

WARSAW, August 26th 2021

HALF-YEAR REPORT OF 11 BIT STUDIOS S.A. FOR THE FIRST HALF OF 2021

LETTER FROM THE MANAGEMENT BOARD

Warsaw, August 26th 2021

Dear Shareholders and Investors,

Please be invited to read 11 bit studios S.A.'s report for the first half of 2021. We, as the Management Board, are clearly satisfied with the Company's financial performance, which was far better than assumed in the budget for the period. In the first six months of this year, our Company posted revenue of nearly PLN 35.78m. Our EBITDA came in at PLN 19.76m, operating profit was more than PLN 14.49 m, and net profit reached almost PLN 13.31m. In the second quarter of 2021 alone, revenue amounted to PLN 20.94m, EBITDA reached PLN 13.38m and operating profit was PLN 11.05m. Net profit for that period came in at PLN 9.75m. It should be noted that since the first quarter of 2021 11 bit studios S.A.'s net profit has been reduced by non-cash costs accrued in connection with the Company's 2021–2025 Incentive Scheme, which in the first half of 2021 were PLN 1,944,476. No such accruals were recognised the year before. At the end of this summary review of our results, we wish to draw your attention to the balance sheet item we are particularly proud of, that is our cash resources, comprising cash and cash equivalents, low-risk financial instruments and trade receivables. Despite growing capital expenditure, as at the end of June 2021 these cash resources reached the highest level in the Company's history of PLN 114.56m, having increased 8.41% on the end of 2020. This is vitally important in the context of the strategy we presented at the Investor Conference held in June.

The solid financial performance delivered by 11 bit studios S.A. in the first half of 2021, despite a slight year-on-year decline due to the high base effect, was attributable to very good sales of products from our entire, steadily growing portfolio of proprietary games and games from our publishing line. We are particularly satisfied with the sales of *Frostpunk* and paid DLCs for this production, released as part of the Season Pass. By the end of June 2021, i.e. in a little more than three years from the game's debut, revenue from *Frostpunk* (entire IP) came close to PLN 140m. As usual, the games released by the publishing division, mainly *Moonlighter* and *Children of Morta*, significantly contributed to our results. The revenue from the two games accounted for 27% of the Company's total revenue in the first six months of 2021.

The strong fundamentals enable smooth running of the business and make it possible to take up challenges we could not even dare to dream of a few years back. We are gearing ourselves up for those challenges very diligently by hiring more people and making required changes at the company. 11 bit studios S.A. currently has three in-house development teams working in full flow on games with a total production budget of PLN 110m. The fast-growing publishing division intends to spend another PLN 50m on new projects by the end of 2023, in addition to the PLN 30m

earmarked for projects already in its portfolio. The Company is also well advanced in its efforts to establish a corporate group. We hope that we will soon be able to publish more information on this as well as other valuable projects we are working on, which are of interest to Investors and Shareholders, and which we have not been able or ready to talk about so far. We firmly believe that the information will be welcomed as warmly as the news we announced on August 12th, that one of the games we are working on is *Frostpunk 2*. The count of views of the game's trailer, favourable articles in all of the most influential industry media, as well as the pace of wishlist building are, in our opinion, impressive, which confirms that fans are looking forward to more games set in the universe we have created, and that the development directions we have chosen are the right ones.

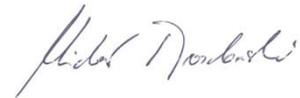
Thank you once again for the trust you place in us. We invite you to read our report.

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

Przemysław Marszał
President of the
Management Board

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

Grzegorz Miechowski
Member of the
Management Board

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

Michał Drozdowski
Member of the
Management Board

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FINANCIAL HIGHLIGHTS

The selected financial data presented in the tables below was translated into the euro at the rates specified below.

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

- Exchange rate as at June 30th 2021 - **PLN 4.5208**
- Exchange rate as at December 31st 2020 - **PLN 4.6148**.

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

- Exchange rate for the first half of 2021 - **PLN 4.5472**
- Exchange rate for the first half of 2020 - **PLN 4.4413**

Statement of financial position

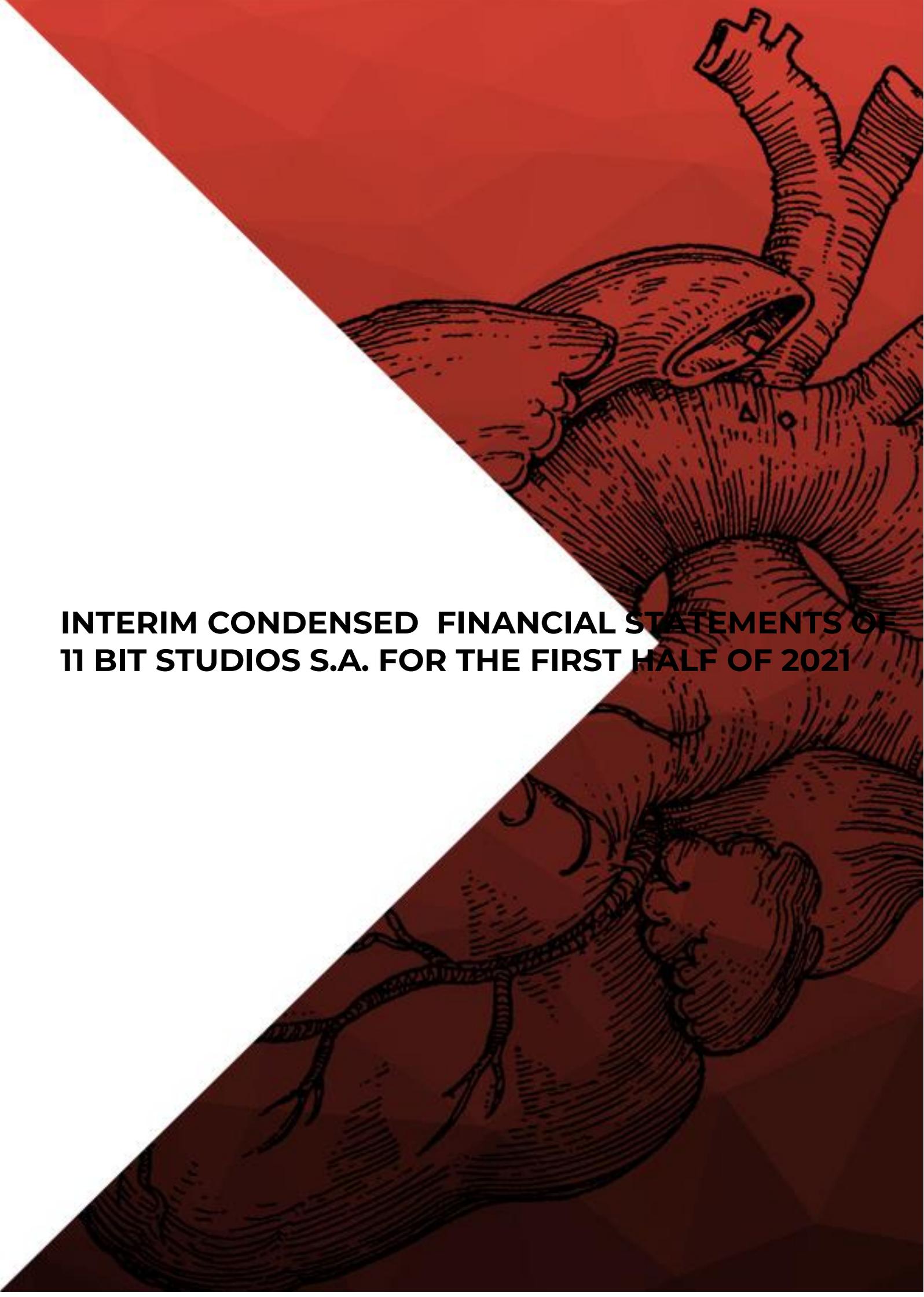
	Jun 30 2021 (PLN)	Jun 30 2021 (EUR)	Dec 31 2020 (PLN)	Dec 31 2020 (EUR)
Total assets	201,184,432	44,501,954	186,339,222	40,378,613
Non-current assets	77,905,033	17,232,577	70,397,597	15,254,745
Intangible assets	46,028,336	10,181,458	37,859,517	8,203,934
Current assets	123,279,399	27,269,377	115,941,625	25,123,868
Cash	28,200,855	6,238,023	24,134,648	5,229,836
Total equity and liabilities	201,184,432	44,501,954	186,339,222	40,378,613
Equity	180,226,535	39,866,071	164,648,124	35,678,279
Liabilities and provisions	20,957,897	4,635,882	21,691,098	4,700,334

Statement of profit or loss

	Period ended Jun 30 2021 (PLN)	Period ended Jun 30 2021 (EUR)	Period ended Jun 30 2020 (PLN)	Period ended Jun 30 2020 (EUR)
Revenue	35,778,291	7,868,203	50,168,756	11,295,962
Depreciation and amortisation	5,264,855	1,157,824	4,844,854	1,090,864
Operating profit	14,495,759	3,187,843	26,376,046	5,938,812
EBITDA	19,760,610	4,345,665	31,220,900	7,029,676
Profit (loss) before tax	14,996,332	3,297,927	26,681,959	6,007,691
Net profit (loss)	13,308,096	2,926,657	25,010,290	5,631,299

Statement of cash flows

	Period ended Jun 30 2021 (PLN)	Period ended Jun 30 2021 (EUR)	Period ended Jun 30 2020 (PLN)	Period ended Jun 30 2020 (EUR)
Net cash from operating activities	20,523,583	4,513,455	28,918,250	6,511,213
Net cash from investing activities	(15,987,105)	(3,515,813)	(14,027,199)	(3,158,354)
Net cash from financing activities	(470,271)	(103,420)	(722,866)	(162,760)
Total net cash flows	4,066,206	894,222	14,168,186	3,190,099



**INTERIM CONDENSED FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A. FOR THE FIRST HALF OF 2021**

1. OVERVIEW

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

1.1. Company overview

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

The Company was established for indefinite time.

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

The Company's principal business activity includes:

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

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

1.2. Covered periods

These interim condensed financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to June 30th 2021 and contain comparative data for the period from January 1st to June 30th 2020.

1.3. Composition of the Company's governing bodies as at June 30th 2021

Management Board

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

Supervisory Board

- Radosław Marter – Chairman of the Supervisory Board
- 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

In the reporting period, there were changes in the composition of the Supervisory Board of 11 bit studios S.A. On April 15th 2021, Wojciech Ozimek, Chairman of the Supervisory Board, resigned with immediate effect from membership of the Supervisory Board, including from his position as Chairman of the Supervisory Board. Therefore, at its meeting held on April 15th 2021, the Supervisory Board appointed Artur Konefał as Member of the Company's Supervisory Board for the joint term of office ending on May 23rd 2022. At the same time, the Supervisory Board appointed Radosław Marter, previously serving as Member of the Supervisory Board, as Chairman of the Supervisory Board.

The joint term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021. The term of office of the current Supervisory Board expires on May 23rd 2022.

1.4. Auditor

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością 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 2021, and PLN 49,000 for the review of the Company's interim financial statements for 2020 and 2021.

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

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	177,413	7.50	177,413	7.50
Przemysław Marszał	106,500	4.50	106,500	4.50
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
Other shareholders	1,860,779	78.67	1,860,779	78.67
Total	2,365,421	100.00	2,365,421	100.00

* Number of shares registered at the Extraordinary General Meeting held on July 20th 2021.

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

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

In Current Report No. 8/2021 of March 4th 2021, 11 bit studios S.A. announced that on March 4th 2021 the Company received a notification under Art. 19.1 of the Market Abuse Regulation from Marcin Kuciapski, Member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On March 4th 2021, Marcin Kuciapski purchased a total of 150 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 519.87 per share.

In Current Report No. 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.

In Current Report No. 18/2021 of June 10th 2021, 11 bit studios S.A. announced that on June 10th 2021 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 10th 2021, Marcin Kuciapski purchased a total of 350 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 506.43 per share.

In Current Report No. 21/2021 of June 14th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on June 14th 2021 568 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 58,719.84. At the same time, the Company announced that as of June 14th 2021 the Company's share capital was PLN 236,371.1 and comprised 2,363,711 shares with a par value of PLN 0.1 per share.

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

In Current Report No. 25/2021 of August 11th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on August 11th 2021 1,710 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 176,779.80. At the same time, the Company announced that as of August 11th 2021 the Company's share capital was PLN 236,542.1 and comprised 2,365,421 shares with a par value of PLN 0.1 per share.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Jun 30 2021 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	106,500	106,500
Grzegorz Miechowski	Member of the Management Board	177,413	177,413	177,413
Michał Drozdowski	Member of the Management Board	84,630	84,630	84,630
Marcin Kuciapski	Member of the Supervisory Board	1,050	1,050	550

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

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

1.7. 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, 181 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.9. Functional and presentation currency

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

1.10. Management Board's representation

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

These interim condensed financial statements as at June 30th 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz.U. of 2018, item 757).

These interim condensed financial statements have been prepared on a historical cost basis. They do not include all information and disclosures required in full-year financial statements and should be read in conjunction with the Company's full-year financial statements for 2020, including notes, for the period of 12 months ended December 31st 2020, prepared in accordance with the IFRS as endorsed by the EU.

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

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

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

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

1.12. Authorisation of financial statements

These interim condensed financial statements of 11 bit studios S.A. were authorised for issue by the Company's Management Board on August 26th 2021.

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

2.1. Interim statement of comprehensive income (PLN)

	Note	3 months ended Jun 30 2021 <i>(unaudited)</i>	3 months ended Jun 30 2020 <i>(unaudited)</i>	6 months ended Jun 30 2021	6 months ended Jun 30 2020
Continuing operations					
Revenue	3.2	20,941,311	19,645,147	35,778,291	50,168,756
Other income	3.3.1	15,912	85,479	63,804	150,938
Total operating income		20,957,223	19,730,626	35,842,095	50,319,694
Depreciation and amortisation	3.4	(2,323,310)	(2,473,091)	(5,264,855)	(4,844,854)
Raw materials and consumables used		(111,438)	(81,605)	(245,451)	(178,369)
Services	3.5	(3,514,667)	(6,648,048)	(8,965,013)	(13,638,340)
Salaries, wages and employee benefits	3.6	(3,336,107)	(318,137)	(5,826,415)	(3,784,196)
Taxes and charges		(68,169)	(87,285)	(138,075)	(156,763)
Other expenses	3.3.2	(549,345)	(987,993)	(906,527)	(1,341,126)
Total operating expenses		(9,903,036)	(10,596,159)	(21,346,336)	(23,943,648)
Operating profit		11,054,187	9,134,467	14,495,759	26,376,046
Interest income	3.7	2,290	194,162	4,232	456,901
Other finance income	3.7	(259,408)	(684,168)	678,125	455,358
Finance costs	3.8	(89,097)	184,522	(181,784)	(606,346)
Profit before tax		10,707,972	8,828,983	14,996,332	26,681,959
Income tax expense	3.9	(958,809)	1,673,263	(1,688,236)	(1,671,669)
NET PROFIT		9,749,163	10,502,246	13,308,096	25,010,290
Earnings per share (PLN):					
Basic	3.10	4.09	3.71	5.63	10.93
Diluted	3.10	4.06	3.51	5.53	10.35
NET PROFIT		9,749,163	10,502,246	13,308,096	25,010,290
Other comprehensive income		0	0	0	0
TOTAL COMPREHENSIVE INCOME		9,749,163	10,502,246	13,308,096	25,010,290

2.2. Interim statement of financial position (PLN)

ASSETS

	Note	As at Jun 30 2021	As at Dec 31 2020
Non-current assets			
Property, plant and equipment	3.11	26,178,487	26,889,502
Right-of-use assets	3.11	4,309,502	4,003,398
Intangible assets	3.12	46,028,336	37,859,517
Deferred tax asset	3.9.3	1,297,062	1,517,590
Other assets	3.16	91,646	127,590
Total non-current assets		77,905,033	70,397,597
Current assets			
Trade and other receivables	3.13	10,890,434	11,601,506
Income tax receivable	3.9.2	8,122,419	7,623,047
Other current assets	3.15	593,311	583,598
Cash and cash equivalents	3.17	28,200,855	24,134,648
Current financial assets	3.14	75,472,380	71,998,826
Total current assets		123,279,399	115,941,625
TOTAL ASSETS		201,184,432	186,339,222

EQUITY AND LIABILITIES

	Note	As at Jun 30 2021	As at Dec 31 2020
Equity			
Share capital	3.18	236,371	236,055
Share premium		12,733,156	12,407,633
Statutory reserve funds		120,467,692	87,152,664
Share-based payment reserve		33,689,305	31,744,829
Retained earnings		13,100,011	33,106,943
Total equity		180,226,535	164,648,124
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.20	8,190,000	8,820,000
Financial instruments (IRS) – long-term portion	3.20	373,402	679,650
Lease liabilities	3.20	757,615	334,041
Deferred income	3.24	635,711	635,711
Total non-current liabilities		9,956,728	10,469,402
Current liabilities			
Trade and other payables	3.21	9,670,548	9,791,955
Short-term borrowings and other debt instruments	3.20	1,260,000	1,260,000
Financial instruments (IRS) – short-term portion	3.20	57,446	97,093
Lease liabilities	3.20	13,175	12,653
Deferred income	3.25	0	59,997
Total current liabilities		11,001,169	11,221,696
Total liabilities		20,957,897	21,691,098
TOTAL EQUITY AND LIABILITIES		201,184,432	186,339,222

2.3. Interim statement of changes in equity (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 2021	236,055	12,407,633	87,152,664	31,744,829	33,106,943	0	0	164,648,124
Net profit for the financial year	0	0	0	0	13,308,096	0	0	13,308,096
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	0	0	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	33,315,028	0	(33,315,028)	0	0	0
Issue of Series G shares under the 2017-2019 Incentive Scheme*	316	325,523	0	0	0	0	0	325,839
Recognition of costs of the 2021-2025 Incentive Scheme	0	0	0	1,944,476	0	0	0	1,944,476
As at Jun 30 2021	236,371	12,733,156	120,467,692	33,689,305	13,100,011	0	0	180,226,535

* Net of the cost of issue of Series G shares of PLN 1,461.

	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	25,010,290	0	0	25,010,290
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	25,010,290	0	0	25,010,290
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	0	0	0	0	0	0	0	0
As at Jun 30 2020	228,720	4,870,274	87,152,664	31 44,829	2,054,102	0	0	144,750,589

During the preparation of the Company's interim condensed financial statements for the six months ended June 30th 2020 and in the course of the financial statements review procedures applied by the auditor, the Company decided to change the method of accounting for the costs of the 2017–2019 Incentive Scheme, that is to shorten the period over which the costs would be accounted for from Q2 2018–Q2 2020 to Q1 2017–Q4 2019. 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 amounts of the Scheme costs recognised in the individual periods were adjusted.

2.4. Interim statement of cash flows (PLN)

	Note	Period ended Jun 30 2021	Period ended Jun 30 2020
Cash flows from operating activities			
Profit for the financial year		13,308,096	25,010,290
Adjustments:			
Depreciation and amortisation		5,264,855	4,844,854
Income tax expense recognised in profit or loss	3.9	1,688,236	1,671,669
Remeasurement of intangible assets		(35,945)	(17,450)
Cost of the Incentive Scheme		1,944,476	0
Other adjustments		(234,951)	611,661
Changes in working capital:			
Increase/(decrease) in trade and other receivables		711,072	2,841,258
Increase/(decrease) in other assets		26,229	14,410
Increase/(decrease) in trade and other payables		(121,407)	3,169,146
Increase/(decrease) in net contract assets/liabilities		0	(7,242,184)
Increase/(decrease) in deferred income		(59,997)	(99,118)
Cash provided by operating activities		22,490,664	30,775,715
Income tax paid		(1,967,081)	(1,857,464)
Net cash from operating activities		20,523,583	28,918,250
Cash flows from investing activities			
Loans to employees		1,647,604	(4,108,945)
Proceeds from bank deposits upon maturity – over 3 months		0	94,000,000
New bank deposits placed – over 3 months		0	(89,000,000)
Proceeds from interest on financial assets		0	126,710
Proceeds from redemption of bonds		40,000,000	0
Purchase of financial assets		(44,947,998)	0
Payments for property, plant and equipment and intangible assets		(12,686,711)	(15,044,965)
Net cash from investing activities		(15,987,105)	(14,027,199)
Cash flows from financing activities			
Proceeds from issue of shares		325,840	0
Proceeds/(payments) under credit facility		(630,000)	(630,000)
Payment of interest on credit facility		(166,111)	(92,866)
Net cash from financing activities		(470,271)	(722,866)
Net increase /(decrease) in cash and cash equivalents		4,066,206	14,168,186
Cash at beginning of reporting period		24,134,649	14,882,519
CASH AT END OF REPORTING PERIOD	3.17	28,200,855	29,050,705

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. Application of IFRSs

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

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

3.1.1. Statement of compliance

These financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Company has applied the IFRSs as effective on June 30th 2021. The accounting policies applied to prepare these financial statements of the Company for the first half of 2021 are consistent with the policies applied to prepare the Company’s full-year financial statements for 2020, except for the changes described below. The same policies have been applied for the current and comparative periods.

3.1.2. Amendments to existing standards applied for the first time in the Company’s financial statements for 2021

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

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

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

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

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

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

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

The Company will apply IFRS 17 following its endorsement by the European Union.

As at the date of these financial statements, the new standard was not yet endorsed by the European Union.
- **Amendments to IAS 1 *Presentation of Financial Statements***

The IASB has published amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. The amendments are effective for financial statements for periods beginning on or after January 1st 2023.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **IFRS 3 *Business Combinations***

The amendments to the standard issued in May 2020 are intended to update the relevant references to the Conceptual Framework in IFRS without introducing any substantive changes to accounting for business combinations.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **Amendment to IAS 16 *Property, Plant and Equipment***

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, the company will recognise such sales proceeds and related cost in profit or loss. The amendment is effective for financial statements for periods beginning on or after January 1st 2022. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.
- **Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***

The amendments to IAS 37 clarify what costs an entity considers in assessing whether a contract is onerous. The amendments are effective for financial statements for periods beginning on or after January 1st 2022. As at the date of these financial statements, the amendments were not yet endorsed by the European Union.
- **Annual Improvements to IFRSs 2018–2020 Cycle**

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

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

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

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

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

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

- **IFRS 16 *Leases***

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

- **IFRS 14 *Regulatory Deferral Accounts***

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

- **Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture**

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

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

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

3.2. Revenue (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Revenue	35,778,291	50,168,756

As in the previous year, in H1 2021 the main source of the Company's revenue was sales of its own games as well as third-party games marketed as part of the 11 bit publishing services. The Company's other income (including mainly EU grants) accounted for 0.18% of total revenue in the reporting period (0.30% in the first half of 2020).

The year-on-year decline in revenue in the first six months of 2021 was mainly attributable to the very high comparative base – the first quarter of 2020 was the time of the very successful release of *Frostpunk: The Last Autumn*, the second paid add-on for *Frostpunk*. It became very popular with game fans and its high quality earned it rave reviews from industry media and players. The release of *Frostpunk: The Last Autumn* (the second of the three paid DLCs in the Season Pass) boosted sales of the game's basic version, as well as of *Frostpunk: Game of The Year (GOTY)*, which includes the main version and the Season Pass. An important part of the Company's revenue in H1 2020 was revenue from a contract with Microsoft for the release of *Frostpunk* (January 9th 2020) and *Children of Morta* (January 16th 2020) in the Xbox Pass subscription service.

As mentioned above, in the six months ended June 30th 2021, the Company's revenue was driven by current sales of both proprietary and third-party developed games, supported by periodic promotional campaigns on key sale platforms, notably the Bundle Madness offer on Steam. Another positive contributor to 11 bit studios S.A.'s revenue in the six months ended June 30th 2021 was the release of the Mac version of *Frostpunk* in late February 2021 and contracts with Microsoft to extend the availability of *Frostpunk* and *Children of Morta* in Xbox Pass for another period, and with Epic Games to make *Frostpunk* available in Epic Store.

3.2.1. 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.

	Period ended Jun 30 2021	Period ended Jun 30 2020
Poland	836,616	874,853
European Union	835,318	3,138,006
US	27,564,041	38,140,147
Japan	4,542,717	7,613,666
China	74,703	125,822
Other	1,924,896	276,262
Total	35,778,291	50,168,756

3.2.2. Revenue by distribution channel

The Company's revenue from sales of computer games in the first half of 2021, amounting to PLN 35,778,291 (vs PLN 50,168,756 the year before), included PLN 34,110,334 (vs PLN 48,399,999 the year before) in revenue from sale of the Company's products via the selling platforms of its 10 largest business partners, including Steam (Valve Corporation), Nintendo Co Ltd., Microsoft Corporation, Google, Apple and Epic Games.

3.3. Other income and expenses (PLN)

3.3.1. Other income

	Period ended Jun 30 2021	Period ended Jun 30 2020
Grants received	59,997	89,996
Other income	2,890	0
Gain on disposal of non-current non-financial assets	0	3,845
Other income - subject to recharge	0	43,049
Other income - received damages/compensations	917	14,048
Total	63,804	150,938

3.3.2. Other expenses

	Period ended Jun 30 2021	Period ended Jun 30 2020
Impairment losses recognised on:		
Trade receivables	34,295	0
Other expenses:		
Costs of discontinued projects	344,756	0
Liquidation of non-current non-financial assets	0	244,745
Non-recoverable withholding tax	177,395	11,444
Donations	226,966	917,850
Other expenses by nature	123,115	167,087
Total	906,527	1,341,126

In the six months ended June 30th 2021, the main item of other expenses was cost of discontinued projects (PLN 344,756), including an impairment loss on expenditure related to the

development of the game engine (phase 6) incurred in the current period. The Company also made donations of PLN 226,966 (PLN 917,850 the year before). Almost all of this amount was transferred to the Humane Society International foundation's account and had been generated from sale of *Children of Morta: Paws and Claws*, a DLC for *Children of Morta* released in the third quarter of 2020. The donations made in the first six months of 2020 were used to purchase medical equipment and supplies (in connection with the COVID-19 pandemic), which were then provided to healthcare and educational establishments. The decrease in other expenses by nature from PLN 167,087 in H1 2020 to PLN 123,115 was attributable to a reduction in business travel, advertising and insurance expenses in consequence of the COVID-19 pandemic.

3.4. Depreciation and amortisation (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Depreciation/amortisation charges in the period:		
Depreciation	1,128,560	729,005
Amortisation	4,750,965	4,613,459
Total	5,879,525	5,342,464
Allocation to project costs	(733,475)	(499,760)
Land (depreciation of the right-of-use asset)	118,805	2,150
Total	5,264,855	4,844,854

The year-on-year increase in depreciation and amortisation expense in the first six months of 2021 was attributable to higher depreciation of property, plant and equipment (it rose to PLN 1,128,560 from PLN 729,005 the year before), due to the Company's investments in new IT equipment for new employees, and slightly higher amortisation (PLN 4,750,965 vs PLN 4,613,458) of intangible assets (expenditure on games in the proprietary and publishing division's portfolio as well as on DLCs for those games). The increase in depreciation and amortisation expense was partly offset by an increase in allocation to project costs (to PLN 733,475 in the first half of 2021 from PLN 499,760 the year before), i.e. an increase in departmental costs.

Higher depreciation of the right-of-use asset was attributable to revaluation made in the first half of 2021.

3.5. Services (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Services	8,965,013	13,638,340

The year-on-year drop in the cost of services in the six months ended June 30th 2021 was driven by a decline in revenue from sale of third-party games, due to their natural ageing. *Moonlighter* and *Children of Morta*, the two key titles in the publishing divisions' portfolio, were first released in spring 2018 and autumn 2019, respectively. The Company made appropriate royalty payments on the revenue from sale of those games as well as other third-party developed (11 bit

publishing division's) games to their respective developers. In the first six months of 2021, the amount of royalties recognised in profit or loss was PLN 3,561,036 vs PLN 9,492,058 the year before.

In the first half of 2021, services also included a portion of non-cash costs of the 2021–2025 Incentive Scheme attributable to B2B contractors. The Company did not recognise any such accruals in the corresponding period of 2020.

3.6. Salaries, wages and employee benefits (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Salaries, wages and employee benefits	5,826,415	3,784,196

The almost 54% increase in salaries and wages (to PLN 5,826,415 in the first six months of 2021, from PLN 3,784,196 in the same period of the previous year) was driven by a gradual increase in the Company's workforce and growing salaries and wages. The item also included a portion of non-cash costs of the 2021–2025 Incentive Scheme attributable to employees working under employment contracts. The Company did not recognise any such accruals in the corresponding period of 2020.

3.7. Finance income (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Interest income:		
Bank deposits	4,232	456,901
Finance income:		
Gains on remeasurement of financial assets	173,162	0
Remeasurement of IRS	345,892	0
Net foreign exchange gains	159,071	455,358
Total	682,357	912,259

In the reporting period, the largest item of the Company's finance income was non-cash income from remeasurement of an interest rate swap hedging the Company's position against interest rate risk connected with its investment credit facility of PLN 12,600,000 contracted with PKO BP S.A. at the end of 2018 to finance the purchase of new offices (**Note 3.20**). Non-cash income amounted to PLN 345,892 vs PLN 0 the year before. As a result of favourable changes in international currency markets in the six months ended June 30th 2021, i.e. depreciation of the zloty against the US dollar and the euro, in which a vast majority of the Company's revenue is earned, in the reporting period, as in the previous year, 11 bit studios S.A. generated a significant amount of finance income from currency exchange gains: PLN 159,331, compared with PLN 455,358 in 2020. However, due to low interest rates 11 bit studios S.A. reported only PLN 4,232 of interest income on cash deposits relative to PLN 456,901 the year before. This decrease was

partially offset with income from remeasurement of financial assets (PLN 173,162), i.e. investment fund units and PKO Leasing notes and PKO Bank Hipoteczny bonds held by the Company.

3.8. Finance costs (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Interest on public charges	3,670	590
Interest on credit facilities	53,506	80,542
Settlement of IRS	112,605	12,324
Losses on remeasurement of financial assets	0	512,890
Other	12,003	0
Total	181,784	606,346

In the six months ended June 30th 2021, the largest item of the Company's finance costs was the non-cash costs of PLN 112,605 (H1 2020: PLN 12,324) resulting from remeasurement of the interest rate swap as described in **Note 3.20**. A significant portion of 11 bit studios S.A.'s finance costs in the first half of 2021 was also interest expense of PLN 53,506 (H1 2020: PLN 80,542) on the investment credit facility described in **Note 3.20**.

3.9. Income tax on continuing operations (PLN)

3.9.1. Income tax recognised in profit or loss

	Period ended Jun 30 2021	Period ended Jun 30 2020
Current income tax:		
Attributable to current year	1,467,708	3,345,707
Deferred income tax:		
Attributable to current year	220,528	(1,674,038)
Tax expense recognised in current year on continuing operations	1,688,236	1,671,669

With respect to income tax, 11 bit studios S.A. is bound by laws and regulations of general application. The Company does not conduct operations in any Special Economic Zone, which would entail the applicability of other rules for calculating taxes. The Company's fiscal and accounting year is the same as the calendar year.

Reconciliation of the Company's tax and accounting profit:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Profit before tax from continuing operations	14,996,332	26,681,959
Income not classified as income for tax purposes	(5,448,122)	(1,970,997)
Income classified as income for tax purposes	0	0
Costs not deductible for tax purposes	9,295,600	13,509,964
Costs deductible for tax purposes	(3,574,825)	(2,847,607)
Tax profit/(loss)	15,268,985	35,553,322
- including income from qualifying IP rights subject to 5% tax rate	10,238,566	24,353,031
Current tax	1,467,708	3,345,707

Effective tax rate:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Profit before tax from continuing operations	14,996,332	26,681,959
Income tax expense at 19% (2020: 19%)	2,849,303	5,069,572
Tax effect of income which is not classified as income for tax purposes	(66,132)	(36,208)
Tax effect of costs which are not deductible for tax purposes	(378,786)	(1,313)
Tax effect of costs which are deductible for tax purposes	191,856	14,675
Effect of IP Box tax relief settlement at 5% tax rate	(1,433,399)	(3,345,706)
Other changes – adjustments to taxes for previous years	(232,178)	0
Total	1,688,236	1,671,669

The tax rate applied in the above reconciliation in 2021 and 2020 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. In the first six months of 2021, the effective tax rate was 11.26%, and its level reflected declarations of paid withholding tax on sales, confirmed by trading partners, as well as donations made by the Company in 2020 in connection with the COVID-19 pandemic. For the whole of 2020, it was 8.09%.

3.9.2. Current tax receivable and payable

	As at Jun 30 2021	As at Dec 31 2020
VAT refund receivable	1,072,996	3,028,820
CIT refund receivable	8,122,419	7,623,047
Total	9,195,415	10,651,867

3.9.3. Deferred tax (net)

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

	As at Jun 30 2021	As at Dec 31 2020
Deferred tax asset	1,324,482	1,592,151
Deferred tax liability	(27,420)	(74,561)
Total	1,297,062	1,517,590

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

3.10. Earnings per share (PLN)

3.10.1. Basic earnings per share

	Period ended Jun 30 2021	Period ended Jun 30 2020
Basic earnings per share:		
From continuing operations	5.63	10.93
Total basic earnings per share	5.63	10.93
Diluted earnings per share:		
From continuing operations	5.53	10.35
Total diluted earnings per share	5.53	10.35

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

	Period ended Jun 30 2021	Period ended Jun 30 2020
Profit for the financial year attributable to shareholders	13,308,096	25,010,290
Total profit used to calculate basic earnings per share	13,308,096	25,010,290
Profit used to calculate basic earnings per share from continuing operations	13,308,096	25,010,290

	Period ended Jun 30 2021	Period ended Jun 30 2020
Weighted average number of ordinary shares used to calculate earnings per share	2,361,927	2,287,199

3.10.2. Diluted earnings per share

	Period ended Jun 30 2021	Period ended Jun 30 2020
Profit for the financial year attributable to shareholders	13,308,096	25,010,290
Total profit used to calculate diluted earnings per share	13,308,096	25,010,290
Profit used to calculate diluted earnings per share from continuing operations	13,308,096	25,010,290

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

	Period ended Jun 30 2021	Period ended Jun 30 2020
Weighted average number of ordinary shares used to calculate basic earnings per share	2,361,927	2,287,199
Shares expected to be issued:		
Employee stock options	53,488	130,000
Weighted average number of ordinary shares used to calculate diluted earnings per share	2,406,149	2,417,199

3.11. Property, plant and equipment and right-of-use assets (PLN)

Carrying amount:

	As at Jun 30 2021	As at Dec 31 2020
Buildings and premises	23,345,222	23,645,432
Property, plant and equipment under construction	17,926	102,241
Plant and equipment	436,616	437,767
Vehicles	0	9,448
Other property, plant and equipment	2,378,723	2,694,614
Total	26,178,487	26,889,502

The Company holds perpetual usufruct rights to land. As at December 31st 2020, the value of the assets based on the appraisal report was PLN 4,003,398. In the first six months of 2021, the value was revised to PLN 4,309,502.

Gross carrying amount:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2021	24,200,705	102,241	1,953,626	372,854	3,492,462	30,121,889
Increase	46,935	168,325	198,907	0	0	414,166
Decrease	(1,340)	0	0	0	(15,027)	(16,367)
Reclassification	33,360	(252,640)	219,280	0	0	0
As at Jun 30 2021	24,279,661	17,926	2,371,813	372,854	3,477,435	30,519,688

Accumulated depreciation and impairment:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2021	555,273	0	1,515,859	363,406	797,848	3,232,386
Depreciation	379,169	0	421,038	9,448	315,890	1,125,541
Decrease	0	0	(1,700)	0	(15,027)	(16,727)
As at Jun 30 2021	934,442	0	1,935,197	372,854	1,098,712	4,341,201

Comparative data for the period from January 1st to June 30th 2020

Carrying amount:

	As at Jun 30 2020	As at Dec 31 2019
Buildings and premises	22,921,128	20,206,136
Property, plant and equipment under construction	81,689	11,515
Plant and equipment	149,750	73,876
Vehicles	40,603	77,888
Other property, plant and equipment	2,688,413	10,790
Total	25,881,583	20,380,205

Gross carrying amount:

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

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 2020	100,356	0	969,588	294,965	270,617	1,635,526
Depreciation	182,686	0	320,967	37,285	188,066	729,005
Decrease	(97,571)	0	0	0	(13,563)	(111,134)
As at Jun 30 2020	185,471	0	1,290,555	332,250	445,120	2,253,397

3.12. Intangible assets (PLN)

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

Useful lives of intangible assets used to calculate amortisation:

Completed development work:

Completed game engine development work as at June 30th 2021 included the capitalised cost of the fourth and fifth work phases with the remaining weighted average amortisation period of 13.5 months.

As at June 30th 2021, the completed video games development work comprised games with the remaining weighted average amortisation period of 6.6 months.

Ongoing development work:

As at June 30th 2021, expenditures on ongoing development work included mainly expenditure on the development of games, in particular the *Project 8*, *Dolly* and *Frostpunk 2* projects and third-party games of 11 bit publishing.

Testing ongoing development work for impairment:

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

The Company makes projections of revenue and expenses over a time horizon of up to five years from the forecast release date, and then discounts them with the weighted average cost of capital (WACC). The discount rate applied is 6.7%.

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 322,258. In 2020, the amount of written off expenditure on discontinued work was PLN 997,116.

Carrying amount:

	As at Jun 30 2021	As at Dec 31 2020
Completed development work (game engine)	3,072,049	3,954,725
Completed development work (games)	5,100,150	8,004,182
Ongoing development work	37,556,411	25,545,704
Licences	299,726	354,906
Total	46,028,336	37,859,517

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	6,813,631	36,216,197	932,759	25,545,704	69,508,291
Increase	0	0	37,915	13,856,512	13,894,427
Reclassification of completed development work	0	874,177	0	(874,177)	0
Decrease	0	0	0	3,298	3,298
Discontinued work written off	0	0	0	968,330	968,330
As at Jun 30 2021	6,813,631	37,090,374	970,674	37,556,411	82,431,089

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	2,858,907	28,212,014	577,853	0	31,648,774
Amortisation	882,675	3,778,210	93,095	0	4,753,980
Decrease	0	0	0	0	0
As at Jun 30 2021	3,741,582	31,990,224	670,948	0	36,402,754

Comparative data for the period from January 1st to June 30th 2020

Gross carrying amount:

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

Gross carrying amount:

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

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	299,863	4,270,799	42,796	0	4,613,458
Decrease	0	0	0	0	0
As at Jun 30 2020	2,217,749	23,740,872	561,488	0	26,520,109

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.

3.13. Trade and other receivables (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Trade and other receivables, including:	11,013,926	11,690,703
Taxes, grants, customs duties and social security	1,072,995	1,711,782
Other	61,418	59,885
Impairment losses on trade receivables	(123,492)	(89,197)
Total	10,890,434	11,601,506

3.13.1. Trade receivables

The average collection period for trade receivables is 14 days. The Company recognised impairment losses for the full amount of receivables that are over 360 days past due as past experience shows that such receivables are virtually unrecoverable.

The balances disclosed as at June 30th 2021 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Jun 30 2021	As at Dec 31 2020
Valve Corporation	3,639,691	3,663,436
Nintendo Co. Ltd	1,292,512	775,040
Epic Games	825,700	15,012
Google LLC	715,168	706,687
Widlframe Media S.L. (owner of Digital Sun studio)	632,912	0
Sony Interactive Entertainment America LLC	517,276	577,003

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

Ageing analysis of receivables:

	As at Jun 30 2021	As at Dec 31 2020
Short-term	9,622,868	9,653,654
60-90 days	29,873	20,050
91-120 days	19,558	4,387
121-360 days	63,745	85,933
over 360 days	143,468	155,012
Total	9,879,512	9,919,036

Changes in impairment losses on doubtful receivables:

	As at Jun 30 2021	As at Dec 31 2020
As at beginning of reporting period	89,197	151,980
Recognition	34,295	0
Reversal	0	(62,783)
As at end of reporting period	123,492	89,197

Ageing analysis of impaired trade receivables:

	As at Jun 30 2021	As at Dec 31 2020
60-90 days	0	0
91-120 days	0	0
121-360 days	0	23,141
over 360 days	123,492	66,056
Total	123,492	89,197

3.14. Current financial assets (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Financial instruments	75,053,380	69,932,222
Loans to employees	419,000	2,066,604
Total	75,472,380	71,998,826

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.

The financial instruments included:

	Acquisition date	Measurement as at acquisition date	Measurement as at Jun 30 2021	Maturity date
PKO Leasing notes*	June 7th 2021	20,969,322	20,969,322	December 2nd 2021
PKO Leasing notes**	June 14th 2021	18,986,268	18,986,268	September 10th 2021
PKO Bank Hipoteczny bonds	January 22nd 2021	4,992,409	4,992,409	July 26th 2021
PKO Parasolowy FIO – Subfundusz Obligacji Samorządowych	December 23rd 2020	10,000,000	10,029,916	not applicable
Inwestor Parasol FIO – Inwestor Oszczędnościowy	December 17th 2020	4,000,000	4,027,922	not applicable
Quercus Parasolowy FIO – Quercus Dłużny Krótkoterminowy	December 17th 2020	4,000,000	4,032,683	not applicable
Skarbiec FIO – Skarbiec Konserwatywny Kat. A	December 18th 2020	4,000,000	3,952,589	not applicable
Generali Fundusze FIO – Generali Korona Dochodowy	February 9th 2021	4,032,438	4,042,993	not applicable
Aviva Investors FIO – Aviva Investors Dochodowy Kategoria A	December 17th 2020	4,000,000	4,019,278	not applicable
Total		74,980,437	75,053,380	

* The notes issued by PKO Leasing are discount notes. They will be redeemed by the issuer on December 2nd 2021 for PLN 21,000,000.

** The notes issued by PKO Leasing are discount notes. They will be redeemed by the issuer on September 10th 2021 for PLN 19,000,000.

3.15. Other current assets (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Insurance	27,995	48,053
Domain names, licences, subscriptions	346,199	341,643
Prepaid expenses	131,682	192,117
Property tax	51,444	0
Perpetual usufruct of land	12,653	0
Other	23,338	1,785
Total	593,311	583,598

Other current assets comprised prepaid expenses related to industry events (trade fairs) in which the Company will take part in subsequent periods, as well as fees for Internet domains, property insurance, subscriptions, stock exchange fees and charges related to the property located at ul. Brzeska 2 in Warsaw (11 bit studios S.A.'s headquarters).

3.16. Other assets (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Long-term prepayments and accrued income	91,646	127,590
Total	91,646	127,590

Long-term prepayments and accrued income as at the end of the six months ended June 30th 2021 and as at the end of 2020 included fees for Internet domains and trademarks.

3.17. Cash and cash equivalents (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Cash in hand and at banks	28,200,855	24,134,648
Total	28,200,855	24,134,648

Cash in hand and at banks as at June 30th 2021, by currency:

- PLN 15,785,928,
- USD 2,859,120 (PLN 10,874,661),
- EUR 340,567 (PLN 1,539,634),
- CNY 1,073 (PLN 632).

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

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

3.18. Share capital (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Share capital	236,371	236,055
Total	236,371	236,055

As at June 30th 2021, the Company's share capital consisted of 2,363,711 fully paid-up ordinary shares totalling PLN 236,371.1.

3.19. Information on dividend paid or declared

The Company did not pay any dividend in the first half of 2021 or the first half of 2020.

3.20. Long-term borrowings and liabilities

3.20.1. Borrowings

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000.00 investment credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The final repayment date is December 11th 2028 (payments are made in monthly instalments). The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged using an interest rate swap. The interest rate is 3.4%. The Company does not apply hedge accounting. Repayment of the facility is secured with a blank promissory note issued by the Company, together with a promissory note declaration, a contractual mortgage of up to PLN 20,223,000.00 over perpetual usufruct of land and ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP. As at June 30th 2021, the long-term portion of the facility was PLN 8,563,402 (including interest rate swap of PLN 373,402) compared with PLN 9,499,650 as at the end of 2020 (including an interest rate swap of PLN 679,650), while its short-term portion was PLN 1,317,446 (including an interest rate swap of PLN 57,446) relative to PLN 1,357,093 (including an interest rate swap of PLN 97,093) as at the end of 2020.

3.20.2. Lease liabilities

	As at Jun 30 2021	As at Dec 31 2020
Lease liabilities	757,615	344,041
Total	757,615	344,041

Lease liabilities comprise charges for perpetual usufruct rights to land. Following revision of the annual charge for perpetual usufruct rights, as at the end of June 2021 the amount of the liability rose to PLN 757,615 from PLN 344,041 as at the end of 2020.

3.21. Trade and other payables (PLN)

	As at Jun 30 2021	As at Dec 31 2020
Trade payables	703,682	310,441
Guarantee deposits – Brzeska 2	82,934	82,634
Taxes, customs duties, insurance and other dues	653,064	1,184,903
Accruals and deferred income	8,185,651	8,171,037
Amounts payable to employees	3,421	1,143
Other	41,796	41,797
Total	9,670,548	9,791,955

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

The slight decrease in trade and other payables, to PLN 9,670,548 as at the end of June 2021 from PLN 9,791,955 as at the end of 2020, was mainly attributable to lower liabilities under taxes, customs duties, insurance and other dues, which fell to PLN 653,064 from PLN 1,184,903 the year before. The increase in trade payables (to PLN 703,682 as at the end of June 2021 from PLN 310,441 six months earlier) was attributable to payments to a third-party for the work on the *Frostpunk 2* trailer, which was presented on August 12th 2021.

Ageing analysis of trade payables:

	As at Jun 30 2021	As at Dec 31 2020
Short-term	346,914	310,441
0-60 days	356,768	0
61-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	0
Total	703,682	310,441

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

	Accrued holiday entitlements	Accrued royalties	Accrued audit costs	Accrued bonuses for Management and Supervisory Board members	Accruals for other invoices	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2021	322,904	7,050,065	84,485	390,000	176,216	147,366	8,171,037
Increase:							
Recognition	927,286	4,930,977	104,000	320,863	113,829	1,350,837	7,747,791
Decrease:							
Use	(238,231)	(2,109,051)	(84,485)	0	(140,581)	(79,222)	(2,651,569)
Reversal	0	(4,920,103)	0	0	(35,635)	(125,872)	(5,081,610)
As at Jun 30 2021	1,011,959	4,951,888	104,000	710,863	113,828	1,293,111	8,185,649

Comparative data for the period from January 1st to June 30th 2020

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

3.23. Financial instruments (PLN)

As at the reporting date, the Company analysed its financial assets and concluded that the carrying amounts of the instruments measured at amortised cost did not differ from their fair value both as at June 30th 2021 and December 31st 2020. In the case of instruments measured at fair value, the measurement was based on their market value as at the reporting date.

3.23.1. Financial assets and liabilities

Financial assets:

	As at Jun 30 2021	As at Dec 31 2020
Financial assets measured at amortised cost – cash	28,200,855	24,134,648
Financial assets measured at fair value – investment fund units	30,105,382	30,010,534
Financial assets measured at amortised cost – PKO Leasing notes and PKO Bank Hipoteczny bonds	44,947,998	39,921,688
Financial assets measured at amortised cost – trade and other receivables	10,890,434	11,601,604
Loans to employees measured at amortised cost	419,000	2,066,604
Total	114,563,669	107,735,078

For information on changes in the structure of financial assets in the first half of 2021 and the maturities of financial instruments, see **Note 3.14**.

Financial liabilities:

	As at Jun 30 2021	As at Dec 31 2020
Trade and other payables	9,670,548	9,791,955
Credit facility	9,450,000	10,080,000
IRS	430,848	776,742
Perpetual usufruct rights to land	770,790	338,054
Total	20,322,186	20,986,751

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

3.23.2. Credit risk

Trade receivables, investment fund units, bonds, notes, and cash are the key categories of assets exposed to credit risk. The amounts disclosed in the statement of financial position are presented net of impairment losses calculated as expected credit losses, which are estimated by the Company's management on the basis of past experience and the assessment of current economic conditions.

At present, the Company does not insure its trade receivables. The Company's trading partners are leading global corporations, including Valve Corporation, Apple and Google, which are in a robust financial condition. Amounts due from electronic distribution platforms in respect of games sold are collected in 30 days or less.

For information on the concentration of credit risk related to trade receivables, see **Note 3.13**. 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 June 30th 2021, the Company held cash with two institutions: PayPal (PLN 354,613) 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.

3.23.3. Fair value measurement methods

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

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

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

Financial assets:

	As at Jun 30 2021	As at Dec 31 2020	Fair value hierarchy
Bonds and notes	44,948,998	39,921,688	Level 2
Investment fund units	30,105,382	30,010,534	Level 1
Loans to employees	419,000	2,066,604	Level 2

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

3.24. Deferred income

	As at Jun 30 2021	As at Dec 31 2020
Government grants*	635,711	695,708
Total	635,711	695,708
Short-term	0	59,997
Long-term	635,711	635,711
Total	635,711	695,708

* The amount represents a government grant (EU funding) received in 2017 under the Creative Media programme for the development of *Project 8*. Income from the grant has not been accounted for yet. It will be recognised against amortisation charges in the coming years – PLN 635,711 (December 31st 2020: PLN 635,711).

3.25. Share-based payments (PLN)

3.25.1. Employee stock option plan for 2021–2025

Pursuant to Resolution No. 03/01/2021 of the Company's Extraordinary General Meeting of January 21st 2021, the Company operates an Incentive Scheme for members of the Management Board, employees and independent contractors. Persons who signed Incentive Scheme participation agreements with the Company will be entitled to acquire Series C subscription

warrants convertible into Series H shares, subject to meeting the targets set for the Company and defined in the Incentive Scheme Rules.

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

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

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

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

If the financial targets are not fully met, the pool of shares offered under the Incentive Scheme will be reduced by 4% for each 1% of the underperformance. If the financial targets are exceeded, the issue price of Series H shares will be reduced by 1% for each incremental 2% of the overperformance, however, the discount amount may not exceed 10% of the issue price. The issue price of Series H shares under the 2021–2025 Incentive Scheme was set at PLN 474.93.

3.25.2. Recognition of the Incentive Scheme

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

Service commencement date	January 1st 2021
Grant date (date of signing the participation agreements)	March 10th 2021
Vesting date	December 31st 2025
11 bit studios S.A. share price on the grant date (PLN)	517
Six-month volatility of 11 bit studios S.A. share price (%)	34.43%
Risk-free rate (%)	0.86%
Number of Incentive Scheme warrants	125,000
Number of Incentive Scheme warrants granted as at Jun 30 2021	97,300
Measurement of warrants (PLN)	166.26
Total Incentive Scheme cost as at Jun 30 2021 (PLN)	19,444,760

Total Incentive Scheme cost as at Dec 31 2025 remaining to be recognised (PLN)	17,500,284
Statement of profit or loss – employee benefits expense in 2021	1,944,476

3.26.Related-party transactions (PLN)

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

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board
- Wojciech Ozimek – Chairman of the Supervisory Board (resigned from the Supervisory Board on April 15th 2021)
- Jacek Czykiel – Deputy Chairman of the Supervisory Board
- Radosław Marter – Member of the Supervisory Board, Chairman of the Supervisory Board since April 15th 2021
- Marcin Kuciapski, Member of the Supervisory Board
- Piotr Wierzbicki, Member of the Supervisory Board
- Artur Konefał – Member of the Supervisory Board (since April 15th 2021)

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)

3.26.1.Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.26.4.**, the Company entered into the following related-party transactions in the first half of 2021 and the first half of 2020:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Arkona – Paweł Miechowski	111,000	92,292
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	20,138	29,055
Total	131,138	121,347

3.26.2.Loans advanced to related parties

In the reporting period, the Company did not advance any loans 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 PLN 158,584 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 0.

3.26.3. Borrowings from related parties

The Company did not receive any loans from related parties in H1 2021 or H1 2020.

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

The Company's key management personnel are its Management Board. In H1 2021 and in the reference period, the members of the Company's Management Board and Supervisory Board were remunerated as follows for discharging managerial and supervisory responsibilities:

Short-term benefits - Management Board:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Przemysław Marszał	343,070	613,676
Grzegorz Miechowski	343,548	614,120
Michał Drozdowski	338,439	609,637
Total	1,025,057	1,837,433

Short-term benefits - Supervisory Board:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Wojciech Ozimek (Chairman of the Supervisory Board until April 15th 2021)	15,643	27,000
Radosław Marter (Chairman of the Supervisory Board since April 15th 2021)	17,093	9,900
Jacek Czykiel (Deputy Chairman of the Supervisory Board)	18,000	18,000
Marcin Kuciapski (Member of the Supervisory Board since May 23rd 2019)	9,900	9,900
Piotr Wierzbicki (Member of the Supervisory Board since May 23rd 2019)	9,900	9,900
Artur Konefał (Member of the Supervisory Board since April 15th 2021)	4,164	0
Total	74,700	74,700

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

The members of the Company's Management Board did not receive any other remuneration in the form of profit distributions or stock options for the first half of 2021 or the first half of 2020.

However, they participate in the 2017–2019 Incentive Scheme and the 2021–2025 Incentive Scheme, as described in detail (together with the valuation) in **Note 3.31** to the full-year report of 11 bit studios S.A. for 2020. Each Management Board member will have the right to subscribe for 6,500 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.

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

Short-term benefits – Management Board:

	Period ended Jun 30 2021	Period ended Jun 30 2020
Grzegorz Miechowski	30,000	30,000
Michał Drozdowski	30,000	30,000
Przemysław Marszał	30,000	30,000
Total	90,000	90,000

3.26.5. Other related-party transactions

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

3.27. Off-balance-sheet commitments

As at the date of issue of this report, the Company had off-balance-sheet commitments of EUR 2,751,000 and PLN 3,462,000. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.28. Contingent assets and liabilities

3.28.1. Contingent liabilities

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

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

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

3.28.2. Contingent assets

As at June 30th 2021 and in the comparative period, the Company did not recognise any contingent assets.

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

In the first half of 2021, the Company did not record any unusual seasonal or cyclical fluctuations.

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

In the first half of 2021, there were no factors or events of a non-recurring nature that had an impact on the Company's financial results for that period.

3.31. Events subsequent to the reporting date

No events occurred which would have an impact on these interim condensed financial statements for the first half of 2021 by the date of their authorisation by the Company's Management Board on August 26th 2021.

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

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

3.33. Authorisation of financial statements

The Company's financial statements were authorised for issue by the Management Board on August 26th 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, August 26th 2021



**DIRECTORS' REPORT ON THE
OPERATIONS OF 11 BIT STUDIOS S.A.
FOR H1 2021**

4.OVERVIEW

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

4.1. Company overview

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

The Company was established for indefinite time.

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

The Company's principal business activity includes:

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

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

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

- Radosław Marter – Chairman of the Supervisory Board
- 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

In the reporting period, there were changes in the composition of the Supervisory Board of 11 bit studios S.A. On April 15th 2021, Wojciech Ozimek, Chairman of the Supervisory Board, resigned with immediate effect from membership of the Supervisory Board, including from his position as Chairman of the Supervisory Board. Therefore, at its meeting held on April 15th 2021, the Supervisory Board appointed Artur Konefał as Member of the Company's Supervisory Board for the joint term of office ending on May 23rd 2022. At the same time, the Supervisory Board appointed Radosław Marter, previously serving as Member of the Supervisory Board, as Chairman of the Supervisory Board.

The joint term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021. The term of office of the current Supervisory Board expires on May 23rd 2022.

4.3. Share capital

As at the date of issue of this report, the Company's share capital amounted to PLN 236,542.10 and was divided into 2,365,421 shares with a par value of PLN 0.1 per share, including:

- 1,000,000 Series A bearer shares,
- 494,200 Series B bearer shares,
- 376,561 Series C bearer shares,
- 40,938 Series D bearer shares,
- 305,500 Series E bearer shares,
- 70,000 Series F bearer shares,
- 78,222 Series G bearer shares.

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

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	177,413	7.50	177,413	7.50
Przemysław Marszał	106,500	4.50	106,500	4.50
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
Other shareholders	1,860,779	78.67	1,860,779	78.67
Total	2,365,421	100.00	2,365,421	100.00

* Number of shares registered at the Extraordinary General Meeting held on July 20th 2021.

There were changes in the shareholding structure of 11 bit studios S.A. during and after the reporting period. For details, see **Note 1.5**.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Jun 30 2020 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	106,500	106,500
Grzegorz Miechowski	Member of the Management Board	177,413	177,413	177,413
Michał Drozdowski	Member of the Management Board	84,630	84,630	84,630
Marcin Kuciapski	Member of the Supervisory Board	1,050	1,050	550

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

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

4.6. Auditors

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

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

4.7. Related-party transactions

Related parties include members of the Management Board and the Supervisory Board and key personnel of the Company (key management). For a detailed description of the related-party transactions, see **Note 3.26**.

4.8. Management of the Company's risks

The Company's business, financial position and results of operations have been and may in the future be adversely affected by a number of risks, both specific to the video games industry and typical for entities conducting business in Poland and worldwide. For a detailed description of the risks, see **Note 5.16** to the Directors' Report on the operations of 11 bit studios S.A. in 2020, which is a part of 11 bit studios S.A. report for 2020.

4.9. Major achievements in the first half of 2021 and until the date of release of this report

The key drivers of 11 bit studios S.A.'s revenue in the first half of 2021 (the third best first half-year in the Company's history) were good sales of *Frostpunk*, *Moonlighter* and *Children of Morta* (the last two are the publishing division's titles) supported by robust revenue from sales of other products (the back catalogue), led by *This War of Mine*.

The PC version of *Frostpunk* was first placed on the market on April 24th 2018. The game, telling the story of a struggle for survival of a community stranded in a freezing world, proved very popular with fans, which translated into very good sales in the release period and the following quarters. On October 11th 2019, the Company's newest product was also released for Xbox One and PS4. By the end of June 2021, revenue from sales of *Frostpunk* on all platforms and its paid add-ons exceeded PLN 140m.

Moonlighter, developed by the Spanish Digital Sun studio, was released on May 29th 2018 (for PCs, Xbox One and PS4). 11 bit studios S.A. was the publisher of the game. In the fourth quarter of 2018, this Spanish game was also released for Nintendo Switch. Like *Frostpunk*, *Moonlighter* was very well received by the market, and the strong interest in the game, supported by add-ons (including paid ones), drove sales to almost two million copies since its release. Since January 2021, *Moonlighter* has also been available for mobile devices running on iOS.

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. Dead Mage is working on further expansion of the game to include the co-op mode.

This War of Mine continued to contribute positively to the Company's results in the first half of 2021 (the PC version of the game was released on November 14th 2014), invariably enjoying strong interest among fans. The game has generated total revenue of close to PLN 120m since its debut.

4.9.1. Game development

In the first half of 2021, 11 bit studios S.A. continued its development work (started a few quarters before) on the production of a game under the working title of *Project 8*. It is being developed by a team which is being built from scratch and which at the date of issue of this Report

consisted of approximately 50 members, but is due to be strongly expanded through the ongoing recruitment. According to current plans, the *Project 8* team should ultimately be slightly larger than that which produced *Frostpunk* and is expected to consist of about 70–80 people. 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 2020, the Company decided to change the game engine from Liquid Engine (a proprietary solution), used in Company's earlier games, 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.

The Company has not yet presented any marketing materials relating to *Project 8*. At the annual Investor Conference, held on June 10th 2021, it showed three graphic inserts (screens) from three proprietary games which are currently being developed, without disclosing the games' titles. The games are discussed in subsequent paragraphs.

In parallel with developing *Project 8*, in the first half of 2021 the Company also worked on the *Dolly* (code name) project, which is being developed by a team consisting of around 25 people who, until the end of 2019, had been involved in developing and supporting *This War of Mine*. The team will ultimately consist of 60–70 people. For the time being the Company is not disclosing any details of this production except



that it is based on brand new IP and its budget will be larger than that of *Frostpunk*. The game, which is in the production phase, is to be created based on Unreal Engine, similarly to *Project 8*.

Frostpunk 2, 11 bit studios S.A.'s third proprietary game, is also being created based on Unreal Engine. As the work on the project is progressing very smoothly, after the end of the reporting period (on August 12th 2021) the Company decided to release the first trailer for *Frostpunk 2*, which disclosed, among other things, the game's official name. Its earlier code name was *Project 10* (subsequently changed to the *Eleanor* project). In the continuation of *Frostpunk*, gamers once again become the leader of the city which needs resources to survive and develop, and where expansion and search for new energy sources are a must. However, the apocalyptic world has moved forward. After the end of the coal era, the development of the oil industry brings new hope for those few who survived and want to conquer Frostland. But old habits die hard, and not every member of the diverse and stratified society will happily embrace the new development direction. The presentation of the *Frostpunk 2* trailer was very well received by gaming communities across the

world. In the first few days, the count of views on Youtube and other platforms came close to two million and fans were eager to sign in on wishlists compiled by Steam, GOG and Epic Store, thus



expressing their willingness to buy the game after its release. In subsequent phases of the marketing and promotional campaign, 11 bit studios S.A. will disclose further information on *Frostpunk 2*, which will be significantly

larger, both in terms of size and development expenditure, than the first edition of the series. For this reason, the production team whose core is the people behind the success of *Frostpunk* will be at least 80 members strong. At present, it consists of some 70 persons.

In addition to working on *Frostpunk 2*, 11 bit studios S.A. intends to develop the universe of the game also in other formats. For a few months now, Glass Cannon Unplugged has been working on the board version of *Frostpunk*, which should be released over the next few quarters. In addition,

China's NetEase, one of the world's major gaming companies with a very strong position in the mobile games sector, is at an advanced stage of work on developing *Frostpunk* for mobile devices. This version of *Frostpunk* will be



offered in the F2P (free-2-play) model, and will include micropayments to unlock additional in-game content. At the Investor Conference held in June, the Company also announced the release of a series of books by third party-authors, which are set in the universe of *Frostpunk*. Jacek Dukaj, a popular science fiction author, will be an artistic supervisor for the project.

4.9.2. Publishing division

In the first half of 2021, 11 bit studios S.A.'s publishing division focused on producing new games developed by third-party studios and acquiring new titles for our publishing portfolio as well as monetising the titles released in previous quarters, *Moonlighter* and *Children of Morta*.

As at the issue date of this Report, 11 bit studios S.A.'s publishing portfolio comprised three projects, with the related investment commitments totalling ca. PLN 30m (to compare: 11 bit studios S.A.'s total investment in *Moonlighter* and *Children of Morta* was approximately PLN 5m). The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The title will be classified into the RPG genre. The second of the agreements concerns a game with a working (code) name of *Botin*. It has been produced by Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The third game, with a working title of *Ava*, is being developed by a Spanish studio Chibig.

In the first half of 2021, 11 bit studios S.A. resolved to step up the expansion of its publishing division and increase related spending. The Company is set to invest up to PLN 50m in third-party titles in 2021–2023 and add at least six new games to its publishing portfolio over the period. This would help achieve the medium-term objective of releasing three third-party games from 2023 onwards.

4.9.3. Other developments

On January 21st 2021, the Extraordinary General Meeting of the Company passed a resolution approving a new Incentive Scheme for members of the Management Board, employees and independent contractors. The Incentive Scheme covers the years 2021–2025. See **Note 3.25** to this Report for details.

In the first six months of 2021, the Company published three announcements regarding a share capital increase and issue of Series G shares related to the implementation 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 its 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 its share capital was PLN 236,314.3 and comprised 2,363,143 shares with a par value of PLN 0.1 per share. The third share capital increase related to the implementation of the 2017–2019 Incentive Scheme was effected on June 14th 2021 (see Current Report No. 21/2021) and comprised 568 Series G shares for a total amount of PLN 58,719.84. Accordingly, from June 14th 2021 the Company's share capital amounted to PLN 236,371.1 and comprised 2,363,711 shares with a par value of PLN 0.1 (10 grosz) per share.

After the reporting period, the Company announced another similar event. In Current Report No. 25/2021 of August 11th 2021, 11 bit studios S.A. announced that on that date it received

information from the DM BOŚ brokerage house that on August 11th 2021 1,710 Series G shares were duly subscribed and paid for, for a total amount of PLN 176,779.80. Accordingly, as of August 11th 2021 the Company's share capital was PLN 236,542.1 and comprised 2,365,421 shares with a par value of PLN 0.1 (10 grosz) per share.

In the six months to June 30th 2021, 11 bit studios S.A. also published two reports announcing the purchase of Company shares by a Member of the Company's Supervisory Board Marcin Kuciapski. In Current Report No. 8/2021 of March 4th 2021, 11 bit studios S.A. stated that Marcin Kuciapski purchased a total of 150 shares in 11 bit studios S.A. in trades executed on the WSE at an average price of PLN 519.87 per share. In Current Report No. 18/2021 of June 10th 2021, 11 bit studios S.A. announced that on June 10th 2021 Marcin Kuciapski purchased a total of 350 shares in 11 bit studios S.A. in trades executed on the WSE at an average price of PLN 506.43 per share.

On June 14th 2021, the Annual General Meeting of the Company decided to allocate the entire net profit earned by the Company in 2020, of PLN 37,363,131, to statutory reserve funds.

After the reporting period, on July 20th 2021 the Extraordinary General Meeting of the Company resolved to amend the Company's Articles of Association. The amendment transferred the powers relating to acquisitions from the General Meeting to the Supervisory Board.

4.10. Events subsequent to the reporting date

No events occurred which would have an impact on this H1 2021 interim report by the date of its authorisation for issue by the Company's Management Board on August 26th 2021.

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

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

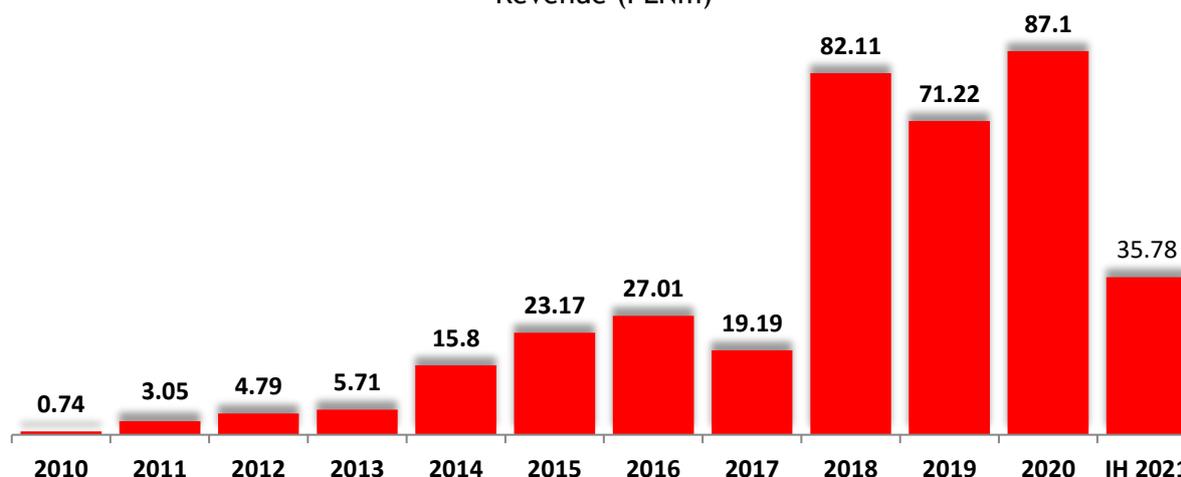
5. FINANCIAL CONDITION OF 11 BIT STUDIOS S.A.

5.1. Statement of profit or loss (PLN)

	6 months ended Jun 30 2021	6 months ended Jun 30 2020	Change y/y (%)
Continuing operations			
Revenue	35,778,291	50,168,756	-28.68
Other income	63,804	150,938	-57.73
Total operating income	35,842,095	50,319,694	-27.53
Depreciation and amortisation	(5,264,855)	(4,844,854)	8.67
Raw materials and consumables used	(245,451)	(178,369)	37.61
Services	(8,965,013)	(13,638,340)	-34.27
Salaries, wages and employee benefits	(5,826,415)	(3,784,196)	53.97
Taxes and charges	(138,075)	(156,763)	-11.92
Other expenses	(906,527)	(1,341,126)	-32.41
Total operating expenses	(21,346,336)	(23,943,648)	-10.85
Operating profit	14,495,759	26,376,046	-45.04
Interest income	4,232	456,901	-99.07
Other finance income	678,125	455,358	48.92
Finance costs	(181,784)	(606,346)	-70.02
Profit before tax	14,996,332	26,681,959	-43.80
Income tax expense	(1,688,236)	(1,671,669)	0.99
NET PROFIT	13,308,096	25,010,290	-46.79
Earnings per share (PLN):			
Basic	5.63	10.93	-48.49
Diluted	5.53	10.35	-46.57
NET PROFIT	13,308,096	25,010,290	-46.79
Other comprehensive income	0	0	
TOTAL COMPREHENSIVE INCOME	13,308,096	25,010,290	-46.79

In the first half of 2020, 11 bit studios S.A. posted revenue of PLN 35,778,291, a 28.68% decrease year on year, from PLN 50,168,756 in the same period last year. The drop in revenue was mainly attributable to the very high base of the first half of 2020, when the second of the three paid DLCs for *Frostpunk*, *Frostpunk: The Last Autumn*, was released as part of the Season Pass. The DLC release was a huge commercial success that also pushed up sales of the game's basic version and of other proprietary and published titles of 11 bit studios S.A.

Revenue (PLNm)



In the first half of 2021, the main source of revenue for 11 bit studios S.A. was monetisation of *Frostpunk* and its paid add-ons, supported by periodic promotional and sales campaigns on major distribution platforms, in particular the Bundle Madness campaign held on Steam in April. Sales of *Frostpunk* were also further stimulated by the release of a version for Mac computers in February. Sales of *This War of Mine* and contracts with Microsoft (to extend the availability of *Frostpunk* and *Children of Morta* in Xbox Pass) and Epic Games (to release *Frostpunk* in Epic Store) were also major contributors to the Company's revenue for the first six months of the year.

Sales of *Moonlighter* and *Children of Morta*, games created by third-party development studios which 11 bit studios S.A. provides with publishing services, were also a major driver of 11 bit studios S.A.'s revenue in the first six months of 2021. The first game, developed by Spain's Digital Sun, has been available on the market since May 2018. The other one, created by Dead Mage of the United States, was released in the autumn of 2019. In the first half of 2020, revenue from sales of games in the publishing segment accounted for 27% of 11 bit studios S.A.'s total revenue. The figure was 30% for the same period last year and 29% for the full year 2020.

In H1 2021, a firm grip on operating expenses was maintained. The expenses amounted to PLN 21,346,336, down 10.85% from PLN 23,943,648 the year before. It is worth noting that operating expenses for the first half of 2021 included non-cash accruals related to the 2021–2025 Incentive Scheme amounting to PLN 1,944,476 (PLN 972,238 for the quarter). No such expenses were recognised in the previous year. The largest item of operating expenses in the first half of 2021 was services. The item included commissions for third-party game developers to whom 11 bit studios S.A. provides publishing services. The commissions totalled PLN 8,965,013, down 34.27% year on year. Salaries and wages rose by as much as 53.97% in the first half of 2021, to PLN 5,826,415, reflecting a growing number of employees and independent contractors and a higher average pay. The item also included a part of the costs of the 2021–2025 Incentive Scheme attributable to employees working under contracts of employment (the other costs of the Incentive Scheme are attributable to B2B contractors and charged to third-party services).

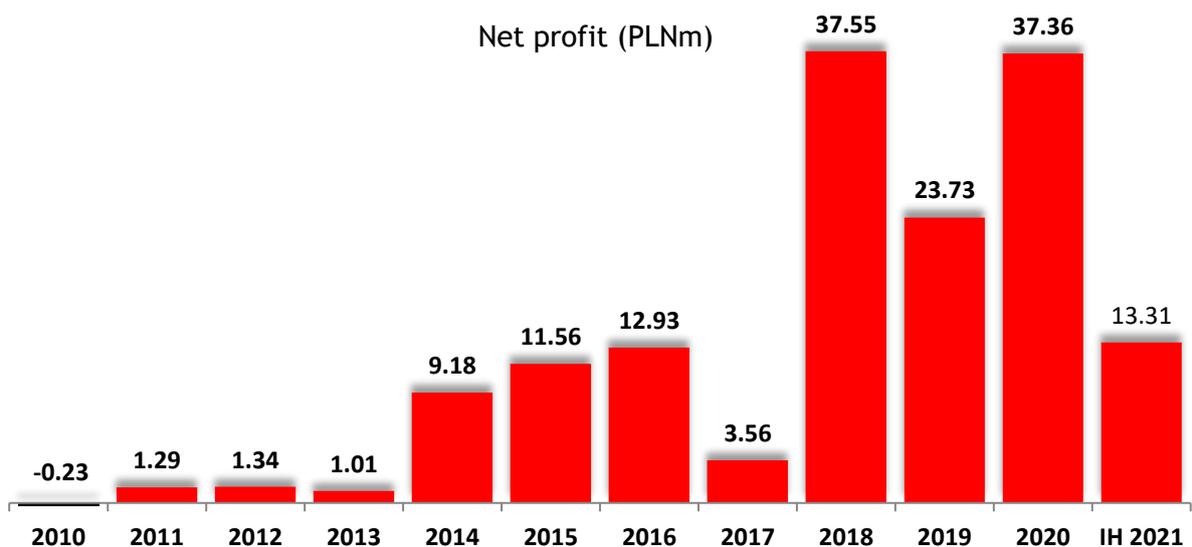
The year-on-year drop in revenue reported in the first six months of 2021, coupled with a significantly slower decrease in operating expenses, translated into a lower operating profit for the

period. Operating profit came in at PLN 14,495,759, down 45.04% on the same period in 2020 (PLN 23,943,648), with operating profit margin at 40.51%, down from 52.57% the year before. In the first six months of 2021, the Company's EBITDA came in at PLN 19,760,614, compared with PLN 31,220,900 in the reference period. EBITDA margin went down to 55.23%, from 62.23% in 2020.

Despite a year-on-year increase in cash, interest income came in at only PLN 4,232, compared with PLN 456,901 a year earlier, because of low interest rates. The picture was slightly better for other finance income (PLN 678,125 vs PLN 455,358 a year ago). The item included mainly payments made by employees to subscribe for Series G shares under the 2017–2019 Incentive Scheme and gains on remeasurement of financial assets comprising investment fund units held by the Company and PKO Leasing notes and PKO Bank Hipoteczny bonds. In the same period last year, the main source of other finance income was foreign exchange gains. In the first half of 2021, finance costs of 11 bit studios S.A. fell 70.02%, from PLN 606,346 the year before to PLN 181,784. Besides interest expense on an investment credit facility (PLN 12,600,000) contracted by the Company with PKO BP S.A. in late 2018, a key component of finance costs were (non-cash) costs on remeasurement of an interest rate swap (IRS) hedging the Company against interest rate risk associated with the credit facility with PKO BP S.A. Net finance income/costs totalled PLN 500,575, a major increase (PLN 305,913) on the same period of 2020.

Thanks to the positive impact of financial transactions, 11 bit studios S.A.'s profit before tax reached PLN 14,996,332 in the first six months of 2021, compared with PLN 26,681,959 a year earlier (down 43.80%). Tax on profit before tax for the first half of 2021 was PLN 1,688,236, up 0.99% year on year. It reflected declarations of paid withholding tax on sales, confirmed by trading partners, as well as donations made by the Company in 2020 in connection with the COVID-19 pandemic.

Net profit of 11 bit studios S.A. for the reporting period came in at PLN 13,308,096, down 46.79% compared with PLN 25,010,290 reported for the same period last year. Net margin was 37.19%, having fallen from 49.85% a year earlier.



5.2. Statement of financial position (PLN)

As at June 30th 2021, the Company's total assets amounted to PLN 201,217,756, up by 7.98% from PLN 186,339,222 as at December 31st 2020.

ASSETS

	As at Jun 30 2021	Share (%)	As at Dec 31 2020	Share (%)
NON-CURRENT ASSETS				
Property, plant and equipment	26,178,487	13.01	26,889,502	14.43
Right-of-use assets	4,309,502	2.14	4,003,398	2.15
Intangible assets	46,028,336	22.88	37,859,517	20.32
Deferred tax asset	1,297,062	0.64	1,517,590	0.81
Other assets	91,646	0.05	127,590	0.07
TOTAL NON-CURRENT ASSETS	77,905,033	38.72	70,397,597	37.78
CURRENT ASSETS				
Trade and other receivables	10,890,434	5.41	11,601,506	6.23
Income tax receivable	8,122,419	4.04	7,623,047	4.09
Other current assets	593,311	0.29	583,598	0.31
Cash and cash equivalents	28,200,855	14.02	24,134,648	12.95
Current financial assets	75,472,380	37.51	71,998,826	38.64
TOTAL CURRENT ASSETS	123,279,399	61.28	115,941,625	62.22
TOTAL ASSETS	201,184,432	100	186,339,222	100

EQUITY AND LIABILITIES

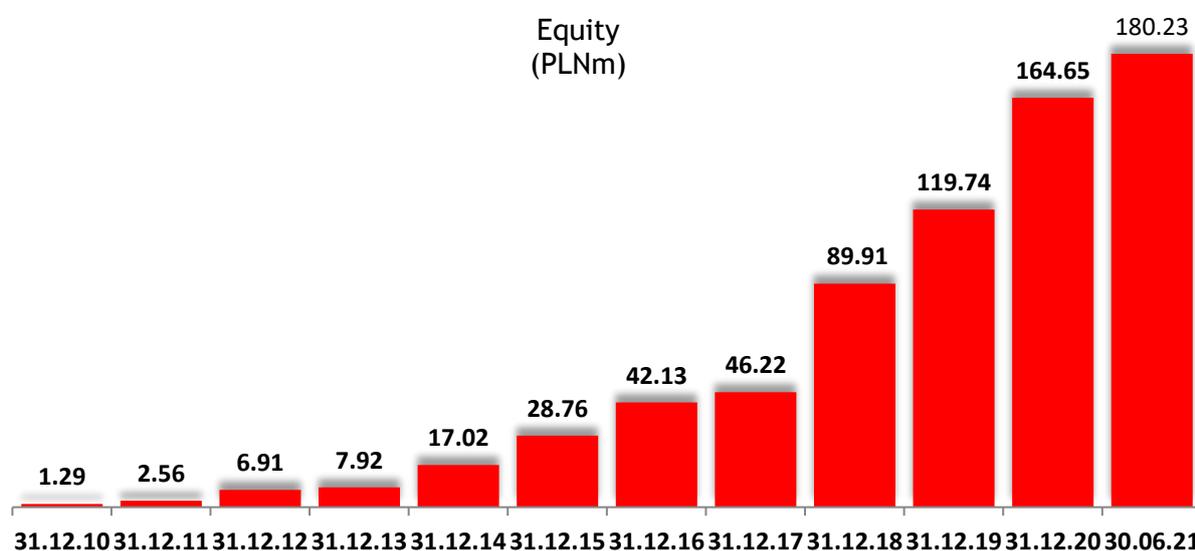
	As at Jun 30 2021	Share (%)	As at Dec 31 2020	Share (%)
EQUITY				
Share capital	236,371	0.12	236,055	0.13
Share premium	12,733,156	6.33	12,407,633	6.66
Statutory reserve funds	120,467,692	59.88	87,152,664	46.77
Share-based payment reserve	33,689,305	16.75	31,744,829	17.04
Retained earnings	13,100,011	6.51	33,106,943	17.77
TOTAL EQUITY	180,226,535	89.58	164,648,124	88.36
NON-CURRENT LIABILITIES				
Long-term borrowings and other debt instruments	8,190,000	4.07	8,820,000	4.73
Financial instruments (IRS) – long-term portion	373,402	0.19	679,650	0.36
Lease liabilities	757,615	0.38	334,041	0.18
Deferred income	635,711	0.32	635,711	0.34
TOTAL NON-CURRENT LIABILITIES	9,956,728	4.95	10,469,402	5.62

CURRENT LIABILITIES				
Trade and other payables	9,670,548	4.81	9,791,953	5.25
Short-term borrowings and other debt instruments	1,260,000	0.63	1,260,000	0.68
Financial instruments (IRS) – short-term portion	57,446	0.03	97,093	0.05
Lease liabilities	13,175	0.01	12,651	0.01
Deferred income	0	0.00	59,997	0.03
TOTAL CURRENT LIABILITIES	11,001,169	5.47	11,221,696	6.02
TOTAL LIABILITIES	20,957,897	10.42	21,691,098	11.64
TOTAL EQUITY AND LIABILITIES	201,184,432	100.00	186,339,222	100.00

As at the end of June 2021, current assets represented the majority (61.28%) of the Company's total assets. From PLN 115,941,625 at the end of December 2020, current assets rose by 6.33% to PLN 123,279,399. Just like in previous periods, the largest item of the Company's current assets were current financial assets. In the reporting period they comprised conservative investment fund units and PKO Leasing notes and PKO Bank Hipoteczny bonds. In previous periods, these were primarily bank deposits with maturities over three months. As at the end of June 2021, the Company's current financial assets stood at PLN 75,472,380, relative to PLN 71,998,826 at the end of 2020, accounting for 37.51% of total assets. Cash and cash equivalents stood at PLN 28,200,855 at the end of H1 2021, representing 14.02% of total assets. As at the end of 2020, they amounted to PLN 24,134,648 (12.95%). Trade and other receivables of PLN 10,890,434 were also a significant component of the Company's current assets. Their balance was slightly higher six months earlier, when they amounted to PLN 11,601,506.

As at the end of June 2021, the Company's non-current assets stood at PLN 77,905,033, compared with PLN 70,397,597 as at the end of December 2020. Thus, they increased 10.66% and accounted for 38.72% of total assets. At the end of 2020, this ratio stood at 37.78%. Intangible assets, the main component of non-current assets, amounted to PLN 46,028,336 (end of 2020: PLN 37,859,517). They increased by 21.58% and their share in the Company's total assets grew to 22.88% from 20.32% at the end of 2020. Intangible assets included mainly expenditure on ongoing development work, i.e. expenditure on *Project 8*, *Dolly* and *Frostpunk 2* as well as new games of 11 bit publishing. This item additionally included partly amortised expenditure on products launched in earlier periods, including paid *Frostpunk* add-ons released as part of the Season Pass, *Frostpunk* for Mac and *Moonlighter* for mobile devices. Another component of non-current assets, definitely smaller than intangible assets, was property, plant and equipment, valued at PLN 26,178,487 at the end of June 2021. As at the end of 2020, they were PLN 26,889,502. 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. As at the end of June 2021, the value of the property in the Company's statement of financial position was PLN 23,345,218, compared with PLN 23,645,432 as at the end of December 2020.

The most significant item of the Company's equity and liabilities was statutory reserve funds, which amounted to PLN 120,467,692 as at the end of June 2021, i.e. 59.88% of total equity and liabilities. As at the end of 2020, the respective figures were PLN 87,152,664 and 46.77% of total equity and liabilities. Statutory reserve funds were increased with the Company's net profit for 2020. The decision to allocate the entire profit for 2019 (PLN 37,363,131) to statutory reserve funds was made by the shareholders at the General Meeting held on June 10th 2021. As at the end of June 2021, retained earnings were a significant component of the Company's equity and liabilities. At PLN 13,100,011, they accounted for 6.51% of the total. As at the end of 2020, retained earnings amounted to PLN 33,106,943 (17.77% of total equity and liabilities). A significant item of equity and liabilities of 11 bit studios S.A. as at June 30th 2021 (just like at the end of 2020) was the share-based payment reserve related to the Company's Incentive Scheme for 2017–2019. It amounted to PLN 33,689,305, representing 16.75% of total equity and liabilities. This compares with PLN 31,744,829 (17.04% of total equity and liabilities) as at the end of 2020.



As at June 30th 2021, the Company's total liabilities amounted to PLN 20,957,897, compared with PLN 21,691,099 as at the end of December 2020. They decreased by 3.38% vs the end of 2020 and amounted to only 10.42% of total equity and liabilities (end of 2020: 11.64%).

As at the end of June 2021, the Company's non-current liabilities stood at PLN 9,956,728, relative to PLN 10,469,401 as at December 31st 2020. The main item of non-current liabilities was a PLN 12,600,000 investment credit facility contracted by the Company with PKO BP at the end of 2018 to finance the purchase of the property at ul. Brzeska 2 in Warsaw (new office), which is being repaid in a timely manner.

As at the end of June 2021, the Company's current liabilities stood at PLN 11,001,168, relative to PLN 11,221,698 at the end of 2020. They went down by almost 2% and accounted for 5.47% of total equity and liabilities (end of 2020: 6.02%), with the decrease chiefly attributable to lower trade liabilities. At the end of the reporting period, these amounted to PLN 9,670,548 (4.81% of total assets), compared with PLN 9,791,955 (5.25%) as at the end of December 2020, which represents

a 1.24% decrease. 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).

5.3. Statement of cash flows (PLN)

	Period ended Jun 30 2021	Period ended Jun 30 2020
Cash flows from operating activities		
Profit for the financial year	13,308,096	25,010,290
Adjustments:		
Depreciation and amortisation	5,264,855	4,844,854
Income tax expense recognised in profit or loss	1,688,236	1,671,669
Remeasurement of intangible assets	(35,945)	(17,450)
Cost of the Incentive Scheme	1,944,476	0
Other adjustments	(234,951)	611,661
Changes in working capital:		
Increase/(decrease) in trade and other receivables	711,072	2,841,258
Increase/(decrease) in other assets	26,229	14,410
Increase/(decrease) in trade and other payables	(121,407)	3,169,146
Increase/(decrease) in net contract assets/liabilities	0	(7,242,184)
Increase/(decrease) in deferred income	(59,997)	(99,117)
Cash provided by operating activities	22,490,664	30,775,715
Income tax paid	(1,967,081)	(1,857,464)
Net cash from operating activities	20,523,583	28,918,250
Cash flows from investing activities		
Loans to employees	1,647,604	(4,108,945)
Proceeds from bank deposits upon maturity – over 3 months	0	94,000,000
New bank deposits placed – over 3 months	0	(89,000,000)
Proceeds from interest on financial assets	0	126,710
Proceeds from redemption of bonds	40,000,000	0
Purchase of financial assets	(44,947,998)	0
Payments for property, plant and equipment and intangible assets	(12,686,711)	(15,044,965)
Net cash from investing activities	(15,987,105)	(14,027,199)
Cash flows from financing activities		
Proceeds from issue of shares	325,840	0
Proceeds/(payments) under credit facility	(630,000)	(630,000)
Payment of interest on credit facility	(166,111)	(92,866)
Net cash from financing activities	(470,271)	(722,866)
Net increase /(decrease) in cash and cash equivalents	4,066,206	14,168,186
Cash and cash equivalents at beginning of reporting period	24,134,649	14,882,519
CASH AT END OF REPORTING PERIOD	28,200,855	29,050,705

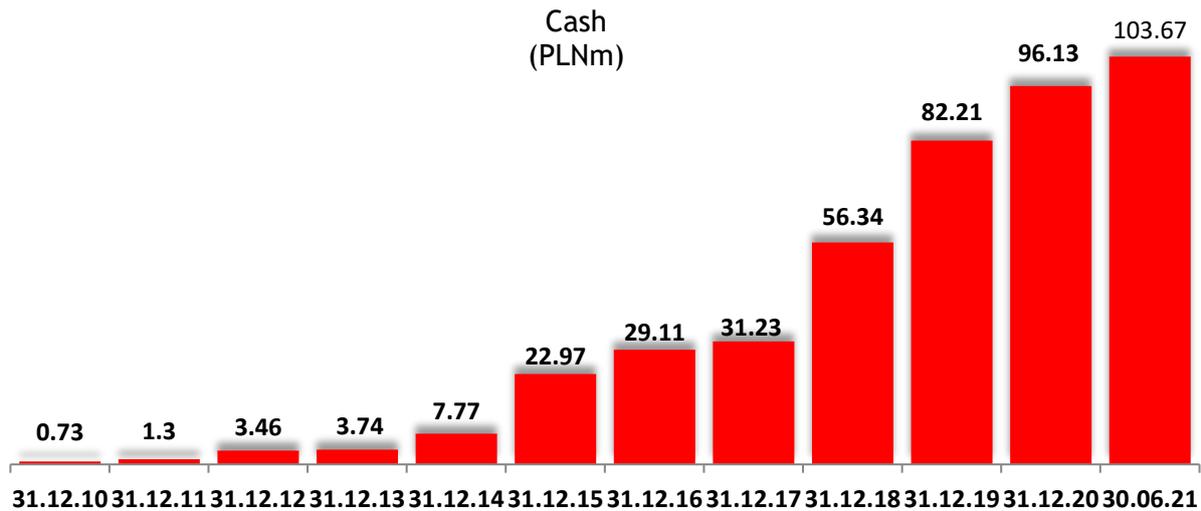
Throughout H1 2021, the Company generated cash flows from operating activities of PLN 22,490,664, 26.92% less than in the same period of 2020 (PLN 30,775,715). This result deserves appreciation despite being weaker than the year before, as it was achieved in the absence of new

product launches, which are an important contributor to financial performance. The reference period was marked with the release of *Frostpunk: The Last Autumn*, a paid add-on which was very popular with gamers and greatly accelerated the sale of the game's basic version in that period. The impressive cash flows from operating activities were also due to very good sales of other games (including those from the publishing division), which had been launched by 11 bit studios S.A. in the previous periods, mainly *Moonlighter* (released in Q2 2018) and *Children of Morta* (released in autumn of 2019). Continued strong sales of *This War of Mine* were another significant contributor to cash revenue despite the natural ageing of the product, which was first placed on the market in November 2014. In H1 2021, 11 bit studios S.A. paid PLN 1,967,081 in income taxes, up 5.90% year on year. Consequently, net cash provided by the Company's operating activities in H1 2021 amounted to PLN 20,523,583 relative to PLN 28,918,250 generated in the same period last year. This means a decrease of 29.03%.

The amount of cash used in investing activities in H1 2021 was PLN 15,987,105, down from PLN 14,027,199 in H1 2020. A major part of that amount was represented by financial investments (purchase of investment fund units and PKO Leasing notes and PKO Bank Hipoteczny bonds), which were 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 12,686,711), In the first half of 2020, they had been higher by 11.38%, at PLN 15,044,965. However, the item included considerable expenditure on equipment for the new office at ul. Brzeska 2 in Warsaw (the Company's headquarters since March 2020). In the first six months of 2021, repayments of loans advanced by the Company to its employees in 2020 in connection with the purchase of shares under the 2017–2019 Incentive Scheme were also a significant source of cash (PLN 1,647,604).

As in the previous year, the main item of cash flows from financing activities in H1 2021 were payments related to the servicing of the 10-year investment credit facility with PKO BP, taken out by the Company in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. In H1 2021, like in the reference period, 11 bit studios S.A. spent PLN 630,000 to repay the credit facility, and further PLN 166,111 (2020: PLN 92,866) on interest. Proceeds from issue of shares, i.e. Series G shares issued for the purposes of the 2017–2019 Incentive Scheme, contributed positively (PLN 325,840) to the balance of cash flows from financing activities. All in all, net cash from financing activities was PLN -470,271 (H1 2020: PLN -722,866).

As at June 30th 2021, the Company held cash and cash equivalents of PLN 28,200,855 in bank accounts vs PLN 24,134,648 at the end of 2020. This means an increase of 16.85% compared with December 31st 2020. It should also be noted that at the end of the reporting period, the Company held PLN 75,472,380 in investment fund units and commercial bonds and notes. As at the end of 2020, the value of such investments was PLN 69,932,222. Total cash resources available to 11 bit studios S.A. as at June 30th 2021 amounted to as much as PLN 103,673,235, having increased by 10.21% from PLN 94,066,870 at the beginning of 2021. By adding trade receivables of PLN 10,890,434 (PLN 11,601,506 as at the end of December 2020) to this amount, we obtain total financial assets of PLN 114,563,669 (vs PLN 105,668,376 six months before) as at the end of the reporting period, which is an all-time high.



5.4. Other information

5.4.1. Bank and non-bank borrowings in the first half of 2021

In the first half of 2021, the Company did not contract any new bank or non-bank borrowings. The Company's only liability of this kind is an investment credit facility with PKO BP S.A. (the agreement was signed in December 2018), described in detail in **Note 3.20**. As at June 30th 2021, the long-term portion of the facility together with the IRS was PLN 8,563,402 (end of 2020: PLN 9,499,650), while its short-term portion, which also includes the valuation of the IRS, was PLN 1,317,446 (end of 2020: PLN 1,357,093).

5.4.2. Loan advanced in the first half of 2021

In H1 2021, 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 entered into two loan agreements with employees to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loans totalled PLN 100,028. As at the end of the reporting period, the outstanding amount of the loans together with interest (including loans advanced in previous periods) was PLN 419,000.

5.4.3. Sureties and guarantees provided in the first half of 2021 and other material off-balance-sheet items

The Group did not provide any sureties or guarantees in the first half of 2021, neither did it have any material off-balance-sheet items other than those listed in **Note 3.27**.

5.4.4. Information on branch offices and establishments

As at June 30th 2021, as well as at the end of June 2020, the Company had no subsidiaries, affiliates, interests in joint ventures, branch offices or establishments.

5.4.5. Current economic and financial standing of the Group and assessment of financial resources management

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

5.4.6. Description and assessment of factors and non-recurring events with bearing on the results of the Group's operations in the first half of 2021

In the first half of 2021, there were no events of a non-recurring nature which would affect results of the Company's operations.

5.4.7. Explanation of differences between financial results disclosed in the full-year report and previously published financial forecasts for the first half of 2021

The Company did not publish any financial forecasts for the first half of 2021.

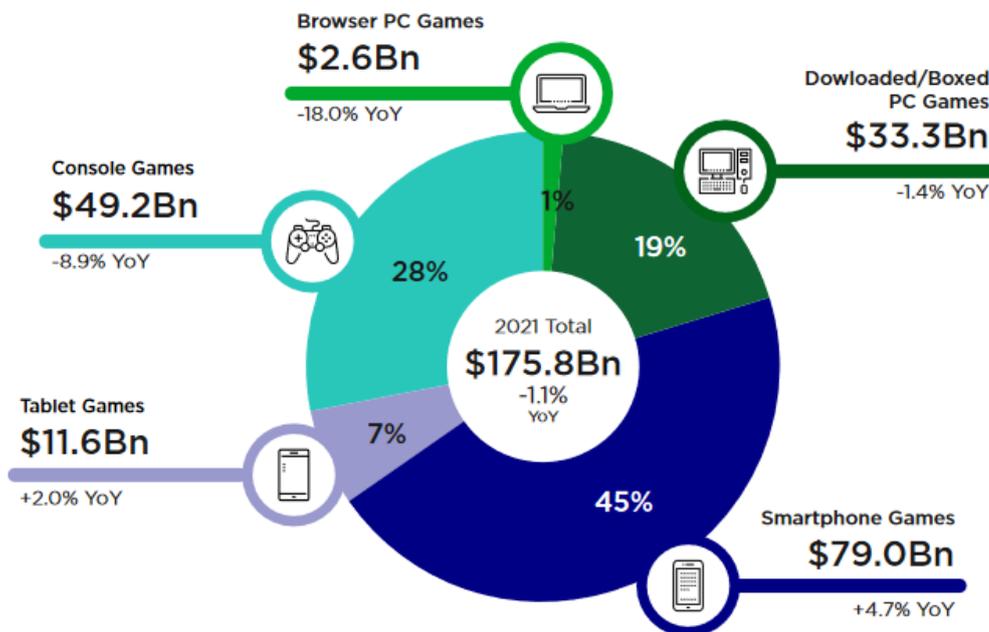
6. DEVELOPMENT AND PROSPECTS OF 11 BIT STUDIOS S.A.

6.1. Description of the market in which the Company operates

11 bit studios S.A. is a part of the global video game market. For a number of years now, video games have been the fastest growing segment of the entertainment industry, the value of the gaming market being already greater than that of the film and music markets. In 2020, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 177.8bn, an increase of 16.8% compared with the previous year, when it was worth USD 152.1bn. There is no doubt that the rapid growth of the sector, much faster than in previous years, was driven by the COVID-19 pandemic. During lockdowns, gamers stayed at home and had much more free time to spend on their favourite hobby. Regular players were joined by those who are new to the gaming world, which in 2020 accelerated the growth of especially the mobile games segment.

2021 Global Games Market

Per Segment



Source: Global Games Market Report, Newzoo.

Newzoo's growth forecasts for the gaming market for 2021 (chart above) are much more conservative. According to experts, sales of games will decrease by 1.1% compared with 2020, to USD 175.8bn. This unprecedented decline in the gaming industry will be mainly attributable to the very high base of 2020. However, sales will not shrink across all segments of the gaming market. In 2021, the sharpest year-on-year drop in sales will be seen in the console games segment – it is expected to contract by as much as 8.9%, to USD 49.2bn, accounting for 28% of the entire global gaming market. Newzoo analysts attribute this to factors such as limited availability of new models of Sony and Microsoft consoles in stores, as their manufacturers fail to keep up with demand. The lower-than-assumed number of new consoles will also drag down sales of games for those platforms. Performance of the PC games segment will be slightly better, but still shy of the 2020 results, which, according to experts, will be attributable to the almost-empty publishing pipeline and the continuing delayed release of major, high-budget AAA games (blockbusters). According to Newzoo, in 2020 the PC games segment will be worth USD 33.3bn, that is 1.4% less year on year. The sharpest decline in 2020 will be seen in web browser games (down 18% year on year, to USD 2.6bn) as their fans have for years been switching over to the mobile games segment.

In Newzoo's opinion, the mobile games segment, comprising games for tablets and smartphones, will be the only one to weather the storm of this year's slump. In 2021, this segment will be worth USD 90.6bn, which means that for the first time ever it will account for more than a half of the entire global computer games market. Experts predict that in 2021 fans will spend USD 11.6bn on tablet games (a year-on-year increase of 2%) and a staggering USD 79bn (up 4.7%) on smartphone games. The strong growth of the mobile device games segment is 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.

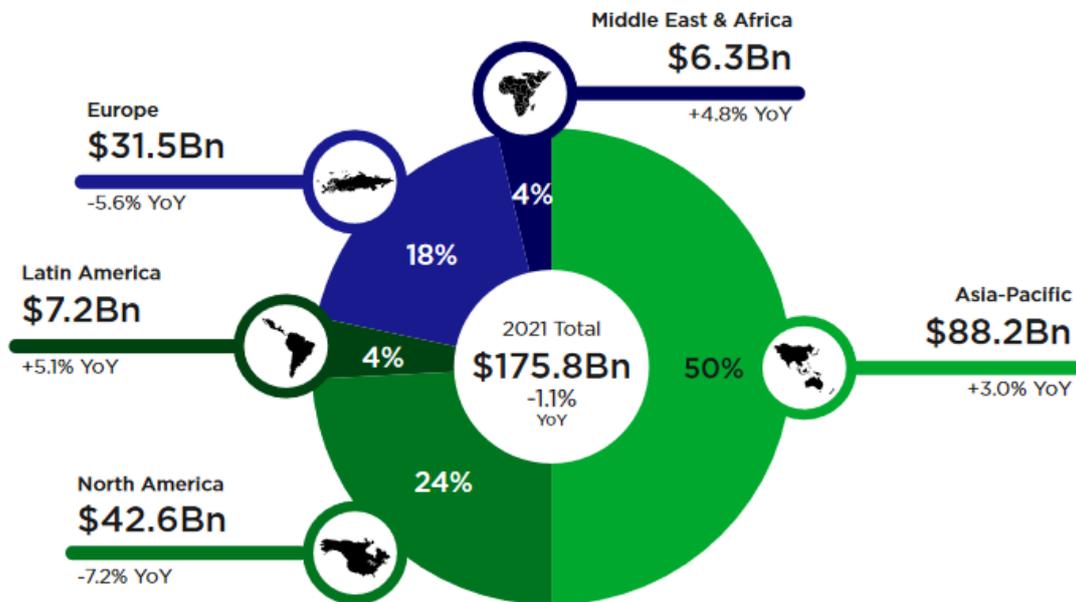
Newzoo forecasts for the coming years are much more optimistic than for 2021. Analysts from the Dutch market intelligence provider expect that the gaming industry will be back on a fast growth track in the years to come. They predict that the average growth rate (CAGR) of the industry in 2019–2024 will reach 8.7%. This means that by 2024 the value of the sector will rise by USD 218.7bn, fuelled, among other things, by a rapidly growing gaming community. Newzoo projects that in 2024 the number of people who play computer games will reach a massive 3.32bn. To compare, in 2020 the number of gaming enthusiasts was 2.81bn. According to experts, this year the gaming community will expand to 2.96bn members, of which as many as 2.8bn will choose games for mobile devices, 1.4bn will pick PC games, and 871m will opt for console games. The growth of this last segment will be driven by the increasing popularity of console games in China and South Korea, where demand for such games in the past was rather low due to problems with their availability.

Based on Newzoo forecasts, in 2021 the Asia-Pacific region (including Australia) will account for slightly more than half of the gaming market in the world. Its value (see chart on the next page) will reach USD 88.2bn, 3% more than a year earlier. For obvious reasons, the Chinese market, set to be valued at USD 45.6bn, will represent the lion's share of the market in that region. According to Newzoo, the robust performance of Asian markets, both in 2021 and 2020, stems from the fact

that customers in Asia tend to choose games for mobile devices and this sector not only managed to sail through the COVID-19 crisis, but was also given an additional boost.

2021 Global Games Market

Per Region



Source: Global Games Market Report, Newzoo.

Newzoo believes that North America, or more precisely the United States, will continue to be the world's second largest gaming market in 2021. According to experts, in 2021 US fans will spend USD 42.6bn on computer games, that is 7.2% less than the year before. The decline will be caused by poor performance of the console games segment, which accounts for the better part of the US market. Performance of Europe's gaming market in 2021 will be slightly better, albeit still shy of the 2020 results. It is expected to shrink by 5.6% year on year, to USD 31.5bn, accounting for 18% of the global market. Latin America, and the Middle East and Africa will fare much better, growing by 5.1% (to USD 7.2bn) and 4.8% (to USD 6.3bn), respectively. As a result, the global market share attributable to each of those regions will be approximately 4%. Their share is growing steadily year by year, driven by the rapidly expanding number of owners of PCs and consoles, and especially of mobile devices.

The Polish market of video games represents a negligible, close to 0.5% share of the global gaming market. This situation looks a little better with regard to the share of Poland's market in 11 bit studios S.A.'s revenue: 2.34%, or PLN 836,616, in the six months to June 30th 2021. 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. According to Newzoo, last year Poles spent USD 656m on electronic entertainment. The outlook for the coming

years is equally promising. According to the authors of the 'Condition of the Polish Gaming Industry 2020' 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. According to Newzoo, in 2020 nearly half of Polish gamers used mobile devices. 31% chose PCs, which were preferred over consoles (22%).

6.2. Growth prospects

11 bit studios S.A. is a producer of cross-platform video games sold all over the world, mainly through specialised online platforms, with Steam in the lead. Export sales accounted for nearly 97.66% of the Company's total revenue in H1 2021 (H1 2020: 98.25%). 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 the Dutch provider of games analytics Newzoo, the global video games market was valued at USD 177.8bn, an increase of 16.8% compared with the previous year, when it was worth USD 152.1bn. The outlook for the industry in the coming years is very promising, with the fast-growing mobile games segment as the main driver. Newzoo predicts that the average growth rate (CAGR) of the industry in 2019–2024 will reach 8.7%. This means that in 2024 the sector will be valued at USD 218.7bn.

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 *TWoM*'s release to the end of the first half of 2021, the game and its DLCs generated nearly PLN 120m in revenue. By the end of the first half of 2021, accumulated revenue from sales of *Frostpunk* (launched more than three years ago) and its paid DLCs exceeded PLN 140m, which confirms the Company's position as a leading player in the global video games industry. This corresponds well with the Company's strategy for the coming years, which assumes production of ever larger games (with greater commercial potential), i.e. gradual exit from the indie segment.

11 bit studio S.A.'s strategy assumes that the Company's new games will be developed based on Unreal Engine created by Epic Games. In the past, the Company's games were based on Liquid Engine (a proprietary solution). However, in the first half of 2021, the Company decided to no longer develop and support it. 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 existing human resources and ongoing recruitment processes, for several quarters the Company has been building three in-house development teams responsible for the production of new games to be released in the coming periods. According to the plans, the teams responsible for the production of games under the working titles of *Project 8* and *Frostpunk 2* will each ultimately consist of about 80 people. At present, they are composed of 50 and nearly 70 people. The third team, responsible for the development of *Dolly*, currently consists of 25 members, and may ultimately be expanded to include 40 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. 60–80 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. Further monetisation of *This War of Mine* will continue to be an important contributor to 11 bit studios S.A.'s performance. However, revenue from the two sources is expected to gradually decline due to the natural process of the games' 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) and *Frostpunk* (as of the fourth quarter of 2020). The teams responsible for those projects are currently working on games under the working titles of *Dolly* and *Frostpunk 2*.

The Company expects that its publishing division will become an increasingly important contributor to 11 bit studios' financial results in the coming years, although it is proprietary games that should ultimately be the main source of revenue. To date, 11 bit studios S.A. has released five titles created by third-party studios: *Spacecom* (2014), *Beat Cop* (March 30th 2017), *Tower* (November 16th 2017), *Moonlighter* (May 29th 2018), and *Children of Morta* (PC version, September 3rd 2019). The importance of the 11 bit publishing division is demonstrated by the fact that in H1 2021 revenue from the sale of games created by third-party developers accounted for 27% of the Company's revenue. In 2020, the share was 29%. 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* and their respective DLCs.

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 reporting date, 11 bit studios S.A. had three 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.

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

11 bit studios S.A. operates on international markets. Therefore, in addition to local factors, its strategy and financial performance are influenced by global economic and political

developments, including macroeconomic ones, as well as tax regulations and the legal environment. For a detailed discussion of major external and internal factors that may adversely affect the Company's operations, see **Note 5.16** to the Directors' Report on the operations of 11 bit studios S.A. in 2020, which is a part of 11 bit studios S.A. annual report for 2020.

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, in the first half of 2021 the Company continued to expand its development assets, which will enable it to ultimately own multiple product lines (brands – IP) and thus increase the frequency of game releases. With three development teams and several product lines, the 11 bit studios S.A. will be able to optimise and better utilise its production resources and stabilise its performance.

6.4. Feasibility of investment plans

As at June 30th 2021, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 28,200,855. As at the end of 2020, it was PLN 24,134,648. As at the end of June 2021, 11 bit studios S.A. also held PLN 75,472,380 (PLN 69,932,222 as at the end of 2020) invested in financial assets, including PLN 30,105,382 in investment fund units (PLN 30,010,534 six months earlier) and, respectively, PLN 44,947,998 and PLN 39,921,688 in PKO Leasing notes and PKO BP Bank Hipoteczny bonds. This means that the total cash resources available to the Company at the end of the first half of 2021 amounted to PLN 103,673,235, a 10.21% increase over January 1st 2021, when they stood at PLN 94,066,870. In addition, the Company had PLN 10,890,434 in trade receivables (end of 2020: PLN 11,601,506). The total value of 11 bit studios S.A.'s financial assets reported as at June 30th 2021 was an impressive PLN 114,563,669 (December 31st 2020: PLN 105,668,376), which represents an 8.41% increase.

The total value of liabilities (current and non-current) was PLN 20,957,897 as at June 30th 2021, compared with PLN 21,691,099 as at the end of 2020. Of that amount, PLN 9,880,848 was attributable to the 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 2020, the facility (including the interest rate swap) was valued at PLN 10,856,743.

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.

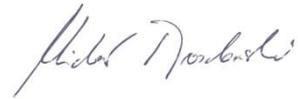
Signed by:



Przemysław Marszał
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Grzegorz Miechowski
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Michał Drozdowski
Member of the
Management Board

Warsaw, August 26th 2021