Frostpunk*, i.e. *Frostpunk: On The Edge*, took place on August 20th 2020 and, as was the case with *Frostpunk*: *The Last* Autumn, had a positive effect on sales of the basic version of the game. The releases of further DLCs for *Frostpunk*, combined with aggressive promotional and marketing campaigns, also had a major impact on gamers' interest in the main (basic) version of the game and on its sales. As a result, in 2020 total revenue from the game and the DLCs (for all hardware platforms) exceeded PLN 51.5m.

The games released by the publishing division, *Moonlighter* and *Children of Morta*, also contributed positively to the revenue of 11 bit studios S.A. in 2020. The sales of third-party developed games accounted for 29% of the total in the reporting period. In 2019, the ratio was higher, at 40% (due to the release of *Children of Morta* in autumn 2019). *This War of Mine* continued to deliver a sizeable revenue stream, despite the fact that more than six years had already passed since its launch on November 14th 2014.

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

3.4.1. Revenue by geographical region (PLN)

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

Below is presented 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 Dec 31 2020	Period ended Dec 31 2019
Poland	2,064,709	1,487,844
European Union	5,120,320	6,393,095
US	66,982,765	51,273,600
Japan	12,081,601	10,310,174
China	224,543	827,383
Other	627,836	929,152
Total	**87,101,774**	**71,221,248**

3.4.2. Revenue by distribution channel

The Company's revenue from sales of video games of PLN 87,101,774 (2019: PLN 71,221,248) includes PLN 86,954,248 (2019: PLN 70,569,708) in revenue from sales of the Company's products through Steam (Valve Corporation), Nintendo Co. Ltd, Microsoft Corporation, Google, Apple, Sony and Humble Bundle, the world's leading electronic distribution platforms.

3.5. Other income and expenses (PLN)

3.5.1. Other income

	Period ended Dec 31 2020	Period ended Dec 31 2019
Grants received	179,991	362,937
Gain on disposal of non-current non-financial assets	6,345	20,627
Impairment losses – reversed	62,783	0
Other income – subject to recharge	48,699	0
Other income - received damages/compensations	27,339	78,070
Total	**325,157**	**461,634**

The decrease in other income, of over 29.5%, to PLN 325,158 (2019: PLN 461,634), was attributable to lower grants received and accounted for by the Company in respect of development projects in 2020. The grants totalled PLN 179,991, compared with PLN 362,937 in the previous year. Another factor with a positive effect on other income was the reversal of an impairment loss of PLN 62,783 following partial repayment of debt by one of the Company's debtors (former tenant of office space at ul. Brzeska 2 in Warsaw).

3.5.2. Other expenses

	Period ended Dec 31 2020	Period ended Dec 31 2019
Impairment losses recognised on:		
Trade receivables	0	0
Other expenses:		
Liquidation of non-financial non-current assets	245,119	0
Other (cost of written-off items brought forward)	0	33,959
Donations	1,321,399	230,316
Costs of discontinued projects	997,116	0
Non-recoverable withholding tax	11,444	625,964
Other expenses by nature	418,419	1,025,168
Total	**2,993,498**	**1,915,407**

In 2020, the main item of other expenses was donations (PLN 1,321,399, relative to PLN 230,316 in 2019). These included mainly expenses incurred by the Company to purchase medical equipment and supplies (in connection with the COVID-19 pandemic), which were donated to healthcare and educational establishments. The Company also supported the War Child Foundation helping child victims of war. In 2020, donations for this purpose amounted to PLN 144,453 (2019: PLN 230,316). In addition, PLN 258,936 was provided to The Humane Society International, an organisation engaging in the protection of animals.

In 2020, costs of discontinued projects amounted to PLN 997,116, and included written-off development expenditure on the game engine (phase six) and part of expenditure on the *Foxhole*

game (third-party developed project carried out by the Spanish Digital Sun studio), of PLN 871,504 and PLN 125,612, respectively. A major item of other expenses was also liquidation of non-financial non-current assets, i.e. write-off of certain assets of the office at ul. Brechta 7, Warsaw, Poland (the Company's headquarters until the end of February 2020). The decrease in other expenses by nature in 2019 from PLN 1,025,168 to PLN 418,419 was attributable to a reduction in business travel, advertising and insurance expenses in consequence of the COVID-19 pandemic.

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

	Period ended Dec 31 2020	Period ended Dec 31 2019
Cost of written-off items brought forward	0	(11,704)
Impairment losses – recognised	0	(95,172)
Impairment losses – reversed	62,783	6,978
Total	**62,783**	**(99,898)**

In 2020, the Company reversed an impairment loss following partial repayment of debt by one of the former tenants of office space at ul. Brzeska 2 in Warsaw.

3.6. Depreciation and amortisation (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019
Depreciation/ amortisation charges made during the year:		
Depreciation	1,767,155	462,343
Amortisation	9,682,962	6,255,177
Total	**11,450,117**	**6,717,520**
Allocation to project costs	(1,189,204)	(297,512)
Other depreciation and amortisation expenses	4,301	4,301
Total	**10,265,214**	**6,424,309**

The year-on-year increase in depreciation and amortisation expense in 2020 was driven by the commencement of amortisation of the expenditure incurred to create *Frostpunk: The Last Autumn* and *Frostpunk: On the Edge* (*Frostpunk's* second and third paid DLCs), released in January and August 2020, respectively, and *Children of Morta*, which had its debut in autumn 2019. Depreciation of property, plant and equipment also increased (to PLN 1,767,155 in 2020 from PLN 462,343 the year before), due to the Company's investments in new IT equipment.

3.7. Services (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019
Services	25,871,505	26,394,183

The year-on-year decline in cost of services in 2020 was caused by slightly lower sales of *Moonlighter* (published by 11 bit publishing and marketed from May 29th 2018) and *Children of Morta* (released for PCs on September 3rd 2019), and the related royalties paid by the Company to the developers of those games, i.e. Digital Sun of Spain and Dead Mage of the US. In 2020, royalties paid to Digital Sun, Dead Mage and, in a small part, to Pixel Crow, which had created *Beat Cop* (published by 11 bit studios S.A. and released in spring 2017), totalled PLN 18,272,704 (2019: PLN 20,191,515).

The Company's total expenditure on intangible assets (games production) which was not recognised under services but capitalised in the value of assets in 2020 amounted to PLN 12,821,882 (2019: PLN 7,216,551).

3.8. Salaries, wages and employee benefits (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019 *(restated)*
Salaries, wages and employee benefits	6,846,529	10,274,406

The major drop in salaries and wages, of 44.3% (to PLN 6,846,529 in 2020, from PLN 10,274,406 in 2019), despite a gradual increase in the Company's workforce and growing pay levels, was attributable to the fact that the Company finished accounting for the costs of the 2017–2019 Incentive Scheme. Historically, up until the fourth quarter of 2019 (inclusive), non-cash provisions created in connection with the Incentive Scheme were charged against the Company's profit or loss every quarter. In 2019, these costs totalled PLN 6,101,810. In the reporting period they were no longer recognised.

The Company's total expenditure on intangible assets (games production) which was not recognised under salaries and wages but capitalised in the value of assets in 2020 amounted to PLN 7,213,796 (2019: PLN 4,727,085).

3.9. Finance income (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019
Interest income:		
Bank deposits	530,675	1,089,576
Finance income:		
Gains on remeasurement of financial assets	13,012	0
Net foreign exchange gains (losses	0	273,796
Total	**543,687**	**1,363,372**

In 2020, the main source of finance income, which was lower year on year, at PLN 543,687 relative to PLN 1,363,372 in 2019, was interest income on bank deposits. It decreased by more than half, to PLN 530,675, compared with PLN 1,089,576 the year before, driven by rapidly falling

interest rates. Therefore, in the last quarter of 2020 the Company stopped placing surplus cash in bank deposits.

3.10. Finance costs (PLN)

	Period ended Dec 31 2020	Period ended Dec 31 2019
Interest on public charges	623	11,924
Net foreign exchange gains (losses)	12,992	0
Bank loan interest	122,191	0
Settlement of IRS	150,352	0
Losses on remeasurement of derivative contracts (IRS)	383,294	192,626
Losses on remeasurement of financial assets	2,477	0
Other	14,281	0
Total	**683,733**	**204,550**

In the reporting period, the largest item of the Company's 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 2020, interest expense on the facility was PLN 122,191. In addition, the Company incurred PLN 150,352 in costs connected with the settlement of an interest rate swap (IRS) hedging the interest rate risk over the term of the facility, and PLN 383,294 in costs resulting from the remeasurement of IRS contracts. In 2020, total finance costs incurred by 11 bit studios S.A. rose to PLN 683,733, from PLN 204,550 in 2019.

3.11. Income tax on continuing operations (PLN)

3.11.1. Income tax recognised in profit or loss

	Period ended Dec 31 2020	Period ended Dec 31 2019
Current income tax:		
Attributable to current year	4,264,259	3,703,852
Deferred income tax:		
Attributable to current year	(975,569)	(383,989)
Tax expense recognised in current year on continuing operations	**3,288,690**	**3,319,863**

With respect to income tax, the Company is bound by laws and regulations of general application. The Company does not conduct operations in any Special Economic Zone, which would entail the applicability of other rules for calculating taxes payable by the Company. The Company's fiscal and accounting year is the same as the calendar year.

Effective tax rate:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Profit before tax from continuing operations	40,651,821	27,046,777
Income tax expense at 19% (2019: 19%)	7,723,846	5,138,888
Tax effect of costs which are not deductible for tax purposes (permanent differences)	321,884	1,330,022
Effect of IP Box tax relief settlement at 5% tax rate	(4,757,040)	(2,713,965)
Effect of 2018 settlements – R&D tax relief	0	(196,607)
Effect of 2018 settlements – withholding tax adjustment	0	(56,353)
Other changes – reconciliation of income tax from previous years	0	(182,122)
Total	**3,288,690**	**3,319,863**

The tax rate applied in the above reconciliation in 2020 and 2019 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate was 8.09% in 2020 and 12.27% in 2019.

The slightly higher level of the effective tax rate in 2019 follows from a slightly different distribution of the Company's revenue from sale of own games and publishing activities in 2020. In 2020, it was 69% versus 31%, while in 2019 the proportion was 71% to 29%. 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 2020, the IP Box relief amounted to PLN 4,757,040 (2019: PLN 2,713,965).

Tax laws relating to value added tax, corporate and personal income tax, property tax, and social security contributions are regularly amended. Tax settlements may be subject to inspection over a period of five years. As a result, the disclosures in the financial statements may change at a later date after their amount is finally determined by the tax authorities. To the best of its knowledge, the Management Board is not aware of any circumstances existing as at the date of these financial statements which would necessitate the recognition of provisions for future liabilities to the tax office.

3.11.2. Current tax receivable and payable

	As at Dec 31 2020	As at Dec 31 2019
CIT refund receivable	(7,623,047)	(5,441,189)
Total	**(7,623,047)**	**(5,441,189)**

Tax receivables included the IP Box tax relief described in Note **3.11.1** (PLN 4,757,040), the tax remaining to be deducted upon receipt of returns from trading partners, and non-recovered withholding tax.

3.11.3. Deferred tax (net)

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

	As at Dec 31 2020	As at Dec 31 2019
Deferred tax asset	1,592,151	604,448
Deferred tax liability	(74,561)	(62,426)
Total	**1,517,590**	**542,022**

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 Dec 31 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	401,744	1,339,512	0	937,738
Measurement of IRS derivative contracts	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)	**541,992**	**1,261,750**	**0**	**975,568**

Period ended Dec 31 2019:

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

3.12. Earnings per share (PLN)

3.12.1. Basic earnings per share

	Period ended Dec 31 2020	Period ended Dec 31 2019 (*restated*)
Basic earnings per share:		
From continuing operations	16.13	10.37
Total basic earnings per share	**16.13**	**10.37**
Diluted earnings per share:		
From continuing operations	15.64	9.82
Total diluted earnings per share	**15.64**	**9.82**

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

	Period ended Dec 31 2020	Period ended Dec 31 2019 *(restated)*
Profit for the financial year attributable to shareholders	37,363,131	23,726,914
Total profit used to calculate basic earnings per share	37,363,131	23,726,914
Profit used to calculate basic earnings per share from continuing operations	**37,363,131**	**23,726,914**

	Period ended Dec 31 2020	Period ended Dec 31 2019
Weighted average number of ordinary shares used to calculate earnings per share	2,315,946	2,287,199

3.12.2. Diluted earnings per share

	Period ended Dec 31 2020	Period ended Dec 31 2019 *(restated)*
Profit for the financial year attributable to shareholders	37,363,131	23,726,914
Total profit used to calculate diluted earnings per share	37,363,131	23,726,914
Profit used to calculate diluted earnings per share from continuing operations	**37,363,131**	**23,726,914**

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

	Period ended Dec 31 2020	Period ended Dec 31 2019
Weighted average number of ordinary shares used to calculate basic earnings per share	2,315,946	2,287,199
Shares expected to be issued:		
Employee stock options	73,458	130,000
Weighted average number of ordinary shares used to calculate diluted earnings per share	**2,389,404**	**2,417,199**

3.13. Property, plant and equipment and perpetual usufruct of land (PLN)

Carrying amount:

	As at Dec 31 2020	As at Dec 31 2019
Buildings and premises	23,645,432	20,206,136
Land	4,003,398	4,007,699
Property, plant and equipment under construction	102,242	11,515
Plant and equipment	437,767	73,876
Vehicles	9,448	77,888
Other property, plant and equipment	2,694,614	10,790
Total	**30,892,901**	**24,387,904**

As at the date of issue of these financial statements, the Company had one effective agreement on perpetual usufruct of land, for a developed property at ul. Brzeska 2 in Warsaw, purchased by the Company at the end of 2018 to house its new headquarters. Since January 1st 2019, the right of perpetual usufruct to the property located at ul. Brzeska 2 in Warsaw has been disclosed in the Company's statement of financial position (under right-of-use assets and lease liabilities). The Company measured the perpetual usufruct right at PLN 4,003,398. It is amortised over the term of the perpetual usufruct agreement, i.e. until October 27th 2099.

The lease payments are discounted at the lessee's incremental borrowing rate. The incremental borrowing rate was estimated by the Company as the interest rate at the inception of the lease at which the lessee (the Company) would have borrow funds necessary to purchase a given asset over a similar term and with a similar security. The incremental borrowing rate used to measure the lease liability is 3.4%.

Gross carrying amount:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	**20,306,492**	**4,012,000**	**11,515**	**1,043,464**	**372,854**	**281,408**	**26,027,732**
Increase	1,094,106		6,720,735	282,292	0	364,904	8,462,037
Decrease	(333,169)	0	0	0	0	(22,710)	(355,879)
Reclassification	3,133,276	0	(6,630,008)	627,870	0	2,868,861	0
As at Dec 31 2020	**24,200,705**	**4,012,000**	**102,242**	**1,953,626**	**372,854**	**3,492,462**	**34,133,888**

Accumulated depreciation and impairment:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	**100,356**	**4,301**	**0**	**969,588**	**294,965**	**270,617**	**1,639,827**
Depreciation expense	522,488	4,301	0	546,271	68,441	540,794	1,712,295
Decrease	(95,571)	0	0	0	0	(13,563)	(111,134)
As at Dec 31 2020	**555,273**	**8,602**	**0**	**1,515,859**	**363,406**	**797,848**	**3,240,988**

Comparative data for the period from January 1st to December 31st 2019

Gross carrying amount:

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

Accumulated depreciation and impairment:

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

3.14. Intangible assets (PLN)

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

Useful lives of intangible assets used to calculate amortisation:

Completed development work:

Completed game engine development work as at December 31st 2020 included the capitalised cost of the fourth and fifth work phases with the remaining weighted average amortisation period of 19 months.

As at December 31st 2020, the completed development work on video games comprised games with the remaining weighted average amortisation period of 9.6 months.

Ongoing development work:

As at December 31st 2020, expenditures on ongoing development work included mainly development expenditures on games, in particular *Project 8*, *Dolly Project* and *Eleanor Project* and third-party games in the 11 bit publishing's portfolio, as well as development expenditures on the game engine (phase six).

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 997,116. In 2019, the Company wrote off expenditure on discontinued work of PLN 33,959.

Carrying amount:

	As at Dec 31 2020	As at Dec 31 2019
Completed development work (game engine)	3,954,725	799,816
Completed development work (games)	8,004,182	11,402,028
Ongoing development work	25,545,704	12,668,661
Licences	354,906	0
Total	**37,859,517**	**24,870,505**

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	**2,717,702**	**30,872,101**	**518,692**	**12,668,661**	**46,777,156**
Increase	0	0	414,067	23,364,303	23,778,370
Reclassification of completed development work	4,096,929	5,344,096	0	(10,457,260)	19,927 28
Decrease	0	0	0	0	
Discontinued work written off	0	0	0	(997,116)	(997,116)
As at Dec 31 2020	**6,813,631**	**36,216,197**	**932,759**	**24,578,589**	**68,511,175**

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	941,020	8,741,942	59,161	0	9,742,123
Decrease	0	0	0	0	0
As at Dec 31 2020	**2,858,907**	**28,212,015**	**577,853**	**0**	**31,648,774**

Comparative data for the period from January 1st to December 31st 2019

Gross carrying amount:

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

Accumulated amortisation and impairment:

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

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

3.15. Trade and other receivables (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Trade and other receivables, including:	**11,690,703**	**17,902,912**
Taxes, grants, customs duties and social security	1,711,782	1,796,511
Other	59,885	250,862
Impairment losses on trade receivables	**(89,197)**	**(151,980)**
Total	**11,601,506**	**17,750,932**

3.15.1. Trade receivables

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

Trade receivables are measured in the accounting books at amounts corresponding to transaction prices adjusted for impairment, if any, in accordance with the expected loss model.

Since the Company has cooperated for years with the same trading partners with a very high financial standing and has never experienced any payment problems in those relations, it applies simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date for payment is not long. Historically, there have been only minor changes to the list of trading partners through which the Company sells games.

The balances disclosed as at December 31st 2020 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Dec 31 2020	As at Dec 31 2019
Valve Corporation	3,663,436	6,319,615
Humble Bundle Inc.	1,887,711	3,050,261
Nintendo Co. Ltd	775,040	1,012,032
Google LLC	706,687	0
GOG Sp. z o.o.	703,368	560,087
Sony Interactive Entertainment America LLC	577,003	1,105,220

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

Ageing analysis of past due receivables:

	As at Dec 31 2020	As at Dec 31 2019
60–90 days	20,050	0
91–120 days	4,387	140,539
121–360 days	85,933	76,784
over 360 days	155,012	0
Total	**265,382**	**217,323**

In 2020, the Company did not recognise any new provisions for past due receivables. An impairment loss of PLN 62,783 was reversed following partial repayment of debt by one of the Company's debtors (former tenant of office space at the Company's office at ul. Brzeska 2 in Warsaw).

Changes in impairment losses on doubtful receivables:

	As at Dec 31 2020	As at Dec 31 2019
As at beginning of reporting period	**151,980**	**56,807**
Recognition	0	95,173
Reversal	(62,783)	0
As at end of reporting period	**89,197**	**151,980**

The year-on-year decrease in impairment losses on doubtful receivables as at the end of 2020 followed from partial repayment of debt by a former tenant of office space in the office building at ul. Brzeska 2. As at the end of 2020, the amount of the impairment losses included amounts due from former tenants of office space in the office building at ul. Brzeska 2 and a security deposit related to the lease of office space at ul. Modlińska 6 in Warsaw, whose payment is being enforced under court proceedings.

Ageing analysis of impaired trade receivables:

	As at Dec 31 2020	As at Dec 31 2019
60–90 days	0	0
91–120 days	0	0
121–360 days	23,141	95,173
over 360 days	66,056	56,807
Total	**89,197**	**151,980**

3.16. Income tax receivable (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Income tax receivable	7,623,047	5,441,189
Total	**7,623,047**	**5,441,189**

The year-on-year increase in the Company's income tax receivable as at December 31st 2020 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 was PLN 4,757,040 in 2020 (2019: PLN 2,713,965).

3.17. Current financial assets (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Financial instruments	69,932,222	0
Bank deposits with maturities of more than 3 months	0	67,000,000
Measurement – bank deposits with maturities of more than 3 months	0	328,563
Loans to employees	2,066,604	0
Total	**71,998,826**	**67,328,563**

The financial instruments included:

	Acquisition date	Measurement as at acquisition date	Measurement as at Dec 31 2020
PKO Leasing notes*	Dec 4 2020	39,921,688	39,921,688
PKO Parasolowy FIO – Subfundusz Obligacji Samorządowych	Dec 23 2020	10,000,000	10,000,000
Inwestor Parasol FIO – Inwestor Oszczędnościowy	Dec 17 2020	4,000,000	4,003,622
Quercus Parasolowy FIO – Quercus Dłużny Krótkoterminowy	Dec 17 2020	4,000,000	4,002,636
Skarbiec FIO – Skarbiec Konserwatywny Kat. A	Dec 18 2020	4,000,000	3,998,250
Generali Fundusze FIO – Generali Korona Obligacje	Dec 18 2020	4,000,000	4,006,754
Aviva Investors FIO – Aviva Investors Dochodowy Kategoria A	Dec 17 2020	4,000,000	3,999,272
Total		**69,921,688**	**69,932,222**

* The notes issued by PKO Leasing are discount notes. They will be redeemed by the issuer on June 1st 2021 for PLN 40,000,000.

Loans to employees are measured at amortised cost. The loans bear interest at 0.5% per annum. Loans are granted for a period of 12 months.

3.18. Other current assets (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Insurance	48,053	45,642
Domain names, licences, subscriptions	341,643	187,929
Prepaid expenses	192,117	73,596
Guarantees	0	1,144
Royalties to be accounted for in the next period	0	129,919
Other	1,785	0
Total	**583,598**	**438,230**

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. As at December 31st 2019, royalties payable to game developers using the Company's publishing services also represented a material item.

3.19. Other assets (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Long-term prepayments and accrued income	127,590	14,695
Total	**127,590**	**14,695**

Long-term prepayments and accrued income as at the end of 2020 and as at the end of 2019 included fees for online domains and trademarks.

3.20.Cash and cash equivalents (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Cash in hand and at banks	24,134,648	7,882,519
PKO BP Bank Hipoteczny bonds	0	7,000,000
Total	**24,134,648**	**14,882,519**

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).

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

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

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

When measuring its cash, including in foreign currencies, as at December 31st 2020, the Company also measured expected credit losses (ECL) but the effect was not material.

3.21. Share capital (PLN)

	As at Dec 31 2020	As at Dec 31 2019
Share capital	236,055	228,720
Total	**236,055**	**228,720**

As at December 31st 2020, the Company's share capital consisted of 2,360,545 fully paid-up ordinary shares totalling PLN 236,054.50.

3.21.1. Ordinary shares fully paid

	Number of shares	Share capital	Share premium
As at Dec 31 2019	**2,287,199**	**228,720**	**4,870,274**
Increase/decrease	73,346	7,335	7,537,359
As at Dec 31 2020	**2,360,545**	**236,055**	**12,407,633**

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

3.22. Information on dividend paid or declared

The Company paid no dividends in 2020 or 2019.

By Resolution No. 05/05/2020 of the Annual General Meeting of 11 bit studios S.A., dated June 9th 2020, the full amount of net profit for 2019 of PLN 21,710,280 (before restatement; the restatement was made in the report for the first half of 2020) was allocated to statutory reserve funds.

Pursuant to Art. 396.1 of the Commercial Companies Code applicable the Company, at least 8% of net profit for each financial year should be contributed to statutory reserve funds held for the purpose of covering losses until the funds reach at least one-third of the Company's share capital. That part of statutory reserve funds (retained earnings) is not available for distribution to shareholders. As at December 31st 2020, it amounted to PLN 76,240 (2019: PLN 76,240).

3.23. Recommendation on appropriation of 2020 profit

As at the date of issue of these 2020 financial statements, no resolution was passed by the Management Board regarding a recommendation on the appropriation of the 2020 profit.

3.24. Contract liabilities

As at December 31st 2019, contract liabilities comprised advance payments received by the Company from its trading partners towards future sales of the Company's products (games). As at December 31st 2020, the Company had no contract liabilities.

3.25. Trade and other payables

	As at Dec 31 2020	As at Dec 31 2019
Trade payables	310,441	5,402,392
Guarantee deposits – Brzeska 2	82,634	76,784
Taxes, customs duties, insurance and other dues	1,184,903	556,548
Accruals and deferred income	8,171,037	5,337,339
Amounts payable to employees	1,143	15,034
Other	41,796	41,796
Total	**9,791,954**	**11,429,892**

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

The decrease in trade payables to PLN 310,441 as at the end of 2020 from PLN 5,402,392 as at the end of 2019 was mainly attributable to payment of amounts due for renovation and upgrade work carried out in the fourth quarter of 2019 on the property at ul. Brzeska 2in Warsaw (the Company's headquarters since March 2020). The payments were made in the first weeks of 2020.

Ageing analysis of trade and other payables:

	As at Dec 31 2020	As at Dec 31 2019
Short-term	9,791,955	11,429,892
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	**9,791,955**	**11,429,892**

The Company has financial risk management policies in place to ensure the timely payment of liabilities. As a result, all trade and other payables are disclosed as current liabilities.

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

3.26. Borrowings

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

Repayment of the facility is secured with a blank promissory note issued by the Company, together with a promissory note declaration, a contractual mortgage of up to PLN 20,223,000.00 over perpetual usufruct of the land and the ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP. As at December 31st 2020, the long-term portion of the facility was PLN 9,499,650 (2019: PLN 10,429,732), while its short-term portion (including measurement of the interest rate swap) was PLN 1,357,093 (2019: 1,303,717).

3.27. 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 2020	**151,082**	**4,320,291**	**45,000**	**270,000**	**52,532**	**498,435**	**5,337,339**
Increase:							
Recognition	745,861	28,465,679	159,000	120,000	457,481	1,256,226	31,184,246
Decrease:							
Use	574,039	15,130,696	119,515	0	333,797	320,097	16,478,145
Reversal	0	(10,605,209)	0	0	0	(1,267,194)	(11,872,403)
As at Dec 31 2020	**322,904**	**7 050 0650**	**84,485**	**390,000**	**176,216**	**147,368**	**8 171 0377**

Comparative data for the period from January 1st to December 31st 2019

	Accrued bonuses for Management Board Members and employees	Accrued salaries and wages	Other	Total
As at Jan 1 2019	**241,513**	**165,840**	**3,746,668**	**4,154,022**
Increase:				
Recognition	600,078	487,763	22,033,272	23,121,113
Decrease:				
Use	571,591	436,630	21,987,568	22,995,789
Reversal	0	9,792	(1,067,786)	(1,057,994)
As at Dec 31 2019	**270,000**	**207,181**	**4,860,159**	**5,337,340**

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

3.28.Retirement benefit plans

The employees of the Company are covered by the state pension benefit scheme implemented by the government in Poland through the Social Insurance Institution (ZUS). The Company is required to contribute a percentage of salaries to the old-age insurance fund to cover the cost of retirement benefits. As regards the retirement benefits scheme, the Company's sole duty is to pay the required contributions.

In accordance with the Act on Employee Capital Plans of October 4th 2018, 11 bit studios S.A. launched an employee capital plan (PPK) for its employees in 2020. On October 23rd 2020, the Company signed agreements for the operation and management of the PPK with Aviva Specjalistyczny Fundusz Inwestycyjny Otwarty PPK (managed by Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna). Every month the Company transfers a contribution (basic contribution) equal to 1.5% of an employee's gross pay to the PPK account of each employee.

3.29.Financial instruments (PLN)

As at the reporting date, the Company analysed its financial assets and concluded that the carrying amounts of instruments measured at amortised cost did not differ from their fair values as at December 31st 2020 and December 31st 2019. In the case of instruments measured at fair value, the measurement was based on their market value as at the reporting date.

3.29.1.Financial assets and liabilities

Financial assets:

	As at Dec 31 2020	As at Dec 31 2019
Financial assets measured at amortised cost – cash	24,134,648	14,882,519
Financial assets measured at fair value – investment fund units	30,010,534	0
Financial assets measured at amortised cost – PKO Leasing notes	39,921,688	0
Financial assets measured at amortised cost – loans, trade and other receivables	11,601,604	17,750,932
Loans to employees measured at amortised cost	2,066,604	0
Financial assets measured at amortised cost – bank deposits with maturities of more than 3 months from acquisition date	0	67,328,563
Total	**107,735,078**	**99,962,014**

For a full list of financial assets held by the Company as at December 31st 2020 and measured at fair value, see **Note 3.17.**

As at December 31st 2019, the item 'financial assets measured at amortised cost – cash' also included PKO Bank Hipoteczny bonds, which were treated as current liquidity management instruments rather than an investment. On January 23rd 2020, the issuer (PKO Bank Hipoteczny) repurchased all the securities held by 11 bit studios S.A.

Financial liabilities:

	As at Dec 31 2020	As at Dec 31 2019
Liabilities measured at amortised cost – trade and other payables	9,791,955	11,429,892
Credit facility	10,080,000	11,340,001
IRS	776,743	393,448
Perpetual usufruct rights to land	338,054	347,544
Total	**20,986,751**	**23,510,885**

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 Dec 31 2020	As at Dec 31 2019
Short-term	9,791,955	11,429,892
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	**9,791,955**	**11,429,892**

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

3.29.2.Objectives of financial risk management

The Company's Management Board coordinates access to domestic and foreign financial markets, monitors and manages financial risks associated with the Company's operations through internal risk reports containing an analysis of exposures by risk level and size. The risks covered include currency risk, credit risk and liquidity risk.

3.29.3.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 3.15.** 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 December 31st 2020, cash was held with two institutions: PayPal (PLN 302,818) 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.

3.29.4.Currency risk management

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

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

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

Assets:

	As at Dec 31 2020	As at Dec 31 2019
USD-denominated, including:	**14,154,617**	**16,494,558**
Cash	6,393,796	4,269,215
Receivables	7,760,821	12,225,343
EUR-denominated, including:	**2,559,611**	**4,622,185**
Cash	1,216,181	1,900,124
Receivables	1,343,430	2,722,061
JPY-denominated, including:	**210,294**	**379,478**
Cash	0	0
Receivables	210,294	379,478

Liabilities:

	As at Dec 31 2020	As at Dec 31 2019
USD-denominated	80,634	24,235
EUR-denominated	69,578	70,531
JPY-denominated	0	0

3.29.5.Sensitivity to currency risk

11 bit studios S.A.'s revenue is primarily denominated in foreign currencies (mainly in USD).

The table below presents the Company's sensitivity to a 10% appreciation or depreciation of the Polish złoty against the relevant foreign currencies. The 10% sensitivity rate is the rate used in internal reports on currency risk prepared for key management personnel; it reflects the Management Board's assessment of possible exchange rate movements. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the financial period end for a 10% change in foreign exchange rates. The analysis includes cash held in bank accounts as well as the Company's receivables and payables denominated in currencies other than the Company's functional currency. A positive figure in the table below indicates an increase in profit resulting from a 10% depreciation of the Polish złoty against the relevant foreign currencies. For a 10% appreciation of the Polish złoty, the figure would be negative, and there would be a corresponding decrease in net profit.

USD impact:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Net profit*	1,139,993	1,334,096

EUR impact:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Net profit*	201,693	368,684

JPY impact:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Net profit*	17,034	30,738

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

3.29.6.Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Management Board, which has put in place an appropriate system for managing short-, medium- and long-term financing and liquidity management requirements. The Company manages liquidity risk by maintaining adequate statutory reserve funds, continuously monitoring projected and actual cash flows, and adjusting the maturity profiles of financial assets and liabilities.

The Company's only financial liability is the investment credit facility of PLN 12,600,000 contracted from PKO BP at the end of 2018 to purchase the property located at ul. Brzeska 2 in Warsaw. Its final repayment date is December 11th 2028. The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged with an interest rate swap. The loan bears interest at a fixed rate of 3.4%.

11 bit studios S.A. invests surplus cash in financial instruments with a conservative risk profile. The Company holds investment fund units of six investment fund management companies (TFIs) and notes issued by PKO Leasing. For a full list of financial instruments held by the Company as at December 31st 2020, see **Note 3.28.1.**

3.29.7.Fair value of the Company's financial assets and liabilities that are not measured at fair value but are required to be disclosed at fair value

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

3.29.8.Fair value measurement methods

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

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

The fair value of bonds 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 Dec 31 2020	As at Dec 31 2019	Fair value hierarchy
Bonds and notes	39,921,688	7,000,000	Level 2
Investment fund units	30,010,534	0	Level 1
Loans to employees	2,066,604	0	Level 2

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

3.30.Deferred income

	As at Dec 31 2020	As at Dec 31 2019
Government grants (a)	695,708	677,555
Other (b)	0	9,123
Total	**695,708**	**686,678**
Short-term	59,997	189,114
Long-term	635,711	497,564
Total	**695,708**	**686,678**

(a) The amount represents the total of:

- Government grant (EU funding) received in 2014 under the MEDIA programme for the development of proprietary technology. The income began to be recognised in 2018. As at December 31st 2020, the outstanding (not accounted for) balance of the grant was PLN 59,997 (December 31st 2019: PLN 239,988).
- Government grant (EU funding) received in 2017 under the Creative Media programme for the development of *Project 8*. Income from the grant has not been accounted for yet. It will be recognised against amortisation charges in the coming years – PLN 437,566 (December 31st 2019: PLN 437,566).

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

3.31. Share-based payments (PLN)

3.31.1. Employee stock option plan for 2017–2019

Pursuant to Resolution No. 18/05/2017 of the Company's General Meeting of May 10th 2017, the Company operates an Incentive Scheme for Members of the Management Board, employees and independent contractors, which has the form of a share-based payment plan. The Incentive Scheme covered the years 2017–2019. Persons who signed Incentive Scheme participation agreements with the Company were entitled to acquire a total of 130,000 Series B subscription warrants convertible into 130,000 Series G shares, subject to meeting the targets set for the Company and defined in the Incentive Scheme Rules. The relevant resolution (No. 05/06/2017) to issue up to 130,000 Series G shares with a par value of PLN 0.10 per share and total par value of PLN 13,000 was passed by the Extraordinary General Meeting on June 7th 2017.

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

Total revenue of the 11 bit studios S.A. Group, 2017–2019	126,414,447
Total profit before tax of the 11 bit studios S.A. Group, 2017–2019	71,188,803

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

On July 3rd 2020, the Company announced (in Current Report No. 23/2020), based on the information received from DM BOŚ S.A. (the brokerage house which supported the Company in the implementation of the 2017–2019 Incentive Scheme), that on that day 68,281 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total

amount of PLN 7,058,889.78. As of that date the share capital of 11 bit studios S.A. comprised 2,355,480 Series A – Series G shares.

On September 14th 2020, the Company announced (in Current Report No. 28/2020), based on the information received from DM BOŚ S.A., that on September 10th 2020 3,415 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 353,042.70. As of that date the share capital of 11 bit studios S.A. comprised 2,358,895 Series A – Series G shares.

On November 12th 2020, the Company announced (in Current Report No. 31/2020), based on the information received from DM BOŚ S.A., that on November 10th 2020 1,650 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 170,577. As of that date the share capital of 11 bit studios S.A. comprised 2,360,545 Series A – Series G shares.

After the reporting period but prior to the issue of these financial statements, the share capital of 11 bit studios S.A. was increased twice as a result of conversion of subscription warrants into Series G shares by the Participants of the 2017–2019 Incentive Scheme.

On February 12th 2021, the Company announced (in Current Report No. 7/2021), based on the information received from DM BOŚ S.A., that on February 11th 2020 900 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 93,042. As of that date the share capital of 11 bit studios S.A. comprised 2,361,445 Series A – Series G shares.

On April 23rd 2021, the Company announced (in Current Report 11/2021), based on the information received from DM BOŚ S.A., that on April 23rd 2020 1,698 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 175,539.24. As of that date the share capital of 11 bit studios S.A. comprised 2,363,143 Series A – Series G shares.

3.31.2.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 three-year Incentive Scheme and is recognised as capital reserve. The key parameters of the model used to calculate the fair value of the potential Incentive Scheme premium and the costs to be charged to profit or loss in a given period are presented below:

Grant date (date of signing the participation agreements)	Mar 30 2018
Vesting date	Dec 31 2019
11 but studios S.A. share price on the grant date (PLN)	209.00
Annual volatility of 11 bit studios S.A. share price (%)	57.93%
Risk-free rate (%)	2.354%
Number of warrants in the Incentive Scheme	130,000
Measurement of warrants (PLN)	140.81
Total cost of the Incentive Scheme as at Dec 31 2020 remaining to be recognised	0
Cost of the Incentive Scheme as at Dec 31 2019	18,305,429
Statement of profit or loss – employee benefits expense (PLN) in 2020	0
Statement of profit or loss – employee benefits expense (PLN) in 2019	8,118,445

As at January 1st 2020, the Company did not issue any Series G shares for the purposes of the 2017–2019 Incentive Scheme. By the reporting date, in 2020 the Company issued 73,346 Series G shares for that purpose (in three tranches) at the issue price of PLN 103.38. This means that as at December 31st 2020 the Company's share capital comprised 2,360,545 Series A – Series G shares, i.e. the number of outstanding options as at that date was 56,654.

After the reporting period, by the date of issue of this 2020 Annual Report, 11 bit studios S.A. issued (in two tranches) another 2,598 Series G shares at the issue price of PLN 103.38. This means that as at the date of issue of this Report, the Company's share capital comprised 2,363,143 Series A – Series G shares. As at the reporting date, the number of Series G shares the Company may still issue (until the end of June 2023) at the issue price of PLN 103.38 is 54,056.

3.31.3.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, for the purposes of the Incentive Scheme 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. Acting on the proposal of 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.

3.31.4. Recognition of the 2021–2025 Incentive Scheme as at the reporting date

As at the reporting date, the Incentive Scheme for 2021–2025 was not measured as it had not come into effect yet. The Company signed agreements with employees covered by the Incentive Scheme on March 10th 2021.

3.32. Related-party transactions (PLN)

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

- 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 (from May 23rd 2019; before that he had served as Member 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 (since May 23rd 2019)
- Piotr Wierzbicki – Member of the Supervisory Board (since May 23rd 2019)
- Agnieszka Maria Kruz– Member of the Supervisory Board (until May 23rd 2019)
- Piotr Sulima – Chairman of the Supervisory Board (until May 23rd 2019)

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)

3.32.1.Sale transactions

Apart from the services provided by Members of the Company's Management Board, as described in **Note 3.33.4.**, the Company entered into the following transactions with other related parties in 2020 and 2019:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Arkona – Paweł Miechowski	228,760	182,120
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	61,633	54,350
Total	**290,393**	**236,471**

3.32.2.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 159,014.

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

3.32.3.Borrowings from related parties

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

3.32.4.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 2020 and in the reference period, Members of the Company's Management Board and Supervisory Board were remunerated as follows for discharging managerial and supervisory responsibilities:

Short-term benefits – Management Board:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Przemysław Marszał	429,771	429,866
Grzegorz Miechowski	430,832	430,838
Michał Drozdowski	420,000	420,000
Total	**1,280,603**	**1,280,704**

Short-term benefits – Supervisory Board:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Wojciech Ozimek (Chairman of the Supervisory Board from May 23rd 2019, Member of the Supervisory Board until May 23rd 2019)	54,000	40,510
Jacek Czykiel	36,000	34,875
Radosław Marter	19,800	19,800
Marcin Kuciapski (Member of the Supervisory Board since May 23rd 2019)	19,800	12,045
Piotr Wierzbicki (Member of the Supervisory Board since May 23rd 2019)	19,800	12,045
Piotr Sulima (Chairman of the Supervisory Board until May 23rd 2019)	0	21,450
Agnieszka Maria Kruz (Member of the Supervisory Board until May 23rd 2019)	0	7,865
Total	**149,400**	**148,590**

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.

In accordance with the remuneration policy, Members of the Management Board are entitled to an annual bonus, whose amount depends on the Company's net profit earned in a given period. The amount of the bonus for 2019 was determined by the Supervisory Board's Resolution No. 3/2018 of March 8th 2018.

Short-term benefits – Management Board (annual bonus):

	Period ended Dec 31 2020	Period ended Dec 31 2019
Przemysław Marszał	815,636	190,530
Grzegorz Miechowski	815,636	190,530
Michał Drozdowski	815,636	190,530
Total	**2,446,908**	**571,590**

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

Short-term benefits – Management Board (civil-law contracts):

	Period ended Dec 31 2020	Period ended Dec 31 2019
Grzegorz Miechowski	60,000	60,000
Michał Drozdowski	60,000	60,000
Przemysław Marszał	60,000	60,000
Total	**180,000**	**180,000**

The Members of the Management Board did not receive any other remuneration for 2020 or 2019 in the form of profit distributions or stock options. However, they participate in the Incentive Scheme, described in detail (together with its valuation) in **Note 3.30**. to the full-year financial statements of 11 bit studios S.A. for 2020.

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

In Current Report No. 24/2020 of July 3rd 2020, 11 bit studios S.A. announced that on July 3rd 2020 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, then President of the Company's Management Board, concerning his subscription for 11 bit studios S.A. shares as part of the settlement of the 2017–2019 Incentive Scheme. On July 3rd 2020, Grzegorz Miechowski subscribed for 18,413 Company shares at a price of PLN 103.38 per share.

As at the date of issue of these financial statements, Przemysław Marszał (President of the Management Board, holding 18,413 warrants) and Michał Drozdowski (Member of the Management Board, holding 18,414 warrants) had not yet exercised the option to convert their warrants into Series G shares under the 2017−2019 Incentive Scheme.

Remuneration of the Management Board in 2020 – total:

	Przemysław Marszał	Grzegorz Miechowski	Michał Drozdowski
Remuneration for managerial responsibilities	429,771	430,832	420,000
Annual bonus (paid in 2020)	815,636	815,636	815,636
Remuneration under civil-law contracts	60,000	60,000	60,000
Non-monetary benefits	9,830	10,832	0
Total	**1,315,237**	**1,317,300**	**1,295,636**

Remuneration of the Management Board in 2019 – total:

	Przemysław Marszał	Grzegorz Miechowski	Michał Drozdowski
Remuneration for managerial responsibilities	429,866	430,838	420,000
Annual bonus (paid in 2019)	190,530	190,530	190,530
Remuneration under civil-law contracts	60,000	60,000	60,000
Non-monetary benefits	9,866	10,839	0
Total	**690,262**	**692,207**	**670,530**

Non-monetary benefits to which Members of the Management Board were entitled in 2020 and 2019 included use of a company car (without a mileage limit), private medical care programme, contributions to the employee capital plan, and Multi-Sport cards.

3.32.5.Other related-party transactions

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

3.33.Off-balance-sheet commitments

As at the date of issue of this 2020 Annual Report, the Company had off-balance-sheet commitments of EUR 3,452,000 and PLN 4,837,000. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.34.Contingent assets and liabilities

3.34.1.Contingent liabilities

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

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

Promissory note declaration (blank promissory note) in favour of the 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.

3.35. Correction of previous years' errors

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

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

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

The tables below present the restated presentation data.

2019 full-year report (PLN)

	Value before adjustments	**Adjustment A** Recognition of the Incentive Scheme	**Adjustment B** Change in presentation of land value	Value after adjustments
Statement of profit or loss and other income	**2019**			**2019**
Salaries, wages and employee benefits	(12,291,040)	2,016,634	0	(10,274,406)
Net profit/total comprehensive income	21,710,280	2,016,634	0	23,726,914
Earnings per share				
Basic	9.49	0.88	0	10.37
Diluted	8.98	0.83	0	9.82
Statement of financial position	**As at Dec 31 2019**			**As at Dec 31 2019**
Property, plant and equipment	24,043,839	0	(3,663,634)	20,380,205
Right-of-use assets	344,065	0	3,663,634	4,007,699
Share-based payment reserve	14,257,326	4,048,103	0	18,305,429
Retained earnings	21,502,195	(4,048,103)	0	17,454,092
Statement of cash flows	**2019**			**2019**
Net profit for the financial year	21,710,280	2,016,634	0	23,726,914
Other adjustments	8,360,773	(2,016,634)	0	6,344,139
Net cash from operating activities	41,643,258	0	0	41,643,258

2019 full-year report (PLN)

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

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

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

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

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

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

3.38. Events subsequent to the reporting date

By the date of authorisation of these financial statements by the Company's Management Board, i.e. April 28th 2021, there were no events having an impact on the Company's 2020 financial statements. For information on other events subsequent to the reporting date, see **Note 5.5** (issues of shares after the reporting date) and **Note 3.30.3** (adoption of the Incentive Scheme for 2021–2025).

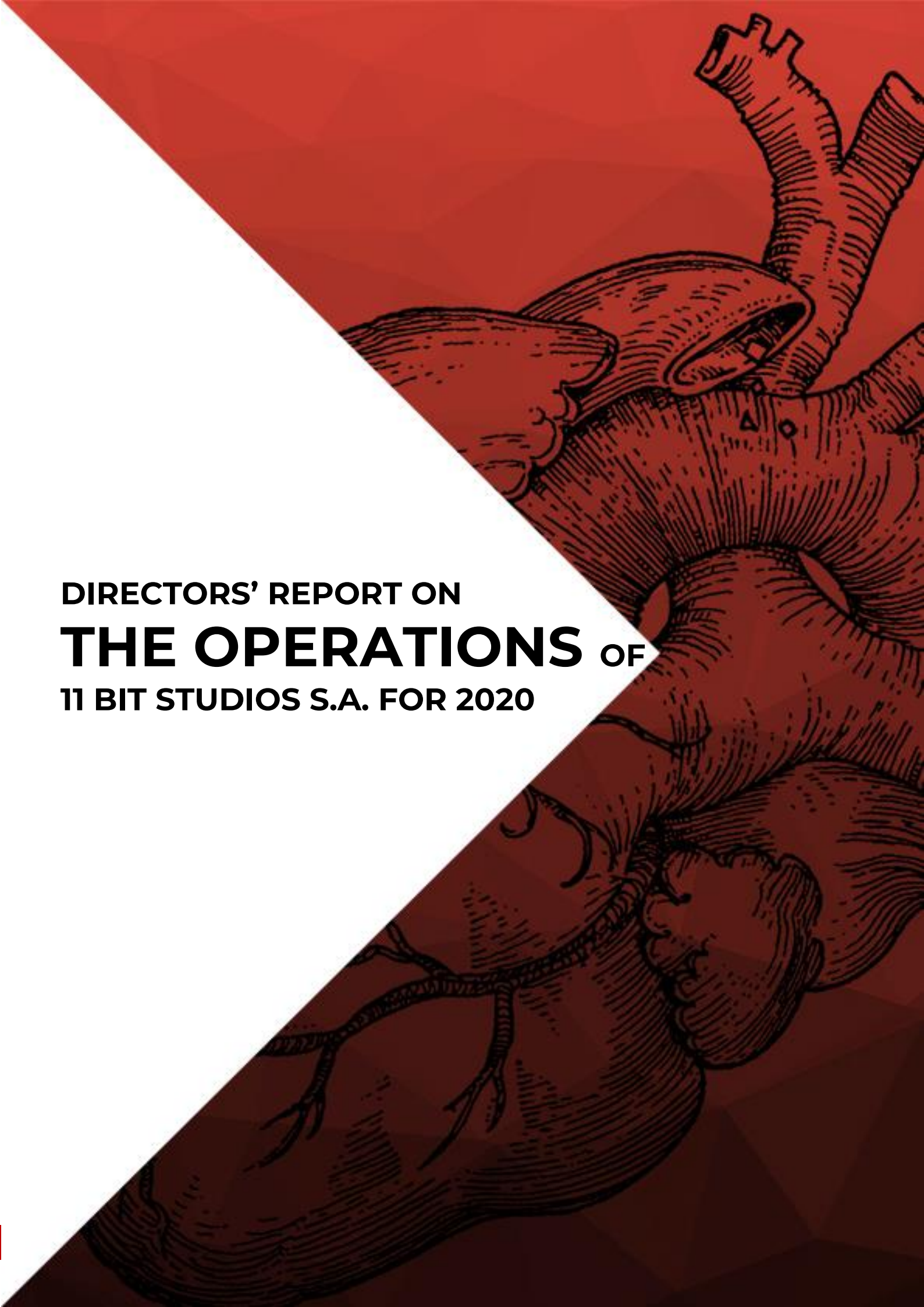
3.39.Authorisation of financial statements

These financial statements were authorised for issue by the Management Board on April 28th 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, April 28th 2021



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

4.OVERVIEW

4.1. Key achievements in 2020

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

The PC version of *Frostpunk* was first placed on the market on April 24th 2018. The game, telling the story of a struggle for survival of a community stranded in a freezing world, proved very popular with fans, which translated into in very good sales in the release period and the following quarters. On October 11th 2019, the Company's newest product was also released for Xbox One and PS4. By the end of December 2020, revenue from sale of *Frostpunk* on all platforms and the paid add-ons for the game totalled more than PLN 130m.

Moonlighter, developed by the Spanish Digital Sun studio, was released on May 29th 2018 (for PCs, Xbox One and PS4). 11 bit studios S.A. was the publisher of the game. In the fourth quarter of 2018, this Spanish game was also released for Nintendo Switch. Like *Frostpunk*, *Moonlighter* was very well received by the market, and the strong interest it generated, supported by DLCs (including paid ones), translated into revenue of over PLN 44m since the release date.

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

This War of Mine continued to contribute positively to the Company's results in 2020 (the PC version of the game was released on November 14th 2014), invariably enjoying strong interest among fans. The game generated total revenue of more than PLN 110m from its debut to the end of 2020.

4.1.1. Game development

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

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

from industry media and players. Moreover, the strong sales of *Frostpunk: The Last Autumn* and the entire Season Pass drove up the sales of the game's basic version as well. Many buyers decided to purchase *Frostpunk: Game of The Year (GOTY)*, the edition containing the main version and the Season Pass, which effectively increased the Company's revenue in the reporting period. At the Annual Investors Conference held on June 29th 2020, the Company announced that as many as 25% of those who bought *Frostpunk* in the first six months of 2020 chose *Frostpunk: GOTY*. The conversion rate (the proportion of the owners of the basic version of *Frostpunk* who also purchased the Season Pass) already reached 15%, which is a very good result. Throughout 2020, the rates remained similar and were even slightly higher.

In 2020, besides extending the game with DLCs, the Company also took a number of other steps to maintain gamers' interest and keep monetising *Frostpunk*. The Company's flagship product was offered through a number of promotional and sale campaigns on major global platforms, including Steam, which had a positive impact on sales volumes. The Publisher Sale on Steam (Q2 2020), during which the fans could purchase all games from the Company's portfolio at attractive prices, was particularly successful. The fourth quarter of 2020 saw the cumulation of promotional and sale campaigns, with the Company's games offered as part of the Halloween Sale, City Builder Sale, Autumn Sale and Winter Sale on the Steam platform. In 2020, 11 bit studios S.A. also engaged with a Japanese partner, DDM, which was responsible for the launch of *Frostpunk* (the PC and PS4 versions) on the Japanese market. The debut was impressive, as evidenced by the Gold Medal awarded to the game by *Famitsu*, the leading Japanese computer game magazine.

In the reporting period, on February 14th 2020, 11 bit studios S.A. announced that it had signed an agreement with a global leader in developing games to produce *Frostpunk* for mobile devices running on iOS and Android. The Company believes this is another step in building *Frostpunk* as a cross-platform global brand which may be an important contributor to the Company's performance in subsequent periods. In the second quarter of 2020, 11 bit studios S.A. announced that *Frostpunk* for mobile devices will be produced by NetEase of China, a gaming industry giant with a very strong position in the sector of games for mobile devices. The mobile version of *Frostpunk*, which will be offered in the F2P (free-2-play) model, is planned to be released in 2021.

An important addition to the Company's revenue from its proprietary game portfolio in 2020 was revenue from *This War of Mine*, despite the fact that 65 months had passed from the game's release on November 14th 2014 to the date of issue of this Report. The sales were stimulated by numerous promotional and sale campaigns. The game's fans could take advantage of the TWoM

Free Weekend on Steam or the promotional campaign on the Nintendo Switch platform organised at the time of release of the paid add-ons, which proved a financial success. The campaign boosted revenue from *TWoM* and the DLCs on the Japanese platform to more than USD 1m in the first weeks of 2021 (cumulatively, since the release). The Company believes that the renewed interest in *This War of Mine* was also driven by the very good sales of *Frostpunk* and its add-ons, which encouraged some fans to buy 11 bit studios S.A.'s earlier title. As a result, revenue from its sales remained at a sound level, only slightly lower than in 2019.

In 2020, the Company also continued its work (started a few quarters before) on the production of a game under the working title of *Project 8*. It is being developed by another team, which at the date of issue of this Report consisted of approximately 45 members but is due to be strongly expanded through the ongoing recruitment. According to current plans, the *Project 8* team should ultimately be comparable in size to that which produced *Frostpunk* (60–70 people), and the game's production budget, previously estimated at some PLN 20m, will be much larger. The Company expects to release *Project 8* simultaneously for PCs and for PlayStation and Sony consoles, which should considerably enhance the game's commercial potential already from the date of its release (yet to be set). In the reporting period, the Company decided to change the game engine from the proprietary solution on which the Company's earlier games had run to Unreal Engine. The decision was dictated by the expansion of *Project 8* – Unreal Engine is better suited to the Company's needs related to the project.

In parallel with the development of *Frostpunk* and production of *Project 8*, in 2020 the Company was also engaged in conceptual and prototype work on two further in-house productions. The *Dolly Project* (formerly *Project 9*) is being developed by a team consisting of around 20 people who, until the end of 2019, had been involved in developing and supporting *This War of Mine*. For the time being the Company is not disclosing any details of this production except that it is based on brand new IP. The other game, *Eleanor Project* (formerly *Project 10*), is being created by a team of some 50 people, which was formed on the basis of the team that created and developed *Frostpunk*. This project is expected to be significantly larger than *Frostpunk*, both in terms of the game size and the development expenditure.

4.1.2. Publishing division

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

The first one, developed by Spain's Digital Sun, is a roguelike game, in which the player becomes Will – a shop owner during the day and a brave adventurer at night. The title refers to classic 2D games such as the *Legend of Zelda* and *Harvest Moon*. The game stands out for its pixel art textures. It debuted simultaneously for PCs, Xbox One and PS4 on May 29th 2018 and is available from the world's leading digital gaming platforms, including Steam. Since the fourth quarter of 2018, *Moonlighter* can also be played on Nintendo Switch, including by players in Japan, where the game was released on Nintendo Switch in March 2019 and was well received by the market. Nintendo Switch has been the primary sale platform for *Moonlighter* since then.

In addition to its continued development (expanded content and new language versions) and participation in promotional and sale campaigns, the game's monetisation efforts in the post-release period included sales of a large paid add-on called *Moonlighter – Between Dimensions*, which came to stores on July 23rd 2019. In the reporting period (on May 29th 2020), the add-on also became available to console owners (including Nintendo Switch owners), which boosted the sales of the game in that period. The development team also worked on the game's version for mobile devices running on iOS or Android. The version for Apple smartphones was launched on November 19th 2020. Preparations are under way to release the game for Android devices. By the end of December 2020, 11 bit studios S.A.'s revenue from *Moonlighter* and its add-ons for all hardware platforms was more than PLN 44m (on a cumulative basis).

The other title from the publishing division's portfolio, that is *Children of Morta*, which significantly contributed to 11 bit studios S.A.'s performance in 2020, represents the Action-RPG genre. Developed by Dead Mage of Austin, USA, the game is distinguished by its rich, hand-drawn world (in the pixel art style) and a number of playable characters. The game tells the story of the Bergson family, guardians of the mystical Mount Morta, who are facing a threat that will put the strength of their arms and family ties to the test. *Children of Morta* for PCs was launched on September 3rd 2019; On October 15th 2019, the game was released for Xbox One and PS4, and on November 20th 2019 for Nintendo Switch. The launch of *Children of Morta*, especially its PC version, proved very successful. The title ranked among top ten of the Steam's bestsellers and was included in the list of the best September releases on this platform. It also received very positive feedback from reviewers and users.

In the periods following its launch, sales of *Children of Morta* were maintained at a satisfying level. They were supported by promotional and marketing activities carried out by 11 bit studios S.A. and further expansion of the game content by the developer. This included the release (on August 24th 2020) of the add-on *Children of Morta: Paws and Claws*, which introduces animal characters in the game. The DLC was well received by the gaming community, especially as all proceeds from its sale will be donated to The Humane Society International foundation. As at the end of December 2020, the Company's total revenue from *Children of Morta* was nearly PLN 24m.

In addition to the constant expansion and monetisation of *Moonlighter* and *Children of Morta*, in 2020 the 11 bit publishing team actively supported sales of its older games, mainly *Beat Cop* (released for PCs in March 2017). In 2019, the Company decided to release *Beat Cop* in versions

dedicated to mobile devices, PS4, Xbox One and Nintendo Switch. Revenue from sale of *Beat Cop* (cumulatively from the time of its release) exceeded USD 2m by the end of the reporting period.

Despite the mobility restrictions due to the COVID-19 pandemic and the cancellation of all industry events, in 2020 the management team of the 11 bit publishing business engaged in intensive acquisition activities with a view to expanding its publishing portfolio for the next years. There are currently four titles in the portfolio: a game under the working (code) title *Vitriol* produced by Fool's Theory studio based in Bielsko-Biała, games under the working (code) titles *Foxhole* and *Botin* (produced by Digital Sun Games studio from Spain, which was responsible for the production of *Moonlighter*) and a game under the working title *Ava*, produced by the Spanish development studio Chibig. As at the date of issue of this Report, the Company's total investment commitments amounted to approximately PLN 20m, with some of the expenditure already incurred. To compare, 11 bit studios S.A.'s total investment in *Moonlighter* and *Children of Morta* was approximately PLN 5m.

4.1.3. Other developments

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

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

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

Relocation to the new headquarters was a significant event for the Company and its employees. As of March 2nd 2020, all employees of 11 bit studios S.A. have been working in the Company's office building located at ul. Brzeska 2 in Warsaw, Poland.

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

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

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

On June 19th 2020, the Company announced that since the targets set in the 2017–2019 Incentive Scheme for 11 bit studios S.A.'s employees, independent contractors and Members of the Management Board were met, a total of 130,000 Series B subscription warrants were granted to the Scheme participants. Each warrant entitles its holder to subscribe for 1 (one) Series G ordinary bearer share at the issue price of PLN 103.38 per share. In accordance with the 2017−2019 Incentive Scheme Rules, the eligible persons who acquired the warrants offered may convert them into Series G shares by June 30th 2023. As at the end of 2020, the total number of warrants converted into Series G shares was 73,346. As a result, as at December 31st 2020 the share capital of 11 bit studios S.A. was PLN 236,054.5, and comprised 2,360,545 shares with a par value of PLN 0.1 per share.

In the reporting period, there were further transactions in 11 bit studios S.A. shares executed by the Company's management staff. On July 3rd 2020, the Company received a notification of share acquisition as part of the settlement of the 2017–2019 Incentive Scheme, submitted by Grzegorz Miechowski (then President of the Company's Management Board). According to the notification, Grzegorz Miechowski acquired 18,413 shares in 11 bit studios S.A. for PLN 103.38 per share. On September 24th 2020, 11 bit studios S.A. announced that the Company received a notification from Przemysław Marszał, then Member of the Company's Management Board,

concerning his disposal of 11 bit studios S.A. shares. On September 23rd 2020, Przemysław Marszał disposed of 3,800 Company shares, at PLN 470 per share, by way of gift.

In 2020, there were changes in the composition of the Management Board of 11 bit studios S.A. At its meeting on November 24th 2020, the Company's Supervisory Board accepted the resignation of Grzegorz Miechowski as President of the Management Board and appointed him as Member of the Management Board. At the same time, the Supervisory Board appointed Przemysław Marszał, previously serving as Member of the Management Board, to the position of President of the Management 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.

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.

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

Since its incorporation in December 2009, the principal activity of 11 bit studios S.A. has been the development of video games for various hardware platforms. The Company is an indie game developer, handling every stage of the game creation process – from production, through marketing, to distribution in digital stores.

In 2010, 11 bit studios S.A. released the first game in the *Anomaly* series, the subsequent versions of which quickly gained a place among the world's most popular 'tower offense' games. The next big step was *This War of Mine*, which reached the market on November 14th 2014 (PC version). It proved a great success, with its production costs recouped already at the first weekend after the release. For a number of weeks, the game occupied top positions on the bestseller lists of Steam and other digital distribution platforms. In the following quarters, the Company took a number of steps to maintain the monetisation of *TWoM* (new hardware platforms, new language versions and add-ons, including paid ones), on the back of which revenue from its sale remained a key contributor to 11 bit studios S.A.'s financial performance in 2014–2017. Since 2018, it has been replaced as the Company's main revenue source by *Frostpunk*, which debuted on April 24th 2018 in the PC version. Within 66 hours of the premiere, fans purchased over 250 thousand copies of *Frostpunk*, which more than covered all the production costs.

Since 2014, in an effort to diversify its business, 11 bit studios S.A. has also published games created by third-party game developer studios, including foreign ones. In 2017, the Company's publishing division made a noticeable contribution, of about 12%, to the Company's revenue, following the release of two games: *Beat Cop* (March 30th 2017) and *Tower 57* (November 16th 2017). In 2018, the release of *Moonlighter* (May 29th 2018) pushed the ratio up to 18%. In 2019, it was already 40% after the Company released another third-party developed title, *Children of Morta*,

whose PC version was launched on September 3rd 2019 (console versions in Q4 2019). In 2020, the share of revenue from sale of third-party developed games in total revenue of 11 bit studios S.A. was 29%.

4.3. Key objectives of the Company's strategy

The strategy of 11 bit studios S.A. for the following years is to be 'an alternative to the mainstream'. The Company intends to maintain full independence from other players in the video gaming sector, so that it can pursue its own, autonomous visions of the games it creates. However, independence will not mean poorer quality of the games. The Company's Management Board wants its titles to stand out in terms of quality and provide a meaningful entertainment. The Company's intention is to gradually increase both the production and marketing budgets of subsequent games, so as to develop products that can be sold at higher prices. In the medium term of a few years, the Company wants to have at least three in-house development teams, capable of working in parallel on three games. New items would be released every few quarters. Ultimately, the Company would like to bring to players one proprietary game per year.

At the same time, 11 bit studios S.A. is expanding its publishing activities through the 11 bit publishing division, which, in addition to the Company's own games, also markets titles produced by third-party development studios. Also in this area the Company's strategy is to release increasingly complex and higher priced games. The budget of a single project (11 bit studios S.A.'s contribution) may even exceed PLN 5.5m. In the medium term, 11 bit studios S.A. wants to launch three to four products per year, which would help stabilise its performance.

4.4. Company's markets, suppliers and customers

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

Revenue from third-party customers by geographical area:

	Period ended Dec 31 2020		Period ended Dec 31 2019	
	PLN	share (%)	PLN	share (%)
Poland	2,064,709	2.37	1,487,844	2.09
European Union	5,120,320	5.88	6,393,095	8.98
US	66,982,765	76.90	51,273,600	71.99
Japan	12,081,601	13.87	10,310,174	14.48
China	224,543	0.26	827,383	1.16
Other	627,836	0.72	929,153	1.30
Total	**87,101,774**	100.00	**71,221,248**	**100.00**

The Company sells its products (video games) based on long-term agreements with publishers and distributors from all over the world. In 2020, the largest customer was Valve Corporation, accounting for more than 10% of the Company's total sales. Other important trading partners included Nintendo Co Ltd., Microsoft Corporation, Sony, Google, Apple and Humble Bundle, the

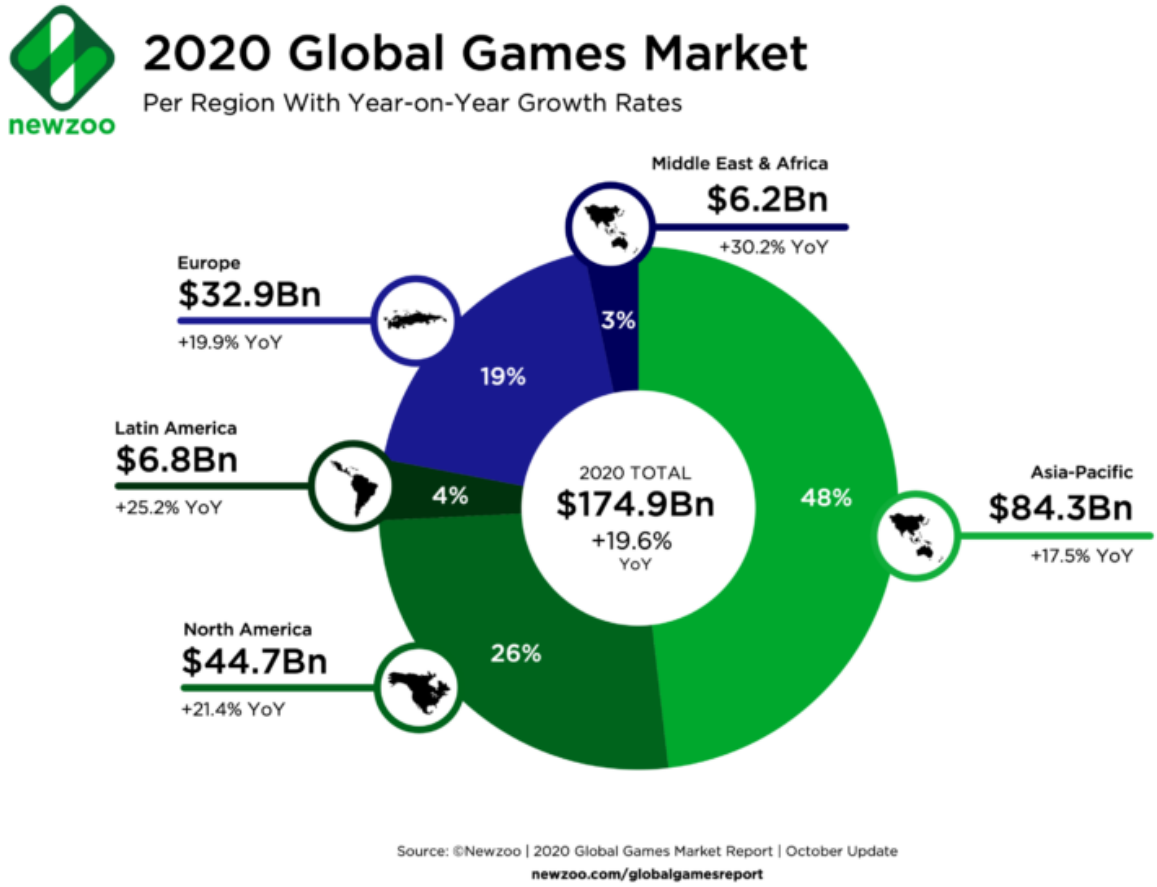
world's largest electronic distribution platforms. None of those entities is affiliated with the Company.

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

4.5. Description of the market in which the Company operates

11 bit studios S.A. is a part of the global video game market. For a number of years now, video games have been the fastest growing segment of the entertainment industry, the value of the gaming market being already greater than that of the film and music markets. In 2019, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 152.1bn, an increase of more than 9.6% compared with the previous year, when it was worth USD 138.7bn.

Newzoo's 2020 growth forecasts for the gaming market published in early spring 2020 were equally promising. According to the analysts, sales of games in 2020 were expected to rise by another 9.3%, to USD 159.3bn (an all-time record level). The further growth in demand seen in the reporting period was mainly attributable to the COVID-19 pandemic, which was uniformly expected to make people confined to their homes by the lockdowns use this time to play video games.



The forecasts published more than a year ago proved too conservative already after a few months. Therefore, in autumn 2020 Newzoo presented new and much more optimistic projections of the growth rate in the video games industry, assuming that in 2020 the value of the global gaming market would rise by as much as 19.6% relative to 2019, to an impressive USD 174.9bn.

According to Newzoo, in geographical terms Asia – including in particular China, which outranked the US as early as in 2016 – was again the world's most important gaming market in 2020. Based on the Dutch analysts' estimates, in 2020 customers in Asia spent USD 84.3bn on computer games, 17.5% more than in 2019. The previous (more conservative) forecasts had assumed that in 2020 the Asian part of the gaming market would expand to USD 78.4bn, or 9.9% year on year. Accordingly, in 2020, the Asian market accounted for as much as 48% of the global gaming market, which means a 1% contraction of its share relative to 2019. This slight decrease is being explained in two ways. Some market participants point to the measures taken by Chinese regulators, as the processes to issue permits for the release of new productions for direct distribution on the local market tended to get exceptionally protracted in 2020. Secondly, China was affected by the COVID-19 pandemic only to a minor extent and the scope of its lockdown was limited, especially compared what was happening in Europe. Therefore, the local gamers did not get additional time for electronic entertainment.

One fact to support this theory is that the rates of growth in the European and American gaming markets in 2020 were markedly faster than in Asia. Based on Newzoo's data, in that period Americans spent USD 44.7bn on video games (21.4% more than in 2019), representing 26% of global spending on this type of entertainment. The earlier forecasts had projected a growth rate of 8.5%, to USD 40bn, which would translate into 25% of the global gaming market. According to Newzoo, Europeans' spending on video games reached USD 32.9bn in 2020, up 19.9% on 2019, meaning a 19% share of the global gaming market. The earlier projections had put video game spending in this part of the world at USD 29.6bn, that is 7.8% more than in 2019.

A much more rapid pace of growth, reaching as much as 25.2%, was seen in 2020 in the gaming market in Latin America. Its value expanded to USD 6.8bn, which corresponds to 4% of the global market. Africa and the Middle East will represent 3% of the global gaming market, spending USD 6.2bn on video games in 2020 (an increase of more than 30% on 2019).

Producers of games for mobile devices (smartphones) were the largest beneficiaries of the lockdown. According to Newzoo, in 2020 smartphone owners spent USD 86.3bn on such games, 25.6% more than a year before, which gives this segment a share of as much as 49% of the gaming market in 2020 (while the forecasts issued a year ago had put this share at 40%, with the value of the mobile market expected to increase to USD 63.3bn). The strong growth of this segment, outpacing by far the growth of the industry as a whole, was driven by a sharp increase in the number smartphones used globally and the fact that games dedicated to such devices are sold at low prices or offered in the F2P (free to play) model. This means a low entry barrier to the world of games for a person who has never been interested in this type of entertainment.

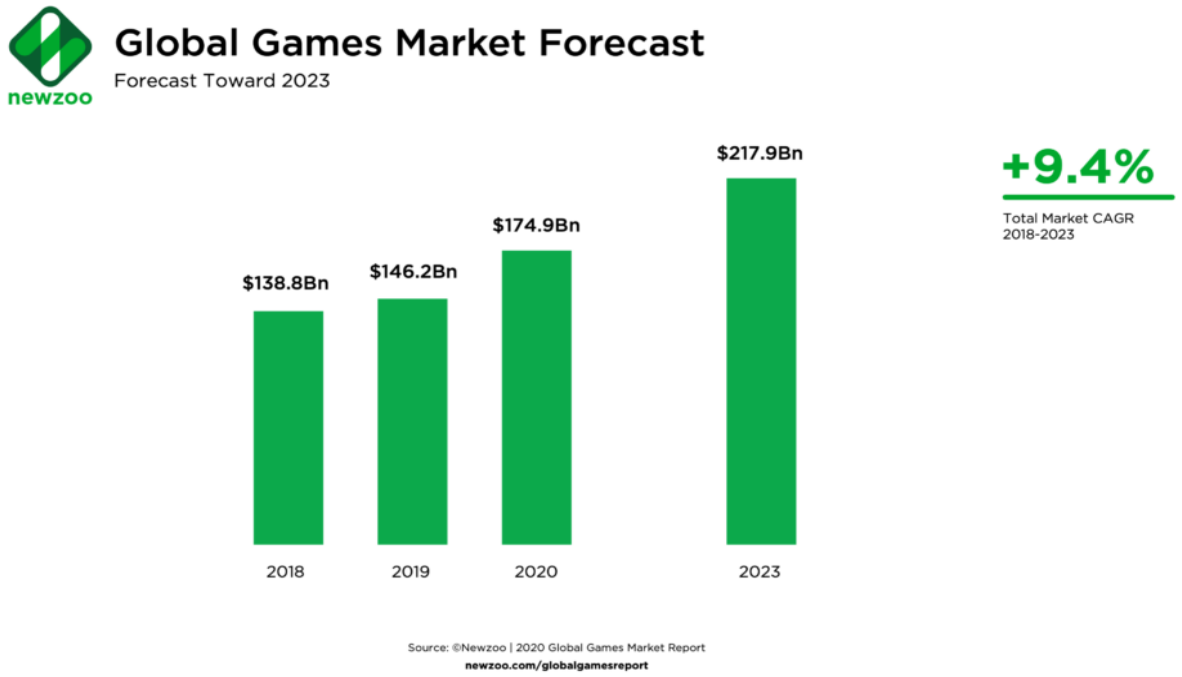
As in the previous year, the console games segment remained the second largest segment of the gaming market in 2020. According to Newzoo's estimates, its value reached USD 51.2bn, up 21% year on year, and accounted for 29% of the global gaming market. Compared with the

previous period, this share increased by 1%. The console games market expanded at the expense of games for PC computers, as this segment developed far more slowly than the mobile or console games segments. Based on Newzoo's projections revised in autumn 2020, spending on PC games in 2020 grew at 6.2%, meaning that the value of the market was USD 37.4bn, and thus its share in the global market fell to 22%. This was due partly to the further decline in the share of web browser games (titles made available in social media, etc.). The value of this segment shrank to USD 3.2bn in 2020 (down 8.7% on 2019), translating into a share of only 2% of the global gaming market.

Newzoo experts expect the industry in which 11 bit studios S.A. operates to continue to expand dynamically in the coming years. According to their assumptions, in 2018–2023 the sector will grow at an average annual rate of approximately 9.4%, which means that in 2024 players will spend USD 217.9bn on video games. The projections are much more ambitious than a few months ago, which, as mentioned above, is due to the COVID-19-driven acceleration of the industry's growth. Previous forecasts had assumed an average annual growth rate of 9%, so the sector's value was to reach USD 200.8bn in 2023.

In geographical terms, as in previous years, most of the gaming sector's revenue in the coming years will be generated in Asia (approximately 50%, depending on the year). According to Newzoo experts, fans from North America, that is mainly from the United States, will represent less than

30% of the market. Europe, Middle East and Africa will account for some 22%, with the balance attributable to Latin America



There will be no major changes in the computer gaming industry's product structure in the years to come. Newzoo analysts predict that games for handheld devices will play an increasing role, which is largely attributable to a rapid rise in the number of such devices globally. This growth will come at the expense of the PC and web browser games segments. Console games are set to retain their market position, although sales of the new generation Sony and Microsoft consoles are picking up rather slowly. Likewise, the market share of productions dedicated to tablet computers is expected to remain unchanged from its current level of a few percent.

The Polish market of video games represents a negligible, close to 0.4% share of the global gaming market, which corresponds to the situation with 11 bit studios S.A.'s revenue generated in Poland. Its specific feature is also a slightly different proportion of the various hardware platforms. Just like their peers from other parts of the world, Polish gamers (almost half of them) most often use mobile devices, followed by PCs (31%), which are preferred over consoles (22%).

The authors of the report 'Condition of the Polish Gaming Industry 2020' estimate that in 2020 the value of the Polish gaming market was PLN 2.43bn, compared with PLN 2.23bn a year earlier. These values are similar to the figures presented by the Newzoo analysts, according to which Poles spent USD 656m on electronic entertainment in 2020. The outlook for the coming years is equally promising. According to the authors of the abovementioned report, the video games market in Poland will be worth PLN 2.54bn in 2021, to grow to PLN 2.69bn in the next year. By 2024, its value is expected to rise to PLN 3bn, and the hardware structure will not change, with the productions dedicated to handheld devices retaining the largest market share.

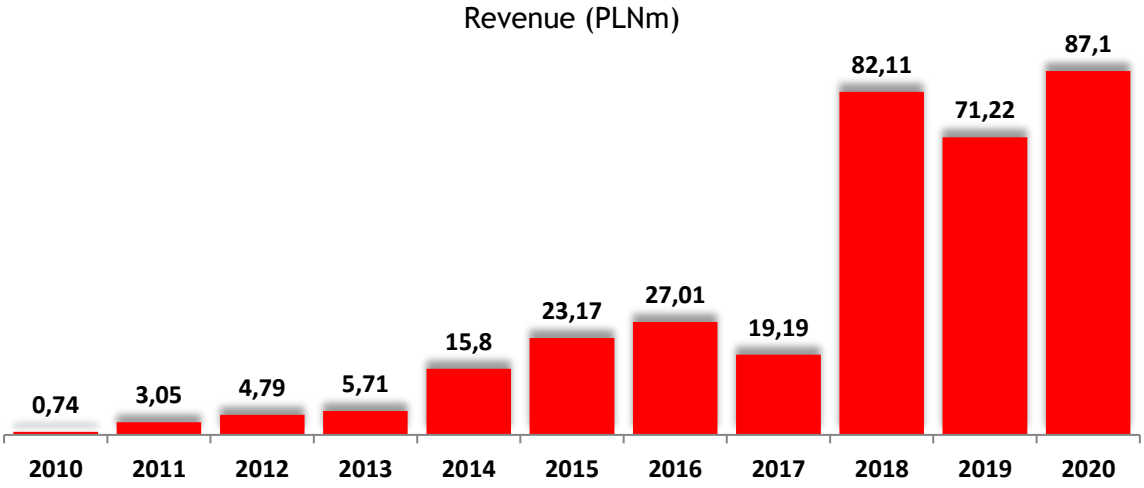
4.6. Financial condition of 11 bit studios S.A. in 2020

4.6.1. Statement of profit or loss

	Period ended Dec 31 2020	Period ended Dec 31 2019	Change y/y (%)
Continuing operations			
Revenue	87,101,774	71,221,248	22.30
Other income	325,158	461,634	-29.56
Total operating income	**87,426,932**	**71,682,882**	21.96
Depreciation and amortisation	(10,265,214)	(6,424,309)	59.79
Raw materials and consumables used	(353,338)	(438,947)	-19.50
Services	(25,871,505)	(26,394,183)	-1.98
Salaries, wages and employee benefits	(6,846,529)	(10,274,406)	-33.36
Taxes and charges	(304,481)	(247,777)	22.89
Other expenses	(2,993,498)	(1,915,407)	56.29
(Impairment)/reversal of impairment of financial instruments	0	(99,898)	
Total operating expenses	**(46,635,065)**	**(45,794,927)**	1.83
Operating profit	**40,791,867**	**25,887,955**	57.57
Interest income	530,675	1,089,576	-51.30
Other finance income	13,012	273,796	-95.25
Finance costs	(683,733)	(204,550)	234.26
Profit before tax	**40,651,821**	**27,046,777**	50.30
Income tax expense	3,288,690	3,319,863	-0.94
NET PROFIT	**37,363,131**	**23,726,914**	57.47
Earnings per share (PLN):			
Basic	16.13	10.37	55.54
Diluted	15.64	9.82	59.27
NET PROFIT	**37,363,131**	**23,726,914**	57.47
Other comprehensive income	0	0	
TOTAL COMPREHENSIVE INCOME	**37,363,131**	**23,726,914**	57.47

In 2020, 11 bit studios S.A. earned revenue of PLN 87,101,774, compared with PLN 71,221,248 in the previous year. The increase of 22.30% is a noteworthy result given that in 2020 the Company did not release any new titles either in the proprietary games segment or the publishing segment. It focused on developing and monetising existing games in its proprietary and 11 bit publishing's portfolio. This marked increase was largely attributable to the very successful release (on January 21st 2020) of *Frostpunk*: *The Last Autumn*, the second paid add-on for Frostpunk. The release of the last (third) Season Pass DLC for *Frostpunk*, i.e. *Frostpunk: On The Edge*, took place on August 20th

2020 and, as was the case with *Frostpunk*: *The Last* Autumn, had a positive effect on sales of the basic version of the game. The releases of further DLCs for *Frostpunk*, combined with aggressive promotional and marketing campaigns, also had a major impact on gamers' interest in the main (basic) version of the game and on its sales. As a result, in 2020 total revenue from the game and the DLCs (for all hardware platforms) exceeded PLN 51.5m. *This War of Mine* continued to deliver a sizeable revenue stream, despite the fact that more than six years had already passed since its launch on November 14th 2014.



A material portion of the Company's revenue in 2020 (29%) was generated from games in the publishing division's portfolio, i.e. *Moonlighter* and *Children of Morta*. An important contribution was also revenue from an agreement with Microsoft for the release of *Frostpunk* (January 9th 2020) and *Children of Morta* (January 16th 2020) in the Xbox Pass subscription service.

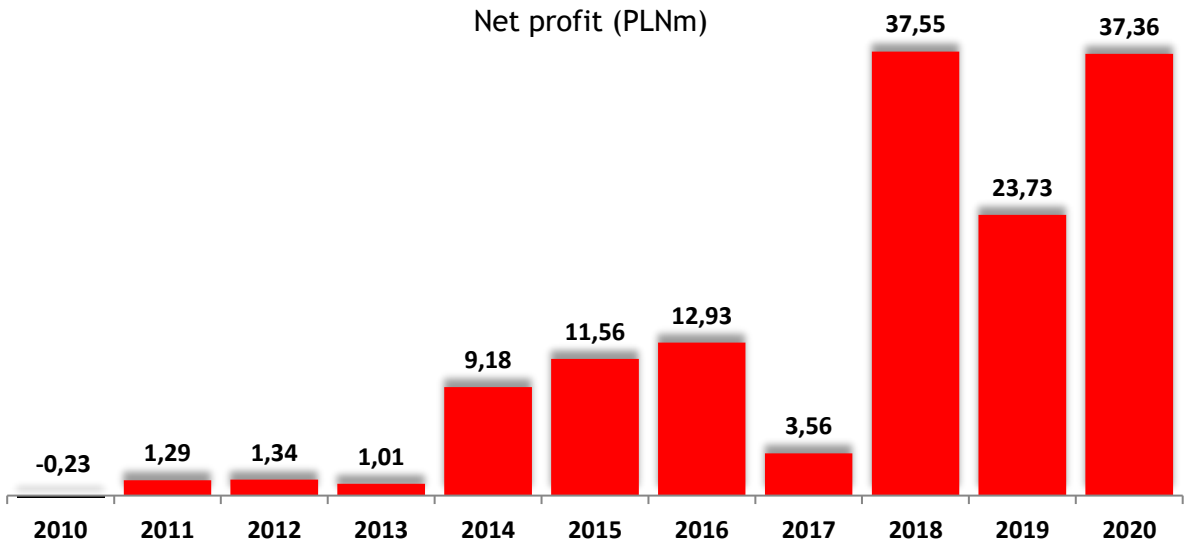
In 2020, a strong focus was maintained on strict discipline in operating expenses, which rose only 1.83% year on year, to PLN 46,635,065 (2019: PLN 47,811,561). The increase was caused, among other things, by higher depreciation and amortisation charges (PLN 10,265,214 vs PLN 6,424,309 in 2019), attributable to the growing product portfolio and the release of product versions for new hardware platforms. An item with a decisive impact on the level of the Company's operating expenses in 2020 was cost of services (down nearly 2% year on year, to PLN 25,871,505), which includes, in addition to payments to the Company's independent contractors, fees for third-party game developers using 11 bit studios S.A.'s publishing services. The Company's 2020 revenue from sales of games in the publishing segment accounted for 29% of total revenue. In 2019, its share was 40%, which was attributable in particular to the release of *Children of Morta*. Worthy of note is the year-on-year drop in salaries and wages (down 33.36%, to PLN 6,846,529 in 2020), reported despite a steady growth of headcount and higher annual bonuses. The decrease was caused by the fact that in 2019 salaries and wages included non-cash provisions recognised in connection with the Company's 2017–2019 Incentive Scheme. These provisions (of over PLN 2.0m in each quarter) reduced 11 bit studios S.A.'s operating profit until the end of 2019. In the 12 months of 2019, non-cash costs related to the Incentive Scheme amounted to PLN 8,118,445. Another major item of operating expenses (other expenses), which had not been reported in the

previous year, was cost of discontinued projects, amounting to PLN 997,115. This included written-off development expenditure on the game engine (phase six) and part of expenditure on the *Foxhole* game (third-party developed project of the Spanish Digital Sun studio), of PLN 871,504 and PLN 125,612, respectively.

The significant year-on-year growth in revenue in 2020, combined with the negligible increase in operating expenses, translated into a markedly higher operating profit for 2020. It came in at PLN 40,791,867, up 57.57% on 2019 (PLN 25,887,955), with operating profit margin at 46.83% in 2020 (2019: 36.34%). The Company's 2020 EBITDA reached PLN 51,057,081 (2019: PLN 30,295,630). The EBITDA margin went up to 58.61%, from 42.53% in 2019.

Although 11 bit studios S.A.'s free cash is growing by the year, a rapid decline in interest rates made the Company report a significant drop in interest income in 2020, to PLN 530,675, down 51.3% relative to 2019. In addition, other finance income decreased to PLN 13,012 (down 95.25% year on year), while finance costs went up by 234.26%, to PLN 683,733 from PLN 204,550 in 2019, driven by higher (largely non-cash) costs related to the investment credit facility contracted with PKO BP at the end of 2018 to finance the purchase of an office building at ul. Brzeska 2 in Warsaw, including an IRS hedging the interest rate risk.

With the slightly negative effect of finance income and costs, 11 bit studios S.A.'s profit before tax came in at PLN 40,651,821 in 2020, compared with PLN 27,046,77 in 2019. This means growth of as much as 50.3, which, however, had no major impact on the amount of income tax. It was PLN 3,288,690, relative to PLN 3,319,863 in 2019. This situation is attributable mainly to the IP BOX tax relief used by the Company in 2020 (as well as in 2019). The relief amount was PLN 4,757,040 in 2020, and PLN 2,713,965 in 2019. As a result, 11 bit studios S.A. posted a net profit of PLN 37,363,131, compared with PLN 23,726,914 in 2019, a year-on-year increase of 57.47%. The Company's net profit margin expanded to 42.89%, from 33.13% in 2019.



4.6.2. Statement of financial position

As at December 31st 2020, the Company's total assets amounted to PLN 186,339,222, up by 18.94% from PLN 155,668,388 in the previous year.

ASSETS

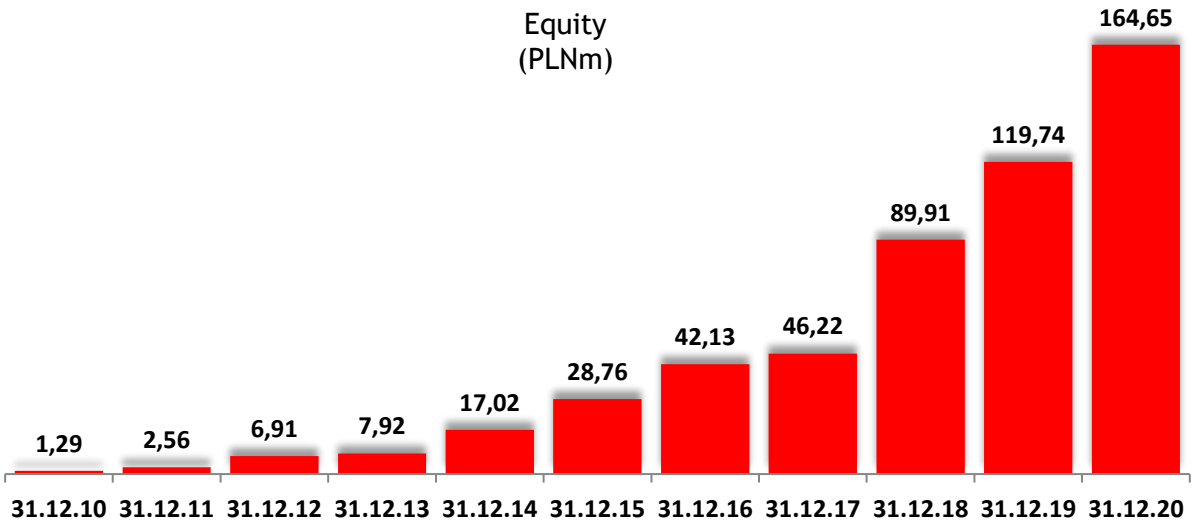
	As at Dec 31 2020	Share (%)	As at Dec 31 2019 *(restated)*	Share (%)
NON-CURRENT ASSETS				
Property, plant and equipment	26,889,502	14.43	20,380,205	13.09
Intangible assets	37,859,517	20.32	24,870,505	15.98
Perpetual usufruct of land	4,003,398	2.15	4,007,699	2.57
Deferred tax asset	1,517,590	0.81	542,022	0.35
Other assets	127,590	0.07	14,695	0.01
TOTAL NON-CURRENT ASSETS	**70,397,597**	**37.78**	**49,815,125**	**32.00**
CURRENT ASSETS				
Trade and other receivables	11,601,506	6.23	17,750,932	11.40
Inventories - prepaid deliveries of goods and services	0	0.00	11,830	0.01
Income tax receivable	7,623,047	4.09	5,441,189	3.50
Other current assets	583,598	0.31	438,230	0.28
Cash and cash equivalents	24,134,648	12.95	14,882,519	9.56
Current financial assets	71,998,826	38.64	67,328,563	43.25
TOTAL CURRENT ASSETS	**115,941,625**	**62.22**	**105,853,262**	**68.00**
TOTAL ASSETS	**186,339,222**	**100**	**155,668,388**	**100.00**

EQUITY AND LIABILITIES

	As at Dec 31 2020	Share (%)	As at Dec 31 2019 *(restated)*	Share (%)
EQUITY				
Share capital	236,055	0.13	228,720	0.15
Share premium	12,407,633	6.66	4,870,274	3.13
Statutory reserve funds	87,152,664	46.77	78,881,784	50.67
Share-based payment reserve	31,744,829	17.04	18,305,429	11.76
Retained earnings	33,106,943	17.77	17,454,092	11.21
TOTAL EQUITY	**164,648,124**	**88.36**	**119,740,299**	**76.92**
NON-CURRENT LIABILITIES				
Long-term borrowings and other debt instruments	9,499,650	5.10	10,429,732	6.70
Deferred income	635,711	0.34	497,564	0.32
Lease liabilities - perpetual usufruct of land	334,041	0.18	334,891	0.22
TOTAL NON-CURRENT LIABILITIES	**10,469,402**	**5.62**	**11,262,187**	**7.23**
CURRENT LIABILITIES				
Trade and other payables	9,791,953	5.25	11,429,892	7.34
Contract liabilities	0	0.00	11,730,526	7.54
Short-term borrowings and other debt instruments	1,357,093	0.73	1,303,717	0.84
Lease liabilities - perpetual usufruct of land	12,653	0.01	12,653	0.01
Deferred income	59,997	0.03	189,114	0.12
TOTAL CURRENT LIABILITIES	**11,221,696**	**6.02**	**24,665,902**	**15.85**
TOTAL LIABILITIES	**21,691,098**	**11.64**	**35,928,089**	**23.08**
TOTAL EQUITY AND LIABILITIES	**186,339,222**	**100.00**	**155,668,388**	**100.00**

As at the end of 2020, current assets represented the majority (62.2%) of the Company's total assets. They stood at PLN 115,941,625, compared with PLN 105,853,262 in the previous year, which means a year-on-year increase of more than 9.5%. As in 2019, current financial assets, that is financial instruments with a conservative risk profile (in 2019: bank deposits with maturities of more than 3 months), were the largest item of the Company's current assets, amounting to PLN 71,998,826 (end of 2019: PLN 67,328,563), i.e. 38.64% of total assets. This figure is increased by the amount of cash and cash equivalents of PLN 24,134,648 as at the end of 2020, compared with PLN 14,882,519 the year before. Trade and other receivables of PLN 11,601,506 were also a significant component of the Company's current assets. Their balance was higher in the previous year, when they amounted to PLN 17,750,932. An important item, representing 4.09% of total assets, was income tax receivable of PLN 7,623,047, compared with PLN 5,441,189 as at December 31st 2019.

As at the end of December 2020, the Company's non-current assets stood at PLN 70,397,597, relative to PLN 49,815,125 in the previous year. They rose 41.32% year on year and accounted for 37.78% of total assets, compared with 32% at the end of 2019. Intangible assets, the main component of non-current assets, amounted to PLN 37,859,517, up from PLN 24,870,505 in the previous year. They increased 52.27% and their share in the Company's total assets grew to 20.32% from 15.98% at the end of 2019. Intangible assets comprised mainly partly amortised expenditure on games already on sale (*Frostpunk* and its console edition, *Moonlighter* and *Children of Morta*), expenditure on ongoing development work (*Project 8*, *Dolly Project* and *Eleanor Project*, and new games of 11 bit publishing), and expenditure on the game engine development. Another component of non-current assets, with a value significantly lower than that of intangible assets at the end of 2020, was property, plant and equipment, valued at PLN 26,889,502, compared with PLN 20,380,205 the year before. The largest item of the Company's non-current assets was the property located at ul. Brzeska 2 in Warsaw, which the Company purchased in late 2018 for its new office. The value of property in the Company's statement of financial position as at the end of December 2020 was PLN 23,645,432, up from PLN 20,206,136 as at the end of 2019.



The largest item of the Company's equity and liabilities were statutory reserve funds, which amounted to PLN 87,152,664 as at the end of December 2020, i.e. 46.77% of total equity and liabilities. As at the end of 2019, the respective figures were PLN 78,881,784 and 50.67%. Statutory reserve funds increased following the transfer of the Company's net profit for 2019. The decision to allocate the entire profit for 2019 (PLN 21,710,280) to statutory reserve funds was made by the shareholders at the General Meeting held on June 9th 2020. As at the end of 2020, retained earnings were a significant component of the Company's equity and liabilities. At PLN 33,106,943, they accounted for 17.77% of the total. As at the end of 2019, retained earnings amounted to PLN 17,454,092 (11.21% of total equity and liabilities). This year-on-year growth was led by the higher net profit earned by the Company in 2020 on the back of increased revenue and profits from sale of video games. A fast-growing item of equity and liabilities of 11 bit studios S.A. (compared with

the end of 2019) was the share-based payment reserve related to the Company's Incentive Scheme for 2017–2019. It amounted to PLN 31,744,829, representing 17.04% of total equity and liabilities. This compares with PLN 18,305,429 (11.76% of total equity and liabilities) as at the end of 2019. An even faster growth, of 154.76%, was seen in the share premium account, whose value went up to PLN 12,407,633, from PLN 4,870,274 as at the end of 2019. As at the end of 2020, it accounted for 6.66% of total equity and liabilities, compared with 3.13% in the previous year.

As at December 31st 2020, the Company's total liabilities amounted to PLN 21,691,098 compared with PLN 35,928,089 at the end of 2019. They were down 39.63% year on year and represented 11.64% of total equity and liabilities (2019: 23.08%).

As at the end of December 2020, the Company's non-current assets stood at PLN 10,469,402, relative to PLN 11,262,187 in the previous year. The main item of non-current liabilities was a PLN 12,600,000 investment credit facility contracted by the Company with PKO BP at the end of 2018 to finance the purchase of the property at ul. Brzeska 2 in Warsaw (new office), which is being repaid in a timely manner.

As at the end of 2020, the Company's current liabilities stood at PLN 11,221,696, relative to PLN 24,665,902 the year before. They fell 54.51% year on year and accounted for only 6.02% of total equity and liabilities (end of 2018: 15.85%), with the decrease driven by lower trade payables, which went down to PLN 9,791,953 (from PLN 11,429,892 a year earlier). This amount included royalties payable to third-party developers for selling their games as part of publishing services provided by the Company (11 bit publishing). The main reason for the sharp year-on-year decline in the Company's current liabilities as at the end of 2020 was repayment of the full amount of the Company's short-term contract liabilities, which as at December 31st 2019 amounted to as much as PLN 11,730,526, representing 7.5% of the total assets at that time. The item comprised advance payments received by the Company from its trading partners (game distributors) towards future sales of the Company's products (games).

4.6.3. Statement of cash flows

	Period ended Dec 31 2020	Period ended Dec 31 2019
Cash flows from operating activities		
Profit for the financial year	**37,363,131**	**23,726,914**
Adjustments:		
Depreciation and amortisation	10,265,214	6,424,309
Income tax expense recognised in profit or loss	3,288,691	3,319,863
Remeasurement of intangible assets	(17,450)	33,959
Other adjustments	667,640	6,344,139
Changes in working capital:		
Increase/(decrease) in trade and other receivables	6,149,427	(3,198,307)
Increase/(decrease) in inventories	11,829	(11,829)
Increase/(decrease) in other assets	(258,263)	37,072
Increase/(decrease) in trade and other payables	(1,637,938)	1,286,372
Increase/(decrease) in net contract assets/liabilities	(11,730,526)	11,173,381
Increase/(decrease) in deferred income	9,030	(192,704)
Cash provided by operating activities	**44,110,783**	**48,943,169**
Income tax paid	(6,446,116)	(7,299,911)
Net cash from operating activities	**37,664,667**	**41,643,258**
Cash flows from investing activities		
Loans to employees	(2,066,604)	0
Proceeds from bank deposits upon maturity – over 3 months	164,328,563	94,000,000
New bank deposits placed – over 3 months	(97,000,000)	(134,000,000)
Proceeds from sale of financial assets	0	5,094,282
Purchase of financial assets	(69,932,222)	0
Payments for property, plant and equipment and intangible assets	(29,754,426)	(14,436,630)
Net cash from investing activities	**(34,424,689)**	**(49,342,348)**
Cash flows from financing activities		
Proceeds from issue of shares	7,544,694	0
Proceeds/(payments) under credit facility	(1,260,000)	(1,260,000)
Payment of bank loan interest	(272,543)	(409,072)
Net cash from financing activities	**6,012,151**	**(1,669,072)**
Net increase /(decrease) in cash	9,252,390	(9,368,162)
Cash at beginning of reporting period	14,882,519	24,250,681
CASH AT END OF REPORTING PERIOD	**24,134,649**	**14,882,519**

In 2020, the Company generated cash flows from operating activities of PLN 44,110,783, only 9.87% less than in 2019, despite no new game releases significantly contributing to its performance. The high level of cash flows from operating activities (higher than the net profit

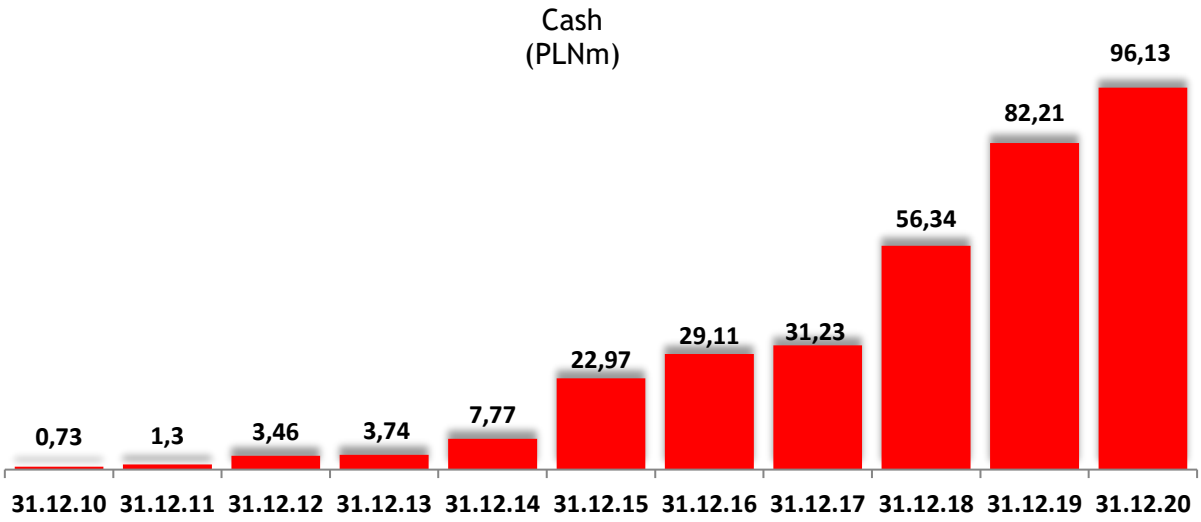
earned by 11 bit studios S.A. in the whole of 2020) was attributable to very good sales of the games placed on the market in previous periods, mainly *Frostpunk* (and its paid add-ons offered as part of the Season Pass), *Moonlighter* and *Children of Morta* (the latter two were third-party developed titles released by the publishing division). Sales of *This War of Mine* were also a significant contributor to top-line performance, although revenue from this source, due to the natural ageing of the product, was lower than in 2019.

Thanks to the IP Box tax relief, despite the higher profit earned in 2020, the income tax paid by the Company was slightly lower than in 2019: PLN 3,288,690 (amount recognised in profit or loss) vs PLN 3,319,863 in 2019. Consequently, net cash provided by the Company's operating activities in 2020 amounted to PLN 37,664,667, down 9.55% from PLN 41,643,258 in 2019.

At the same time, the Company spent PLN 34,424,689 on investments, compared with PLN 49,342,348 in 2019. A major part of that amount was represented by financial investments (bank deposits and financial instruments), used by 11 bit studios S.A. to manage its cash resources. Payments for property, plant and equipment and intangible assets (mainly game development) were also an important expenditure item (PLN 29,754,426), having increased significantly from PLN 14,436,630 in 2019. Its growth was driven mainly by an increase in capital expenditure on new games in the proprietary and publishing division's portfolios.

Cash flows from financing activities in 2019 included payments related to the servicing of a 10-year investment credit facility with PKO BP, taken out in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. As in 2019, in 2020 11 bit studios S.A. spent PLN 1,260,000 on principal repayments, and further PLN 272,543 (2019: PLN 409,072) on interest. A new item (PLN 7,544,694) was proceeds from shares issued as part of the 2017−2019 Incentive Scheme. In 2020, 11 bit studios S.A. issued 73,346 Series G shares at an issue price of PLN 103.38 per share (the par value of the shares is PLN 0.1).

As at December 31st 2020, the Company held cash and cash equivalents of PLN 24,134,649 vs PLN 14,882,519 as at the end of 2019, an increase of 67.17% year on year. It should be noted that at the end of 2020 the Company also held PLN 69,932,222 invested in financial instruments. Another item was loans advanced to employees to purchase shares under the 2017−2019 Incentive Scheme, amounting to PLN 2,066,604. As at the end of 2019, the value of such investments (then comprising mainly bank deposits maturing in more than three months) was PLN 67,328,563 (including interest). Total cash resources available to 11 bit studios S.A as at the end of 2020 amounted to PLN 96,133,471, an almost 16.9% increase on 2019, when they stood at PLN 82,211,082. Inclusive of trade receivables (PLN 11,601,604 as at the end of 2020 relative to PLN 17,750,932 the year before), 11 bit studios S.A.'s total financial assets as at December 31st 2020 hit an all-time record high of PLN 107,735,075 (December 31st 2019: PLN 99,962,014).



4.6.4. Borrowings in the financial year 2020

In 2020, 11 bit studios S.A. did not enter into any credit facility or loan agreements.

The only credit facility held by the Company is the 10-year investment credit facility of PLN 12,600,000.00 contracted with Powszechna Kasa Oszczędności Bank Polski S.A. (the relevant agreement was signed in December 2018). The proceeds were used to partially finance the purchase price of the property located at ul. Brzeska 2 in Warsaw for the Company's new office (the Company's headquarters as of March 2020). The facility repayment date is December 11th 2028. It bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged using an interest rate swap. The interest rate is 3.4%.

4.6.5. Loans advanced in the financial year 2020

On June 15th 2020, in accordance with Art. 245.1, Art. 245.4 and Art. 245.8 of the Commercial Companies Code and pursuant to Resolution No. 22/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company and its employees entered into 23 loan agreements to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loans totalled PLN 4,112,163. As at the end of the reporting period, the outstanding amount of the loans (including interest) was PLN 2,132,268.

4.6.6. Sureties and guarantees issued in the financial year 2020 and other material off-balance sheet items

The Company did not issue any sureties or guarantees in the financial year 2020. For information on material off-balance sheet items related to 11 bit studios S.A.'s publishing activities, see **Note 3.32**.

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

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

4.6.8. Description and assessment of factors and non-recurring events with a bearing on the results of the Company's operations in the financial year 2020

In 2020, there were no non-recurring factors affecting the Company's performance in that period.

4.7. Agreements significant to the Company's operations (excluding credit facility and loan agreements) executed in 2020 and by the issue date of this report

On February 14th 2020, the Company announced that it had signed an agreement with a leading player on the mobile games market to develop *Frostpunk* for mobile devices. On June 29th 2020, at the Annual Investors Conference, the Company disclosed that the partner responsible for creating the version of *Frostpunk* for mobile devices is the Chinese NetEase, one of the world's largest gaming companies, and the *Frostpunk* for mobile devices will be offered in the F2P (free-2-play) model. Other details of the agreement with NetEase will be communicated in future periods.

4.8. Explanation of differences between financial results disclosed in the full-year report and previously published financial forecasts for the year

The Company did not publish any forecasts for 2020.

4.9. Use of proceeds from share issue as at the release date of this report

In the reporting period, the Company issued new Series G shares in connection with the 2017–2019 Incentive Scheme for Members of the Management Board, employees and independent contractors, adopted by Resolution No. 18/05/2017 of the Company's Annual General Meeting on May 10th 2017. On June 9th 2020, acting on the proposal of the Company's Management Board, the Supervisory Board passed a resolution, following approval of the Company's financial statements for 2019 by the Annual General Meeting on June 9th, to grant 130,000 Series B subscription warrants to the 2017–2019 Incentive Scheme Participants. Persons who subscribed for the warrants will be entitled to exercise them by subscribing for Series G shares by June 30th 2023. The issue price of Series G shares was set at PLN 103.38.

As at the date of issue of these financial statements, the Company issued a total of 75,944 Series G shares, generating proceeds of PLN 7,851,091 (gross). The funds were allocated to the Company's working capital and are to be used to finance the day-to-day operation and growth investments (production of new games).

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

4.10. The Company on the capital market

11 bit studios S.A. has been present on the Warsaw Stock Exchange since October 28th 2010, when Company shares were listed on the NewConnect market. In 2015, the Company's shareholders decided to change the listing market on the WSE. The shares were first traded on the main market on December 18th 2015. At the start of the first trading session, their price was PLN 68.1. At that time, 2,217,199 Series A – Series E shares were floated on the WSE. From June 22nd 2017, following an increase in the Company's share capital by 70,000 Series F shares (issued for the purposes of the 2014–2016 Incentive Scheme), 2,287,199 Series A – Series F shares were traded on the stock exchange. In the second half of 2020, the Company announced (in current reports) three share capital increases by way of issuance of 68,281 Series G shares (in July), 3,415 Series G shares (in September) and 1,650 Series G shares (in November) for the purposes of the 2017–2019 Incentive Scheme. Accordingly, as at the reporting date, the Company's share capital comprised 2,360,545 Series A – Series G shares. The Series G shares were issued for the purposes of the 2017−2019 Incentive Scheme. After the reporting period but prior to the issue date of this Report, 11 bit studios S.A. announced two further share capital increases by way of issuance of 900 Series G shares (in February 2021) and 1,698 Series G shares (in April), again for the purposes of the Incentive Scheme. This means that as at the reporting date, the share capital of 11 bit studios S.A. comprised 2,363,143 shares.

The Company founders, i.e Przemysław Marszał (President of the Management Board) as well as Grzegorz Miechowski and Michał Drozdowski (Members of the Management Board) remain its major shareholders. As at the issue date of this 2020 Annual Report, they controlled jointly 368,543 shares in the Company, representing 15.95% of the share capital and the same proportion of voting rights at the General Meeting.

By a decision of the WSE Management Board, the 11 bit studios stock has been included in the mWIG40 index since June 15th 2018. As at the date of issue of this Report, its weight in the index was 1.93% (2019: 1.69%).

11 bit studios S.A. shares are also a constituent of the WIG.GAMES index, published since March 18th 2019 and featuring the largest gaming companies listed on the WSE. As at the date of issue of this Report, the 11 bit studios S.A. stock's weight in the index was 18.39%. (2019: 23.07%).

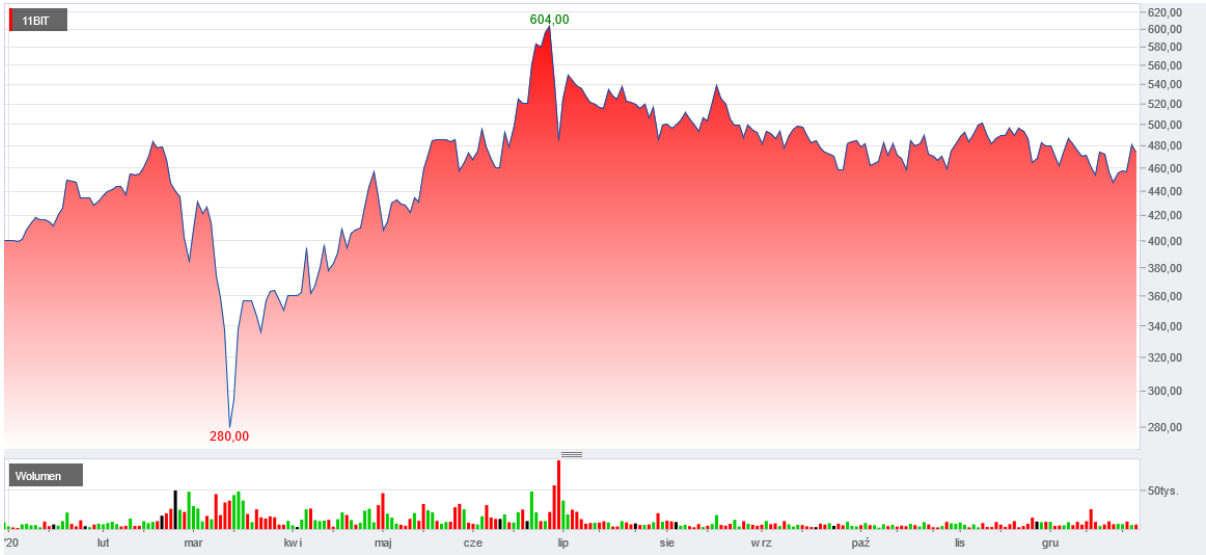
Company shares are also included in the WIG-ESG Index, published since September 3rd 2019, which brings together socially responsible businesses, i.e. those that adhere to CSR standards, in particular with respect to environmental, social, economic and corporate governance aspects. 11 bit studios S.A. shares account for 0.56% of the index. (2019: 0.46%).

Since September 4th 2019, 11 bit studios S.A. shares have also been included in the new CEEplus index comprising 100 largest and most liquid companies listed on stock exchanges in Central Europe: Croatia, the Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary. As at the date of issue of this Report, the weight of 11 bit studios S.A. shares in the index was 0.23% (2019: 0.15%).

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

Throughout 2020, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its price increase. It surged by 18.5%, in that period, while the broad-market WIG index rose by 1.14%. The mWIG40 index, which includes 11 bit studios, rose negligibly (1.75%).

Chart: Performance of 11 bit studios S.A. shares on the Warsaw Stock Exchange in 2020 (PLN)



Source: Parkiet.com

In 2020, the price of 11 bit studios shares on the WSE ranged from PLN 280.0 (at the trading session on March 12th 2020) to PLN 604.0 (at the trading session on June 26th 2020). The Company's stock performance was particularly good in the second quarter, when all global stock exchanges, not only the WSE, rapidly recovered after the March slump driven by the outbreak of COVID-19. In the following months of 2020, the stock trended sideways or slightly downward, which was typical of the majority of gaming industry companies listed on the Warsaw Stock Exchange. As a result, the price of 11 bit studios shares at the close of trading on the last session day in 2020 was PLN 474 . At the end of 2020, the market value of 11 bit studios S.A. was nearly PLN 1.12bn (64th position among the largest Polish companies listed on the WSE), having grown by more than PLN 203m year on year.

The price growth was accompanied by satisfying liquidity of the shares. In the reporting period, the total value of trading in Company shares on the WSE was PLN 1,357.29m (EUR 305.64m), which means that 11 bit studios S.A. ranked 32nd among WSE-listed companies with the largest value of trading in 2020. The average daily trading volume of Company shares was 11,881, with 711 trades executed daily.

The strong interest in the 11 bit studios S.A. stock (the trading volume rose more than twofold relative to 2019) translated into good equity research coverage. Throughout 2020, stock analysts from different brokerage houses and offices issued 14 equity research reports on 11 bit studios S.A., compared with 23 in 2019. As many as seven reports in 2020 included 'buy' recommendations. In one case, analysts recommended accumulation of the Company's stock, and in six cases the recommendation was: 'hold'

Since 2019, 11 bit studios S.A. has participated in the WSE Equity Research Coverage Support Programme, set up to increase the research coverage of companies included in the mWIG40 and sWIG80 indices. The broker responsible for producing reports on 11 bit studios S.A. under the programme is Erste Research Group. The initial report on the Company was published at the very beginning of July 2019. Erste Research Group valued 11 bit studios shares at PLN 493.4, with a 'buy' recommendation. In its most recent report of November 2020, Erste Research Group recommends accumulation of the stock, putting its price at PLN 567.5.

Considerable interest from investors in 11 bit studios S.A. shares prompted the Warsaw Stock Exchange to introduce futures contracts for Company shares to stock exchange trading. The relevant resolution (No. 152/2019) was passed by the WSE Management Board on March 7th 2019. As at the date of issue of this report, three series of futures contracts for 11 bit studios shares were traded on the stock exchange: the F11BM21 series (expiring on June 18th 2021), the F11BU21 series (September 17th 2021) and the F11BZ21 series (December 17th 2021).

In 2020, given the COVID-19 pandemic and the related restrictions on mobility and organisation of events, 11 bit studios S.A. had to slightly limit its direct meetings with market participants, including Investors and Shareholders. The Company intends to resume this practice as soon as the restrictions are lifted. On the other hand, in 2020 11 bit studios S.A. increased significantly its activity in the area of meetings held using electronic communication channels (Microsoft Teams, Zoom, Google Meets, etc.). Apart from ongoing one-on-one discussions with managers and stock analysts from brokerage houses and offices in Poland and abroad, in 2020 the Company participated in selected investor conferences, including outside Poland, for instance the ones organised by Erste Securities (September), Trigon DM (October) and Wood&Co (December).

In line with its long-standing practice, 11 bit studios S.A. also held an annual Investor Conference in 2020, which for the first time took the form of a virtual event. The meeting was attended by more than 100 guests, including stock analysts, managers and representatives of economic media, and twice as many retail investors. The conference was broadcast over the Internet and simultaneously interpreted into English. The recording is available on the Company's YouTube channel at

https://www.youtube.com/watch?v=5mNBmx5rud8

https://www.youtube.com/watch?v=Jxo3j9tydsA&t=1139s (English version)

4.11. Growth prospects

11 bit studios S.A. is a producer of cross-platform video games sold all over the world, mainly through specialised online platforms, with Steam in the lead. In 2020, foreign sales accounted for 97.6% of the Company's total revenue (2019: 97.9%; 2018: 96.5%). For a few years now, video gaming has been the fastest growing sector of the global entertainment market. In 2020, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 174.9bn, an increase of 19.6% compared with the previous year. This strong growth (in the past few years, the average annual growth rate of the industry did not exceed 10%) was fuelled by the COVID-19 pandemic, which confined people to their homes, and thus made

them spend more time in front of computers and smartphones. The outlook for the industry in the coming years is very promising, with the fast-growing mobile games segment as the main driver. Newzoo estimates the sector will grow at an average annual rate of approximately 9.4% in 2018–2023. This means that in 2023 spending on games will reach USD 217.9bn.

The objective of 11 bit studios S.A. is to grow much faster than the entire video games market and to steadily increase its market share. The success of *This War of Mine*, which premiered in autumn 2014, consolidated the Company's position as one of the leading developers in the indie (independent) segment of the gaming industry. From the game's release to the end of 2020, revenue from its sales for all hardware platforms exceeded PLN 110m. The success of *Frostpunk,* launched less than three years ago (the title and related add-ons generated revenue of close to PLN 130m by the end of 2020), has confirmed that the Company is a leading player in the global video games industry. This corresponds well with the Company's strategy for the coming years, which assumes production of ever larger, and thus ever more costly, games (with greater commercial potential), i.e. gradual exit from the indie segment.

Before (and inclusive of) *Frostpunk,* production of all 11 bit studios S.A.'s video games had relied on a proprietary engine that had been gradually developed. However, the Company did envision a scenario where selected proprietary productions could be based on third-party developed engines if this was beneficial (in terms of the game's quality) and viable (financially) for the Company. This is the case with the game under the working title *Project 8*, which is based on Unreal Engine. On February 23rd 2021, i.e. after the reporting period, the Company's Management Board decided to discontinue further work on its own engine, which means that new productions of 11 bit studios S.A. will also be based on third-party solutions.

The production, promotion and sale of the games are the responsibility of an experienced, stable management team with many years of know-how acquired in major gaming companies in Poland. On the basis of its steadily growing human resources, for several quarters the Company has been building a development team responsible for the production of a new game to be released after *Frostpunk*, that is *Project 8*. The team counts almost 45 people and is being gradually expanded. The COVID-19 pandemic had an only limited impact on the recruitment schedule for this project. It was initially assumed that the team should ultimately be comparable in size to the one that produced *Frostpunk* (60–70 people), and the new game's budget is planned to be in excess of PLN 20m. The Company expects to release *Project 8* simultaneously for PCs and for PS4 and Xbox One consoles, which should enhance the game's commercial potential. In 2019, 11 bit studios S.A. also started building another development team, based on the employees who until recently worked on further development of *This War of Mine*, including the *TWoM: Stories* DLCs. The last add-on of the series, called *TWoM: Stories – Fading Embers*, was released on August 6th 2019. The team is now engaged in prototype work on a game with the working title *Dolly Project* (formerly *Project 9*). In the reporting period, the Company also worked on the prototype of another game, *Eleanor Project* (formerly *Project 10*). The project team was joined by persons who were involved in the production of paid add-ons for *Frostpunk* until autumn 2020; as at the reporting date it consisted of more than 50 people.

The Company's medium-term strategy for the next few years is to have three in-house development teams, comparable in size (each ca. 60–70 people strong). Assuming a production cycle of about three to four years for each game, with three teams 11 bit studios S.A. would be able to release one proprietary title a year.

11 bit studios S.A.'s performance in 2021 and the following periods will chiefly be determined by future sales of *Frostpunk* and paid DLCs released for this title as part of the Season Pass. *Frostpunk* will be developed further, including by releasing versions for new hardware platforms. On February 14th 2020, the Company announced that it signed an agreement with a leading global player on the mobile games market to develop *Frostpunk* for mobile devices. On June 29th 2020, at the Annual Investors Conference, the Company disclosed that the partner responsible for creating the version of *Frostpunk* for mobile devices is the Chinese NetEase, one of the world's largest gaming companies, and the *Frostpunk* for mobile devices will be offered in the F2P (free-2-play) model. Other details of the agreement with NetEase will be communicated in future periods.

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

The Company expects that its publishing division will become an increasingly important contributor to 11 bit studios' financial results in the coming years, although it is proprietary games that should ultimately be the main source of revenue. To date, 11 bit studios S.A. has released five titles created by third-party studios: *Spacecom* (2014), *Beat Cop* (March 30th 2017), *Tower* (November 16th 2017), *Moonlighter* (May 29th 2018), and *Children of Morta* (PC version, September 3rd 2019). The importance of the 11 bit publishing division is demonstrated by the fact that in 2020 revenue from the sale of games created by third-party developers accounted for 29% of the Company's revenue. In 2019, the share was 40% (thanks to the very successful release of *Children of Morta*). In 2021 and subsequent periods, revenue delivered by the publishing division (from third-party developed titles) will mainly include revenue from *Moonlighter* and *Children of Morta*. Both titles will continue to be further developed with add-ons and new platform versions. For example, 2020 saw the release of *Moonlighter* for mobile devices running on iOS. In the future, the title will also be made available to the users of Android devices.

The 11 bit publishing management team is actively engaged in acquisition efforts to build a publishing pipeline for the coming years. Strong results, including the financial success of *Moonlighter* and *Children of Morta*, encouraged the Company to seek new projects more aggressively and to reach for topics that so far have been beyond its capability due to budgetary constraints. The previous conservative strategy of 11 bit studios S.A. for the publishing area assumed that a single project could not consume more than PLN 2m. The cap has been increased to PLN 5m (and should be treated flexibly). This change considerably expands the Company's ability to obtain valuable (from the commercial perspective) projects for its publishing portfolio. The medium-term strategy of 11 bit studios S.A. for the publishing area assumes that third-party

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. As at the date of issue of this Report, 11 bit studios S.A. had four publishing agreements with third-party development teams. The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The second of the agreements concerns a game with a working (code) name of *Botin*. It has been produced by Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The producer of the third game, given the working title *Ava*, is another Spanish studio, Chibig (the Company announced execution of the relevant agreement on June 29th 2020).

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

11 bit studios S.A. operates on international markets. Therefore, in addition to local factors, its strategy and financial performance are influenced by global economic and political developments, including macroeconomic ones, as well as tax regulations and the legal environment. For a detailed discussion of major external and internal factors that may adversely affect the Company's operations, see the risk section **(Note 5.16)**.

The ongoing technological and market changes in the video gaming industry are also of crucial importance to the Company. This applies to the production, distribution and sales of games. The Company believes that the most significant change is the growth in sales of games via electronic channels (replacing sales via traditional channels) and the rapidly developing segment of mobile games. An important trend, closely monitored by the Company, involves initiatives to develop the game streaming market, pursued by major IT equipment manufacturers and technology firms. Another factor with a potentially strong impact on the growth of 11 bit studios S.A. is the increasing competition between electronic platforms that distribute digital games, one effect of which, positive for 11 bit studios S.A., is lower commission fees charged from game producers and publishers for sales through this channel.

Among the internal factors relevant to the development of 11 bit studios S.A. one should point to the diversification of activities and sources of income. In addition to the production of games, since 2014 the Company has also been engaged in their publishing (the 11 bit publishing division). Publishing activities are expected to increasingly contribute to the Company's financial performance by the year. In the game development area, the Company continued to build three teams in 2020, which will enable it to ultimately own multiple product lines (brands – IP). At the end of 2019 with three development teams and a number of product lines, the 11 bit studios S.A. will be able to optimise and better utilise its production resources and stabilise its performance.

4.13. Feasibility of investment plans

As at December 31st 2020, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 24,134,648 (2019: PLN 14,882,519). As at the end of 2020, 11 bit studios S.A. also held PLN 69,932,222 invested in financial instruments (with a conservative risk

profile). Inclusive of PLN 2,066,604 in loans advanced by the Company to employees to finance the purchase of shares under the 2017−2019 Incentive Scheme, total cash resources available to the Company at the end of 2020 amounted to PLN 96,133,471, an almost 16.9% increase on 2019, when they stood at PLN 82,211,082. In addition, the Company had PLN 11,601,604 in receivables (mainly trade receivables) (end of 2019: PLN 17,750,932). The total value of 11 bit studios S.A.'s financial assets reported as at December 31st 2020 was an impressive PLN 107,735,075 (2019: PLN 99,962,014), an increase of close to 7.78% year on year.

At the same time, liabilities (current and non-current) totalled PLN 21,691,098 as at December 31st 2020, compared with PLN 35,928,089 the year before. Of that amount, PLN 10,856,743 was attributable to a credit facility (including measurement of the interest rate swap used by the Company to hedge against interest rate risk) contracted with PKO BP at the end of 2018 to purchase the property at ul. Brzeska 2 in Warsaw, which has been home to the Company's headquarters since March 2020. As at the end of 2019, the facility (including the interest rate swap) was valued at PLN 11,733,449.

With the large cash resources, far exceeding its liabilities, the Company should be able to finance its day-to-day operations and planned growth investments (development of games and expansion of the 11 bit publishing division) with its own funds at least in the next few quarters and does not need to use external funding (including funds raised on the capital market) or funds provided by business partners (game publishers and distributors). However, the Company does not rule out such an option. The Company does not plan to use external financing in 2021.

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

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

5.1. Company overview

Business name:	11 bit studios Spółka Akcyjna
Abbreviated name:	11 bit studios S.A.
Registered office:	Warsaw, Poland
Registered address:	ul. Brzeska 2, 03-737 Warsaw, Poland
Principal business activity:	in accordance with the Polish Classification of Business Activities – computer programming activities (62.01.Z)
Registry court:	District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division
National Court Register (KRS) No.:	0000350888
Tax Identification Number (NIP):	1182017282
Industry Identification Number (REGON):	142118036

The Company was established for indefinite time.

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

The Company's principal business activity includes:

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

The Company does not have any subsidiaries, associates or interests in joint ventures.

5.2. Governing bodies

5.2.1. Management Board

- Przemysław Marszał – President of the Management Board

- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski– Member of the Management Board

The composition of the Management Board of 11 bit studios S.A. changed in the reporting period. At its meeting on November 24th 2020, the Company's Supervisory Board accepted the resignation of Grzegorz Miechowski as President of the Management Board and appointed him as Member of the Management Board. At the same time, the Supervisory Board appointed Przemysław Marszał, previously serving as Member of the Management Board, to the position of President of the Management 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.

Experience and competences of the Management Board Members

Przemysław Marszał, President of the Management Board

Graduate of the Faculty of Architecture at the University of Ecology and Management. Member of the Management Board of Metropolis Software in 2005–2009. He started his career in the video games industry as a graphic designer. As the chief artist, he is responsible for the final appearance of all 11 bit studios S.A. games, from the first sketch to the day of their release. He designed the entire 'charcoal drawing' appearance, which became one of the most distinctive features of *This War of Mine*. One of the key authors of *Frostpunk*.

Grzegorz Miechowski, Member of the Management Board

Graduate of the Faculty of Information Technology and Management at the Wrocław University of Technology. He has been involved in developing video games since the early 1990s, when he founded Metropolis Software House, one of the first game development studios in Poland. He headed it from 1999 to 2009. One of the founders of 11 bit studios S.A. and the author of the original concept of *This War of Mine*, a game which proved to be a worldwide success. Co-author of the *Frostpunk* concept.

Michał Drozdowski, Member of the Management Board

Graduate of the Faculty of Economics and Management at the Higher School of Commerce and Law. He worked as a designer for Lead 3D in 2002–2005. In 2006, he joined Metropolis Software, where he served as the Design Director from 2007. At 11 bit studios S.A., Michał Drozdowski was responsible for the design of all 11 bit studios S.A. games, including titles from the *Anomaly* series, *Funky Smugglers*, *This War of Mine* and *Frostpunk*.

5.2.2.Supervisory Board

- Radosław Marter – Chairman of the Supervisory Board (since April 15th 2021, previously Member of the Supervisory Board)
- Wojciech Ozimek – Chairman of the Supervisory Board (since April 15th 2021)
- Jacek Czykiel– Deputy Chairman of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board
- Artur Konefał – Member of the Supervisory Board,

The composition of the Company's Supervisory Board did not change in the reporting period.

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.

Experience and competences of the Supervisory Board Members

Radosław Marter – Chairman of the Supervisory Board since April 15th 2021, previously Member of the Supervisory Board

Mr Marter has worked in the pharmaceutical/medical and technology industries for 21 years. From 2000 to 2007, he was involved in managing Media Vision's sales department. Between 2007 and 2017, he was a co-founder and Vice President of the Management Board of Active Pharm, a company which he managed for over 10 years, implementing projects in the area of multi-channel marketing, clinical trials, medical systems and applications, as well as marketing strategies for the largest pharmaceutical corporations. Author of publications and articles on digital transformation based on organisations' gamification platforms. In addition to his work in the pharmaceutical and technology sectors, he has gained experience in supporting non-profit organisations by

implementing strategies for image building, management and execution of social campaigns. At present, he is Managing Partner at the one2tribe Group and CEO at OnePharma. His passion is new media and technologies as well as challenging projects, which he often communicated as a speaker at conferences, in publications and in social media.

Wojciech Ozimek, Chairman of the Supervisory Board (resigned from the Supervisory Board on April 15th 2021)

For more than 13 years Mr Ozimek has served as President of the Management Board of one2tribe Sp. z o.o. He graduated with a Bachelor's degree from the Faculty of Mathematics, IT Science and Mechanics at the University of Warsaw. Co-creator of over a dozen mobile and Internet services and a number of online games available in Poland and around the world, designer of games for business, gamification solutions and educational games. Among other things, he developed a business model for iTVP interactive television and advised on community building and mobile content distribution (P4/Play, Heyah/PTC Era, Polkomtel S.A.). In 1998–2006, he was head of the e-business Competence Group and then served as the Development Director at Infovide (currently Infovide-Matrix). He was involved in projects for the company's largest clients (Nordea Bank Polska, Telekomunikacja Polska S.A., PTC Era, Onet.pl, PTK Centertel, Kredyt Bank S.A.), developing concepts of project architecture (including Nordea Solo, which was distinguished with the *IT System of the Year 2001* award) and strategies at the interface of business and IT.

Jacek Czykiel – Deputy Chairman of the Supervisory Board

In 1996, he graduated from the Social Economy department of the Faculty of Economics at the University of Warsaw Branch in Rzeszów (major in Labour Economics and Social Policy). In 1997, Mr Czykiel completed post-graduate courses in corporate finance and accounting at the University of Warsaw. In 1998, he received the qualification certificate authorising him to provide bookkeeping services. In 1999–2000, he worked as an accountant for Ernst & Young Usługi Księgowe Sp. z o.o. Since 2000, he has been the Chief Financial Officer at Beijer Re Polska.

Marcin Kuciapski – Member of the Supervisory Board

Graduate of the Maritime Academy in Gdynia (M. Sc. in Commodity Studies). He also graduated from Hochschule Bremenhaven (Business and Economics) as part of the Erasmus Programme. Since 2008, he has held a securities broker license. Winner of numerous awards and distinctions, including 1st place in the *Forbes* ranking of Institutional Brokers 2013. In 2008−2010, he worked for DM PKO BP, initially at the Equity Research Team, and then at the Institutional Sales Team as Institutional Broker. In 2010, he moved to the same position with the Brokerage Office of BZ WBK, to be promoted to Executive Director in 2012. Since 2017 with Santander Bank Polska as Head of the Institutional Brokerage Team at the Institutional Sales Department. Founder (May 2019) of Pure Alpha Investments, a company active in the area of investments in the public and private markets.

Piotr Wierzbicki – Member of the Supervisory Board

Graduate of the Warsaw School of Economics (SGH). He has also completed a number of training programmes in finance, management, financial reporting (IAS, US GAAP) and project management, including the Business Programme for Top Executives at IMD Business School, and ACCA Training. In 1993–1996 he worked at PWC as a Senior - Audit&Business Advisory Services. In

1996–2008, with Sun Microsystems, initially as CFO and, from 2002, as CEO. In 2009–2010, he was employed at Sygnity as Executive VP, CFO. In the following years, he worked at a number of companies, including EMC, YieldPlanet (currently as Member of the company's Supervisory Board) and again at Sygnity. Since May 2018, he has served as Managing Director, Country Manager, at Atos Polska.

Artur Konefał – Member of the Supervisory Board (since April 15th 2021)

Marketing campaigns strategist and enthusiast, with a particular focus on modern digital tools using gamification. Graduated from the Silesian Medical University, majoring in pharmaceutical biotechnology. His professional career has been tied to the pharmaceutical industry. Initially, he worked for an international pharmaceutical corporation, and then for marketing agencies/software houses dedicated to the pharma industry. Currently, founder and CEO of Neo-Vinci, a provider of comprehensive services involving delivery of effective pharma marketing tools and research technologies to medical sector and pharma industry companies. At the same time, he has founded and serves as President of the Management Board of the Institute of Clinical Excellence (Association for the Improvement of Medical Education), focusing on effective education of medical professionals through an interdisciplinary knowledge sharing platform.

5.3. Auditors

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

In Current Report No. 2/2020 of February 6th 2020 the Company announced that in accordance with the applicable laws and professional standards the competent body, i.e. the Company's Supervisory Board, at a meeting held on February 5th 2020, acting pursuant to Art. 66.4 of the Accounting Act of September 29th 1994, Art. 8.4 of the Company's Articles of Association, and Section 7.3 of the Rules of Procedure for the Company's Supervisory Board, and having considered the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., with registered office at ul. Polna 11, 00-633 Warsaw, to audit the Company's 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.

The auditor's fees were agreed at PLN 110,000 (for the audit of the full-year financial statements for 2020) and PLN 49,000 (for the review of the Company's interim financial statements for 2020).

In previous years (2017–2019), the auditor responsible for auditing the Company's full-year financial statements and reviewing interim financial statements was Deloitte Audyt Sp. z o.o. Sp.k.

The fee paid to it by the Company for the audit of the financial statements for 2019 was PLN 45,000. The fee for the review of the interim financial statements for 2019 amounted to PLN 28,000.

5.4. Share capital

As at the issue date of this Report, the Company's share capital amounted to PLN 236,314.3 and comprised 2,363,143 shares with a par value of PLN 0.10 per share, including:

- 1,000,000 Series A bearer shares,
- 494,200 Series B bearer shares,
- 376,561 Series C bearer shares,
- 40,938 Series D bearer shares,
- 305,500 Series E bearer shares,
- 70,000 Series F bearer shares,
- 75,944 Series G bearer shares.

The shares have been fully paid-up.

5.5. Shareholding structure as at the date of this report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
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. 4/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 20th the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, President of the Company's Management Board, concerning his disposal of 11 bit studios S.A. shares. On February 20th 2020, Grzegorz Miechowski sold 3,000 shares in a block transaction on the WSE at an average price of PLN 460 per share.

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

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

Furthermore, in Current Report No. 7/2020 of February 21st 2020, 11 bit studios S.A. announced that on February 21st 2020 the Company received a notification from Przemysław Marszał, Member of Company's Management Board, made under Art. 69.1.2) in conjunction with Art. 87.1.2) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (Dz.U. of 2009, item 623; the "Act"), to the effect that following disposal of 11 bit studios S.A shares in a block transaction executed on the WSE on February 20th 2020, his share of total voting rights at the Company's General Meeting decreased below 5%. Prior to the disposal, Przemysław Marszał held 118,000 shares, representing 5.16% of the Company's share capital and conferring the right to 118,000 votes, or 5.16% of total voting rights, at the Company's General Meeting. Following the sale transaction of February 20th 2020, he held 110,300 shares, representing 4.82% of the Company's share capital and conferring the right to 110,300 votes, or 4.82% of total voting rights, at the Company's General Meeting.

In Current Report No. 14/2020 of June 1st 2020, 11 bit studios S.A. announced that on May 29th 2020 the Company received a notification from NN Investment Partners Towarzystwo Funduszy Inwestycyjnych S.A. ("NN Investment Partners TFI"), made under Art. 69.1.1 in conjunction with Art. 87.1.2.a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, to the effect that NN Investment Partners TFI went below the threshold of 5% of total voting rights in 11 bit studios S.A. The percentage of total voting rights at 11 bit studios S.A. changed following the sale of shares on May 26th 2020 by the NN Fundusz Inwestycyjny Otwarty and Fundusz Własności Pracowniczej PKP Specjalistyczny Fundusz Inwestycyjny Otwarty investment funds managed by NN Investment Partners TFI. Prior to the change, all funds managed by NN Investment Partners TFI held a total of 120,334 shares in 11 bit studios S.A., representing 5.26% of the Company's share capital and 5.26% of total voting rights at the Company's General Meeting. As at the date of going below the threshold, the funds managed by NN Investment Partners TFI held a total of 110,804 shares in 11 bit studios S.A., representing 4.84% of the Company's share capital and 4.84% of total voting rights at the Company's General Meeting.

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

In Current Report No. 24/2020 of July 3rd 2020, 11 bit studios S.A. announced that on July 3rd 2020 the Company received a notification under Article 19(1) of the Market Abuse Regulation from

Grzegorz Miechowski, President of the Company's Management Board, concerning his subscription for 11 bit studios S.A. shares as part of the settlement of the 2017–2019 Incentive Scheme. On July 3rd 2020, Grzegorz Miechowski subscribed for 18,413 Company shares at a price of PLN 103.38 per share.

In Current Report No. 29/2020 of September 24th 2020, 11 bit studios S.A. announced that on September 24th 2020 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, Member of the Company's Management Board, concerning his disposal by way of gift of 11 bit studios S.A. shares. On September 23rd 2020, Przemysław Marszał disposed of 3,800 Company shares, at PLN 470 per share, by way of gift.

After the reporting period, 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 the reporting period, the Company made three announcements of admission and introduction to stock exchange trading of Series G shares, which were issued for the purposes of the 2017–2019 Incentive Scheme, on the basis of and in accordance with Resolution No. 05/06/2017 of the Company's Extraordinary General Meeting dated June 7th 2017. In Current Report No. 23/2020 of July 3rd 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on July 3rd 2020 68,281 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 7,058,889.78. In Current Report No. 28/2020 of September 14th 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on September 10th 2020 3,415 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 353,042.70. At the same time, the Company announced that as of September 14th 2020 the Company's share capital was PLN 235,889.5 and was divided into 2,358,895 shares with a par value of PLN 0.1 per share. In Current Report No. 31/2020 of November 12th 2020, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on November 10th 2020 1,650 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 170,577. At the same time, the Company announced that as of November 12th 2020 the Company's share capital was PLN 236,054.5 and was divided into 2,360,545 shares with a par value of PLN 0.1 per share.

After the reporting period but prior to the issue date of this 2020 Annual Report, the Company made two announcements of admission and introduction to stock-exchange trading of Series G shares, which were issued for the purposes of the 2017–2019 Incentive Scheme. 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. 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. 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.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)	Shareholding as at Dec 31 2019 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	106,500	118,000
Grzegorz Miechowski	Member of the Management Board	177,413	177,413	162,000
Michał Drozdowski	Member of the Management Board	84,630	84,630	89,630
Marcin Kuciapski	Member of the Supervisory Board	700	550	400

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

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

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

5.7. Remuneration, awards or benefits received by members of the Management Board and Supervisory Board (PLN)

5.7.1. Management Board

Remuneration for managerial responsibilities:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Przemysław Marszał	429,771	429,866
Grzegorz Miechowski	430,832	430,838
Michał Drozdowski	420,000	420,000
Total	**1,280,603**	**1,280,704**

In accordance with the remuneration policy adopted by the Annual General Meeting of the Company on June 9th 2020, Members of the Management Board are entitled to an annual bonus, whose amount depends on the Company's net profit earned in a given period. The amount of the bonus for 2019 was determined by the Supervisory Board's Resolution No. 3/2018 of March 8th 2018.

Annual bonus:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Przemysław Marszał	815,636	190,530
Grzegorz Miechowski	815,636	190,530
Michał Drozdowski	815,636	190,530
Total	**2,446,908**	**571,590**

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

Remuneration under civil-law contracts:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Przemysław Marszał	60,000	60,000
Grzegorz Miechowski	60,000	60,000
Michał Drozdowski	60,000	60,000
Total	**180,000**	**180,000**

The Members of the Management Board did not receive any other remuneration for 2020 or 2019 in the form of profit distributions or stock options. However, they participate in the Incentive Scheme, described in detail (together with its valuation) in **Note 3.30**. to the full-year financial statements of 11 bit studios S.A. for 2020.

On June 9th 2020, acting on the proposal of the Company's Management Board, the Supervisory Board passed a resolution, following approval of the Company's financial statements for 2019 by the Annual General Meeting on June 9th, to grant 130,000 Series B subscription

warrants to the Incentive Scheme Participants. Persons who subscribed for the warrants will be entitled to exercise them by subscribing for Series G shares by June 30th 2023. The issue price of Series G shares under the Incentive Scheme was set at PLN 103.38.

In Current Report No. 24/2020 of July 3rd 2020, 11 bit studios S.A. announced that on July 3rd 2020 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, then President of the Company's Management Board, concerning his subscription for 11 bit studios S.A. shares as part of the settlement of the 2017–2019 Incentive Scheme. On July 3rd 2020, Grzegorz Miechowski subscribed for 18,413 Company shares at a price of PLN 103.38 per share.

As at the date of issue of these financial statements, Przemysław Marszał (President of the Management Board, holding 18,413 warrants) and Michał Drozdowski (Member of the Management Board, holding 18,414 warrants) had not yet exercised the option to convert their warrants into Series G shares under the 2017−2019 Incentive Scheme.

5.7.2. Supervisory Board

Remuneration for supervisory responsibilities:

	Period ended Dec 31 2020	Period ended Dec 31 2019
Wojciech Ozimek (Chairman of the Supervisory Board from May 23rd 2019, Member of the Supervisory Board until May 23rd 2019)	54,000	40,510
Jacek Czykiel	36,000	34,875
Radosław Marter	19,800	19,800
Marcin Kuciapski (Member of the Supervisory Board since May 23rd 2019)	19,800	12,045
Piotr Wierzbicki (Member of the Supervisory Board since May 23rd 2019)	19,800	12,045
Piotr Sulima– Chairman of the Supervisory Board (until May 23rd 2019)	0	21,450
Agnieszka Maria Kruz (Member of the Supervisory Board until May 23rd 2019)	0	7,865
Total	**180,000**	**148,590**

5.8. Other related-party transactions

In addition to the transactions described above, the Company also entered into transactions with entities related to key personnel of the Company (key management). For a detailed description of the related-party transactions, see **Note 3.31**.

5.9. Agreements entered into by the Company with members of the management staff providing for compensation in the event of resignation or removal from position

As at December 31st 2019 and as at the date of this report, members of the Company's management and supervisory staff provide their services on the basis of an appointment under a relevant resolution and there are no agreements providing for compensation in the event of their resignation or removal.

5.10. Agreements that may result in future changes in percentages of shares held by shareholders and bondholders

As described in **Note 3.30**, the Company operates the 2017–2019 Incentive Scheme for key employees and independent contractors, and the 2021–2025 Incentive Scheme for Members of the Management Board, employees and independent contractors. Following implementation of the two Schemes, there may be a change in the percentages of shares held by the shareholders.

5.11. Control system for employee share ownership schemes

5.11.1. Employee stock option plan for 2017–2019

Pursuant to Resolution No. 18/05/2017 of the Company's General Meeting of May 10th 2017, the Company operates an Incentive Scheme for Members of the Management Board, employees and independent contractors. The Incentive Scheme covered the years 2017–2019. Persons who signed Incentive Scheme participation agreements with the Company were entitled to acquire a total of 130,000 Series B subscription warrants convertible into 130,000 Series G shares, subject to meeting the targets set for the Company and defined in the Incentive Scheme Rules. The relevant resolution (No. 05/06/2017) to issue up to 130,000 Series G shares with a par value of PLN 0.10 per share and total par value of PLN 13,000 was passed by the Extraordinary General Meeting on June 7th 2017.

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

As at the date of issue of this Report, 75,944 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 7,851,091. As of that date the share capital of 11 bit studios S.A. comprised 2,363,143 Series A – Series G shares.

5.11.2. 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, for the purposes of the Incentive Scheme 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. Acting on the proposal of 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.

5.12. Purchase of own shares

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

5.13. Changes in the Company's principal governance rules

In 2020, there were no changes in the Company's principal governance rules. However, there were changes in the composition of the Company's Management Board. The scope of powers and responsibilities of each Management Board Member was also changed. At its meeting on November 24th 2020, the Company's Supervisory Board accepted the resignation of Grzegorz Miechowski as President of the Management Board and appointed him as Member of the Management Board. At the same time, the Supervisory Board appointed Przemysław Marszał, previously serving as Member of the Management Board, to the position of President of the Management Board. As previously, Michał Drozdowski was the third Member of the Management Board.

After the changes, Przemysław Marszał, President of the Management Board, is responsible for strategy and planning, and oversees the T&C division (Team&Culture). Grzegorz Miechowski, Member of the Management Board, supervises the financial, business development, marketing and administration divisions. Michał Drozdowski is responsible for all issues related to the production of proprietary and third-party developed (publishing division's) games.

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

Current financial assets (financial instruments with a conservative risk profile) and cash and cash equivalents were the largest item of the Company's assets. As at December 31st 2020, they stood at, respectively, PLN 69,932,222 (end of 2019: PLN 67,328,563 in bank deposits maturing in more than three months) and PLN 24,134,648 (end of 2019: PLN 14,882,519). In total, the Company's current assets as at the end of 2020 amounted to PLN 115,941,625 (2019: PLN 103,387,021).

As at the end of 2020, 11 bit studios S.A.'s non-current assets stood at PLN 70,397,597, relative to PLN 49,875,283 at the end of 2019. The largest item of the Company's non-current assets as at the end of 2020 was property, plant and equipment (PLN 26,889,502), comprising the property at ul. Brzeska 2 in Warsaw, purchased by the Company in December 2018 to house its new headquarters. The largest item of non-current assets was intangible assets, which included expenditure on ongoing development work (*Project 8*, *Dolly Project* and *Eleanor Project* , and productions of 11 bit publishing), amortised expenditure on games already present on the market (*Frostpunk, Moonlighter* and *Children of Morta*) and expenditure on the game engine development. As at the end of 2020, intangible assets totalled PLN 37,985,129 (2019: PLN 24,870,505).

In 2020, the large amounts of surplus cash held by the Company enabled it to finance its current operations and investment projects with own funds, without the need for any borrowings.

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

As at December 31st 2020, 11 bit studios S.A. did not hold any shares in other entities.

5.16. Management of the Company's risks

The Company's activities, financial position and results of operations have been, and may be in the future, subject to the risks described below. The occurrence of even some of the following risks may have a material adverse effect on the Company's operations, financial position and financial results, and may bring a loss of some or all of the capital invested. Risk factors and uncertainties other than described below, including factors and uncertainties that the Company is currently not aware of or which it considers immaterial, may also have a material adverse effect on the Company's financial position and results of operations, and may bring a loss of some or all of the capital invested.

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

Risk of the Company failing to achieve its strategic objectives

The strategic objective of the Company for the coming years is to increase the scale of its operations by continuing to build a diversified portfolio of high-quality video games and by further developing its publishing business. The Company's Management Board warrants that they will make every effort to ensure that the Company achieves the key strategic objectives in the coming years. Nevertheless, the Management Board can give no assurance that all the strategic objectives will be effectively reached. The Company's future position on the video games market, which has a direct impact on its revenues and profits, depends on the ability to develop and implement a growth strategy that proves successful in the long term.

Risk of varied and unpredictable demand for the Company's products

Work on the Company's individual products takes from 12 to 48 months, depending on the size of the project. The market success of a product, measured by the size of demand and sales revenue, allows the Company to recover the expenses incurred during the game's production process and to earn profits, if any. The popularity of a product and, as a consequence, the amount of revenue it generates depend to a large extent on the changing tastes of consumers, hard-to-predict trends on the gaming market, and existing competitor products. Therefore, there is a high risk of an 'unsuccessful' product, i.e. one that prospective customers are not interested in because it does not suit their preferences. This may be due to poor quality or wrong targeting. For this reason, when launching a new product, the Company is not able to predict customer reactions and, consequently, to foresee with a high degree of probability the expected amount of revenues.

Risk related to possible delays in game production

The video game production process includes many stages, which entails the risk of delays in individual stages and in the entire project. The individual stages take place one after another and depend on the outcome or successful completion of the preceding work. Some stages of the production process depend on the development team only while others are dependent on third parties such as service providers, partners and licensors. The Company's Management Board has a limited influence on the timeliness of such third parties' activities. The work of project teams may be delayed as well, as a result of unforeseen difficulties in working on a demanding product such as a video game.

Delayed completion of the production work on video games may have an adverse effect on the Company's financial results in a given financial period.

Risk related to the required acceptance of a project by manufacturers of closed platforms

Due to the nature of the Company's operations, one of the main distribution channels for its products, i.e. games for electronic distribution, are closed platforms. 11 bit studios S.A. develops games for closed platforms (consoles) from Sony, Microsoft and Nintendo. The said manufacturers reserve the right to check the product that is to be installed on their platform. As a consequence, the Company bears the risk of failure to secure a closed platform manufacturer's acceptance of its product.

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

In March 2014, a new publishing division called 11 bit publishing was established. Its purpose is the production and distribution of independent video games manufactured by 11 bit studios S.A. or third-party developers from Poland and abroad. The Company's engagement in those activities may bring the following risks:

- Risk of the lack of attractive titles to be acquired by the publishing division
  The supply of attractive third-party projects is limited. It may happen that for a long time the Company will not be able to find a product that would meet all expectations.
- Risk of strong competition from other publishers
  In the Company's immediate environment there are at least a few companies looking for similar products that satisfy the same evaluation criteria. The more limited the supply of attractive projects, the more difficult it is to stand out from the competition and offer something unique to developers.
- Risk of missing significant market trends
  The gaming market is changing dynamically. New technological trends are emerging, VR (Virtual Reality) being one of the examples. Failure to identify a trend early enough and adapt accordingly may result in losses if the Company markets products which are not trendy.
- Risk associated with higher prices of software used to create games
  A more limited availability (due to changes in pricing policies or other reasons) of popular 3D engines used to develop independent games may complicate the manufacturing process and indirectly extend the time required to create a game, resulting in a reduction in the number of new products.
- Risk related to the growing popularity of crowd-sourcing portals and self-publishing
  As a result of the growing popularity of crowd-sourcing portals, the demand for publishing services, one of the most important advantages of which was financing or co-financing of production, is diminishing. The projects that have the biggest chance of success in crowd-sourcing campaigns are those with high market potential, that is those that are also interesting from the perspective of publishing activities. As a result, the Company loses many potentially profitable projects.
- Growing number of entities providing publishing services for small and medium-sized developers
  The increase in the number of companies offering publishing services consisting in co-financing production and supporting marketing activities may bring about a drop in prices/commissions charged for publishing services and difficulties in acquiring new projects.
- Risk of limited effectiveness of PR activities
  The declining reach of industry media may significantly reduce the effectiveness of PR activities and make it impossible to use the existing know-how. In such conditions, the

Company may be required to undertake costly promotional activities to effectively inform potential customers about the products it offers.

Risk related to the Company's key human resources

The Company is still a business relatively small in size, in particular as regards the structure of resources in managerial and specialist positions. Most tasks, especially in the area of commercial cooperation with trading partners, are performed by individual people. The most qualified managerial staff are the Company's founders. Any loss of key resources who have the largest knowledge and experience in management and operating activities could cause a deterioration in the quality and timeliness of the Company's services in the short term. If this situation continues in a medium or long term, it may affect the Company's expected profits. The Company's business consists in creating video games. The quality of its services and products depends on the experience and skills of its personnel. Loss of human resources involves the need for the Company to recruit, train and on-board new people.

The employment contracts concluded by the Company with its personnel contain no clauses prohibiting provision of services to the Company's service providers or other entities after the end of cooperation with the Company.

Risk related to difficulties in finding experienced employees

The education system in Poland does not prepare university graduates for the profession of a video game developer. Therefore, the gaming industry is affected by shortages of qualified and experienced employees on the local labour market. It is difficult to find specialists who satisfy the Company's requirements. This risk is related to insufficient number of qualified employees to satisfy the needs of a dynamically growing company.

Copyright-related risks involved in contracts for specific work concluded by the Company

When signing contracts with employees, in particular Members of the Management Board, who are the most qualified management staff at the Company, the Company relies to some extent on flexible forms of employment, in particular by entering into civil-law contracts for specific work or specific tasks (*umowa o dzieło*, *umowa zlecenie*). The contracts for specific work concluded by the Company contain description of the work, provisions regarding the transfer to the Company of copyrights to the work, and confidentiality clauses binding the contractor in relation to materials and documents made available by the Company.

When referring to the provisions of contracts for specific work, it should be pointed out that in accordance with the applicable copyright laws, for the transfer of copyrights to be effective the contract must enumerate the specific fields of use to which copyrights are being transferred. Importantly, it is not possible to transfer copyrights to all fields of use that are yet to emerge in the future because such a contractual clause is invalid (Art. 41.2 of the Act on Copyright and Neighbouring Rights of February 4th 1994 contains a rule of significant importance to the sale of copyrights, according to which the provisions of a contract for copyrights apply only to the fields of use that are expressly enumerated in the contract).

In the light of the rapid technological progress, also in video game development, there is a risk that the Company may use the acquired works in a field of use other than those specified in the

copyright transfer contract and, consequently, may be required to pay additional remuneration to the authors.

Risk related to licence agreements concluded by the Company

In connection with the nature of its business, the Company has signed a number of licence agreements for the use of specific software which is necessary in the course of its operations. The agreements are not based on a single model form but on the standards contract forms used by the licensors. Some of them provide for short termination notice periods. In addition, in many cases the licensor is entitled to terminate the agreement without notice, i.e. with immediate effect. Frequently, a licence agreement does not entitle the Company to distribute its in-house developed computer programs as part of its business activities in its own name. Under the Polish laws, the Company's use of software made available by licensors is governed by the provisions of the Act on Copyright and Neighbouring Rights of February 4th 1994 (consolidated text in Dz.U. of 2006, No. 90, item 631, as amended). In addition, the majority of the agreements are governed by laws other than the laws of Poland, e.g. the laws of the state of Washington, which significantly hinders correct assessment of the contractual obligations for the Company and the scope of its liability.

Risk related to contracts concluded with foreign partners

The contracts entered into by the Company with foreign trading partners are also governed by foreign laws or contain no provisions specifying the governing law, which makes it necessary to determine the applicable law for the contract on a case by case basis. In some cases, the applicable law turns out to be a foreign law of which the Company has limited knowledge. In addition, the Company has also entered into agreements with jurisdiction clauses indicating foreign courts or with no provisions specifying the competent courts. This creates a risk that in the event of a dispute with a trading partner the Company will be required to conduct the dispute before foreign courts. Given the Company's limited knowledge of foreign laws (both material and procedural), this entails the risk of incurring increased legal costs in Poland and abroad.

Due to the lack of the choice of law provisions, it is not possible to unambiguously assess the validity of individual contractual clauses, e.g. regarding the liability of the parties for non-performance or improper performance of the obligations.

Risk related to the shareholding structure of the Company

As at the date of this 2020 Annual Report, the founding shareholders held a total of 368,543 shares in the Company, representing 15.95% of the share capital and conferring the right to 15.95% of total voting rights at the General Meeting. In the case of concerted actions of the abovementioned shareholders, they will have a significant impact on the activities of the Company. In addition, considering the fact that the said shareholders are also members of the Company's governing bodies, they can practically decide on resolutions adopted by the General Meeting in all matters relevant to the Company.

Risk related to distribution agreements and licence agreements

The Company has concluded a number of distribution and licence agreements regarding the rules for distribution or sharing of games developed by the Company through various types of platforms or data carriers. A significant part of these agreements have been subjected to a regime

of and are governed by regulations other than Polish laws (e.g. laws of England, Germany, or the state of Texas).

Subjecting contractual relations to regulations of a country other than Poland entails the risk of incorrect or insufficient assessment of the legal effects of an agreement and incorrect interpretation of its individual provisions. In the event of a dispute with trading partners with whom the Company has signed the aforementioned agreements, it will be necessary to use the services of advisers and professional attorneys from foreign countries, which may expose the Company to significant costs.

In addition, each of these agreements contains provisions limiting the possibility of providing information to third parties to the extent such information may be deemed confidential. The Company is obliged to ensure protection of confidential information received from its partners at a level at least not worse than the protection afforded to its own confidential information. The Company's default on this obligation may result in the Company's liability for damages caused by the default.

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

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

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

Risk related to macroeconomic conditions in the Company's sales markets

The Company's business depends on macroeconomic conditions prevailing in the markets where the Company distributes or intends to distribute its products. The effectiveness, and in particular the profitability, of the Company's operations depends on such factors as the rate of economic growth, the level of public consumption, fiscal and monetary policies of the state, or the inflation rate. All these factors indirectly affect the Company's revenues and other financial results. They may also influence implementation of the growth strategy adopted by the Company.

Risk of changes in the legal environment

Laws in Poland are subject to quite frequent changes. Interpretations of the law and the practice of its application change as well. The changes may be favourable to businesses but may also bring adverse effects. Changing laws or their differing interpretations, in particular in relation to tax laws, business laws, labour and social security laws, or securities laws may have negative

consequences for the Company. Changes in the interpretations of tax regulations are particularly frequent and involve particular risks. There is no uniformity in the practice of their application by tax authorities and in judicial decisions in the area of taxation. If tax authorities adopt an interpretation of tax laws which is different from the interpretation applied by the Company, this may result in a deterioration of the Company's financial position and thus adversely affect its performance and growth prospects.

Regulations in the abovementioned branches of law are subject to frequent changes and thus treatment of business entities by administrative bodies and courts is sometimes inconsistent and unpredictable. The laws also contain contradictory and conflicting provisions and ambiguities which cause differences of opinion as to their legal interpretations both between state authorities and between state authorities and companies.

For example, tax settlements may be subject to inspection by the authorities, which, if irregularities are found, are entitled to assess tax arrears with interest. Corporate tax returns may be subject to inspection by the tax authorities for a period of five years, and some transactions carried out during that period, including transactions with related parties, may be questioned for tax purposes by the competent tax authorities. As a result, the amounts disclosed in the financial statements may change at a later date after their amount is finally determined by the tax authorities.

The following branches of law are of particular relevance because changes in their current regulations may have a material effect on the Company's business:

- Laws on copyright and neighbouring rights,
- Commercial law,
- Private business law,
- Tax law,
- Labour law,
- Social security law,
- Securities law.

Undoubtedly, many of those laws are subject to frequent changes. The Company's activities are particularly affected by the laws on copyright and neighbouring rights, whose provisions are strictly dependent on EU regulations and their amendments made by the European Parliament or the European Commission, but also on Polish laws, which differ in some respects from the legal norms of other Member States. Also, due to the nature of the Company's activities, its operations may be affected by regulatory changes in the United States.

There is a significant risk of changes to regulations in each of those areas of law given that some of them are still in the process of being adapted to EU requirements. Possible regulatory changes will always have an impact on the Company's legal environment, triggering the obligation to take measures to ensure compliance. Any change to normative regulations causes problems, in particular related to interpretative doubts concerning new laws, which creates a risk of discrepancies in the practice of public authorities, including courts. Differences in the interpretation of the laws by public authorities and by courts (including the EU courts) complicate

the operation of businesses in the Polish legal system, which is not fully harmonised with the EU system.

Risk of currency exchange rate fluctuations

In its operations the Company is exposed to the risk of fluctuations of foreign exchange rates. As the Company sells its products in foreign markets (North America, Western Europe, Central and Eastern Europe, including Russia and China), the main settlement currencies in foreign transactions are the US dollar (80% share) and the euro (10% share). Consequently, the amount of the Company's revenue is negatively correlated with the value of the Polish złoty. Strengthening of the Polish currency means deterioration of the Company's revenue from sale of video games in the złoty.

Risk related to competition

For the Company, the risk related to competition results primarily from significant difficulties in defining and describing the competitors due to significant fragmentation of the industry. In the event that any competition stronger than expected appears on the market, this may affect customers' interest in the products offered by the Company. In addition, as the number of entities offering similar products for the same platforms is increasing, there may be growing difficulties in obtaining authorisations from platform manufacturers for the production of games for a given platform.

Risk related to the development of the industry in which the Company operates

The Company operates on the market of video games for direct distribution to mobile and fixed hardware platforms. The conditions and demand for products in the video games industry are driven by many factors, such as economic growth and, consequently, rising wealth of the societies and increasing consumption levels, the pace and directions of the IT market growth, competition and the development of new innovative technologies and services. Ale of those factors are beyond the Company's control.

Risk of unpredictable events

Due to the possibility of unpredictable events, such as disasters or armed conflicts, there is a risk of deterioration of the economic conditions on the global and Polish market. Such an event may have a material effect on the Company's economic position.

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

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

Signed by:

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

Warsaw, April 28th 2021

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY 11 BIT STUDIOS S.A. IN 2020

6.OVERVIEW

In 2020, 11 bit studios S.A. was subject to the corporate governance standards contained in the document 'Best Practice for GPW Listed Companies 2016', which were adopted by resolution of the Stock Exchange Supervisory Board No. 26/1413/2015 of October 13th 2015 and which came into force on January 1st 2016.

The text of 'Best Practice for GPW Listed Companies 2016' is publicly available at: https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf and at the registered office of the Warsaw Stock Exchange.

In fulfilling disclosure requirements regarding the application of corporate governance standards, 11 bit studios S.A. is guided by the principles of an effective and transparent information policy and communication with the market and investors. In Current Report No. 1/2016 (EBI) of January 11th 2016, the Company reported on the scope of application of corporate governance standards resulting from 'Best Practice for GPW Listed Companies 2016' effective from January 1st 2016. The Company announced an update to the scope of application in EBI Current Report No. 1/2019 of September 4th 2019. All information resulting from the corporate governance standards adopted by the Company, reflecting subsequent updates, is published at http://ir.11bitstudios.com/wp-content/uploads/2019/09/Dobre-Praktyki-2019.pdf

6.1. Extent to which the company departed from the adopted set of corporate governance principles

The Company undertook to apply all corporate governance principles contained in 'Best Practice for GPW Listed Companies 2016', except for the following:

I.Disclosure policy and investor communications

Detailed principles

I.Z.1.15. "information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website"

The Company's comments: The Company has not drafted a diversity policy yet. Nevertheless, the Company strives to ensure that its governing bodies and personnel are diversified in terms of gender, education, age, professional experience, etc. With respect to the governing bodies and key managers, the decisive selection criterion for each position is the nature and scope of a candidate's skills and competences.

IZ1.20. "video recording of a general meeting"

The Company's comments: Given the required technical and organisational effort, the related costs and risks and the fact that the market still has little experience in the area, currently the Company does not publish recordings of its General Meetings on its website.

VI. Remuneration

Recommendations

VI.R.3. "If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations."

The Company's comments: There is no separate remuneration committee within the Company's Supervisory Board.

6.2. Shareholders with major holdings

The table below presents shareholders holding 5% or more of voting rights at the General Meeting as at December 31st 2020, based on the statements received by the Company under applicable laws.

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

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

6.3. Holders of securities that give special control powers and description of those powers

All 11 bit studios S.A. shares are ordinary bearer shares which carry no preference, and in particular confer no special control powers.

6.4. Restrictions on voting rights

Pursuant to the Articles of Association of 11 bit studios S.A., there are no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

6.5. Restrictions on transferability of title to the Company's securities

In accordance with the Articles of Association of 11 bit studios S.A., there are no restrictions on transferability of title to the Company's securities.

6.6. Rules governing appointment and removal of members of the management staff and their rights

Members of the Management Board of 11 bit studios S.A. are appointed and removed from office in accordance with the provisions of the Commercial Companies Code and the Company's Articles of Association. The Management Board consists of one or more members. The number of the Management Board members is determined by a resolution of the Supervisory Board. Members of the Management Board are appointed and removed from office by the Supervisory Board. Members of the Management Board are appointed for a joint term of office which lasts three years. At the same time, the Supervisory Board decides which of the persons appointed to the Management Board is entrusted with the function of President of the Management Board; members of the first Management Board are appointed by the founders and in this case the founders decide which member of the first Management Board will be entrusted with the function of President of the Management Board.

The powers and responsibilities of the Management Board include all Company matters which are not expressly reserved for the General Meeting or the Supervisory Board. In the case of a one-person Management Board, the President of the Management Board is authorised to make statements on behalf of the Company. In the case of a Management Board consisting of two or more members, statements on behalf of the Company may be made by two members acting jointly or one member of the Management Board acting with a commercial proxy. Resolutions of the Management Board are passed by an absolute majority of votes present, however, in case of an equal number of votes, the President of the Management Board, who votes last, has a decisive vote. The Management Board may adopt its Rules of Procedure. The Rules of Procedure for the Management Board may not be in conflict with the provisions of the Commercial Companies Code or the Articles of Association.

The Management Board of 11 bit studios S.A. is not authorised to make independent decisions regarding the issuance of shares. Pursuant to the applicable laws and the Company's Articles of Association, issuing shares and increasing the share capital by the Company requires a relevant resolution of the General Meeting.

The Management Board may acquire Company shares subject to the rules regarding the acquisition of own shares set out in the Commercial Companies Code.

6.7. Rules governing amendments to the Company's Articles of Association

According to the provisions of Art. 430.1 of the Commercial Companies Code, amendments to the Articles of Association require a resolution of the General Meeting and entry in the register.

Under Art. 402.2 of the Commercial Companies Code, the notice convening a General Meeting whose agenda includes amendments to the Articles of Association should contain existing provisions of the Articles of Association and the proposed amendments. Where justified by a significant scope of the intended amendments, the notice may include a draft of a new consolidated text of the Articles of Association together with a list of its new or amended provisions.

The rules governing amendments to the Company's Articles of Association are specified in the Commercial Companies Code and the Company's Articles of Association. A change of the object of the Company may take place without repurchasing shares of those shareholders who do not agree to the change if the resolution on changing the object of the Company is passed by a two-thirds majority of votes with shareholders representing at least half of the share capital present.

The text of the Articles of Association is available on the Company's website at: http://ir.11bitstudios.com/dokumenty-korporacyjne.

6.8. Proceedings of the General Meeting and its powers

The General Meetings of the Company are held in accordance with the rules set out in the Commercial Companies Code, the Articles of Association and the Rules of Procedure for the General Meeting. The texts of the Articles of Association and of the Rules of Procedure for the General Meeting are available on the Company's website at http://ir.11bitstudios.com/dokumenty-korporacyjne.

The rights and obligations of the Company's shareholders with respect to participation in the General Meetings and exercising voting rights are specified in the Commercial Companies Code, the Company's Articles of Association, and the applicable capital market laws.

6.9. Composition of the Management Board and description of the operation of the Company's management and supervisory bodies and committees in 2020

6.9.1. Management Board

Management Board

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

The composition of the Management Board of 11 bit studios S.A. changed in the reporting period. At its meeting on November 24th 2020, the Company's Supervisory Board accepted the resignation of Grzegorz Miechowski as President of the Management Board and appointed him as Member of the Management Board. At the same time, the Supervisory Board appointed Przemysław Marszał, previously serving as Member of the Management Board, to the position of President of the Management 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 scope of responsibilities of individual Members of the Company's Management Board is as follows:

Przemysław Marszał, President of the Management Board (CEO)

- Strategy, planning
- Supervision of the T&C (Team&Culture) division

Grzegorz Miechowski, Member of the Management Board (COO)

- Finance, accounting
- Business development
- Marketing
- IT & DevOps
- Administration

Michał Drozdowski, Member of the Management Board (CPO)

- Art director and creative director
- Supervision over the game development teams

For detailed information on the Members of the Management Board and description of their experience and competences, see **Note 5.2.1.**

6.9.2. Supervisory Board

Supervisory 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 *(independent Member of the Supervisory Board*)*
- Radosław Marter – Member of the Supervisory Board, Chairman of the Supervisory Board (since April 15th 2021) *(independent Member of the Supervisory Board*)*
- Marcin Kuciapski – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Piotr Wierzbicki – Member of the Supervisory Board *(independent Member of the Supervisory Board*)*
- Artur Konefał – Member of the Supervisory Board (since April 15th 2021) *(independent Member of the Supervisory Board*)*

** – Independence criteria for members of supervisory boards are set out in Detailed Principle II.Z.4 of 'Best Practice for GPW Listed Companies 2016'.*

The composition of the Supervisory Board of 11 bit studios S.A. did not change in the reporting period. The term of office of the current Supervisory Board expires on May 23rd 2022.

For detailed information on the Members of the Supervisory Board and description of their experience and competences, see **Note 5.2.2.**

The rules of operation of the Company's Management Board and Supervisory Board are specified in the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. The texts of the Articles of Association and of the Rules of Procedure for the Supervisory Board are available on the Company's website at http://ir.11bitstudios.com/dokumenty-korporacyjne.

An Audit Committee has been appointed and has operated as part of the Supervisory Board (since September 3rd 2019), consisting of:

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

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

The Audit Committee of this composition meets the independence criteria and the other requirements set forth in Art. 129.1, 129.3 129.5 and 129.6 of the Act on Statutory Auditors, Audit Firms, and Public Oversight, that is:

- at least one member of the Audit Committee has knowledge of and skills in accounting or auditing;
- at least one member of the Audit Committee has knowledge and skills relevant for the industry in which the Company operates;
- most of the Audit Committee members, including its Chairman, are independent of the Company.

The Company announces that in accordance with detailed principle II.Z.8 of the Code of Best Practice for WSE Listed Companies 2016, the Chairman of the Audit Committee meets the independence criteria set out in Annex II to Commission Recommendation 2005/162/EC of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

In 2020, the Audit Committee held three meetings.

- June 18th 2020 (video conference) – meeting with the PwC team (new auditor); discussion of the scope and schedule of work for 2020, as well as key areas to be analysed;
- August 26th 2020 – meeting with the PwC team; summary of the review of the Company's half-year report for H1 2020, including material adjustments related to the opening balances in 2020;
- December 21st 2020 – meeting with the PwC team; discussion of the planned scope and schedule of work on the Company's 2020 Annual Report; presentation of PwC's information on the planned audit strategy for the 2020 Annual Report.

The Company did not appoint members of a remuneration committee as remuneration at the Company is defined in the contracts concluded by the Company with persons holding management and governance positions (the remuneration amounts vary depending on the function or position held). The remuneration received by the Company's management and senior management includes share-based payments, stock options or other rights to acquire shares, as well as forms of remuneration that is not determined by reference to share price movements.

6.10. Principal rules in place at 11 bit studios S.A. and internal control and risk management systems

The Company has in place internal control systems required to keep accounting records and prepare financial statements and reports. Substantive supervision over the process of preparing the Company's financial statements and periodic reports is exercised directly by the Management Board. In 2020, the accounting books of 11 bit studios S.A. were kept by internal accounting services.

The financial data being the basis for the financial statements comes from the accounting and financial system, in which transactions are recorded in accordance with the Company's accounting policies based on International Accounting Standards. The Company has implemented and applies appropriate methods to secure access to data and the computer system for their processing, including the storage and protection of accounting books and accounting documents.

The Company's financial statements are submitted to the Management Board for final verification. The financial statements adopted by the Management Board are submitted to the Supervisory Board in order to take actions stipulated in the Commercial Companies Code, i.e. to perform assessment of the financial statements. Full-year and half-year financial statements are audited by the independent statutory auditor appointed by the Company's Supervisory Board. The results of the audit are delivered to the Management Board and the Supervisory Board, and the opinion and report from the audit of the full-year financial statements is additionally presented to the General Meeting.

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

In 2020, 11 bit studios S.A. actively supported health services in the fight against the COVID-19 pandemic. The Company financed the purchase of thermometers and protective masks, which were then donated to: the National Institute for Public Health, the Central Clinical Hospital of MSWiA, the University Clinical Centre of the Medical University of Warsaw and the Military Medical Institute. The Company also bought laptop computers for schools in the Province of Zielona Góra and Gorzów Wielkopolski to help children from underprivileged families in remote learning.

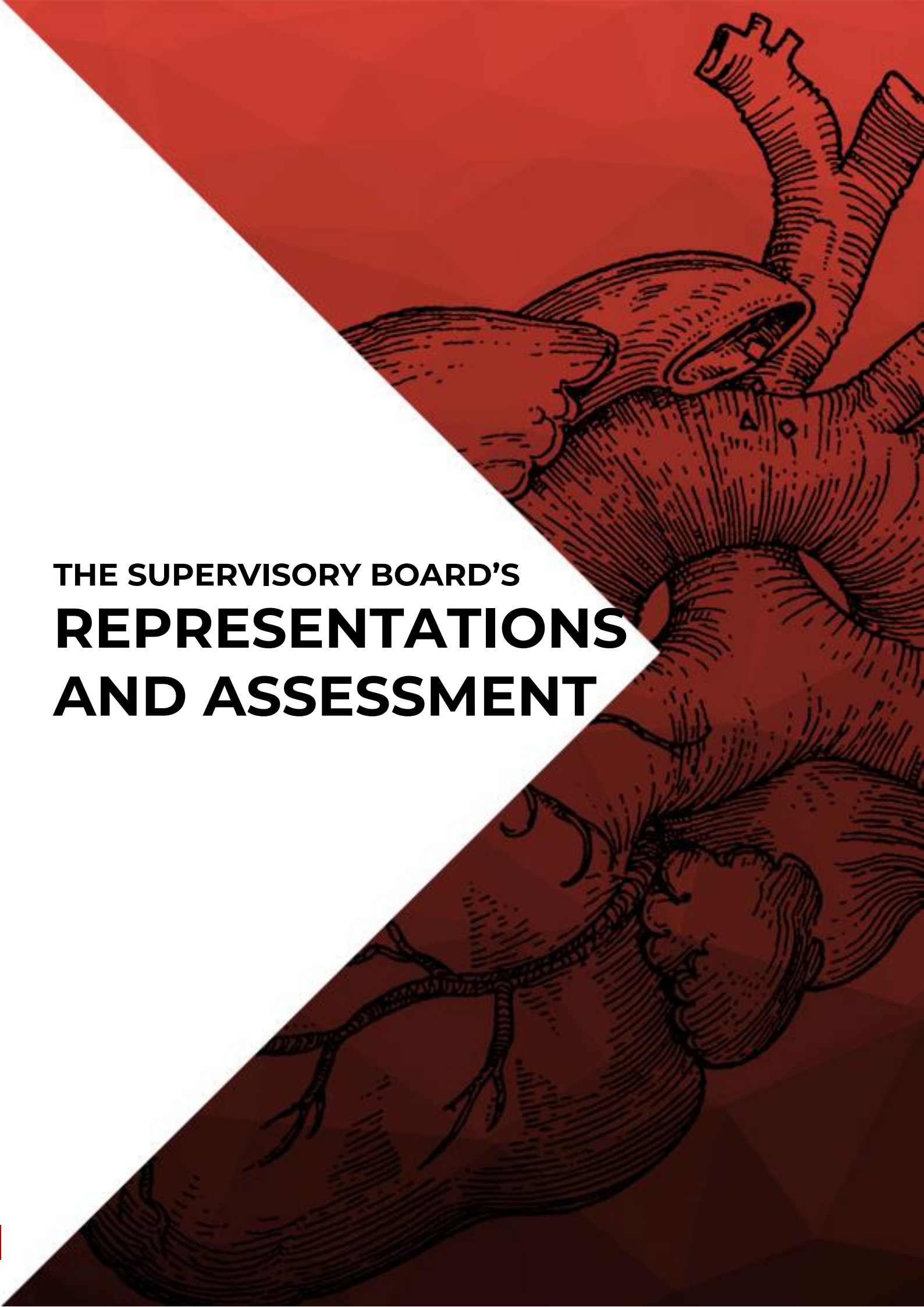
As in 2020, the Company supported the War Child foundation helping child victims of war. Funds donated for this purpose in 2020 amounted to PLN 144,453 (2019: PLN 230,316). The foundation receives a part of revenue from sales of an add-on for *This War of Mine* (War Child Charity DLC).

Another foundation with which 11 bit studios S.A. engaged in 2020 was The Humane Society International for the protection of animals. 11 bit studios S.A., jointly with Dead Mage (the development studio behind *Children of Morta*), decided that all revenue from the sale of *Children of Morta: Paws and Claws* (which introduced animal characters in the game) would be transferred to the account of that organisation. In 2020, the total amount of donations for this purpose was PLN 258,936.

Signed by:

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

Warsaw, April 28th 2021



THE SUPERVISORY BOARD'S

REPRESENTATIONS AND ASSESSMENT

THE SUPERVISORY BOARD'S REPRESENTATIONS AND ASSESSMENT

7.1. Selection of the audit firm

The Supervisory Board of 11 bit studios S.A. represents that on July 5th 2020 it appointed PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k to audit the full-year financial statements and review the interim financial statements of 11 bit studios S.A. for the financial years ending on December 31st 2020 and 2021.

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

7.2. The Audit Committee

The Supervisory Board of 11 bit studios S.A., pursuant to Section 70.1.8 and Section 71.1.8 of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, hereby represents that:

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

Radosław Marter, Chairman of the Supervisory Board
Jacek Czykiel, Deputy Chairman of the Supervisory Board

Artur Konefał, Member of the Supervisory Board,
Marcin Kuciapski, Member of the Supervisory Board
Piotr Wierzbicki, Member of the Supervisory Board

The original document bears the relevant signatures
Warsaw, April 28th 2021

7.3. Assessment by the 11 bit studios S.A. Supervisory Board of the financial statements and the Directors' Report on the operations of 11 bit studios S.A. in 2020 in terms of their consistency with the underlying accounting records, documents and facts

The 11 bit studios S.A. Supervisory Board, acting pursuant to Art. 382.3 of the Commercial Companies Code in conjunction with Section 70.1.14 and Section 71.1.12 of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, having read the data and information presented in the financial statements of 11 bit studios S.A. for the year ended December 31st 2020 and the Directors' Report on the operations of 11 bit studios S.A. in the year ended December 31st 2020, hereby represents that, to the best of its knowledge, the said financial statements and the Directors' Report have been prepared in compliance with the applicable accounting policies, give a true, fair and clear view of the Company's assets, financial condition and financial performance, and are consistent with the underlying accounting records, documents and facts.

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

Radosław Marter, Chairman of the Supervisory Board
Jacek Czykiel, Deputy Chairman of the Supervisory Board
Artur Konefał, Member of the Supervisory Board,
Marcin Kuciapski, Member of the Supervisory Board
Piotr Wierzbicki, Member of the Supervisory Board

The original document bears the relevant signatures
Warsaw, April 28th 2021