

WARSAW, November 18th 2021

**QUARTERLY REPORT OF
11 BIT STUDIOS S.A.
FOR THE NINE MONTHS
ENDED SEPTEMBER 30TH
2021**

LETTER FROM THE MANAGEMENT BOARD

Warsaw, November 18th 2021

Dear Shareholders and Investors,

It is our pleasure to present to you the report of 11 bit studios S.A. for the nine months ended September 30th 2021. The results for that period, which proved much better than we assumed in our budget both in terms of revenue and profits, clearly demonstrate that the consistent implementation of the Company's growth strategy is bringing tangible financial results.

In the nine months ended September 30th 2021, 11 bit studios S.A. reported revenue of nearly PLN 49.2m, operating profit of PLN 18.4m, and net profit of almost PLN 17.4m. In the third quarter alone, sales reached PLN 13.4m, operating profit was in excess of PLN 3.9m, and net profit came in at close to PLN 4.1m, supported by a positive balance of finance income and finance costs. To note, the profit figure would have been higher but for the non-cash provisions recognised in connection with our 2021–2025 Incentive Scheme. In the reporting period, their amount was nearly PLN 2.92m. From January to September, the Company generated an operating cash flow of more than PLN 33m, and the value of its financial assets as at the end of September 2021 (cash and cash equivalents, financial instruments, trade and tax receivables) was as high as PLN 121.5m. At the same time, the Company's total liabilities as at the end of September amounted to PLN 19.2m, 11.3% less than at the beginning of the year.

The robust financial performance reported by 11 bit studios S.A. for the nine months to September 30th 2021 was driven by successful monetisation of the entire portfolio, including both proprietary games and the products marketed by 11 bit publishing. Revenue from *Moonlighter*, *Children of Morta* and other third-party developed games accounted for approximately 25% of the Company's total revenue in the period. Worthy of a particular mention are sales of *Frostpunk* – both the basic version and paid DLCs included in the Season Pass. By the end of September 2021, almost one in four *Frostpunk* owners decided to purchase a paid DLC, which is a rate far in excess of the market averages. Another testament to the strength of the *Frostpunk* brand is the great interest of gamers in the new addition to this title's universe, i.e. *Frostpunk 2*. Its trailer, which premiered on August 12th this year, already has well over five million views on Youtube and other platforms, and the number of players who have put *Frostpunk 2* on their wishlist on Steam far exceeds the wishlist for *Frostpunk* immediately before the game's market release in April 2018. *Frostpunk 2* is currently the 14th most anticipated game (based on interest measured by numbers on wishlists) on Steam.

Ahead of us are further quarters of hard work on three proprietary games, i.e. *Frostpunk 2*, *Dolly* and *Project 8*. Their total production budget is approximately PLN 110m. Another PLN 30m will be spent on three games of 11 bit publishing, i.e. *Vitriol*, *Botin* and *Ava*. We have also earmarked PLN 50m for new titles to be released by the publishing division. We intend to spend this amount

by the end of 2023. Our efforts to acquire new titles for the publishing portfolio have recently picked up pace and are bringing results, on which we will report shortly. Likewise, the recruitment of new employees for the internal development teams as well as other organisational units has accelerated in the last months. As a result, the Company is already prepared to efficiently run a far greater number of business projects in parallel. Their time horizon extends well beyond the next few quarters. An example here is the intense work on creating a corporate group. We hope that we will be able to unveil more details in the near future, and that the results of our initiatives and further announcements will be well received by the Shareholders and Investors.

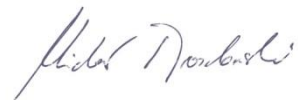
Thank you once again for the trust you place in us. We invite you to read our report.

A handwritten signature in black ink, appearing to read '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 September 30th 2021 – PLN 4.6329
- 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 Q1–Q3 2021 – PLN 4.5585
- Exchange rate for Q1–Q3 2020 – PLN 4.4420

Statement of financial position

	Sep 30 2021 (PLN)	Sep 30 2021 (EUR)	Dec 31 2020 (PLN)	Dec 31 2020 (EUR)
Total assets	204,690,700	44,181,981	186,339,222	40,378,613
Non-current assets	82,564,256	17,821,290	70,397,597	15,254,745
Intangible assets	51,133,524	11,037,045	37,859,517	8,203,934
Current assets	122,126,445	26,360,691	115,941,625	25,123,868
Cash	38,089,730	8,221,574	24,134,648	5,229,836
Total equity and liabilities	204,690,700	44,181,981	186,339,222	40,378,613
Equity	185,464,602	40,032,075	164,648,124	35,678,279
Liabilities and provisions	19,226,099	4,149,906	21,691,098	4,700,334

Statement of profit or loss

	Period ended Sep 30 2021 (PLN)	Period ended Sep 30 2021 (EUR)	Period ended Sep 30 2020 (PLN)	Period ended Sep 30 2020 (EUR)
Revenue	49,196,100	10,792,169	68,159,127	15,420,617
Depreciation and amortisation	7,127,385	1,563,537	7,392,768	1,672,572
Operating profit	18,419,213	4,040,630	35,108,607	7,943,124
EBITDA	25,546,598	5,604,168	42,501,375	9,615,696
Profit (loss) before tax	19,694,793	4,320,455	34,952,642	7,907,838
Net profit (loss)	17,397,934	3,816,592	32,120,127	6,582,066

Statement of cash flows

	Period ended Sep 30 2021 (PLN)	Period ended Sep 30 2021 (EUR)	Period ended Sep 30 2020 (PLN)	Period ended Sep 30 2020 (EUR)
Net cash from operating activities	35,765,526	7,906,279	43,220,674	9,778,433
Net cash from investing activities	(21,120,989)	(4,693,701)	15,537,700	3,515,317
Net cash from financing activities	(689,457)	(151,246)	6,597,874	1,492,732
Total net cash flows	13,955,080	3,061,332	65 356,248	14 786,481



FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A.
FOR NINE MONTHS ENDED
SEPTEMBER 30TH 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 September 30th 2021 and contain comparative data for the period from January 1st to September 30th 2020.

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

1.5. Shareholding structure as at the issue date of this quarterly report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	170,413	7.20	170,413	7.20
Przemysław Marszał	103,500	4.38	103,500	4.38
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
Other shareholders	1,870,779	79.09	1,870,779	79.09
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.

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.

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

In Current Report No. 27/2021 of September 2nd 2021, 11 bit studios S.A. announced that on September 2nd 2021 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, President of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On September 2nd 2021, Przemysław Marszał sold a total of 3,000 shares in trades executed on the WSE, at an average price of PLN 450.05 per share.

In Current Report No. 28/2021 of September 2nd 2021, 11 bit studios S.A. announced that on September 2nd 2021 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Grzegorz Miechowski, Member of the Company's Management Board, concerning his sale of 11 bit studios S.A. shares. On September 2nd 2021, Grzegorz Miechowski sold a total of 7,000 shares in trades on the WSE at an average price of PLN 450.13 per share.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Sep 30 2021 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	103,500	103,500	106,500
Grzegorz Miechowski	Member of the Management Board	170,413	170,413	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 and after the reporting date, 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 this report , 192 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.9. Functional and presentation currency

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

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

2.1. Interim statement of comprehensive income (PLN)

	Note	3 months ended Sep 30 2021	3 months ended Sep 30 2020	9 months ended Sep 30 2021	9 months ended Sep 30 2020
Continuing operations					
Revenue	3.3	13,417,809	17,990,371	49,196,100	68,159,127
Other income	3.4.1	162,979	104,684	226,783	255,622
Total operating income		13,580,789	18,095,055	49,422,883	68,414,749
Depreciation and amortisation	3.5	(1,862,533)	(2,547,914)	(7,127,385)	(7,392,768)
Raw materials and consumables used		(130,041)	(78,470)	(375,494)	(256,839)
Services	3.6	(4,087,853)	(5,277,606)	(13,052,866)	(18,915,946)
Salaries, wages and employee benefits	3.7	(3,112,057)	(1,334,289)	(8,938,472)	(5,118,485)
Taxes and charges		(80,695)	(68,912)	(218,770)	(255,676)
Other expenses	3.4.2	(384,154)	(55,303)	(1,290,681)	(1,396,429)
Total operating expenses		(9,657,334)	(9,362,494)	(31,003,668)	(33,306,142)
Operating profit		3,923,455	8,732,561	18,419,215	35,108,607
Interest income	3.8	7,962	64,944	12,196	521,844
Other finance income	3.8	904,250	752,404	1,582,374	1,207,762
Finance costs	3.9	(137,346)	(1,279,225)	(319,130)	(1,885,572)
Profit before tax		4,698,320	8,270,683	19,694,656	34,952,642
Income tax expense	3.10.1	608,623	1,160,846	2,296,859	2,832,515
NET PROFIT		4,089,697	7,109,837	17,397,796	32,120,127
Earnings per share (PLN):					
Basic	3.11.1	1.72	3.02	7.36	13.90
Diluted	3.11.2	1.70	2.94	7.23	13.29
NET PROFIT		4,089,697	7,109,837	17,397,796	32,120,127
Other comprehensive income		0	0	0	0
TOTAL COMPREHENSIVE INCOME		4,089,697	7,109,837	17,397,796	32,120,127

2.2. Interim statement of financial position (PLN)

ASSETS

	Note	As at Sep 30 2021	As at Dec 31 2020
Non-current assets			
Property, plant and equipment	3.12	26,051,292	26,889,502
Right-of-use assets	3.12	4,295,431	4,003,398
Intangible assets	3.13	51,133,524	37,859,517
Deferred tax asset	3.10.3	996,838	1,517,590
Other assets	3.17	87,171	127,590
Total non-current assets		82,564,256	70,397,597
Current assets			
Trade and other receivables	3.14	6,999,361	11,601,506
Income tax receivable	3.10.2	3,140,640	7,623,047
Other current assets	3.16	605,494	583,598
Cash and cash equivalents	3.18	38,089,730	24,134,648
Current financial assets	3.15	73,291,221	71,998,826
Total current assets		122,126,446	115,941,625
TOTAL ASSETS		204,690,700	186,339,222

EQUITY AND LIABILITIES

	Note	As at Sep 30 2021	As at Dec 31 2020
Equity			
Share capital	3.19	236,542	236,055
Share premium		12,909,114	12,407,633
Statutory reserve funds		120,467,692	87,152,664
Share-based payment reserve		34,661,543	31,744,829
Retained earnings		17,189,710	33,106,943
Total equity		185,464,601	164,648,124
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.20.1	7,875,000	8,820,000
Financial instruments (IRS) – long-term portion	3.20.1	228,552	679,650
Lease liabilities - perpetual usufruct of land	3.20.2	756,214	334,041
Deferred income	3.24	635,711	635,711
Total non-current liabilities		9,495,477	10,469,402
Current liabilities			
Trade and other payables	3.21	8,419,839	9,791,955
Short-term borrowings and other debt instruments	3.20.1	1,260,000	1,260,000
Financial instruments (IRS) – short-term portion	3.20.1	36,568	97,093
Lease liabilities - perpetual usufruct of land	3.20.2	14,215	12,653
Deferred income	3.24	0	59,997
Total current liabilities		9,730,622	11,221,696
Total liabilities		19,226,099	21,691,098
TOTAL EQUITY AND LIABILITIES		204,690,700	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	17,397,796	0	0	17,397,796
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income								
Creation of capital reserve	0	0	0	0	0	0	0	0
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*	487	501,481	0	0	0	0	0	501,968
Recognition of costs of the 2021-2025 Incentive Scheme	0	0	0	2,916,714	0	0	0	2,916,714
As at Sep 30 2021	236,542	12,909,114	120,467,692	34,661,543	17,189,711	0	0	185,464,602

* Net of the cost of issue of Series G shares of PLN 2,250.

Comparative data for nine months ended September 30th 2020

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Attributable to owners of the parent	Attributable to non-controlling interests	Total
As at Jan 1 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*	0	0	0	4,048,103	(4,048,103)	0	0	0
As at Jan 1 2020	228,720	4,870,274	78,881,784	18,305,429	17,454,092	0	0	119,740,299
Net profit for the financial year	0	0	0	0	32,120,127	0	0	32,120,127
Other comprehensive income for the financial year (net)	0	0	0	0	0	0	0	0
Total comprehensive income								
Creation of capital reserve	0	0	(13,439,400)	13,439,400	0	0	0	0
Settlement of share-based payment reserve	0	0	0	0	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	21,710,280	0	(21,710,280)	0	0	0
Share-based payments	7,170	7,404,763	0	0	0	0	0	7,411,933
As at Sep 30 2020	235,890	12,275,037	87,152,664	31,744,829	27,863,939	0	0	159,272,359

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 Sep 30 2021	Period ended Sep 30 2020
Cash flows from operating activities			
Profit for the financial year		17,397,794	32,120,127
Adjustments:			
Depreciation and amortisation	3.5	7,127,388	7,392,768
Income tax expense recognised in profit or loss	3.10.	2,296,859	2,832,515
Remeasurement of intangible assets		(40,420)	(17,450)
Costs of the 2021–2025 Incentive Scheme		2,916,714	0
Other adjustments		172,339	665,425
Changes in working capital:			
Increase/(decrease) in trade and other receivables		4,602,145	11,923,795
Increase/decrease in inventories		0	11,829
Increase/(decrease) in other assets		18,521	(176,519)
Increase/(decrease) in trade and other payables		(1,372,116)	4,535,221
Increase/(decrease) in net contract assets/liabilities		0	(11,730,526)
Increase/(decrease) in deferred income		(59,997)	54,028
Cash provided by operating activities		33,059,228	47,611,213
Income tax paid		2,706,299	(4,390,539)
Net cash from operating activities		35,765,526	43,220,674
Cash flows from investing activities			
Loans to employees		275,245	(1,893,537)
Proceeds from bank deposits upon maturity – over 3 months		0	136,000,000
New bank deposits placed – over 3 months		0	(89,000,000)
Proceeds from interest on financial assets		0	(7,720,414)
Proceeds from redemption of bonds		69,000,000	0
Purchase of financial assets		(70,873,469)	0
Payments for property, plant and equipment and intangible assets		(19,522,765)	(21,848,349)
Net cash from investing activities		(21,120,989)	15,537,700
Cash flows from financing activities			
Proceeds from issue of shares		501,969	7,411,932
Proceeds/(payments) under credit facility		(945,000)	(630,000)
Payment of interest on credit facility		(246,426)	(184,059)
Net cash from financing activities		(689,457)	6,597,874
Net increase /(decrease) in cash and cash equivalents		13,955,080	65,356,248
Cash at beginning of reporting period		24,134,649	14,882,519
CASH AT END OF REPORTING PERIOD		38,089,729	80,238,767

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. Application of IFRSs

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

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

3.1.1. Statement of compliance

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

The Company has applied the IFRSs as effective on September 30th 2021. The accounting policies applied to prepare these financial statements of the Company for the nine months ended September 30th 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.
- **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 amendment is effective for financial statements for periods beginning on or after January 1st 2022.
- **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.

- **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 amendment was 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 expedient 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 amendment was not yet endorsed by the European Union.

- **Amendments to IAS 12 *Income Taxes***

The amendments to IAS 12 clarify how to account for deferred tax on transactions such as leases and decommissioning obligations. Prior to the amendments, it was not clear whether the initial recognition exception applied to such transactions, i.e. transactions that lead to the recognition of both deferred tax assets and liabilities. The amendments to IAS 12 clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that at the time of initial recognition give rise to equal taxable and deductible temporary differences.

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 14 Regulatory Deferral Accounts**

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

The European Union has decided not to endorse IFRS 14.

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

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

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

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

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

In the area of sales, in the nine months ended September 30th 2021 11 bit studios S.A. focused on monetising its portfolio of proprietary games, i.e. *Frostpunk* and *This War of Mine*, and games of the 11 bit publishing division, primarily *Moonlighter* and *Children of Morta*. Ongoing sales were supported by periodic marketing and promotional campaigns on leading 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 and of DLCs for consoles in July. Other major contributors to the Company's revenue for the first nine months of the year were 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).

In the period from January to September 2021, 11 bit studios S.A. earned revenue of PLN 49,196,100, down 27.82% year on year. The year-on-year decline was due to a very high base in 2020, when further *Frostpunk* DLCs were released in the Season Pass, and natural ageing of the games, including the titles created by third-party development studios. In the nine months ended September 30th 2021, the publishing division's revenue accounted for 25% of the Company's total revenue. A year earlier, the ratio had been 28%.

In the nine months ended September 30th 2021, the Company's operating expenses were PLN 31,003,668, compared with PLN 33,306,142 in the corresponding period of the previous year (down 6.91%). The largest item of operating expenses in the nine months ended September 30th 2021 was services (PLN 13,052,866, down 31.00% year on year), including mainly royalties payable

to the producers of *Moonlighter* and *Children of Morta*. In the period the Company spent PLN 8,938,472 on salaries, wages and employee benefits, up 74.63% year on year. It should be noted that this item includes non-cash provisions (totalling approximately PLN 2.92m) created each quarter to cover the costs of the Incentive Scheme for 2021–2025. Depreciation and amortisation, at PLN 7,127,385, were a considerable item of operating expenses in the nine months ended September 30th 2021. Their amount decreased by 3.59% year on year, following completion of the amortisation of expenditure on some of the portfolio products, including the PC version of *Frostpunk*.

As the decrease in operating expenses was slower than the decrease in revenue, the operating profit posted by 11 bit studios S.A. in the nine months ended September 30th 2021 fell to PLN 18,419,215, or 47.54% year on year (PLN 35,108,607 the year before). Accordingly, the Company's operating profit margin declined to 37.44%, from 51.51% in the corresponding period of the previous year. With a positive balance of finance income and finance costs, mainly attributable to the depreciation of the złoty (the Company remeasured its foreign currency financial assets), 11 bit studios S.A.'s profit before tax for the nine months ended September 30th 2021 was PLN 19,694,655, down 43.65% year on year. The Company posted a net profit of PLN 17,397,796, that is 45.84% less than in the reference period. As a result, the net margin was 35.36%, compared with 47.12% the year before.

The Company's stable financial position was also confirmed by cash flows from operating activities, which amounted to PLN 33,059,228. In addition, in the nine months ended September 30th 2021, the Company received a significant amount of income tax return for 2020, which increased its net operating cash flow to PLN 35,765,526, just 17.25% less than in the corresponding period of the previous year. Despite growing spending on investments, mainly new proprietary games and the publishing division's titles, as at the end of September 2021 the Company's financial assets (cash and cash equivalents, investment fund units, bank deposits, and trade and tax receivables) were valued at PLN 121,520,951, up 5.34% on the end of 2020.

In the area of proprietary games, 11 bit studios S.A. continued the development work started a few quarters before on the production of a game under the working title of *Project 8*. The development team responsible for this title consists of approximately 50 people and is currently being expanded to the target number of 70-80 people. Just like the other productions of 11 bit studios S.A., the game will be based on Unreal Engine. Intense work is also under way on a game with the code name *Dolly*. The project team consists of nearly 30 people. Its target size is 60-70. The third of the Company's proprietary games, i.e. *Frostpunk 2*, is being developed by a team of more than 60 people, which is still being expanded. 11 bit studios S.A. has already started marketing and promotional activities for *Frostpunk 2*. August 12th 2021 saw the launch of a trailer, which has had very high viewing rates. Since August 12th 2021, Steam users can also add *Frostpunk 2* to their wishlists, and the pace of the process is very satisfying. 11 bit studios S.A.'s new production currently ranks 14th in the Steam wishlist ranking, with the number of fans who have expressed an interest in purchasing the title being much higher than in the case of *Frostpunk* immediately prior to its release.

The Company intends to continue to capitalise on the *Frostpunk* universe, not only through *Frostpunk 2*. NetEase of China is working on a mobile version of the game based on the Company-created world. Also, Glass Cannon Unplugged has worked on its board game version for a few quarters. Jacek Dukaj, a popular author of science fiction novels, is an artistic supervisor of a project to create a series of books about the *Frostpunk* universe to be written by third-party authors.

In the area of publishing operations, in the nine months ended September 30th 2021, 11 bit studios S.A. focused on three games being created by third-party development studios (the total value of the Company's investment in the *Vitriol*, *Botin* and *Ava* projects is approximately PLN 30m) and on acquiring new titles for the publishing portfolio. The budget earmarked for new productions is PLN 50m, to be spent by the end of 2023. By that time, the Company wants to sign at least six new publishing contracts and, based on the progress of negotiations with third-party developers, it is highly probable that this target will be met.

Efforts to acquire other players in the computer games industry, which would provide complementary capabilities within a corporate group being created around 11 bit studios S.A., in line with the intentions signalled by the Company for a few months, are also well advanced. The Company will communicate the details of its acquisition activities in future periods.

3.3. Revenue (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Revenue	49,196,100	68,159,127

As in the previous years, in the nine months ended September 30th 2021 the main source of revenue was sales of its proprietary games as well as third-party games released by the Company as part of the 11 bit publishing services. Other income accounted for 0.46% of total revenue (0.37% the year before). Revenue in the reporting period came in at PLN 49,196,100, down 27.82% year on year.

The year-on-year decline in the first nine months of 2021 was mainly attributable to the very high 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 the nine months ended September 30th 2020 was revenue from a contract with Microsoft for the release of *Frostpunk* (January 9th 2020) and *Children of Morta* (January 16th 2020) in the Xbox Pass subscription service.

As mentioned above, in the nine months ended September 30th 2021, the Company's revenue was driven by ongoing sales of both proprietary and third-party developed games, supported by periodic promotional campaigns on key distribution platforms, notably the Bundle Madness offer on Steam (in April 2021). Another positive contributor to 11 bit studios S.A.'s revenue in the nine

months ended September 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. *Frostpunk* free weekend on Steam, accompanying the release of the *Frostpunk 2* trailer, also had a major positive effect on the sales results.

3.3.1. Revenue by geographical region (PLN)

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

Below is presented information on revenue from sales to third parties by geographical area and on non-current assets by asset location.

	Period ended Sep 30 2021	Period ended Sep 30 2020
Poland	1,117,305	1,305,523
European Union	1,225,457	4,046,647
US	37,597,432	52,087,826
Japan	6,391,048	10,072,823
China	136,388	191,494
Other	2,728,470	454,814
Total	49,196,100	68,159,127

3.3.2. Revenue by distribution channel

The Company's revenue from sales of computer games in the nine months ended September 30th 2020, amounting to PLN 49,196,100 (vs PLN 68,159,127 the year before), included PLN 46,916,417 (PLN 65,484,633) in revenue from the Company's products sold via the distribution platforms of its 10 key business partners, including Steam (Valve Corporation), Nintendo Co Ltd., Epic Games, Microsoft Corporation, Google, Apple and Humble Bundle.

3.4. Other income and expenses (PLN)

3.4.1. Other income

	Period ended Sep 30 2021	Period ended Sep 30 2020
Grants received	221,820	134,993
Gain on disposal of non-current non-financial assets	0	6,335
Other income	2,891	0
Other income - subject to recharge	0	48,687
Other income - received damages/compensations	2,072	17,149
Impairment losses - reversed	0	48,458
Total	226,783	255,622

The key item of the Company's other income (PLN 221,820) in the nine months ended September 30th 2021, as in the previous year, was grants, including grants from the National Centre for Research and Development (project POIR.01.01.01-00-0231/20) for the production of Liquid Engine.

3.4.2. Other expenses

	Period ended Sep 30 2021	Period ended Sep 30 2020
Impairment losses recognised on:		
Trade receivables	0	0
Other expenses:		
Costs of discontinued projects	344,756	0
Liquidation of non-current non-financial assets	0	244,746
Impairment losses on non-current non-financial assets	51,477	0
Non-recoverable withholding tax	141,480	11,444
Donations	504,153	917,850
Other expenses by nature	248,815	222,389
Total	1,290,681	1,396,429

In the nine months ended September 30th 2021, a major item of other expenses was cost of discontinued projects (PLN 344,756), including an impairment loss on expenditure related to the development of Liquid Engine (phase 6) incurred in the current period (the Company decided to abandon the project). Donations totalling PLN 504,153 were also an important item of other expenses. 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. Donations made in the reference period amounted to PLN 917,850 and were used to purchase medical equipment and supplies (in connection with the COVID-19 pandemic), which were then provided to healthcare and educational establishments.

3.5. Depreciation and amortisation (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Depreciation/amortisation charges in the period:		
Depreciation	1,604,283	1,248,587
Amortisation	6,473,851	6,959,688
Total	8,078,134	8,208,275
Allocation to project costs	(1,083,623)	(818,733)
Land (including perpetual usufruct of land)	132,876	3,226
Total	7,127,385	7,392,768

The nearly 3.6% reduction in the depreciation and amortisation expense in the nine months ended September 30th 2021, to PLN 7,127,385, was mainly attributable to lower amortisation (down by almost 7%) of intangible assets, i.e. expenditure on proprietary games and games in the publishing portfolio, which was due to the completion of amortisation of certain products. On the other hand, depreciation of property, plant and equipment rose significantly year on year, by 28.5%, to PLN 1,604,283, as a result of growing expenditure on IT equipment for newly hired employees. A major portion of these expenses (PLN 1,083,624 in the nine months ended September 30th 2021 vs PLN 818,733 the year before) was allocated to project costs.

3.6. Services (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Services	13,052,866	18,915,946

The year-on-year drop in cost of services in the nine months ended September 30th 2021 was related to a year-on-year decline in revenue from sales of third-party games, due to their natural ageing (the most recent production, *Children of Morta*, had been released in the third quarter of 2019). The Company paid the required royalties to the third-party developers, mainly the Spanish Digital Sun studio (which had produced *Moonlighter*) and the American Dead Mage studio (*Children of Morta*). In the nine months ended September 30th 2021, they amounted to PLN 7,015,902, relative to PLN 12,925,247 in the corresponding period of the previous year.

3.7. Salaries, wages and employee benefits (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Salaries, wages and employee benefits	8,938,472	5,118,485

The significant increase in salaries and wages (up by 74.63%, to PLN 8,938,472 in the nine months ended September 30th 2021, from PLN 5,118,485 in the nine months ended September 30th 2020) was due to a gradual increase in the Company's workforce and growing pay levels. Since January 1st 2021, salaries, wages and employee benefits have included non-cash provisions recognised in connection with the Company's 2021–2025 Incentive Scheme, amounting to PLN 972,238 per quarter. In the nine months ended September 30th 2021, this cost was PLN 2,916,714. No such cost was recognised in the corresponding period of the previous year.

3.8. Finance income (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Interest income:		
Bank deposits	12,196	521,844
Finance income:		
Gains on remeasurement of financial assets	264,400	0
Remeasurement of IRS	511,622	0
Net foreign exchange gains	806,352	1,207,762
Total	1,594,570	1,729,606

As a result of favourable changes in international currency markets in the nine months ended September 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 the Company generated a significant (albeit lower year on year) amount of finance income from currency exchange gains (primarily remeasurement of loans and receivables denominated in currencies other than the Polish zloty). In the reporting period, unlike the year earlier, a positive contributor to finance income was remeasurement of financial assets (investment fund units), which amounted to PLN 264,400, and measurement of the IRS instrument (PLN 511,622) hedging interest rate risk in relation to the investment facility contracted by 11 bit studios S.A. with PKO BP at the end of 2018 for the purchase property at ul. Brzeska 2 in Warsaw (the Company's current offices). The measurement of the IRS is a non-cash item. In the nine months ended September 30th 2021, interest on bank deposits had a negligible effect (PLN 12,196) on 11 bit studios S.A.'s finance income, which was attributable to the low level of market interest rates. In the corresponding period of 2020, the item amounted to as much as PLN 521,844.

3.9. Finance costs (PLN)

	Period ended Sep 30 2021	Period ended Sep 30 2020
Interest on public charges	5,003	623
Net foreign exchange gains	0	1,228,378
Interest on credit facility	79,167	171,735
Settlement of IRS	167,259	12,324
Losses on remeasurement of financial assets	1,445	472,511
Loss on disposal of investments in financial assets	48,286	0
Other	17,970	0
Total	319,130	1,885,572

The key reason for the marked decrease (83.08% year on year) in the Company's finance costs, which in the nine months ended September 30th 2021 amounted to PLN 319,131 (PLN 1,885,572 the year before), was the fact that the Company recognised no currency exchange losses

(remeasurement of cash and loans and receivables). The largest item of finance costs in the reporting period (PLN 167,259) was the cost of settlement of the IRS instrument. 11 bit studios S.A. also paid PLN 79,167 in interest on the investment facility with PKO BP. For details of the facility and the related IRS, see **Note 3.20**.

3.10. Income tax on continuing operations (PLN)

3.10.1. Income tax recognised in profit or loss

	Period ended Sep 30 2021	Period ended Sep 30 2020
Current income tax:		
Attributable to current year	1,776,107	4,052,387
Deferred income tax:		
Attributable to current year	520,752	(1,219,872)
Tax expense recognised in current year on continuing operations	2,296,859	2,832,515

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

Reconciliation of the Company's tax and accounting profit:

	Period ended Sep 30 2021	Period ended Sep 30 2020
Profit before tax from continuing operations	19,694,655	34,952,642
Income not classified as income for tax purposes	(5,641,885)	(2,080,224)
Income classified as income for tax purposes		0
Costs not deductible for tax purposes	10,328,194	14,993,595
Costs deductible for tax purposes	(3,739,972)	(3,114,185)
Tax profit/(loss)	20,640,991	44,751,828
- including income from qualifying IP rights subject to 5% tax rate	15,346,296	31,789,000
Current tax	1,776,107	4,052,387

Effective tax rate:

	Period ended Sep 30 2021	Period ended Sep 30 2020
Profit before tax from continuing operations	19,694,654	34,952,642
Income tax expense at 19% (2020: 19%)	3,741,984	6,641,002
Tax effect of income which is not classified as income for tax purposes	(97,620)	(395,242)
Tax effect of costs which are not deductible for tax purposes	(744,177)	(333,622)
Tax effect of costs which are deductible for tax purposes	127,474	1,159,769
Effect of IP Box tax relief settlement at 5% tax rate	(2,145,681)	(4,450,460)
Other changes – adjustments to taxes for previous years	(73,475)	0
Total	2,296,859	3,288,691

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 nine months ended September 30th 2021, the effective tax rate was 11.66%, 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%.

3.10.2. Current tax receivable and payable

	As at Sep 30 2021	As at Dec 31 2020
VAT refund receivable	1,276,367	3,028,820
CIT refund receivable	3,140,640	7,623,047
Total	4,417,007	10,651,867

3.10.3. Deferred tax (net)

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

	As at Sep 30 2021	As at Dec 31 2020
Deferred tax asset	1,029,585	1,592,151
Deferred tax liability	(32,747)	(74,561)
Total	996,838	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.

3.11. Earnings per share (PLN)

3.11.1. Basic earnings per share

	Period ended Sep 30 2021	Period ended Sep 30 2020
Basic earnings per share:		
From continuing operations	7.36	13.90
Total basic earnings per share	7.36	13.90
Diluted earnings per share:		
From continuing operations	7.23	13.29
Total diluted earnings per share	7.23	13.29

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

	Period ended Sep 30 2021	Period ended Sep 30 2020
Profit for the financial year attributable to shareholders	17,397,796	32,120,127
Total profit used to calculate basic earnings per share	17,397,796	32,120,127
Profit used to calculate basic earnings per share from continuing operations	17,397,796	32,120,127

	Period ended Sep 30 2021	Period ended Sep 30 2020
Weighted average number of ordinary shares used to calculate earnings per share	2,362,845	2,358,895

3.11.2. Diluted earnings per share

	Period ended Sep 30 2021	Period ended Sep 30 2020
Profit for the financial year attributable to shareholders	17,397,796	32,120,127
Total profit used to calculate diluted earnings per share	17,397,796	32,120,127
Profit used to calculate diluted earnings per share from continuing operations	17,397,796	32,120,127

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 Sep 30 2021	Period ended Sep 30 2020
Weighted average number of ordinary shares used to calculate basic earnings per share	2,362,845	2,358,895
Shares expected to be issued:		
Employee stock options	43,065	58,304
Number of ordinary shares used to calculate diluted earnings per share	2,405,910	2,417,199

3.12. Property, plant and equipment (PLN)

Carrying amount:

	As at Sep 30 2021	As at Dec 31 2020
Buildings and premises	23,173,653	23,645,432
Property, plant and equipment under construction	129,264	102,241
Plant and equipment	525,155	437,767
Vehicles	0	9,448
Other property, plant and equipment	2,223,219	2,694,614
Total	26,051,291	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 nine months ended September 30th 2021, the value was revised to PLN 4,295,431.

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	60,335	346,352	356,009	0	0	762,696
Decrease	(1,340)	0	0	0	(15,027)	(16,367)
Reclassification	38,460	(319,329)	279,366	0	1,503	0
As at Sep 30 2021	24,298,160	129,264	2,589,001	372,854	3,478,938	30,868,218

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 charges	569,235	0	549,688	9,448	472,898	1,601,268
Decrease	0	0	(1,700)	0	(15,027)	(16,727)
As at Sep 30 2021	1,124,508	0	2,063,847	372,854	1,255,719	4,816,927

Comparative data for the period from January 1st to September 30th 2020
Carrying amount:

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

Gross carrying amount:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	23,970,125	348,366	11,515	1,043,464	372,854	281,408	26,027,732
Increase	29,546,825	3,663,634	292,542	523,657	0	3,224,064	37,250,722
Decrease	(29,533,128)	0	(271,669)	0	0	(22,710)	(206,478)
Reclassification	0	0	0	0	0	0	(29,621,029)
As at Sep 30 2020	23,983,822	4,012,000	32,388	1,567,121	372,854	3,482,762	33,450,947

Accumulated depreciation and impairment:

	Buildings and premises	Land	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	100,356	4,301	0	969,588	294,965	270,617	1,639,827
Depreciation charges	364,503	3,226	0	411,496	55,928	373,864	1,209,017
Decrease	(95,571)	0	0	0	0	(13,563)	(111,134)
As at Sep 30 2020	367,288	7,527	0	1,381,084	350,893	630,918	2,727,710

3.13. Intangible assets (PLN)

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

Useful lives of intangible assets used to calculate amortisation:

Completed development work:

Completed game engine development work as at September 30th 2021 included the capitalised cost of the fourth and fifth work phases with the remaining weighted average amortisation period of 12 months.

As at September 30th 2021, the completed game development work comprised games with the remaining weighted average amortisation period of 6.5 months.

Ongoing development work:

As at September 30th 2021, expenditure on ongoing development work included mainly expenditure on the development of games, in particular *Frostpunk 2*, *Project 8*, and *Dolly*, 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 968,330. In 2020, the amount of written off expenditure on discontinued work was PLN 997,116.

Carrying amount:

	As at Sep 30 2021	As at Dec 31 2020
Completed development work (game engine)	2,730,756	3,954,725
Completed development work (games)	4,733,074	8,004,182
Ongoing development work	43,415,008	25,545,704
Licences	254,686	354,906
Total	51,133,524	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	40,996	20,681,505	20,722,501
Reclassification of completed development work	0	1,840,573	0	(1,840,573)	0
Decrease	0	0	0	3,298	3,298
Discontinued work written off	0	0	0	968,330	968,330
As at Sep 30 2021	6,813,631	38,056,770	973,755	43,415,008	89,259,164

Accumulated amortisation and impairment

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	2,858,907	28,212,015	577,853	0	31,648,774
Amortisation charges	491,225	2,156,719	48,055	0	2,695,999
Decrease	0	0	0	0	0
As at Sep 30 2021	3,350,132	30,368,734	625,908	0	34,344,773

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

Carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	2,717,702	30,872,101	518,692	12,668,661	46,777,156
Increase	0	0	42,796	14,782,897	14,825,693
Reclassification of completed development work	4,095,929	5,050,168	0	(9,146,097)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
As at Sep 30 2020	6,813,631	35,922,269	561,488	18,305,461	61,602,849

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 charges	449,795	6,509,893	42,796	0	7,002,484
Decrease	0	0	0	0	0
As at Sep 30 2020	2,367,682	25,979,966	561,488	0	28,909,135

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

3.14. Trade and other receivables (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Trade and other receivables, including:	7,140,036	11,690,703
Taxes, grants, customs duties and social security	1,276,367	1,711,782
Other	58,563	59,885
Impairment losses on trade receivables	(140,675)	(89,197)
Total	6,999,361	11,601,506

3.14.1. Trade receivables

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

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

Receivables by customer:

	As at Sep 30 2021	As at Dec 31 2020
Valve Corporation	1,804,538	3,663,436
Microsoft Corporation XC	868,715	0
Sony Interactive Entertainment America LLC	831,821	577,003
Nintendo Co. Ltd	260,314	775,040
Google LLC	225,212	706,687

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

Ageing analysis of receivables:

	As at Sep 30 2021	As at Dec 31 2020
Short-term	5,488,931	9,653,654
60-90 days	9,173	20,050
91-120 days	29,792	4,387
121-360 days	116,558	85,933
over 360 days	160,651	155,012
Total	5,805,105	9,919,036

Changes in impairment losses on doubtful receivables:

	As at Sep 30 2021	As at Dec 31 2020
As at beginning of reporting period	89,197	151,980
Recognition	51,478	0
Reversal	0	(62,783)
As at end of reporting period	140,675	89,197

Ageing analysis of impaired trade receivables:

	As at Sep 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	140,675	66,056
Total	140,675	89,197

3.15. Current financial assets (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Financial instruments	73,076,238	69,932,222
Loans to employees	214,984	2,066,604
Total	73,291,222	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.

3.16. Other current assets (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Insurance	9,913	48,053
Domain names, licences, subscriptions	425,444	341,643
Prepaid expenses	118,072	192,117
Property tax	25,722	0
Perpetual usufruct of land	6,327	0
Other	20,015	1,785
Total	605,493	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).

3.17. Other assets (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Long-term prepayments and accrued income	87,171	127,590
Total	87,171	127,590

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

3.18. Cash and cash equivalents (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Cash in hand and at banks	38,089,730	24,134,648
Total	38,089,730	24,134,648

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

- PLN 30,358,437,
- USD 1,228,045 (PLN 4,902,972),
- EUR 610,343 (PLN 2,827,658),
- CNY 1,073 (PLN 663).

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).

3.19. Share capital (PLN)

	As at Sep 30 2021	As at Dec 31 2020
Share capital	236,542	236,055
Total	236,542	236,055

As at September 30th 2021, the Company's share capital consisted of 2,365,421 fully paid-up ordinary shares totalling PLN 236,542.1.

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 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 September 30th 2021, the long-term portion of the facility was PLN 8,103,552 (including IRS of PLN 228,552,402) compared with PLN 9,499,650 as at the end of 2020 (including IRS of PLN 679,650), while its short-term portion was PLN 1,296,568 (including IRS of PLN 36,568) relative to PLN 1,357,093 (including IRS of PLN 97,093) as at the end of 2020.

3.20.2. Lease liabilities

	As at Sep 30 2021	As at Dec 31 2020
Lease liabilities	756,214	344,041
Total	756,214	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 September 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 Sep 30 2021	As at Dec 31 2020
Trade payables	290,412	310,441
Guarantee deposits – Brzeska 2	82,784	82,634
Taxes, customs duties, insurance and other dues	777,203	1,184,903
Accruals and deferred income	7,219,888	8,171,037
Amounts payable to employees	7,756	1,143
Other	41,796	41,797
Total	8,419,839	9,791,955

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

The major decrease in trade and other payables, of 14.01%, to PLN 8,419,839 as at the end of September 2021 from PLN 9,791,955 as at the end of 2020, was attributable to a decline in accruals and deferred income to PLN 7,219,888 as at September 30th 2021, from PLN 8,171,037 nine months earlier. This was due to lower provisions for royalties payable to third-party developers for which the Company provides publishing services. A clear drop was also seen in tax liabilities, which fell by 34.41%, to PLN 777,203 (at the end of the reporting period) from PLN 1,184,903 (at the end of 2020).

Ageing analysis of trade payables:

	As at Sep 30 2021	As at Dec 31 2020
Short-term	290,412	310,441
0-60 days	0	0
61-90 days	0	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	0
Total	290,412	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	2,016,407	3,296,911	131,500	382,196	169,477	1,438,969	7,435,460
Decrease:							
Use	(843,825)	(2,109,051)	(128,485)	0	(140,581)	(79,220)	(3,301,161)
Reversal	0	(4,923,940)	0	0	(35,635)	(125,872)	(5,085,448)
As at Sep 30 2021	1,495,486	3,313,985	87,500	772,196	169,477	1,381,245	7,219,888

Comparative data for the period from January 1st to September 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	554,363	975,948	21,432,687	131,500	1,483,910	281,265	518,632	25,378,297
Decrease:								
Use	294,010	236,834	10,335,053	90,590	0	237,880	33,639	11,228,006
Reversal	0	0	8,666,187	0	0	0	0	8,666,187
As at Sep 30 2020	411,435	1,030,360	6,751,738	85,910	1,753,910	95,917	692,173	10,821,444

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 September 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 Sep 30 2021	As at Dec 31 2020
Financial assets measured at amortised cost – cash	38,089,730	24,134,648
Financial assets measured at fair value – investment fund units	30,133,159	30,010,534
Financial assets measured at amortised cost – PKO Leasing notes and PKO Bank Hipoteczny bonds	42,943,079	39,921,688
Financial assets measured at amortised cost – trade and other receivables	6,999,361	11,601,604
Loans to employees measured at amortised cost	214,984	2,066,604
Total	118,380,311	107,735,078

Financial liabilities:

	As at Sep 30 2021	As at Dec 31 2020
Trade and other payables	8,419,839	9,791,955
Credit facility	9,135,000	10,080,000
IRS	265,121	776,742
Perpetual usufruct rights to land	770,429	338,054
Total	18,590,389	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 3.14**. The Company regularly monitors payments from trading partners and has not identified any problems in this area.

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at September 30th 2021, the Company held cash with two institutions: PayPal (PLN 376,206) 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 Sep 30 2021	As at Dec 31 2020	Fair value hierarchy
Bonds and notes	42,943,079	39,921,688	Level 2
Investment fund units	30,133,139	30,010,534	Level 1
Loans to employees	214,984	2,066,604	Level 2

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

3.24. Deferred income (PLN)

	As at Sep 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. 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)

3.25.1. Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.25.4.**, the Company entered into the following related-party transactions in the nine months ended September 30th 2021 and September 30th 2020:

	Period ended Sep 30 2021	Period ended Sep 30 2020
Arkona – Paweł Miechowski	166,500	139,403
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	33,863	42,019
Total	200,363	181,422

3.25.2. 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.

3.25.3. Borrowings from related parties

The Company did not receive any loans from related parties in the nine months ended September 30th 2021 and September 30th 2020.

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

The Company's key management personnel are its Management Board. In the nine months ended September 30th 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 Sep 30 2021	Period ended Sep 30 2020
Przemysław Marszał	429,108	417,735
Grzegorz Miechowski	429,934	323,519
Michał Drozdowski	421,954	410,000
Total	1,280,996	1,151,254

Short-term benefits - Supervisory Board:

	Period ended Sep 30 2021	Period ended Sep 30 2020
Wojciech Ozimek (Chairman of the Supervisory Board until April 15th 2021)	15,643	40,500
Radosław Marter (Chairman of the Supervisory Board since April 15th 2021)	30,593	14,850
Jacek Czykiel (Deputy Chairman of the Supervisory Board)	27,000	27,000
Marcin Kuciapski (Member of the Supervisory Board since May 23rd 2019)	14,850	14,850
Piotr Wierzbicki (Member of the Supervisory Board since May 23rd 2019)	14,850	14,850
Artur Konefał (Member of the Supervisory Board since April 15th 2021)	9,114	0
Total	112,050	112,050

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 nine months ended September 30th 2021 and September 30th 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 Sep 30 2021	Period ended Sep 30 2020
Grzegorz Miechowski	45,000	45,000
Michał Drozdowski	45,000	45,000
Przemysław Marszał	45,000	45,000
Total	135,000	135,000

3.25.5. Other related-party transactions

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

3.26. Off-balance-sheet commitments

As at the date of issue of these financial statements, the Company had off-balance-sheet commitments of EUR 2,985,951, USD 240,000, and PLN 2,770,915. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.27. Contingent assets and liabilities

3.27.1. 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.

3.27.2. Contingent assets

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

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

In the nine months ended September 30th 2021, there were no unusual seasonal or cyclical changes in the Company's business.

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

In the nine months ended September 30th 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.

3.30. Events subsequent to the reporting date

No events occurred which would have an impact on these interim financial statements for the nine months ended September 30th 2021 by the date of their authorisation for issue by the Company's Management Board on November 18th 2021.

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

Over the next few quarters, including the fourth quarter of 2021, 11 bit studios S.A.'s performance will be determined chiefly by future sales of *Frostpunk* and paid DLCs offered for this title as part of the Season Pass. The product, released in April 2018, is still very popular with fans, which, coupled with the Company's marketing and promotional activities, translates into strong revenue. The *Frostpunk* brand is going to be developed also in other fields. Work is well advanced on the board game version of *Frostpunk* in a project run by Glass Cannon Unplugged. In addition, for more than a year now, NetEase of China, a global giant in the mobile games segment, has been working on a version for mobile devices, which will be offered to customers in the F2P (free-2-play) model. The production is proceeding at a good pace and is nearing completion. In spring, the Company announced that a number of co-operating authors were working on a series of novels and short stories centred on the *Frostpunk* universe. The project is supervised by Jacek Dukaj, a science fiction writer, one of the most popular in Poland and well known worldwide.

Apart from *Frostpunk*, in future periods the Company's revenue will also be driven by sales of other back catalogue products, such as *This War of Mine*. More than seven years from its release and with very limited marketing activities on the part of 11 bit studios S.A., *This War of Mine* is still very popular with computer game fans thanks to its unique theme (war seen through the eyes of civilians). As in previous quarters and years, an important source of the Company's revenue and profits in subsequent periods will be the productions from the publishing portfolio, notably *Moonlighter* and *Children of Morta*. However, as in the case of proprietary games, revenue from this source is expected to decline gradually despite the activities undertaken by the Company (the recent release of *Moonlighter* on the Chinese WeGame platform operated by Tencent), owing to natural ageing of the products.

In the longer term of a few years, 11 bit studios S.A.'s financial results will be driven by the releases of new games in the proprietary and publishing portfolios. As at the date of issue of these financial statements for the nine months ended September 30th 2021, the pipeline of games created by third-party development teams consisted of three items. All of them are based on Unreal Engine, produced by Epic Games. In the past, the Company's games were based on Liquid Engine (a proprietary solution). The Company believes that the change of the tool should improve efficiency of production, and in particular game porting to further hardware platforms, which was a major technological challenge in the case of Liquid Engine and required additional workload. The total production budget of the three proprietary games, i.e. *Frostpunk 2*, *Project 8* and *Dolly* (the latter two are working titles), is approximately PLN 110m. To compare, the production budget of *Frostpunk* (PC version) was below PLN 10m. The teams working on each of the games consist of approximately 70, over 50 people and nearly 30 people, respectively, and are being steadily

expanded. This is in line with the Company's medium-term strategy for the next few years, which 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.

In the coming quarters and years, the Company's performance will also be materially supported by the publishing division. In the last quarters, the Company focused on significant strengthening and expanding of the publishing team potential and intensified its efforts to acquire new products for the publishing portfolio. The publishing portfolio of 11 bit studios S.A. currently consists of three new titles. The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The producer of the next game, *Botin* (code name) is Digital Sun Games of Spain, the studio behind the development of *Moonlighter*. The third game, with a code name of *Ava*, is being developed by a Spanish studio Chibig. The total investment budget (for 11 bit studios S.A.) allocated to those titles is approximately PLN 30m. To compare, the Company had invested slightly over PLN 2m in each of *Moonlighter* and *Children of Morta*. As at the issue date of these financial statements, the total value of the Company's liabilities under those projects was EUR 2,985,951, USD 240,000, and PLN 2,770,915.

It is 11 bit studios S.A.'s intention to rapidly expand the publishing portfolio in order to implement its medium-term (a few years') strategy that provides for releasing three to four third-party developed games each year. Therefore, the Company is ready to spend another PLN 50m by the end of 2023 on new projects developed by third-party studios. Advanced talks are under way on new publishing contracts, including with foreign teams.

An element which also may have a material bearing on the Company's performance in the future is planned acquisitions, designed to expand and strengthen the capabilities and market position of 11 bit studios S.A. As at the date of issue of these financial statements, the Company held talks with a number of entities, and negotiations with one of them are at a highly advanced stage. 11 bit studios S.A. wants to acquire minority interests in third-party companies, with internally generated funds as the preferred source of transaction financing. However, the Company does not exclude other acquisition financing models.

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. 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 September 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.

3.34. Authorisation of financial statements

The Company's financial statements were authorised for issue by the Management Board on November 18th 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, November 18th 2021