WARSAW, March 24th 2022

ANNUAL REPORT OF 11 BIT STUDIOS S.A. FOR 2021

Make your mark 11bit studios

LETTER FROM THE MANAGEMENT BOARD

Warsaw, March 24th 2022

Dear Shareholders and Investors,

It is our pleasure to present to you the Annual Report of 11 bit studios S.A. for 2021. Our 2021 financial performance, which we find very satisfactory, shows that the Company went practically unscathed through this operationally challenging period marked by COVID-related constraints and restrictions. In 2021, 11 bit studios S.A. generated revenue of PLN 70.12m and EBITDA of PLN 38.95m, the operating profit was PLN 30.03m, and the net profit reached PLN 28.57m. At the beginning of 2022, our financial assets (cash and low-risk financial instruments) amounted to PLN 107.41m, that is 11.73% more than a year earlier, reaching an unprecedented level. Increased by trade receivables, the amount grew to PLN 123.90m. At the end of December, the Company's liabilities were only 22.17m. All of the above figures exceeded the assumptions we made internally for the 2021 budget.

Our cash reserves and the continuing strong sales of *Frostpunk* and other games from our own and publishing portfolios make us feel confident about the future. At the same time we are keeping a close eye on global geopolitical changes, including those across our eastern border, and try to address them in our business as the situation unfolds. The same applies to the adverse macroeconomic developments, such as the global economic slowdown or the growing inflation, which in a long term will lead to a consumption decline and which has already increased the Company's operating expenses.

We are determined to move ahead with our plans for the coming quarters despite the headwinds. The plans are well defined and go beyond the game launches we are currently preparing for. In August 2021, we showed the first promotional material for *Frostpunk 2*, one of our three proprietary games in addition to *Dolly* and *Project 8,* which we are currently working on. Fans' favourable response to the announced release of the game, which will not be a mere continuation of the first game from this series, demonstrated for instance by the game's high position on the Steam wishlist, has exceeded our expectations. We believe that two more games, including one from our publishing division, which we plan to unveil by the end of the first half of the year, will be equally well received. There is more exciting news for the coming months to be shared. The second half of the year looks equally interesting as will be announcing more information on *Frostpunk 2* and the other titles.

However, our long-term plans go far beyond the upcoming game releases which we announced some time ago and which we are working on at full stretch. Among projects that are of strategic importance to the growth of 11 bit studios S.A. is the recent acquisition of a 40% equity

interest in Fool's Theory, which is responsible for the production of *Vitriol*, one of the games from our publishing division. We are positive that the combination of both teams' competencies will deliver considerable synergies and produce new engrossing games awaited by fans across the globe. The investment in Fool's Theory is the first and therefore a very important step in terms of building the equity links with other players in the video games industry we are contemplating. Importantly, it is only one of a range of directions we consider when planning our expansion in a long term.

We are preparing very carefully to upscale our operations and expanding our organisational structure to better address the challenges ahead of us. We are hiring new staff to bolster our internal development teams as well as other organisational units. We invest in the development of our human resources. Our workforce is now over 200 and by the end of the year we expect to increase it by another 50 to 60 team members. We seek to prepare the Company to be soon able to run simultaneously more projects than now.

We also want to invite all interested parties to our annual Investor Conference, planned for the end of May and the beginning of June, as in the previous year. It will be an opportunity to tell you more about our games and plans for the future. More details of the event will be announced in due course.

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

Przemysław Marszał	*Grzegorz Miechowski*	*Michał Drozdowski*
President of	*Member of*	*Member of*

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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 December 31st 2021 – PLN 4.5994
- 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 2021 – PLN 4.5755
- Exchange rate for 2020 – PLN 4.4742

Statement of financial position

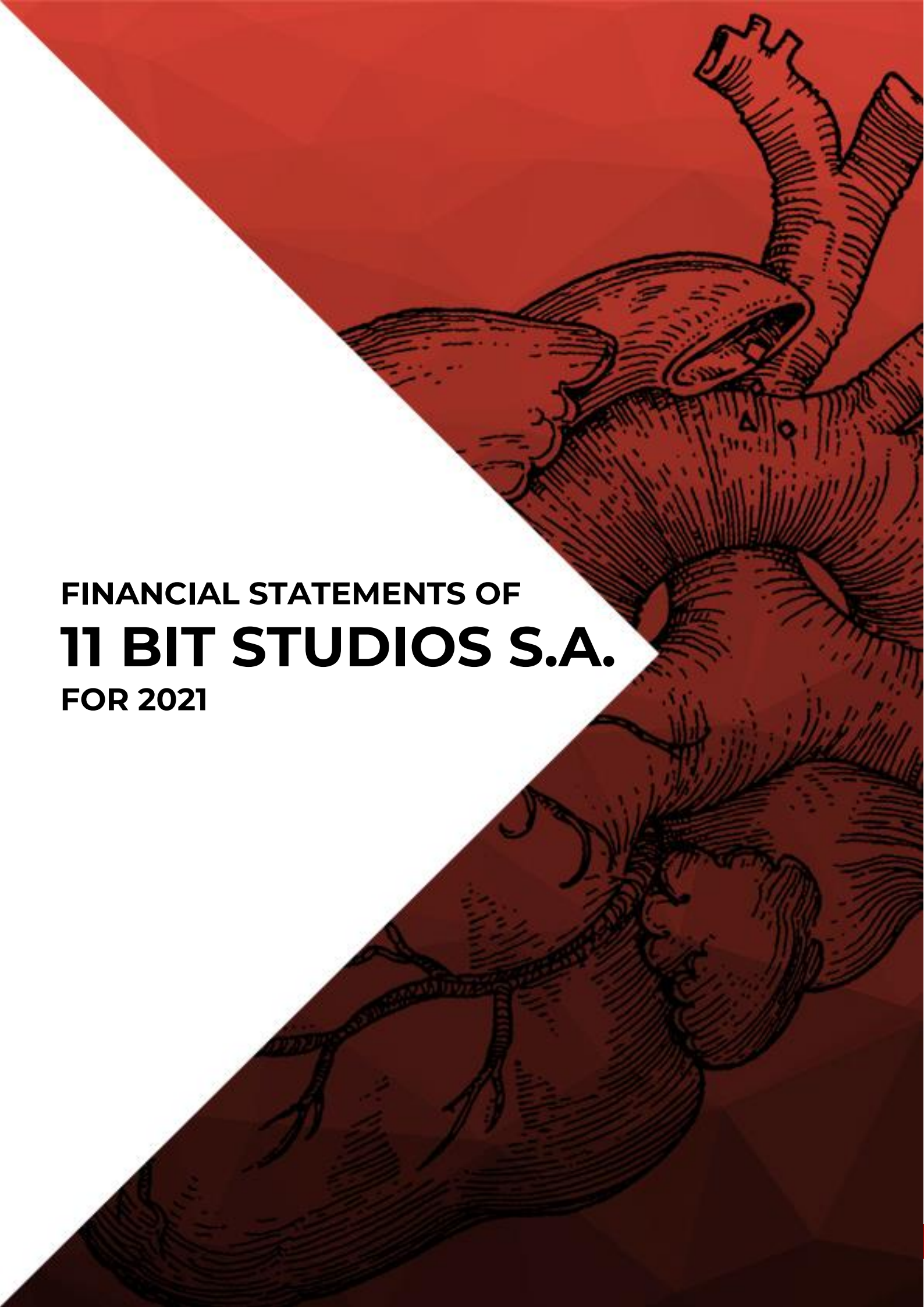
	Dec 31 2021 (PLN)	Dec 31 2021 (EUR)	Dec 31 2020 (PLN)	Dec 31 2020 (EUR)
Total assets	219,512,964	47,726,435	186,339,222	40,378,613
Non-current assets	90,679,674	19,715,544	70,397,597	15,254,745
Intangible assets	59,137,637	12,857,685	37,859,517	8,203,934
Current assets	128,833,290	28,010,891	115,941,625	25,123,868
Cash	26,748,530	5,815,656	24,134,648	5,229,836
Total equity and liabilities	219,512,964	47,726,435	186,339,222	40,378,613
Equity	197,337,291	42,905,007	164,648,124	35,678,279
Liabilities and provisions	22,175,673	4,821,427	21,691,098	4,700,334

Statement of profit or loss

	Period ended Dec 31 2021 (PLN)	Period ended Dec 31 2021 (EUR)	Period ended Dec 31 2020 (PLN)	Period ended Dec 31 2020 (EUR)
Revenue	70,122,691	15,325,689	87,101,774	19,467,564
Depreciation and amortisation	8,920,103	1,949,536	10,265,214	2,294,313
Operating profit	30,031,002	6,563,436	40,791,867	9,117,131
EBITDA	38,951,105	8,512,972	51,057,081	11,411,444
Profit (loss) before tax	31,834,464	6,957,592	40,651,821	9,085,830
Net profit (loss)	28,685,582	6,269,387	37,363,131	8,350,796

Statement of cash flows

	Period ended Dec 31 2021 (PLN)	Period ended Dec 31 2021 (EUR)	Period ended Dec 31 2020 (PLN)	Period ended Dec 31 2020 (EUR)
Net cash from operating activities	40,942,286	8,948,156	37,664,667	8,418,190
Net cash from investing activities	(37,400,883)	(8,174,163)	(34,424,689)	(7,694,043)
Net cash from financing activities	(927,524)	(202,715)	6,012,151	1,343,738
Total net cash flows	2,613,881	571,277	9,252,130	2,067,885



FINANCIAL STATEMENTS OF
11 BIT STUDIOS S.A.
FOR 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

The 2021 financial statements of 11 bit studios S.A. present data for the reporting period from January 1st to December 31st 2021, and contain comparative data for the period from January 1st to December 31st 2020.

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

Management Board

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

Supervisory Board

- 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

For information on changes in the Company's governing bodies in the reporting period as well as the powers and responsibilities of members of the Company's Management and Supervisory Boards, see Note **5.2.**

1.4. Auditors

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

1.5. Shareholding structure

Shareholding structure as at December 31st 2021

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Przemysław Marszał	103,500	4.38	103,500	4.38
Grzegorz Miechowski	170,413	7.20	170,413	7.20
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
Other shareholders	1,872,279	79.09	1,872,279	79.09
Total	**2,366,921**	**100.00**	**2,366,921**	**100.00**

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

Shareholding structure as at December 31st 2020

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Przemysław Marszał	106,500	4.51	106,500	4.51
Grzegorz Miechowski	177,413	7.52	177,413	7.52
Michał Drozdowski	84,630	3.59	84,630	3.59
Aviva Investors Poland TFI*	181,609	7.70	181,609	7.70
Other shareholders	1,810,393	76.68	1,810,393	76.68
Total	**2,360,545**	**100.00**	**2,360,545**	**100.00**

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

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

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Dec 31 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	1,155	1,155	550

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

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

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

1.7. Commentary on estimates of financial results

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

1.8. Headcount

As at the date of issue of these financial statements, 216 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.9. Functional and presentation currency

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

1.10. Management Board's representation

We hereby represent that this 2021 Annual Report of 11 bit studios S.A. comprises the Letter from the President of the Management Board, Financial Highlights, Financial Statements, Directors' Report on the operations of 11 bit studios S.A. in 2021, the corporate governance report as well as the Supervisory Board's representation and assessment.

We represent that, to the best of our knowledge, the financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union, and that they give a clear, true and fair view of the Company's assets, financial position and financial performance, and that the Directors' Report on the Company's operations in 2021 gives a fair view of the Company's development, achievements and position and describes the key risks and threats.

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

- The audit firm which audited the financial statements of 11 bit studios S.A. for the year ended December 31st 2021 was appointed in accordance with applicable laws, including regulations governing the selection of an audit firm and the relevant selection procedure;
- The audit firm and members of the audit team met the conditions required to prepare an impartial and independent audit report on full-year financial statements in accordance with applicable laws, professional standards and rules of ethics;
- 11 bit studios S.A. complied with applicable laws and regulations concerning the required rotation of audit firms and lead statutory auditors, as well as the mandatory grace periods;

- 11 bit studios S.A. has a policy in place for the selection of an audit firm and for the provision of additional non-audit services to the issuer by the audit firm, its associate or member of its network, including services conditionally exempted from the prohibition of providing non-audit services by the audit firm.

Signed by:

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

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

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

	Note	Period ended Dec 31 2021	Period ended Dec 31 2020
Continuing operations			
Revenue	3.4	70,122,691	87,101,774
Other income	3.5	255,825	325,158
Total operating income		**70,378,516**	**87,426,932**
Depreciation and amortisation	3.6	(8,920,103)	(10,265,214)
Raw materials and consumables used		(534,279)	(353,338)
Services	3.7	(19,200,848)	(25,871,505)
Salaries, wages and employee benefits	3.8	(9,573,210)	(6,846,529)
Taxes and charges		(295,565)	(304,981)
Other expenses	3.5	(1,823,509)	(2,993,498)
Total operating expenses		**(40,347,514)**	**(46,635,065)**
Operating profit		**30,031,002**	**40,791,867**
Interest income	3.9	23,572	530,675
Other finance income	3.9	2,282,516	13,012
Finance costs	3.10	(502,626)	(683,733)
Profit before tax		**31,834,464**	**40,651,821**
Income tax expense	3.11	3,148,882	3,288,690
NET PROFIT		**28,685,582**	**37,363,131**
Earnings per share (PLN):			
Basic	3.12	12.17	16.13
Diluted	3.12	11.96	15.64
NET PROFIT		**28,685,582**	**37,363,131**
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		**28,685,582**	**37,363,131**

2.2. Statement of financial position (PLN)

ASSETS

	Note	As at Dec 31 2021	As at Dec 31 2020
Non-current assets			
Property, plant and equipment	3.13	25,946,479	26,889,502
Intangible assets	3.14	59,137,637	37,859,517
Perpetual usufruct of land	3.13	4,281,361	4,003,398
Deferred tax asset	3.11	957,488	1,517,590
Other assets	3.19	99,080	127,590
Financial instruments (IRS) – long-term portion	3.26	257,629	0
Total non-current assets		**90,679,674**	**70,397,597**
Current assets			
Trade and other receivables	3.15	16,485,147	11,601,506
Income tax receivable	3.16	4,138,348	7,623,047
Other current assets	3.18	752,342	583,598
Financial instruments (IRS) – short-term portion	3.26	42,938	0
Cash and cash equivalents	3.20	26,748,530	24,134,648
Current financial assets	3.17	80,665,985	71,998,826
Total current assets		**128,833,290**	**115,941,625**
TOTAL ASSETS		**219,512,964**	**186,339,222**

EQUITY AND LIABILITIES

	Note	As at Dec 31 2021	As at Dec 31 2020
Equity			
Share capital	3.21	236,692	236,055
Share premium	3.21	13,063,204	12,407,633
Statutory reserve funds		120,467,692	87,152,664
Share-based payment reserve		35,092,206	31,744,829
Retained earnings		28,477,497	33,106,943
Total equity		**197,337,291**	**164,648,124**
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.26	7,560,000	8,820,000
Financial instruments (IRS) – long-term portion	3.26	0	679,650
Deferred income	3.30	635,711	635,711
Lease liabilities - perpetual usufruct of land		755,245	334,041
Total non-current liabilities		**8,950,956**	**10,469,402**
Current liabilities			
Trade and other payables	3.25	8,012,807	9,791,955
Contract liabilities	3.24	3,937,176	0
Short-term borrowings and other debt instruments	3.26	1,260,000	1,260,000
Financial instruments (IRS) – short-term portion	3.26	0	97,093
Lease liabilities - perpetual usufruct of land		14,734	12,651
Deferred income	3.30	0	59,997
Total current liabilities		**13,224,717**	**11,221,696**
Total liabilities		**22,175,673**	**21,691,098**
TOTAL EQUITY AND LIABILITIES		**219,512,964**	**186,339,222**

2.3. Statement of changes in equity (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Total
As at Jan 1 2021	**236,055**	**12,407,633**	**87,152,664**	**31,744,829**	**33,106,943**	**164,648,124**
Net profit for the financial year	0	0	0	0	28,685,582	28,685,582
Other comprehensive income for the financial year (net)	0	0	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**
Creation of capital reserve	0	0	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	33,315,028	0	(33,315,028)	0
Recognition of series G share-based payments	637	655,571	0	0	0	656,208
Recognition of costs of the 2021–2025 Incentive Scheme	0	0	0	3,347,377	0	3,347,377
As at Dec 31 2021	**236,692**	**13,063,204**	**120,467,692**	**35,092,206**	**28,477,497**	**197,337,291**

Comparative data for 2020

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

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

2.4. Statement of cash flows (PLN)

	Note	Period ended Dec 31 2021	Period ended Dec 31 2020
Cash flows from operating activities			
Profit for the financial year		**28,685,582**	**37,363,131**
Adjustments:			
Depreciation and amortisation		8,920,103	10,265,214
Income tax expense recognised in profit or loss		3,148,882	3,288,691
Remeasurement of intangible assets		(28,510)	(17,450)
Costs of the 2021–2025 Incentive Scheme		3,347,377	0
Other adjustments		(1,233,486)	667,640
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(4,883,641)	6,149,427
(Increase)/decrease in inventories		0	11,829
(Increase)/decrease in other assets		(140,234)	(258,263)
Decrease in trade and other payables		(1,779,148)	(1,637,938)
Increase/(decrease) in net contract assets/liabilities		3,937,176	(11,730,526)
Increase/(decrease) in deferred income		(59,997)	9,030
Cash provided by operating activities		**39,914,102**	**44,110,783**
Income tax paid		1,028,187	(6,446,116)
Net cash from operating activities		**40,942,289**	**37,664,667**
Cash flows from investing activities			
Loans to employees		1,875,057	(2,066,604)
Proceeds from bank deposits upon maturity – over 3 months		0	164,328,563
New bank deposits placed – over 3 months		0	(97,000,000)
Proceeds from redemption of financial assets		111,844,368	0
Purchase of financial assets		(122,241,959)	(69,932,222)
Payments for property, plant and equipment and intangible assets		(28,878,349)	(29,754,426)
Net cash from investing activities		**(37,400,883)**	**(34,424,689)**
Cash flows from financing activities			
Proceeds from issue of shares		656,209	7,544,694
Proceeds/(repayments) under credit facility		(1,260,000)	(1,260,000)
Payment of interest on credit facility		(323,733)	(272,543)
Net cash from financing activities		**(927,524)**	**6,012,151**
Net increase /(decrease) in cash		2,613,882	9,252,130
Cash at beginning of reporting period		24,134,648	14,882,519
CASH AT END OF REPORTING PERIOD		**26,748,530**	**24,134,649**

3.NOTES TO THE FINANCIAL STATEMENTS

3.1. Application of IFRSs

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

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

3.1.1. Statement of compliance

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

The Company has applied the IFRSs effective as at December 31st 2021. The accounting policies applied to prepare these financial statements of the Company for 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 2020

The following new standards and amendments to existing standards effective from January 1st 2021 have been 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, effective from January 1st 2021. The amendments address accounting issues that will emerge after IBOR is replaced as the 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.

- **Amendment to 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 were 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 March 2021 the IASB extended the availability period of the practical expedient, permitting lessees to apply it to rent concessions until June 30th 2022. The amendment applies as of April 1st 2021, with an early application option.

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

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

- **IFRS 17 *Insurance Contracts* and amendments to IFRS 17**
  IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board on May 18th 2017 and amendments to IFRS 17 were issued on June 25th 2020. The amended standard is effective for annual periods beginning on or after January 1st 2023.
  IFRS 17 *Insurance Contracts* will replace existing IFRS 4, which provides for diverse practices in accounting for insurance contracts. IFRS 17 will substantially change the accounting 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, a company will recognise such sales proceeds and

related cost in profit or loss. The amendment is effective for financial statements for periods beginning on or after January 1st 2022.

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

- **Amendment to IFRS 17 *Insurance Contracts***

The amendment relates to transition requirements following the initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. The amendment provides an option aimed at improving the usefulness of information to investors about the initial application of the new standard.

The amendment relates to insurers' transition to the new standard only – it does not affect any other requirements of IFRS 17.

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. Statement of accounting policies

3.2.1. Reporting period and scope of disclosure

These financial statements present data for the reporting period from January 1st to December 31st 2021, and contain comparative data for the period from January 1st to December 31st 2020.

3.2.2. Going concern

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

3.2.3. Recognition of revenue

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

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

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

Revenue from contracts with customers is recognised when the Company satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that good or service. Revenue from sale of goods and the rendering of services to customers is recognised in accordance with the principle that the entity recognises revenue so as to reflect the transfer to a customer of promised goods and services, in the amount of consideration that the entity expects to receive in exchange for transferring the goods or services.

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

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

a. Sale of licences for the distribution of games

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

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

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

b. Sale with a right of return

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

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

c. Advance payments received from customers

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

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

To make games available to end users, the Company collaborates with game distributors. Revenue is recognised by the Company in the amount of the margin on transactions, that is reduced by the amounts retained by the platforms. The details are described as material judgement in **Note 3.3.**

Other income

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

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

Finance income

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

3.2.4. Expenses

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

3.2.5. Foreign currency transactions

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

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

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

3.2.6. Government grants

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

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

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

3.2.7. Tax

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

Current tax

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

Deferred tax

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

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

Deferred tax is calculated at tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax liabilities and deferred tax assets are measured so as to account for the tax consequences of expected recovery (settlement) of the carrying amount of assets (liabilities) as at the reporting date.

Current and deferred tax for the current period

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

Tax reliefs

The Company uses the IP Box relief which was introduced on October 23rd 2018 pursuant to the Act Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Legislation and certain other acts, and has been in effect since January 1st 2019. Under the Act, the Company's revenue from sale of qualifying intellectual property rights (games) multiplied by the nexus index is taxed at a preferential CIT rate (5%).

3.2.8. Intangible assets

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

Acquired intangible assets

Acquired intangible assets with a definite useful life are carried at cost less accumulated amortisation and impairment losses. Such assets are amortised on a straight-line basis over their

estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, and the effects of any changes in estimates are accounted for prospectively. Acquired intangible assets with an indefinite useful life are carried at cost less accumulated impairment losses.

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

Internally generated intangible assets – research and development costs

Research costs are recognised as an expense as incurred.

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

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

The initial value of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria as described above. If internal development expenditure cannot be recognised in the statement of financial position, it is charged to expenses when incurred.

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

Amortisation

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

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

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

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

Derecognition of intangible assets

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

3.2.9. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2.11. Trade and other receivables

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

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

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

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

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

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

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

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

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

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

3.2.12.Cash and cash equivalents

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

3.2.13.Trade and other payables

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

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

3.2.14.Provisions and contingent liabilities

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

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

3.2.15.Equity

The share capital comprises the share capital of the Company, that is 11 bit studios S.A., which is governed by the regulations contained in the Commercial Companies Code and reflects the par value of shares paid up with cash. The share capital is recognised at par value of the shares (as

stated in the Company's Articles of Association and the relevant entry in the National Court Register).

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

Retained earnings/(deficit) include:

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

The Company's equity also comprises share premium and share-based payment reserve.

3.2.16.Earnings and diluted earnings per share

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

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

3.2.17.Capital management

The overall purpose of capital management (capital meaning equity in the statement of financial position) is to keep the optimum capital structure in the long term, as well as to maintain a robust financial standing to support the Company's operations and increase shareholder value. The Company's Management Board monitors the changing economic conditions in which the Company is operating and responds by making appropriate adjustments to its capital management. In the Company's opinion, as at the end of the reporting period and in comparative periods, the debt-to-equity ratio remained at safe levels.

3.2.18.Share-based payments

Equity-settled share-based payments to employees and other persons providing similar services are measured at the fair value of equity instruments as at the grant date. For details on the determination of the fair value of equity-settled share-based payments, see **Note 3.31**.

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

3.2.19.Financial instruments

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

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

3.2.20.Financial assets

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

Initial recognition of financial instruments

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

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

Reclassification

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses on a financial asset measured at amortised cost or at fair value through profit or loss.

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

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

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

Measurement of expected credit losses

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

Fair value measurement and measurement procedures

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

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

- Level 1 – inputs are (unadjusted) prices quoted in active markets for identical assets or liabilities, as such prices are available at the measurement date;
- Level 2 – inputs other than quoted prices considered at Level 1 that are observable for the asset or liability, either indirectly or directly (e.g. prices of similar assets or liabilities quoted on active or inactive markets, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves observable in commonly accepted quotation ranges, assumed volatility and spreads), or inputs confirmed by the market);
- Level 3 – inputs are unobservable input data for the asset or liability (the best information available in the circumstances that may include the entity's own data).

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

3.2.21.Financial liabilities

A financial liability is any liability that is:

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

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

amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Initial recognition

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

Classification and carrying amount

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

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

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

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

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

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

3.2.22.Statement of cash flows

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

3.2.23.Segment reporting

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

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

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

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

3.3. Significant judgements and estimates

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

3.3.1. Professional judgement in accounting

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

Functional currency

The Company's functional currency is the Polish złoty.

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

a) The currency:
   - (i) that mainly influences selling prices for goods and services (this will often be the currency in which selling prices for its goods and services are denominated and settled); and
   - (ii) of the country whose competitive forces and regulations mainly determine the selling prices of its goods and services;

b) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

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

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

The Company's Management Board also considered IAS 21.10.

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

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

b) The currency in which receipts from operating activities are usually retained.

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

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

Principal versus agent considerations

IFRS 15 has introduced a new model for assessing whether an entity is acting as a principal or an agent. Based on an analysis of sale contracts, the Company's Management Board found that in the case of games for PCs and consoles, as well as games for mobile platforms, revenue is recognised by the Company after deduction of amounts retained by the platforms. The Company also sells games produced by third-party developers as part of its publishing business. As the Company controls key parameters, it is the principal. In the case of games sold by the Company as the publisher, royalties due to the developer are disclosed under services in the statement of profit or loss.

3.3.2. Uncertainty of estimates

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

Recoverability of internally generated intangible assets

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

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

Amortisation periods for intangible assets

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

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

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

3.4. Revenue (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Revenue	70,122,691	87,101,774

As in the previous years, in 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 was negligible and accounted for 0.33% of total revenue (0.46% in 2020). Revenue in the reporting period came in at PLN 70,122,691, down 19.49% year on year (from PLN 87,101,774).

3.4.1. Revenue by geographical region (PLN)

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

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

	Period ended Dec 31 2021	Period ended Dec 31 2020
Poland	1,463,642	2,064,709
European Union	1,563,025	5,120,320
US	53,255,645	66,982,765
Japan	9,639,184	12,081,601
China	199,109	224,543
Other	4,002,086	627,836
Total	**70,122,691**	**87,101,774**

3.4.2. Revenue by distribution channel

The Company's revenue from sales of video games of PLN 70,122,691 (2020: PLN 87,101,774) includes PLN 69,861,247 (2020: PLN 86,954,248) in revenue from sales of the Company's products through Steam (Valve Corporation – 48.13% of the Company's revenue in 2021), Nintendo Co. Ltd (12.49%) and Sony, Epic Games, Microsoft Corporation, Amazon, Google, Apple and GOG – leading global electronic distribution platforms.

3.5. Other income and expenses (PLN)

3.5.1. Other income

	Period ended Dec 31 2021	Period ended Dec 31 2020
Grants received	221,820	179,991
Other income	8,792	0
Gain on disposal of non-current non-financial assets	0	6,345
Impairment losses – reversed	23,141	62,783
Other income – subject to recharge	0	48,699
Other income - received damages/compensations	2,072	27,339
Total	**255,825**	**325,157**

The key item of the Company's other income (PLN 221,820) in 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.

3.5.2. Other expenses

	Period ended Dec 31 2021	Period ended Dec 31 2020
Liquidation of non-current non-financial assets	0	245,119
Donations	632,375	1,321,399
Costs of discontinued projects	348,341	997,116
Non-recoverable withholding tax	141,480	11,444
Expected credit loss allowances	69,825	0
Other expenses by nature	631,488	418,419
Total	**1,823,509**	**2,993,498**

In 2021, a major item of other expenses was cost of discontinued projects (PLN 348,341), including an impairment loss on expenditure related to the development of Liquid Engine (phase 6) incurred in the reporting period (the Company decided to abandon the project) and the expenditure on the *Foxhole* game (external project developed by the Spanish studio Digital Sun) remaining to be written off (some of the expenditure was written off in 2020). In the previous year, the cost of discontinued projects was as much as PLN 997,116. This included written-off development expenditure on the Game Engine (phase six) incurred by the end of 2020 and part of expenditure on the *Foxhole* game. As in the previous year, donations, totalling PLN 632,375, were also an important item of other expenses in 2021. Most of this amount (PLN 598,748) was transferred to the account of the Humane Society International foundation 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 comparative period reached as much as PLN 1,321,399 and were largely used to purchase medical equipment and supplies (in connection with the COVID-19 pandemic). Other expenses by nature, which in 2021 amounted to PLN 631,488

(2020: PLN 418,419) comprised mainly marketing expenses (PLN 415,761), business travel expenses, and cost of insurance.

3.6. Depreciation and amortisation (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Depreciation/ amortisation charges made during the year:		
Depreciation	2,379,107	1,707,994
Amortisation	8,106,242	9,742,123
Total	**10,485,349**	**11,450,117**
Allocation to project costs	(1,712,193)	(1,189,204)
Land (including perpetual usufruct of land)	146,947	4,301
Total	**8,920,103**	**10,265,214**

The 13.1% drop in the depreciation and amortisation expense in 2021, to PLN 8,920,103, was mainly attributable to lower amortisation (down by almost 16.5%) 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 36.6%, to PLN 2,397,136, as a result of growing expenditure on IT equipment for newly hired employees. A major portion of these expenses (PLN 1,712,193 in 2021 vs PLN 1,189,204 the year before) was allocated to project costs.

3.7. Services (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Services	19,200,848	25,871,505

The year-on-year decline in cost of services in 2021 was caused by lower sales of *Moonlighter* and *Children of Morta* and the related royalties paid by the Company to the developers of those games, i.e., Digital Sun of Spain and Dead Mage of the US. In 2021, the royalties paid to Digital Sun, Dead Mage and, in a small part, to Pixel Crow, which created *Beat Cop* (published by 11 bit studios S.A.), totalled PLN 9,893,957 (2020: PLN 18,272,704).

The Company's total expenditure on intangible assets (games production) which was not recognised under services but capitalised in the value of assets in 2021 amounted to PLN 18,995,445 (2020: PLN 12,821,882).

3.8. Salaries, wages and employee benefits (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Salaries, wages and employee benefits	9,573,210	6,846,529

A major rise in salaries and wages, of 39.83% (to PLN 9,605,098 from PLN 6,846,529 the year before) was mainly attributable to a gradual increase in workforce and growing pay levels. The item also included non-cash provisions recognised in connection with the Company's 2021–2025 Incentive Scheme, which were not recognised in the previous year. In 2021, these costs totalled PLN 3,347,377.

The Company's total expenditure on intangible assets (games production) which was not recognised under salaries and wages but capitalised in the value of assets in 2021 amounted to PLN 8,514,010 (2020: PLN 7,213,796).

3.9. Finance income (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Interest income:		
Bank deposits	23,572	530,675
Finance income:		
Gains on remeasurement of financial assets	121,389	13,012
Income from disposal of investments in financial assets	167,210	0
Remeasurement of IRS	1,077,310	0
Net foreign exchange gains (losses), including:		
a) Cash	406,083	0
b) Loans and receivables	434,291	0
c) Liabilities measured at amortised cost	76,232	0
Total	**2,306,088**	**543,687**

The main source of the Company's finance income in 2021 (PLN 2,306,088 vs PLN 543,687 in 2020) was finance income from the measurement of an IRS which hedges the Company against interest rate risk over the term of the credit facility granted by PKO BP S.A. (for more information, see Note **3.26**). That income reached as much as PLN 1,077,310 driven by rising interest rates in Poland. Another significant source of the Company's finance income in 2021 was revenue from remeasurement of financial assets (PLN 121,389), income from disposal of investments in financial assets (PLN 167,210) and foreign exchange gains. Almost all of the Company's revenue is earned in foreign currencies. Due to depreciation of the złoty against the US dollar and the euro, the Company's finance income soared to PLN 919,476. On the other hand, in 2021 interest income from bank deposits fell from PLN 530,675 in 2020 to PLN 23,572 as the Company decided against investing its surplus cash in bank deposits.

3.10. Finance costs (PLN)

	Period ended Dec 31 2021	Period ended Dec 31 2020
Interest on public charges	5,011	623
Net foreign exchange gains (losses)	0	12,992
Interest on credit facilities	118,383	122,191
Settlement of IRS	205,350	150,352
Remeasurement of IRS	0	383,294
Loss on disposal of investments in financial assets (TFI)	150,034	0
Other	23,848	14,281
Total	**502,626**	**683,733**

In the reporting period, the largest item of finance costs was the costs related to the investment credit facility of PLN 12,600,000 contracted with PKO BP S.A. at the end of 2018 to finance the purchase of new offices (for more information, see **Note 3.26**). In 2021, interest expense on the facility was PLN 118,383. In addition, the Company incurred PLN 205,350 in costs connected with the settlement of an interest rate swap (IRS) hedging interest rate risk over the term of the facility. The related settlements and payments are made in parallel with payment of monthly instalments to PKO BP S.A. The finance costs for 2021 included a PLN 150,034 loss the Company reported on redemption (in the fourth quarter of 2021) of its investment fund units. In 2021, total finance costs incurred by 11 bit studios S.A. fell to PLN 502,626, from PLN 683,733 in 2020.

3.11. Income tax on continuing operations (PLN)

3.11.1. Income tax recognised in profit or loss

	Period ended Dec 31 2021	Period ended Dec 31 2020
Current income tax:		
Attributable to current year	2,588,780	4,264,259
Deferred income tax:		
Attributable to current year	560,102	(975,569)
Tax expense recognised in current year on continuing operations	**3,148,882**	**3,288,690**

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

Effective tax rate:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Profit before tax from continuing operations	31,834,464	40,651,821
Income tax expense at 19% (2020: 19%)	6,048,548	7,723,846
Tax effect of costs which are not deductible for tax purposes	529,707	321,885
Effect of IP Box tax relief settlement at 5% tax rate	(3,429,373)	(4,757,040)
Total	**3,148,882**	**3,288,690**

The tax rate applied in the above reconciliation in 2021 and 2020 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate was 9.89% in 2021 and 8.09% in 2020.

With respect to sales of proprietary games the Company uses the IP Box relief, which was introduced on October 23rd 2018 pursuant to the Act Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Legislation and certain other acts, and has been in effect since January 1st 2019. Under the Act, the Company's revenue from the sale of qualifying intellectual property rights (games) multiplied by the nexus index was taxed at a preferential CIT rate (5%). The IP Box relief amounted to PLN 3,429,373 in 2021 and PLN 4,757,040 in 2020.

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

3.11.2. Current tax receivable and payable

	As at Dec 31 2021	As at Dec 31 2020
VAT refund receivable	1,888,534	3,028,820
CIT refund receivable	4,138,348	7,623,047
Total	**6,026,882**	**10,651,867**

Tax receivables included the IP Box tax relief described in Note **3.11.1** (PLN 3,429,373), the tax remaining to be deducted upon receipt of returns from trading partners, and non-recovered withholding tax.

3.11.3. Deferred tax (net)

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

	As at Dec 31 2021	As at Dec 31 2020
Deferred tax asset	980,081	1,592,151
Deferred tax liability	(22,594)	(74,561)
Total	**957,487**	**1,517,590**

All deferred tax assets are classified as current assets because the items on which the asset is calculated are provisions for current expenses, including royalties and provisions for bonuses. The Company expects the assets to be reversed in full within 12 months from the reporting date.

Income tax assets/liabilities in the reporting period

	As at Jan 1 2021	Recognised in profit or loss	As at Dec 31 2021
Assets			
Provisions	80,232	(20,383)	59,848
Royalties payable	1,339,512	(386,018)	953,494
Liabilities	7,897	2,701	10,580
Remeasurement of financial assets	164,528	(164,528)	0
Liabilities			
Remeasurement of financial assets	0	(43,842)	(43,842)
Measurement of financial investments	(74,561)	51,968	(22,593)
Total	**1,517,608**	**(560,102)**	**957,487**

Income tax assets/liability in the comparative period

	As at Jan 1 2020	Recognised in profit or loss	As at Dec 31 2020
Assets			
Provisions	119,370	(39,138)	80,232
Royalties payable	401,774	937,738	1,339,512
Liabilities	8,550	(671)	7,897
Remeasurement of financial assets	74,755	89,773	164,528
Liabilities			
Measurement of financial investments	(62,427)	(12,134)	(74,561)
Total	**542,022**	**975,568**	**1,517,608)**

3.12. Earnings per share (PLN)

3.12.1. Basic earnings per share

	Period ended Dec 31 2021	Period ended Dec 31 2020
Basic earnings per share:		
From continuing operations	12.17	16.13
Total basic earnings per share	**12.17**	**16.13**
Diluted earnings per share:		
From continuing operations	11.96	15.64
Total diluted earnings per share	**11.96**	**15.64**

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

	Period ended Dec 31 2021	Period ended Dec 31 2020
Profit for the financial year attributable to shareholders	28,685,582	37,363,131
Total profit used to calculate basic earnings per share	28,685,582	37,363,131
Profit used to calculate basic earnings per share from continuing operations	**28,685,582**	**37,363,131**

	Period ended Dec 31 2021	Period ended Dec 31 2020
Weighted average number of ordinary shares used to calculate earnings per share	2,357,095	2,315,946

3.12.2. Diluted earnings per share

	Period ended Dec 31 2021	Period ended Dec 31 2020
Profit for the financial year attributable to shareholders	28,685,582	37,363,131
Total profit used to calculate diluted earnings per share	28,685,582	37,363,131
Profit used to calculate diluted earnings per share from continuing operations	**28,685,582**	**37,363,131**

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 Dec 31 2021	Period ended Dec 31 2020
Weighted average number of ordinary shares used to calculate basic earnings per share	2,357,095	2,315,946
Shares expected to be issued:		
Employee stock options	50,278	73,458
Weighted average number of ordinary shares used to calculate diluted earnings per share	**2,407,373**	**2,389,404**

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

Property, plant and equipment:

	As at Dec 31 2021	As at Dec 31 2020
Buildings and premises	22,991,270	23,645,432
Property, plant and equipment under construction	374,315	102,241
Plant and equipment	514,682	437,767
Vehicles	0	9,448
Other property, plant and equipment	2,066,212	2,694,614
Total	**25,946,479**	**26,889,502**

Gross carrying amount:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2021	**24,200,705**	**102,241**	**1,953,626**	**372,854**	**3,492,462**	**30,121,888**
Increase	73,245	851,104	511,374	0	0	1,435,723
Decrease	(1,340)	0	(114,608)	0	(34,486)	(150,434)
Reclassification	33,360	(579,031)	544,168	0	1,503	0
As at Dec 31 2021	**24,305,970**	**374,314**	**2,894,560**	**372,854**	**3,459,479**	**31,407,178**

Accumulated amortisation 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**
Amortisation charges	759,427	0	980,327	9,448	629,905	2,379,107
Decrease	0	0	(116,308)	0	(34,486)	(150,793)
As at Dec 31 2021	**1,314,700**	**0**	**2,379,878**	**372,854**	**1,393,268**	**5,460,701**

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

Gross carrying amount:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2020	**20,306,492**	**11,515**	**1,043,464**	**372,854**	**281,408**	**22,015,733**
Increase	1,094,106	6,720,735	282,292	0	364,904	8,462,037
Decrease	(333,169)	0	0	0	(22,710)	(355,879)
Reclassification	3,133,276	(6,630,008)	627,870	0	2,868,861	0
As at Dec 31 2020	**24,200,705**	**102,242**	**1,953,626**	**372,854**	**3,492,462**	**30,121,889**

Accumulated amortisation 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 2020	**100,356**	**0**	**969,588**	**294,965**	**270,617**	**1,635,527**
Amortisation charges	552,488	0	546,271	68,441	540,794	1,707,994
Decrease	(97,571)	0	0	0	(13,563)	(111,134)
As at Dec 31 2020	**555,273**	**0**	**1,515,859**	**363,406**	**797,848**	**3,232,386**

As at the issue date of these financial statements, the Company had one effective agreement on perpetual usufruct of land, concerning a developed property at ul. Brzeska 2 in Warsaw, purchased by the Company at the end of 2018 to house its new headquarters. Since January 1st 2019, the right of perpetual usufruct to the property located at ul. Brzeska 2 in Warsaw has been disclosed in the Company's statement of financial position (under right-of-use assets and lease liabilities). The Company measured the perpetual usufruct right at PLN 4,281,361 (as at December 31st 2021). It is amortised over the term of the perpetual usufruct agreement, i.e., until October 27th 2099.

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

3.14. Intangible assets (PLN)

Useful lives of intangible assets used to calculate amortisation:

Completed development work:

Completed Game Engine development work as at December 31st 2021 included the capitalised cost of the fourth and fifth work phases.

As at December 31st 2021, completed video games development work comprised games released in earlier periods.

Ongoing development work:

As at December 31st 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 financial statements date, and then discounts them with the weighted average cost of capital (WACC). As regards these financial statements, the discount rate applied is 9.4%.

The weighted average cost of capital was determined using the following capital valuation model: WACC = cost of debt x weight of debt + cost of equity x weight of equity. The cost of debt was estimated based on the incurred financial liabilities, i.e., the PLN 12,600,000 investment credit facility with PKO BP S.A. The cost of debt before tax was reduced by the effective tax rate. The Company calculated the cost of equity using the CAPM model, under which the cost of equity was calculated as the sum of the risk-free rate and beta multiplied by the required equity market risk premium. The cost of debt and the cost of equity were calculated using weights appropriate for the Company's financing structure.

Revenue was estimated based on a detailed analysis of various areas of the games market using the Company's long-time experience and sales results for 11 bit studios' current game portfolio.

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 of PLN 971,915 on discontinued work. In the reporting period, the Company recovered from WildFrame Media, owner of the Digital Sun studio, some of the expenditure (EUR 140,000) incurred to finance the development of *Foxhole*. In 2020, the amount of written off expenditure on discontinued work was PLN 997,116.

Carrying amount:

	As at Dec 31 2021	As at Dec 31 2020
Completed development work (game engine)	2,389,463	3,954,725
Completed development work (games)	3,500,237	8,004,182
Ongoing development work	52,926,024	25,545,704
Licences	321,913	354,906
Total	**59,137,637**	**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	163,469	30,196,358	30,359,827
Reclassification of completed development work	0	1,840,573	0	(1,840,573)	0
Decrease	0	0	(161,456)	(3,550)	(165,007)
Discontinued work written off	0	0	0	(971,915)	(971,915)
As at Dec 31 2021	**6,813,631**	**38,056,770**	**934,772**	**52,926,024**	**98,731,197**

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	**2,858,907**	**28,212,015**	**577,853**	**0**	**31,648,775**
Amortisation charges	1,565,262	6,344,518	196,462	0	8,106,242
Decrease	0	0	(161,456)	0	(161,456)
As at Dec 31 2021	**4,424,169**	**34,556,533**	**612,859**	**0**	**39,593,561**

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

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	**2,717,702**	**30,872,101**	**518,692**	**12,668,661**	**46,777,156**
Increase	0	0	414,067	23,364,303	23,778,370
Reclassification of completed development work	4,096,929	5,344,096	0	(9,490,145)	(50,120)
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	(997,116)	(997,116)
As at Dec 31 2020	**6,813,631**	**36,216,197**	**932,759**	**25,545,704**	**69,508,290**

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2020	**1,917,886**	**19,470,073**	**518,692**	**0**	**21,906,651**
Amortisation expense	941,020	8,741,942	59,161	0	9,742,123
Decrease	0	0	0	0	0
As at Dec 31 2020	**2,858,907**	**28,212,015**	**577,853**	**0**	**31,648,774**

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

3.15. Trade and other receivables (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Trade and other receivables, including:	**16,554,971**	**11,690,703**
Trade receivables	14,727,417	9,919,036
Taxes, grants, customs duties and social security	1,683,182	1,711,782
Other	144,373	59,885
Impairment losses on trade receivables	**(69,824)**	**(89,197)**
Total	**16,485,147**	**11,601,506**

3.15.1. Trade receivables

The Company recognised impairment losses based on historical credit loss rates determined through an analysis of receivables repayment. The table below presents the historical credit loss rates for each past due period, broken down into receivables from sales of games and receivables from other sales.

Expected credit loss rate:

	For receivables from sales of games	For receivables from other sales
Not past due	0.08%	0.42%
up to 30 days	0.26%	39.18%
31–60 days	2.32%	47.70%
61–90 days	2.83%	54.76%
91–120 days	2.89%	56.82%
121–359 days	55.17%	58.23%

The Company also recognises impairment losses for receivables that are past due more than 360 days, but there were no such receivables in the reporting period.

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

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

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

Receivables by customer:

	As at Dec 31 2021	As at Dec 31 2020
Company A	3,897,600	0
Company B	3,248,000	0
Company C	2,695,618	3,663,436
Company D	1,094,675	775,040
Company E	842,087	51,235
Company F	738,970	577,003

Ageing analysis of trade receivables:

	As at Dec 31 2021	As at Dec 31 2020
Short-term	14,465,039	8,942,320
1–30 days	26,184	708,583
31–60 days	161,488	2,750
61–90 days	1,315	20,050
91–120 days	2,720	4,387
121–360 days	70,671	85,933
Over 360 days	0	155,013
Total	**14,727,417**	**9,919,036**

The above ageing analysis of trade receivables did not show any receivables past due over 360 days (as at the reporting date), because in the reporting period the Company recovered a portion of impaired receivables and wrote off in full the receivables classified as uncollectible.

Changes in impairment losses on impaired trade receivables:

	As at Dec 31 2021	As at Dec 31 2020
As at beginning of reporting period	**89,197**	**151,980**
Recognition	121,561	0
Reversal	(74,877)	(62,783)
Use of impairment losses	(66,057)	0
As at end of reporting period	**69,824**	**89,197**

Age of allowance for expected credit losses:

	As at Dec 31 2021	As at Dec 31 2020
Short-term	10,993	0
1–30 days	6,706	0
31–60 days	8,856	0
61–90 days	653	0
91–120 days	1,491	0
121–360 days	41,125	23,141
over 360 days	0	66,056
Total	**69,824**	**89,197**

As at the end of 2021, there were no reasons to recognise individual impairment losses on past due receivables.

3.16. Income tax receivable (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Income tax receivable	4,138,348	7,623,047
Total	**4,138,348**	**7,623,047**

3.17. Current financial assets (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Financial instruments	80,475,972	69,932,222
Loans to employees	190,013	2,066,604
Total	**80,665,985**	**71,998,826**

The financial instruments included:

	Acquisition date	Measurement as at acquisition date	Interest (%)	Measurement as at Dec 31 2021	Maturity date
PKO Leasing notes*	September 13th 2021	13,984,253	0.30	13,996,782	January 28th 2022
PKO Leasing notes*	October 11th 2021	19,968,406	0.35	19,983,916	March 25th 2022
PKO Leasing notes*	December 2nd 2021	10,974,293	0.90	10,982,140	March 7th 2022
PKO Bank Hipoteczny bonds*	July 27th 2021	4,991,303	0.30	4,997,744	February 24th 2022
PKO Bank Hipoteczny bonds*	November 19th 2021	9,962,171	0.90	9,972,488	April 22nd 2022
PKO Bank Hipoteczny bonds*	December 2nd 2021	10,463,621	0.90	10,471,103	April 22nd 2022
PKO Parasolowy FIO – Subfundusz Obligacji Samorządowych	December 23rd 2020	10,000,000		10,071,799	
Total		**80,344,047**		**80,475,972**	

* The notes issued by PKO Leasing and PKO Bank Hipoteczny are discount notes. They will be redeemed by the Issuers at par.

The Company classifies its financial instruments as current financial assets, because they are used to manage the Company's current liquidity.

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. Loans to employees are presented as current assets due to the period remaining for repayment.

3.18. Other current assets (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Insurance	65,610	48,053
Domain names, licences, subscriptions	438,265	341,643
Prepaid expenses	234,280	192,117
Other	14,187	1,785
Total	**752,342**	**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).

3.19. Other assets (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Long-term prepayments and accrued income	99,080	127,590
Total	**99,080**	**127,590**

Long-term prepayments and accrued income as at the end of 2021 and as at the end of 2020 included fees for online domains and trademarks.

3.20.Cash and cash equivalents (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Cash in hand and at banks	26,748,530	24,134,648
Total	**26,748,530**	**24,134,648**

Cash in hand and at banks as at December 31st 2021, by currency:

- PLN 13,266,773,
- USD 2,353,897 (PLN 9,556,820),
- EUR 853,209 (PLN 3,924,250),
- CNY 1,073 (PLN 686).

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).

When measuring its cash, including in foreign currencies, as at December 31st 2021, the Company also measured expected credit losses (ECL) but the effect was not material.

3.21. Share capital (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Share capital	236,692	236,055
Total	**236,692**	**236,055**

As at December 31st 2021, the Company's share capital consisted of 2,366,921 fully paid-up ordinary shares totalling PLN 236,692.10.

3.21.1. Ordinary shares fully paid

	Number of shares	Share capital	Share premium
As at Dec 31 2020	**2,360,545**	**236,055**	**12,407,633**
Increase/decrease	6,376	637	655,571
As at Dec 31 2021	**2,366,921**	**236,692**	**13,063,204**

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

For detailed information on changes in the share capital in 2021, resulting from the issue of 6,376 Series G shares, see **Note 5.5.**

3.22. Information on dividend paid or declared

The Company paid no dividends in 2021 or 2020.

By Resolution No. 05/06/2021 of the Annual General Meeting of 11 bit studios S.A., dated June 14th 2021, the full amount of net profit for 2020 of PLN 37,363,131 was allocated to statutory reserve funds. The amount differs from the amount disclosed in the opening balance sheet in the 2020 Annual Report due to the balance sheet adjustment made at a later date.

Pursuant to Art. 396.1 of the Commercial Companies Code applicable the Company, at least 8% of net profit for each financial year should be contributed to statutory reserve funds held for the purpose of covering losses until the funds reach at least one-third of the Company's share capital. That part of statutory reserve funds (retained earnings) is not available for distribution to shareholders. As at December 31st 2021, it amounted to PLN 76,240 (2020: PLN 76,240).

3.23. Recommendation on appropriation of 2021 profit

As at the date of issue of these 2021 financial statements, no resolution was passed by the Management Board regarding a recommendation on the appropriation of the 2021 profit.

3.24. Contract liabilities

As at December 31st 2021, contract liabilities comprised advance payments received by the Company from its trading partners towards future sales of the Company's products (games). As at December 31st 2020, the Company had no contract liabilities.

3.25. Trade and other payables (PLN)

	As at Dec 31 2021	As at Dec 31 2020
Trade payables	1,302,952	310,441
Guarantee deposits – Brzeska 2	6,150	82,634
Taxes, customs duties, insurance and other dues	744,927	1,184,903
Royalties	5,018,390	7,050,065
Provisions	661,422	860,272
Accruals and deferred income (provision for audit and other invoices)	231,903	260,700
Amounts payable to employees	5,267	1,143
Other	41,796	41,797
Total	**8,012,807**	**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.

A significant decrease in trade and other payables, of 18.17%, to PLN 8,012,807 as at the end of December 2021 from PLN 9,791,955 as at the end of 2020 was mainly attributable to a drop in royalties (PLN 5,018,390 vs PLN 7,060,065 the year before) payable to third-party developers for whom the Company is a publishing services provider. In 2021, the Company reversed a PLN 1,760,523 royalty liability recorded as at December 31st 2020. A marked drop was also seen in tax liabilities, which fell by 37.13%, to PLN 744,927 at the end of the reporting period, from PLN 1,184,903 as at the end of 2020. Trade payables soared by almost 320%, to PLN 1,302,995, due to a rise in marketing spending, including outside Poland, and considerable expenditure incurred in late 2021 on IT equipment for newly hired employees.

Ageing analysis of trade payables:

	As at Dec 31 2021	As at Dec 31 2020
Short-term	850,795	141,697
1–30 days	452,157	83,678
31–60 days	0	84,566
61–90 days	0	0
91–120 days	0	0
121–360 days	0	500
over 360 days	0	0
Total	**1,302,952**	**310,441**

The Company has financial risk management policies in place to ensure timely payment of liabilities.

Maturity periods for trade payables as at Dec 31 2021

Short-term	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 120 days	From 121 to 360 days and other	**Total**
625,829	617,838	59,285	0	0	0	**1,302,952**

3.26.Borrowings (PLN)

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000 investment credit facility agreement with PKO BP S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. The facility is repayable in monthly instalments. As at December 31st 2021, the Company had no delays or arrears in its repayment. The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged with an interest rate swap over the entire term of the facility. The interest rate is 3.4%. Repayment of the facility is secured with a blank promissory note issued by the Company, together with a promissory note declaration, a contractual mortgage of up to PLN 20,223,000 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 S.A. As at December 31st 2021, the long-term portion of the facility was PLN 7,560,000 (2020: PLN 8,820,000), while its short-term portion was PLN 1,260,000 (2020: PLN 1,260,000).

11 bit studios S.A.'s financial (credit) liabilities

Lender	Amount	Currency	Balance as at Dec 31 2021	Balance as at Dec 31 2020 (including measurement of IRS)	Interest rate	Repayment date
PKO BP S.A.	12,600,000	PLN	8,820,000	10,856,743	1M WIBOR + 0.9%	December 11th 2028
Total	**12,600,000**		**8,820,000**	**10,856,743**		

Repayment schedule for the investment credit facility with PKO BP S.A. (principal amount, excluding interest and measurement of IRS) as at Dec 31 2021

Lender	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
PKO BP S.A.	105,000	210,000	945,000	5,040,000	2,520,000	8,820,000
Total	**105,000**	**210,000**	**945,000**	**5,040,000**	**2,520,000**	**8,820,000**

3.27.Provisions for employee bonuses and other provisions (PLN)

Given its growing workforce, the Company decided that starting from these financial statements it will recognise the provision for retirement and disability benefits as a separate provision and present it as long-term provisions in a separate table.

3.27.1.Short-term provisions

	Provision for retirement and disability benefits	Accrued holiday entitlements	Accrued bonuses for Management Board members and employees	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2021	**0**	**322,904**	**390,000**	**147,368**	**860,272**
Increase:					
Recognition	501	372,953	439,720	1,787,951	2,601,125
Decrease:					
Use	0	(297,480)	(679,224)	(1,614,818)	(2,591,522)
Reversal	0	0	(92,972)	(125,872)	(218,844)
As at Dec 31 2021	**501**	**398,377**	**57,524**	**194,629**	**651,031**

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

	Accrued holiday entitlements	Accrued bonuses for Management Board members and employees	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2020	**151,082**	**270,000**	**498,435**	**919,517**
Increase:				
Recognition	745,861	120,000	1,256,226	2,102,086
Decrease:				
Use	(574,039)	0	(320,097)	(894,136)
Reversal	0	0	(1,267,194)	(1,267,194)
As at Dec 31 2020	**322,904**	**390,000**	**147,368**	**860,272**

3.27.2.Long-term provisions

	Provision for retirement and disability benefits	Total
As at Jan 1 2021	**0**	**0**
Increase:		
Recognition	10,390	10,390
Decrease:		
Use	0	0
Reversal	0	0
As at Dec 31 2021	**10,390**	**10,390**

3.28.Retirement benefit plans

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

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

3.29.Financial instruments (PLN)

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

3.29.1.Financial assets and liabilities

Financial assets:

	As at Dec 31 2021	As at Dec 31 2020
Financial assets measured at amortised cost – cash	26,748,530	24,134,648
Financial assets measured at fair value – investment fund units	10,071,799	30,010,534
Financial assets measured at amortised cost – PKO Leasing notes and PKO Bank Hipoteczny bonds	70,404,173	39,921,688
Financial assets measured at amortised cost – trade and other receivables	16,079,147	11,601,604
Loans to employees measured at amortised cost	190,013	2,066,604
IRS measured at fair value	300,567	0
Total	**123,794,229**	**107,735,078**

For a full list of financial assets held by the Company as at December 31st 2021 and measured at fair value, see **Note 3.17.**

Financial liabilities:

	As at Dec 31 2021	As at Dec 31 2020
Trade and other payables	8,012,807	9,791,955
Credit facility	8,820,000	10,080,000
IRS	0	776,742
Perpetual usufruct rights to land	769,981	338,054
Total	**17,602,788**	**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.

3.29.2.Objectives of financial risk management

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

3.29.3.Credit risk

Trade receivables, investment fund units, bonds, notes (bonds and notes held as at December 31st 2021 had fixed interest rates and short (up to several months) maturity periods – **Note 3.17.**), 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 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 include Valve Corporation, Microsoft, Nintendo, Apple and Google, leading global corporations with unquestionable financial status. Amounts due from electronic distribution platforms in respect of games sold are collected in 30 days or less. The Company has never experienced any difficulties with collecting receivables from its trading partners.

For information on the concentration of credit risk related to trade receivables, see **Note 3.15.** The Company regularly monitors payments from trading partners and has not identified any problems in this area.

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at December 31st 2021, the Company held cash with two institutions: PayPal (PLN 399,210) and the PKO BP Group (the balance).

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

3.29.4.Currency risk management

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

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

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

Assets:

	As at Dec 31 2021	As at Dec 31 2020
USD-denominated, including:	**21,745,122**	**14,154,617**
Cash	9,556,820	6,393,796
Receivables	12,188,302	7,760,821
EUR-denominated, including:	**5,822,048**	**2,559,611**
Cash	3,924,250	1,216,181
Receivables	1,897,798	1,343,430
JPY-denominated, including:	**260,092**	**210,294**
Receivables	260,092	210,294

Liabilities:

	As at Dec 31 2021	As at Dec 31 2020
USD-denominated	159,355	80,634
EUR-denominated	315,491	69,578
JPY-denominated	0	0

3.29.5.Sensitivity to currency risk

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

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

against the relevant foreign currencies. For a 10% appreciation of the Polish złoty, the figure would be negative, and there would be a corresponding decrease in net profit.

USD impact:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Net profit*	1,748,447	1,139,993

EUR impact:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Net profit*	446,031	201,693

JPY impact:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Net profit*	21,067	17,034

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

3.29.6.Liquidity risk management

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

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

11 bit studios S.A. invests surplus cash in financial instruments with a conservative risk profile. The Company holds fund units issued by PKO Parasolowy FIO – Subfundusz Obligacji Samorządowych as well as bonds issued by PKO Leasing and PKO Bank Hipoteczny. For a full list of financial instruments held by the Company as at December 31st 2021, see **Note 3.17.**

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

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

3.29.8. Fair value measurement methods

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/notes is measured at cost plus any outstanding interest and discount determined using the effective interest rate, based on information about present value provided by PKO BP S.A. acting as a calculation agent for financial instruments issued by PKO BP Group companies. The fair value of investment fund units is determined based on market prices (daily valuations). The fair value of loans for employees is determined based on future cash flows, discounted at the current interest rate on loans.

Financial assets measured at fair value:

	As at Dec 31 2021	As at Dec 31 2020	Fair value hierarchy
Investment fund units	10,071,799	30,010,534	Level 2
Remeasurement of IRS	300,567	0	Level 3

In the reporting period, having reviewed the fair value hierarchy classification rules, the Company decided to transfer its investment fund units from Level 1 to Level 2.

Financial assets measured at amortised cost:

	As at Dec 31 2021	As at Dec 31 2020	Fair value hierarchy
Bonds and notes	70,270,813	39,921,688	Level 2
Loans to employees	190,013	2,066,604	Level 3

In the reporting period, the Company decided to transfer loans to employees from Level 2 to Level 3.

3.30. Deferred income

	As at Dec 31 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).

3.31. Share-based payments (PLN)

3.31.1. Employee stock option plan for 2021–2025

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

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

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

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

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

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

3.31.2.Recognition of the 2021–2025 Incentive Scheme

The fair value of warrants granted under the Incentive Scheme has been estimated using the Damodaran warrant pricing model, which takes into account the Company's share price as at the date of signing the Incentive Scheme participation agreement (the grant date) and its annual volatility. This value is charged to profit or loss proportionately over the entire settlement period for the five-year Incentive Scheme, and is recognised as capital reserve. The terms and conditions of the incentive scheme are based on the achievement of general Company goals. Therefore, as the condition of direct allocation to an asset is not satisfied, these costs do not meet the capitalisation requirement and are recognised in the Company's profit or loss. The key parameters of the model used to calculate the fair value of the potential Incentive Scheme premium and the costs to be charged to profit or loss in a given period are presented below:

Service commencement date	January 1st 2021
Grant date (date of signing the participation agreements)	March 10th 2021
Vesting date	December 31st 2025
11 but studios S.A. share price on the grant date (PLN)	517
Six-month volatility of 11 bit studios S.A. share price (%)	34.43%
Risk-free rate (%)	0.86%
Number of Incentive Scheme warrants	125,000
Number of Incentive Scheme warrants granted as at Dec 31 2021	83,750
Measurement of warrants (PLN)	199.84
Cost of the Incentive Scheme as at Dec 31 2021 (PLN)	16,736,883
Total Incentive Scheme cost as at Dec 31 2025 remaining to be recognised (PLN)	13,389,507
Statement of profit or loss – employee benefits expense in 2021	3,347,377

The costs of the 2021–2025 Incentive Scheme are recognised over its entire term. The financial objectives set out in the Scheme are Group-wide and are not to be achieved by individual persons (Scheme participants). All costs of the Scheme are recognised as they are incurred in the statement of profit or loss and are not partly capitalised in the Company's statement of financial position.

3.31.3.Employee stock option plan for 2017–2019

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

issue up to 130,000 Series G shares with a par value of PLN 0.10 per share and total par value of PLN 13,000 was passed by the Extraordinary General Meeting on June 7th 2017.

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

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

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

As at the reporting date, the Incentive Scheme Participants converted a total of 79,722 Series B subscription warrants into Series G shares. Thus, as at December 31st 2021 the share capital of 11 bit studios S.A. was divided into 2,366,921 Series A–G shares.

After the reporting period but prior to the issue of these financial statements, the share capital of 11 bit studios S.A. was increased once as a result of conversion of Series B subscription warrants into Series G shares by the Participants of the 2017–2019 Incentive Scheme. On February 11th 2022, the Company announced (in Current Report No. 6/2022), based on the information received from DM BOŚ S.A., that on February 11th 2021 947 Series G shares in 11 bit studios S.A. were duly subscribed and paid for as part of a public offering, for a total amount of PLN 97,901. As of that date the share capital of 11 bit studios S.A. comprised 2,367,868 Series A – Series G shares.

As at the issue date of these financial statements, 49,331 Series B subscription warrants remained to be converted into Series G shares.

3.32. Related-party transactions (PLN)

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

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski– Member of the Management Board
- Wojciech Ozimek – Chairman of the Supervisory Board (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)

3.32.1.Sale transactions

Apart from the services provided by the Members of the Company's Management Board, discussed in **Note 3.32.4**, the Company entered into the following related-party transactions in 2021 and 2020:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Arkona – Paweł Miechowski	236,635	228,760
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek	53,630	61,633
Total	**290,265**	**290,393**

3.32.2.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.

3.32.3.Borrowings from related parties

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

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

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

Short-term benefits – Management Board:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Przemysław Marszał	448,416	429,771
Grzegorz Miechowski	448,305	430,832
Michał Drozdowski	438,000	420,000
Total	**1,334,721**	**1,280,603**

Short-term benefits – Supervisory Board:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Wojciech Ozimek (Chairman of the Supervisory Board until April 15th 2021)	15,643	54,000
Jacek Czykiel (Deputy Chairman of the Supervisory Board)	36,000	36,000
Radosław Marter (Chairman of the Supervisory Board since April 15th 2021)	44,093	19,800
Marcin Kuciapski (Member of the Supervisory)	19,800	19,800
Piotr Wierzbicki (Member of the Supervisory Board)	19,800	19,800
Artur Konefał (Member of the Supervisory Board since April 15th 2021)	14,064	0
Total	**149,400**	**149,400**

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

In accordance with the remuneration policy, Members of the Management Board are entitled to an annual bonus, whose amount depends on the Company's net profit earned in a given period.

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

	Period ended Dec 31 2021	Period ended Dec 31 2020
Przemysław Marszał	226,408	815,636
Grzegorz Miechowski	226,408	815,636
Michał Drozdowski	226,408	815,636
Total	**679,224**	**2,446,908**

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

Short-term benefits – Management Board:

	Period ended Dec 31 2021	Period ended Dec 31 2020
Przemysław Marszał	60,000	60,000
Grzegorz Miechowski	60,000	60,000
Michał Drozdowski	60,000	60,000
Total	**180,000**	**180,000**

The Members of the Management Board did not receive any other remuneration for 2021 or 2020 in the form of profit distributions or stock options. 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 these financial statements.

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

Under the 2021–2025 Incentive Scheme, each Member of the Company's Management Board 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.

Remuneration of the Management Board in 2021 – total:

	Przemysław Marszał	Grzegorz Miechowski	Michał Drozdowski
Remuneration for managerial responsibilities	438,000	438,000	438,000
Annual bonus (paid in 2021)	226,408	226,408	226,408
Remuneration under civil-law contracts	60,000	60,000	60,000
Non-monetary benefits	10,416	10,305	0
Total	**734,824**	**734,713**	**724,408**

Remuneration of the Management Board in 2020 – total:

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

Non-monetary benefits to which Members of the Management Board were entitled in 2021 and 2020 included the right to use a company car (without a mileage limit), private medical care programme and contributions to the employee capital plan.

3.32.5. Other related-party transactions

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

3.33. Off-balance-sheet commitments

As at the issue date of this 2021 Annual Report, the Company had off-balance-sheet commitments to incur expenditure (on intangible assets only) of EUR 3,225,566, PLN 4,909,915 and USD 198,766. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.34. Contingent assets and liabilities

3.34.1. Contingent liabilities

Security for an investment credit facility contracted with PKO BP S.A. in December 2018 to finance a part of the purchase price for the property at ul. Brzeska 2 in Warsaw, comprising a blank promissory note issued by the Company, together with a promissory note declaration, contractual mortgage of up to PLN 20,223,000.00 over 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.

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

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

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

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

3.37. Events subsequent to the reporting date

By the date of authorisation of these financial statements by the Company's Management Board, i.e. March 24th 2022, there were no events having an impact on the Company's 2021 financial statements.

After the reporting date, on February 28th 2022 11 bit studios S.A. announced (in Current Report No. 8/2022) that **it had signed an agreement to purchase 40% of shares in Fool's Theory sp. z o.o. from Jakub Rokosz and Krzysztof Mąka, until then the sole owners of the company.** In accordance with the agreement, 11 bit studios S.A. paid the first instalment of PLN 2,619,215.5 for the shares on March 9th 2022. The second instalment will be settled in cash within seven months after the market release of *Vitriol*, a game developed by Fool's Theory and published by 11 bit studios S.A. The amount of the second tranche will depend on net revenue generated by the Company from the sale of Vitriol within six months from the game's market release and the percentage of positive user ratings on Steam Reviews received by Vitriol over that period. According to the agreement, the second tranche amount will be within the range of PLN 1,571,529 – PLN 3,666,901. Moreover, on February 28th 2022 the Company concluded a shareholders' agreement with Jakub Rokosz and Krzysztof Mąka setting out detailed rules for managing Fool's Theory's affairs and mutual rights and obligations of its shareholders. The parties to the shareholders agreement agreed that they would not sell or otherwise transfer their shareholdings in Fool's Theory until at least seven months after the release of Vitriol and that they would have the right of first refusal thereafter in the event that any of the shareholders wishes to sell their interest. The shareholders also agreed to work in concert, for a period of ten years from the date of the agreement, to advance the development of Fool's Theory and to prepare an incentive scheme for key employees and associates of Fool's Theory, which would be based on the financial results (cumulative revenue and gross profit) of the company generated in the years 2023–2027. Additionally, if Fool's Theory achieves the targets set in connection with the incentive scheme for the years 2023–2027, 11 bit studios S.A. will pay Jakub Rokosz and Krzysztof Mąka a bonus in the aggregate amount of PLN 1,000,000.

From the first quarter of 2022 onwards, 11 bit studios S.A. will recognise Fool's Theory's results using the equity method.

After the reporting date, on February 24th 2022 Russia invaded Ukraine, starting a military conflict which was ongoing until the date of issue of these financial statements. The Company became actively involved in charitable activities to help Ukrainian war victims. For more information, see Note **6.11**. The Company is of the opinion that the conflict between Russia and Ukraine had no effect on the Company's 2021 financial performance. 11 bit studios S.A. does not hold any assets in Russia, Belarus or Ukraine and has never entered into any material transactions with partners from those countries. Executed transactions were of a short-term nature and had been settled by the date of issue of these financial statements. The Company does not sell its products (computer games) directly to customers in Russia, Belarus or Ukraine. However, the Company's products are available on those markets through global sales platforms, including Steam. In 2021, customers from Russia (sales of 11 bit studios S.A.'s products in Ukraine and Belarus were only nominal) accounted for 1.8% of the Company's revenue in that period. After the

war broke out, due to the imposition of restrictions and sanctions, including on financial settlements, sales on the Russian market fell considerably and represented approximately 0.5% of 11 bit studios S.A.'s daily revenue. The Company does not rule out that the ongoing conflict may have an impact on its financial performance in 2022. However, due to a significant geographical diversification of revenue sources, this impact will be immaterial. Its scale will mainly depend on the duration of the conflict as well as the economic and political sanctions levied on Russia by the international community. The Company believes that the conflict across our eastern border may also indirectly deepen the global economic downturn, affecting also the gaming industry. Nevertheless, as at the issue date of these financial statements it is impossible to assess this impact on the Company's current financial results due to the complexity of the matter and uncertainty about how the conflict will unfold.

For information on other events subsequent to the reporting date, see **Note 5.5** (share issues after the reporting date).

3.38. Authorisation of financial statements

These financial statements were authorised for issue by the Management Board on March 24th 2022.

Signed by:

Przemysław Marszał *President of* Warsaw, March 24th 2022	*Grzegorz Miechowski* *Member of* *the Management Board*	*Michał Drozdowski* *Member of* *the Management Board*

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

4.OVERVIEW

4.1. Key achievements in 2021

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

The PC version of *Frostpunk* was first placed on the market on April 24th 2018. The game, telling the story of a struggle for survival of a community stranded in a freezing world, proved very popular with fans, which translated into in very good sales in the release period and the following quarters. On October 11th 2019, the Company's newest product was also released for Xbox One and PS4. By the end of 2021, revenue from sales of *Frostpunk* on all platforms and its paid add-ons exceeded PLN 170m.

Moonlighter, developed by the Spanish Digital Sun studio, was released on May 29th 2018 (for PCs, Xbox One and PS4). 11 bit studios S.A. was the publisher of the game. In the fourth quarter of 2018, this Spanish game was also released for Nintendo Switch. Since January 2021, *Moonlighter* has also been available for mobile devices running on iOS.

Children of Morta, produced by the American studio Dead Mage, was placed on the market (in the PC version) on September 3rd 2019. On October 15th 2019, it was released in the Xbox One and PS4 versions, and on November 20th 2019 in the version for Nintendo Switch. In 2021, Dead Mage was working on further expansion of the game to include the co-op mode, which was launched in February 2022.

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

4.1.1. Game development

In 2021, 11 bit studios S.A. continued its development work (started a few quarters before) on the production of a game under the working title of *Project 8*. It is being developed by a team which is being built from scratch and which at the date of issue of this Report consisted of approximately 60 members, but is due to be strongly expanded through the ongoing recruitment. According to current plans, the *Project 8* team should ultimately be slightly larger than that which produced *Frostpunk* and is expected to consist of about 70–80 people. The game's production budget, previously estimated at some PLN 20m, will be much larger. The Company expects to release *Project 8* simultaneously for PCs and for PlayStation and Sony consoles, which should considerably enhance the game's commercial potential already from the date of its release (yet to be set). In 2020, the Company decided to change the game engine from Liquid Engine (a proprietary solution), used in Company's earlier games, to Unreal Engine. The decision was dictated by the expansion of *Project 8* – Unreal Engine is better suited to the Company's needs related to the project.

In parallel with developing *Project 8*, in 2021 the Company also worked on the *Dolly* (code name) project, which is being developed by a team consisting of around 35 people who, until the

end of 2019, had been involved in developing and supporting *This War of Mine*. The team will ultimately consist of 60–70 people. For the time being the Company is not disclosing any details of this production except that it is based on brand new IP and its budget will be larger than that of *Frostpunk*. The game, which is in the production phase, is to be created based on Unreal Engine, similarly to *Project 8*.

Frostpunk 2, 11 bit studios S.A.'s third proprietary game, is also being created based on Unreal Engine. As the work on the project is progressing very smoothly, on August 12th 2021 the Company decided to release the first trailer for *Frostpunk 2*, which disclosed, among other things, the game's official name. Its earlier code name was Project 10 (subsequently changed to the Eleanor project). In the continuation of Frostpunk, gamers once again become the leader of the city which needs resources to survive and develop, and where expansion and search for new energy sources are a must. However, the apocalyptic world has moved on. After the age of coal, the remnant humanity's new hope for survival and conquest of the frigid Frostland is the development of the oil industry. But old habits die hard, and not every member of the diverse and stratified society will happily embrace the new development direction. The presentation of the *Frostpunk 2 trailer* was very well received by gaming communities across the world. In the first few days, the count of views on Youtube and other platforms came close to two million and fans were eager to sign in on wishlists complied by Steam, GOG and Epic Store, thus expressing their willingness to buy the game after its release. In subsequent phases of the marketing and promotional campaign, which will gather momentum in 2022, 11 bit studios S.A. will disclose further information on *Frostpunk 2*, which will be significantly larger, both in terms of size and development expenditure, than the first edition of the series. For this reason, the production team whose core is the people behind the success of *Frostpunk* will be at least 80 members strong. At present, it consists of some 70 persons.

In addition to working on *Frostpunk 2*, 11 bit studios S.A. intends to develop the universe of the game also in other formats. For more than a year now, Glass Cannon Unplugged has been working on the board version of *Frostpunk*, which should be released over the next few quarters. In addition, China's NetEase, one of the world's major gaming companies with a very strong position in the mobile games sector, is at an advanced stage of work on developing *Frostpunk* for mobile devices. This version of *Frostpunk* will be offered in the F2P (free-2-play) model, and will include micropayments to unlock additional in-game content. At the Investor Conference held in June, the Company also announced the release of a series of books by third party-authors, which are set in the universe of *Frostpunk*. Jacek Dukaj, a popular science fiction author, will be an artistic supervisor for the project.

4.1.2. Publishing division

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

As at the issue date of this Report, 11 bit studios S.A.'s publishing portfolio comprised three projects, with the related investment commitments totalling ca. PLN 30m (to compare: 11 bit

studios S.A.'s total investment in *Moonlighter* and *Children of Morta* was approximately PLN 5m). The first of the agreements provides for publishing a game with a working (code) name of *Vitriol*, produced by the Fool's Theory studio of Bielsko-Biała. The title will be classified into the RPG genre. The second of the agreements concerns a game with a working (code) name of *Botin*. It has been produced by Spain's Digital Sun Games, the studio behind the development of *Moonlighter*. The third game, with a working title of *Ava*, is being developed by a Spanish studio Chibig.

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

4.1.3. Other developments

On January 21st 2021, the Extraordinary General Meeting of the Company passed a resolution approving a new Incentive Scheme for members of the Management Board, employees and independent contractors. The Incentive Scheme covers the years 2021–2025. See **Note 3.31** to this Report for details.

In 2021, the Company published five announcements regarding a share capital increase and issue of Series G shares related to the implementation of the 2017−2019 Incentive Scheme. After the reporting period, the Company announced another similar event. For detailed information about further increases in the Company's share capital through the issue of Series G shares, see **Note 5.5.** to this Report.

In 2021, 11 bit studios S.A. also published three reports announcing the purchase of Company shares by Marcin Kuciapski, a Member of the Company's Supervisory Board. In Current Report No. 8/2021 of March 4th 2021, 11 bit studios S.A. stated that Marcin Kuciapski purchased a total of 150 shares in 11 bit studios S.A. in trades executed on the WSE at an average price of PLN 519.87 per share. In Current Report No. 18/2021 of June 10th 2021, 11 bit studios S.A. announced that on June 10th 2021 Marcin Kuciapski purchased a total of 350 shares in 11 bit studios S.A. in trades executed on the WSE at an average price of PLN 506.43 per share. In Current Report No. 31/2021 of November 30th 2021, 11 bit studios S.A. stated that Marcin Kuciapski purchased a total of 105 shares in 11 bit studios S.A. in trades executed on the WSE at an average price of PLN 482.11 per share.

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

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

On September 2nd 2021, the Company received share disposal notifications from Przemysław Marszał, President of the Management Board, and Grzegorz Miechowski, Member of the Management Board. In trades executed on September 2nd 2021 they sold, respectively, 3,000

shares (at an average price of PLN 450.05 per share) and 7,000 shares (at an average price of PLN 450.13 per share).

On December 2nd 2021, 11 bit studios S.A. announced that it had signed a non-standard licence agreement with Epic Games setting out the rules for using Unreal Engine. Under the agreement, 11 bit studios has the right to develop up to ten new games based on Unreal Engine. The agreement covers both proprietary games and those created by third-party developers as part of 11 bit studios' publishing division. The Company may choose which generation of Unreal Engine (4 or 5) it wants to use for particular projects and may also choose the preferred payment option.

After the end of the reporting period, on January 11th 2022, 11 bit studios S.A. announced that it had received a notification from N-N PTE to the effect that the funds managed by the Management Company hold 118,764 shares in 11 bit studios S.A., representing 5.018% of total voting rights at its General Meeting and 5.018% its share capital.

Also after the end of the reporting period, on January 19th 2022 the Extraordinary General Meeting of 11 bit studios S.A. resolved to change the amount of remuneration payable to members of the Supervisory Board.

On January 31st 2022, the Company received a notification from N-N PTE to the effect that N-N OFE holds 125,316 Company shares, representing 5.294% of total voting rights at its General Meeting and 5.294% of its share capital. All funds managed by N-N PTE held at that time a total of 143,055 shares in 11 bit studios S.A.

The most recent significant event after the end of the reporting period was the signing by 11 bit studios S.A., on February 28th 2022, of an agreement to purchase 40% of shares in Fool's Theory sp. z o.o. For full details, see **Note 3.37.**

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

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

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

in the PC version. Within 66 hours of the premiere, fans purchased over 250 thousand copies of *Frostpunk*, which more than covered all the production costs.

Since 2014, in an effort to diversify its business, 11 bit studios S.A. has also published games created by third-party game developer studios, including foreign ones. In 2017, the Company's publishing division made a noticeable contribution, of about 12%, to the Company's revenue, following the release of two games: *Beat Cop* (March 30th 2017) and *Tower 57* (November 16th 2017). In 2018, the release of *Moonlighter* (May 29th 2018) pushed the ratio up to 18%. In 2019, it was already 40% after the Company released another third-party developed title, *Children of Morta*, whose PC version was launched on September 3rd 2019 (console versions in Q4 2019). In 2020, the share of revenue from sale of third-party developed games in 11 bit studios S.A.'s total revenue was 29% (2021: 26%).

4.3. Key objectives of the Company's strategy

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

At the same time, 11 bit studios S.A. is expanding its publishing activities through the 11 bit publishing division, which, in addition to the Company's own games, also markets titles produced by third-party development studios. Also in this area the Company's strategy is to release increasingly complex and higher priced games. The budget of a single project (11 bit studios S.A.'s contribution) may even exceed PLN 10m. In the medium term, 11 bit studios S.A. wants to launch three to four products per year, which would help stabilise its performance.

4.4. Company's markets, suppliers and customers

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

Revenue from third-party customers by geographical area:

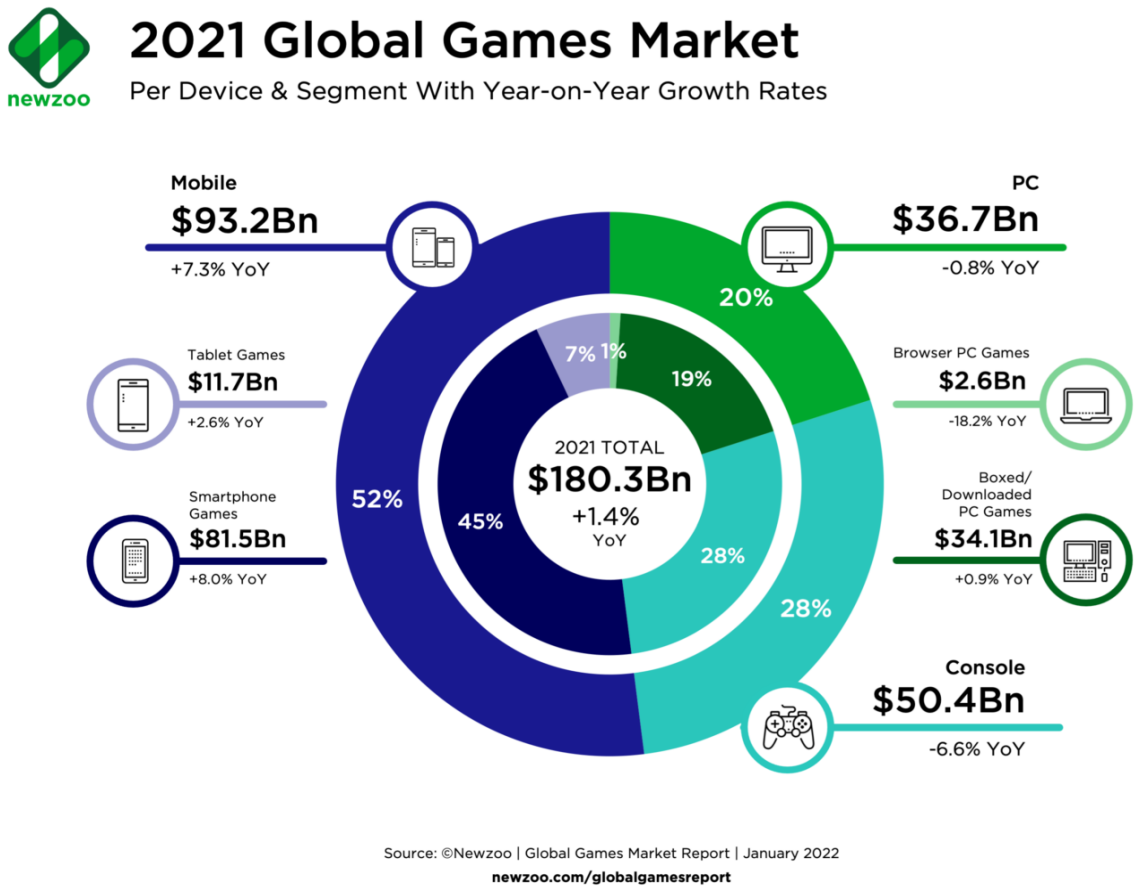
	Period ended Dec 31 2021		Period ended Dec 31 2020	
	PLN	share (%)	PLN	share (%)
Poland	1,463,642	2.09	2,064,709	2.37
European Union	1,563,025	2.23	5,120,320	5.88
US	53,255,645	75.95	66,982,765	76.90
Japan	9,639,184	13.75	12,081,601	13.87
China	199,109	0.28	224,543	0.26
Other	4,002,086	5.71	627,836	0.72
Total	**70,122,691**	**100**	**87,101,774**	**100.00**

The Company sells its products (video games) based on long-term agreements with publishers and distributors from all over the world. In 2021, the largest customer was Valve Corporation (Steam), accounting for more than 10% of the Company's total sales. Other important trading partners included Nintendo Co Ltd., Sony, Epic Games, Microsoft Corporation, Amazon, Google Stadia, Apple and Sony – the world's largest electronic distribution platforms. None of those entities is affiliated with the Company.

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

4.5. Description of the market in which the Company operates

11 bit studios S.A. is a part of the global video game market. For a number of years now, video games have been the fastest growing segment of the entertainment industry, the value of the gaming market being already greater than that of the film and music markets. In 2021, according to the estimates of Newzoo, a Dutch provider of games analytics, the global video games market was valued at USD 180.3bn, an increase of 1.4% compared with the previous year, when it was worth USD 177.8bn. The sector's growth rate in 2021 was much lower than in 2020 (when the year-on-year change reached an impressive 16.8%), which was attributable to a high comparative baseline. In 2020, sales of games skyrocketed worldwide on the back of the COVID-19 pandemic. During lockdowns, gamers stayed at home and had much more free time to spend on their favourite hobby. Regular players were joined by those who new to the gaming world, which in 2020 accelerated the growth of especially the mobile games segment. Newzoo experts explain that the slow growth rate of the gaming industry in 2021 was also attributable to delayed releases of a number of AAA games, whose sales have a significant impact on the whole sector.



2021 did not bring any changes on the electronic entertainment market with regard to the hardware platforms preferred by players. The mobile (smartphones and tablets) games segment accounted for as much as 52% of the global gaming market and was worth USD 93.2bn. The segment grew by a solid 7.3% year on year, well above the growth rate for the entire market. The most popular mobile games were those for smartphones. The strong growth of this segment, outpacing by far the growth of the industry as a whole, was driven by a sharp increase in the number smartphones used globally and the fact that games dedicated to such devices are sold at low prices or offered in the F2P (free to play) model. This means a low entry barrier to the world of games for a person who has never been interested in this type of entertainment. In 2021, smartphone owners spent as much as USD 81.5bn on games, 8% more than in 2020. In 2021, the tablet games segment grew by a mere 2.6%, to USD 11.7bn.

The mobile games market grew at the expense of PC games. In 2021, the PC games market shrank by 0.8% year on year, to USD 36.7bn, which accounted for 20% of the entire gaming market. The fastest decline was seen in web browser games. This market shrank by as much as 18.2% year on year, to USD 2.6bn. Demand for traditional PC games was higher. In 2021, fans spent USD 34.1bn on such games, 0.9% more than in 2020.

The console segment's performance in 2021 was even worse due to the aforementioned delays in releasing a number of AAA games, which are preferred by console owners. In 2021,

console owners spent USD 50.4bn on their favourite games, that is 6.6% less than in 2020. According to Newzoo experts, poor performance of the console games segment stemmed from, among other things, a limited availability of new models of Sony and Microsoft consoles in stores, as their makers had difficulty keeping up with the demand due to bottlenecks in global logistics chains. The lower-than-assumed number of new consoles translated into falling sales of games for those platforms.

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

According to Newzoo, the Asia-Pacific region – including in particular China, which outranked the US several years ago – was again the world's most important gaming market in 2021. The region had already accounted for slightly more than a half of the global gaming market. Its value was close to USD 90bn, 3% more than a year earlier. For obvious reasons, the Chinese market, valued at approximately USD 46bn, represented the lion's share of the market in that region. According to Newzoo, the robust performance of Asian markets, both in 2021 and 2020, stemmed from the fact that customers in Asia tended to choose games for mobile devices and this sector not only managed to sail through the COVID-19 crisis, but was also given an additional boost.

Newzoo believes that North America, or more precisely the United States, continued to be the world's second largest gaming market in 2021. According to experts, in 2021 US fans spent more than USD 42bn on computer games, that is about 7% less than the year before. The decline was caused by poor performance of the console games segment, which accounts for the better part of the US market. Performance of Europe's gaming market in 2021 was slightly better, albeit still shy of the 2020 results. As expected, it shrank by more than 5% year on year, to around USD 31bn, accounting for 18% of the global market. Latin America, and the Middle East and Africa fared much better, growing by over 5% (in excess of USD 7bn) and by almost 5% (to more than USD 6bn), respectively. As a result, the global market share attributable to each of those regions was approximately 4%. Their share is growing steadily year by year, driven by the rapidly expanding number of owners of PCs and consoles, and especially of mobile devices.

According to Newzoo, the Polish market of video games represents a negligible, close to 0.5% share of the global gaming market. This situation looks a little better win the case of 11 bit studios S.A. In 2021, the Polish market accounted for 2.09% of the Company's revenue (PLN 1,463,642), compared with 2.37% (PLN 2,064,708) the year before. The future of the Polish gaming market looks promising. According to the authors of the 'Condition of the Polish Gaming Industry 2020' report, the video games market in Poland will be worth PLN 2.69bn in 2022 (2021: PLN 2.54bn). By 2024, its value is expected to rise to PLN 3bn, and the hardware structure will not materially differ

from that observed globally, with the productions dedicated to handheld devices retaining the largest market share.

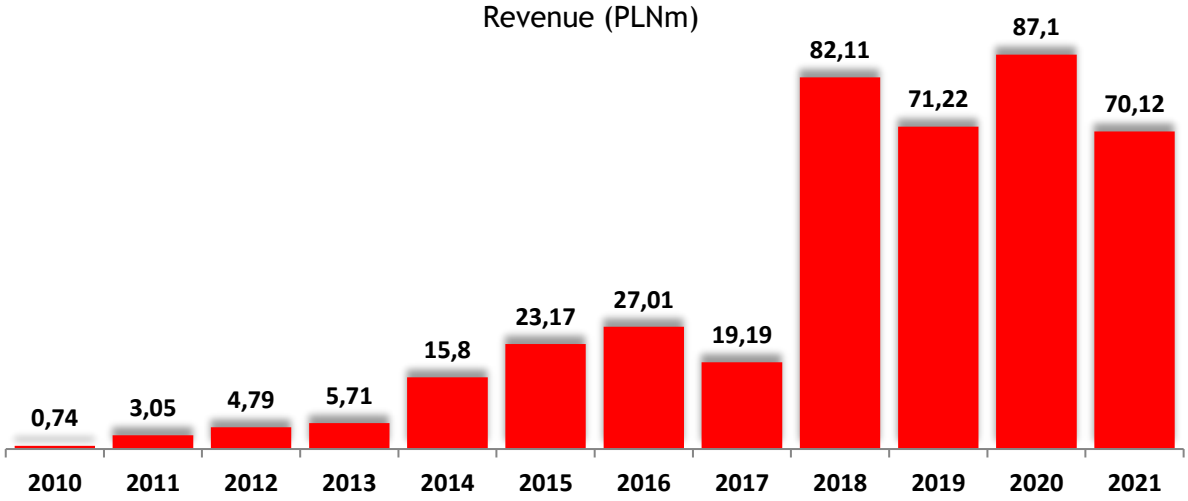
4.6. Financial condition of 11 bit studios S.A. in 2021

4.6.1. Statement of profit or loss

	Period ended Dec 31 2021	Period ended Dec 31 2020	Change y/y (%)
Continuing operations			
Revenue	70,122,691	87,101,774	(19.49)
Other income	255,825	325,158	(21.32)
Total operating income	**70,378,516**	**87,426,932**	**(19.50)**
Depreciation and amortisation	(8,920,103)	(10,265,214)	(13.10)
Raw materials and consumables used	(534,279)	(353,338)	51.21
Services	(19,200,848)	(25,871,505)	(25.78)
Salaries, wages and employee benefits	(9,573,210)	(6,846,529)	39.83
Taxes and charges	(295,565)	(304,481)	(3.04)
Other expenses	(1,823,511)	(2,993,498)	(39.08)
Total operating expenses	**(40,347,514)**	**(46,635,065)**	**(13.48)**
Operating profit	**30,031,002**	**40,791,867**	**(26.38)**
Interest income	23,572	530,675	(95.56)
Other finance income	2,282,516	13,012	17,441.62
Finance costs	(502,626)	(683,733)	(26.49)
Profit before tax	**31,834,464**	**40,651,821**	**(21.69)**
Income tax expense	3,148,882	3,288,690	(4.25)
NET PROFIT	**28,685,582**	**37,363,131**	**(23.22)**
Earnings per share (PLN):			
Basic	12.17	16.13	(28.45)
Diluted	11.96	15.64	(26.26)
NET PROFIT	**28,685,582**	**37,363,131**	**(23.22)**
Other comprehensive income	0	0	
TOTAL COMPREHENSIVE INCOME	**28,685,582**	**37,363,131**	**(23.22)**

In 2021, 11 bit studios S.A. earned revenue of PLN 70,122,691, compared with PLN 87,101,774 in the previous year. Revenue fell 19.49% as there were no new game releases, neither in the Company's proprietary nor publishing portfolios. 11 bit studios S.A. focused on developing and monetising its existing games. Current sales were supported by promotional and marketing campaigns, such as Publisher Sale on Steam in April and October 2021, which markedly boosted interest in and sales of both the core (basic) version of *Frostpunk* and other games, including *Moonlighter* and *Children of Morta*, as well as paid DLCs to each of those games. *This War of Mine*

continued to deliver a sizeable revenue stream, despite the fact that more than seven years had already passed since its launch on November 14th 2014.



A material portion of the Company's revenue in 2021 (26%) was generated from games in the publishing division's portfolio, that is *Moonlighter* and *Children of Morta*. An important source of revenue in 2021 was revenue from a contract with Microsoft, on granting access to the games from the portfolio as part of the Xbox Pass subscription service, and contracts with Epic Games and Amazon, also concerning granting access to the Company's proprietary games and games from the publishing portfolio as part of the subscription services offered by Epic Games and Amazon.

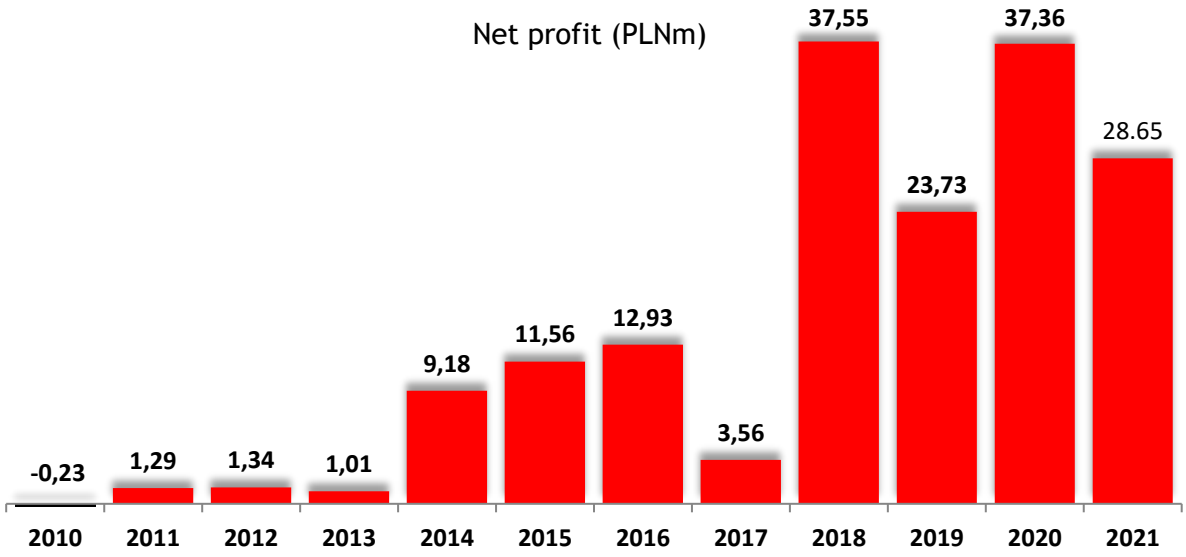
In 2021, a strong focus was maintained on strict discipline in operating expenses, which fell 13.48% year on year, to PLN 40,347,514 (2020: PLN 46,635,065). The decrease was attributable factors such as lower amortisation (PLN 8,920,103 vs PLN 10,265,214 in 2020), which was due, among others, to the end of amortisation of *Frostpunk,* the Company's flagship game. A significant year-on-year decline, from PLN 25,871,505 to PLN 19,200,848 (25.78%), was also seen in the cost of services, which includes, in addition to payments to the Company's independent contractors, fees for third-party game developers using 11 bit studios S.A.'s publishing services. The Company's 2021 revenue from sales of games in the publishing segment accounted for 26% of total revenue. In 2020, the share was 29%. In 2021, salaries and wages rose by as much as 39.83%, to PLN 9,573,210, as a result of a gradual increase in employment levels and, in particular, inclusion in this item of a non-cash provision recognised in connection with the Company's 2021–2025 Incentive Scheme. In 2021, the provision amounted to PLN 3,347,377. No such provision was recognised in 2020. Another major item of operating expenses (other expenses) was cost of discontinued projects, amounting to PLN 348,341. The amount comprised the expenditure on the *Foxhole* game (external project developed by the Spanish studio Digital Sun) remaining to be written off (some of the expenditure was written off in 2020) and an impairment loss on expenditure related to the development of Liquid Engine (phase 6) incurred in the reporting period (the Company decided to abandon the project). Another major item of other expenses were donations, which in 2021 amounted to PLN 632,375. Most of this amount was transferred to the account of Humane Society International (a foundation engaging in the protection of animals) and had been generated from

sale of *Children of Morta: Paws and Claws*, a DLC for *Children of Morta* released in the third quarter of 2020.

The year-on-year drop in revenue in 2021, slightly higher than a decrease in operating expenses, translated into a lower operating profit for 2021. Operating profit came in at PLN 30,031,002, down 26.38% year on year (PLN 40,791,867), with operating profit margin at 42.82% in 2021 (2020: 46.83%). The Company's 2021 EBITDA reached PLN 38,951,103 (2020: PLN 51,057,081). The EBITDA margin went down to 55.54%, from 58.61% a year earlier.

With a year-by-year increase in 11 bit studios S.A.'s cash reserves, gains on measurement of the IRS (hedging the Company against the interest rate risk related to the investment credit facility granted by PKO BP S.A.) and favourable developments on international currency markets (depreciation of the Polish złoty against the US dollar and the euro), the Company recorded a major rise in its finance income compared with 2020, to PLN 2,306,088, up by as much as 324.16% on the previous year. Of this amount, PLN 919,476 was finance income from currency exchange gains (remeasurement of financial assets denominated in foreign currencies). In 2020, the Company reported the related finance costs (the złoty appreciated against the US dollar and the euro). In 2021, 11 bit studios S.A.'s finance costs totalled PLN 502,626 (down 26.49% year on year), and the largest item was the costs related to the investment credit facility from PKO BP S.A. taken out at the end of 2018 to finance the purchase of an office building located at ul. Brzeska 2 in Warsaw.

Thanks to the positive impact of financial transactions, 11 bit studios S.A.'s profit before tax reached PLN 31,834,464 in 2021, compared with PLN 40,651,821 a year earlier (down 21.69%). The Company's income tax for 2021 was PLN 3,148,882 relative to PLN 3,288,690 in the previous year. This situation is attributable mainly to the IP Box tax relief used by the Company in 2021 (as well as in 2020). The relief amount was PLN 3,279,582 in 2021 and PLN 4,757,040 in 2020. All in all, 11 bit studios S.A.'s net profit for 2021 was PLN 28,585,582, compared with PLN 37,363,131 in 2020 (down 26.78%). The Company's net profit margin fell to 40.91%, from 42.89% in 2020.



4.6.2. Statement of financial position

As at December 31st 2021, the Company's total assets amounted to PLN 219,512,964, up by 17.80% from PLN 186,339,223 in the previous year.

ASSETS

	As at Dec 31 2021	Share (%)	As at Dec 31 2020	Share (%)
NON-CURRENT ASSETS				
Property, plant and equipment	25,946,478	11.82	26,889,502	14.43
Intangible assets	59,137,637	26.94	37,859,517	20.32
Perpetual usufruct of land	4,281,361	1.95	4,003,398	2.15
Deferred tax asset	957,488	0.44	1,517,590	0.81
Other assets	99,081	0.05	127,590	0.07
IRS – long-term portion	257,629	0.12	0	0.00
TOTAL NON-CURRENT ASSETS	**90,679,674**	**41.31**	**70,397,597**	**37.78**
CURRENT ASSETS				
Trade and other receivables	16,485,147	7.51	11,601,506	6.23
Income tax receivable	4,138,348	1.89	7,623,047	4.09
Other current assets	752,342	0.34	583,598	0.31
IRS – short-term portion	42,938	0.02	0	0.00
Cash and cash equivalents	26,748,530	12.19	24,134,648	12.95
Current financial assets	80,665,985	36.75	71,998,826	38.64
TOTAL CURRENT ASSETS	**128,833,290**	**58.69**	**115,941,625**	**62.22**
TOTAL ASSETS	**219,512,964**	**100**	**186,339,223**	**100.00**

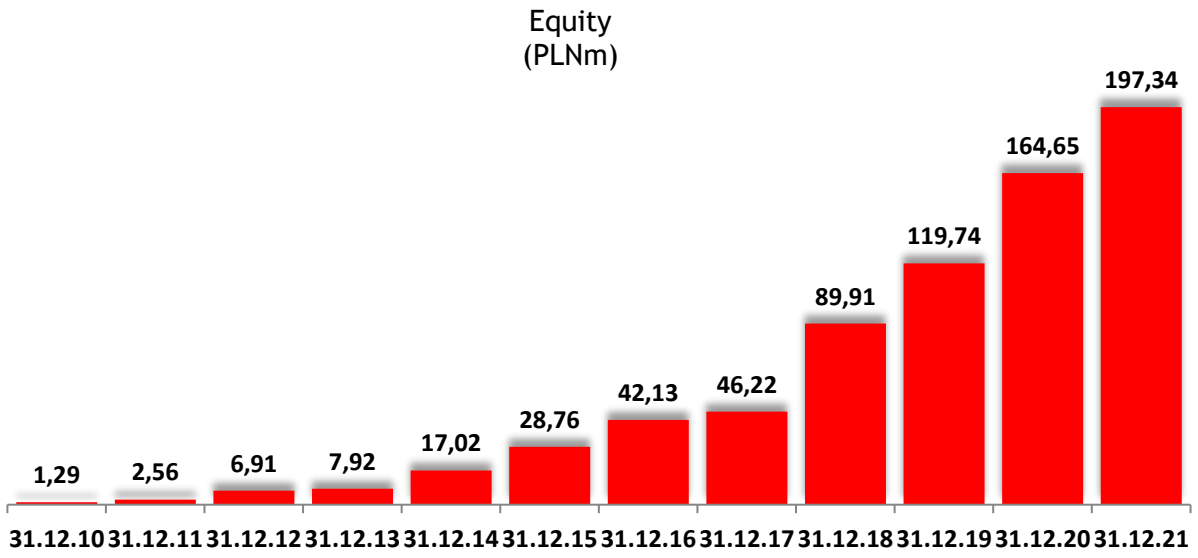
EQUITY AND LIABILITIES

	As at Dec 31 2021	Share (%)	As at Dec 31 2020	Share (%)
EQUITY				
Share capital	236,692	0.11	236,055	0.13
Share premium	13,063,204	5.95	12,407,633	6.66
Statutory reserve funds	120,467,692	54.88	87,152,664	46.77
Share-based payment reserve	35,092,206	15.99	31,744,829	17.04
Retained earnings	28,477,497	12.97	33,106,943	17.77
TOTAL EQUITY	**197,337,291**	**89.90**	**164,648,124**	**88.36**
NON-CURRENT LIABILITIES				
Long-term borrowings and other debt instruments	7,560,000	3.44	8,820,000	4.73
IRS – long-term portion	0	0.00	679,650	0.36
Deferred income	635,711	0.29	635,711	0.34
Lease liabilities - perpetual usufruct of land	755,245	0.34	334,041	0.18
TOTAL NON-CURRENT LIABILITIES	**8,950,956**	**4.08**	**10,469,402**	**5.62**
CURRENT LIABILITIES				
Trade and other payables	8,012,807	3.65	9,791,953	5.25
Contract liabilities	3,937,176	1.79	0	0.00
Short-term borrowings and other debt instruments	1,260,000	0.57	1,260,000	0.68
IRS – short-term portion	0	0.00	97,093	0.05
Lease liabilities - perpetual usufruct of land	14,734	0.01	12,653	0.01
Deferred income	0	0.00	59,997	0.03
TOTAL CURRENT LIABILITIES	**13,224,717**	**6.02**	**11,221,696**	**6.02**
TOTAL LIABILITIES	**22,175,673**	**10.10**	**21,691,098**	**11.64**
TOTAL EQUITY AND LIABILITIES	**219,512,964**	**100**	**186,339,222**	**100.00**

As at the end of 2021, current assets represented the majority (58.69%) of the Company's total assets. They stood at PLN 128,833,290, compared with PLN 115,941,625 in the previous year, which means a year-on-year increase of 11.12%. As in 2020, current financial assets, that is financial instruments with a conservative risk profile (including PKO BP Leasing and PKO BP Bank Hipoteczny bonds/notes), were the largest item of the Company's current assets, amounting to PLN 80,665,985 (end of 2020: PLN 71,998,826), that is 36.75% of total assets. This figure is increased by the amount of cash and cash equivalents of PLN 26,748,530 as at the end of 2021, compared with PLN 24,134,648 the year before. Trade and other receivables of PLN 16,485,147 were also a significant component of the Company's current assets. In 2020, they amounted to PLN 11,601,506.

A considerable item, representing 1.89% of total assets, was income tax receivable of PLN 4,138,348, compared with PLN 7,623,047 as at December 31st 2020.

As at the end of December 2021, the Company's non-current assets stood at PLN 90,679,674, relative to PLN 70,397,597 in the previous year. They increased 28.81% and accounted for 41.31% of total assets. At the end of 2020, this ratio stood at 37.78%. Intangible assets, the main component of non-current assets, amounted to PLN 59,137,637, up from PLN 37,859,517 in the previous year. They rose by as much as 56.20% and their share in the Company's total assets grew to 26.94% from 20.32% at the end of 2020. Intangible assets comprised mainly partly amortised expenditure on games in the proprietary and 11 bit publishing's portfolios, which have already been placed on the market, expenditure on ongoing development work (*Frostpunk 2*, *Project 8*, *Dolly* project, and new games of 11 bit publishing), and expenditure on the game engine development. Another component of non-current assets as at the end of 2021, with a value significantly lower than that of intangible assets, was property, plant and equipment of PLN 25,946,478, compared with PLN 26,889,502 the year before. The largest item of the Company's non-current assets was the property located at ul. Brzeska 2 in Warsaw, which the Company purchased in late 2018 for its new office. The value of property in the Company's statement of financial position as at the end of December 2021 was PLN 22,991,270, slightly less that the year before, when it stood at PLN 23,645,432.



The largest item of the Company's equity and liabilities were statutory reserve funds, which amounted to PLN 120,467,692 as at the end of December 2021, accounting for 54.88% of total equity and liabilities. As at the end of 2020, the respective figures were PLN 87,152,664 and 46.77%. Statutory reserve funds increased following the transfer of the Company's net profit for 2020. The decision to allocate the entire profit for 2020 (PLN 37,363,131) to statutory reserve funds was made by the shareholders at the General Meeting held on June14th 2021. As at the end of 2021, retained earnings were a significant component of the Company's equity and liabilities. At PLN 28,477,497, they accounted for 12.97% of total equity and liabilities. As at the end of 2020, retained earnings

amounted to PLN 33,106,943 (17.77% of total equity and liabilities). This year-on-year decline was led by the lower net profit earned by the Company in 2021 on the back of falling revenue and profits from sale of video games. A growing item of equity and liabilities of 11 bit studios S.A. (compared with the end of 2020) was the share-based payment reserve related to the Company's 2017–2019 Incentive Scheme. It amounted to PLN 35,092,206, representing 15.99% of total equity and liabilities. This compares with PLN 31,744,829 (17.04% of total equity and liabilities) as at the end of 2020. A similar growth was seen in the share premium account, whose value went up to PLN 13,063,204, from PLN 12,407,633 as at the end of 2020. As at the end of 2021, it accounted for 5.95% of total equity and liabilities, compared with 6.66% in 2020.

As at December 31st 2021, the Company's total liabilities amounted to PLN 22,175,672, compared with PLN 21,691,098 at the end of 2020. Over the year, total liabilities rose by 2.23%, but their share in total equity and liabilities fell to 10.10%, from 11.64% at the end of 2020.

As at the end of December 2021, the Company's non-current liabilities stood at PLN 8,950,956 relative to PLN 10,469,402 in the previous year. Their main component was a PLN 12,600,000 investment credit facility contracted by the Company with PKO BP at the end of 2018 to finance the purchase of the property at ul. Brzeska 2 in Warsaw (new office), which is being repaid in a timely manner.

As at the end of 2021, the Company's current liabilities stood at PLN 13,224,717 relative to PLN 11,221,696 the year before. They went up by 17.85%, but at the same time accounted for only 6.02% of total equity and liabilities (the ratio was the same as at the end of 2020). The slight increase in current liabilities was attributable to the recognition of a new item, namely contract liabilities, of PLN 3,937,176 as at the end of 2021. The item comprised advance payments received by the Company from its trading partners towards future sales of the Company's products (games). As in the previous year, the main item of current liabilities were trade payables, which went down to PLN 8,012,807 (from PLN 9,791,953 a year earlier). This amount included royalties payable to third-party developers for selling their games as part of publishing services provided by the Company (11 bit publishing).

4.6.3. Statement of cash flows

	Period ended Dec 31 2021	Period ended Dec 31 2020
Cash flows from operating activities		
Profit for the financial year	**28,685,582**	**37,363,131**
Adjustments:		
Depreciation and amortisation	8,920,103	10,265,214
Income tax expense recognised in profit or loss	3,148,882	3,288,691
Remeasurement of intangible assets	(28,510)	(17,450)
Costs of the 2021–2025 Incentive Scheme	3,347,377	0
Other adjustments	(1,233,486)	667,640
Changes in working capital:		
Increase/(decrease) in trade and other receivables	(4,883,641)	6,149,427
Increase/(decrease) in inventories	0	11,829
Increase/(decrease) in other assets	(140,234)	(258,263)
Decrease in trade and other payables	(1,779,148)	(1,637,938)
Increase/(decrease) in net contract assets/liabilities	3,937,176	(11,730,526)
Increase/(decrease) in deferred income	(59,997)	9,030
Cash provided by operating activities	**39,914,102**	**44,110,783**
Income tax paid	1,028,187	(6,446,116)
Net cash from operating activities	**40,942,289**	**37,664,667**
Cash flows from investing activities		
Loans to employees	1,875,057	(2,066,604)
Proceeds from bank deposits upon maturity – over 3 months	0	164,328,563
New bank deposits placed – over 3 months	0	(97,000,000)
Proceeds from redemption of financial assets	111,844,368	0
Purchase of financial assets	(122,241,959)	(69,932,222)
Payments for property, plant and equipment and intangible assets	(28,878,349)	(29,754,426)
Net cash from investing activities	**(37,400,883)**	**(34,424,689)**
Cash flows from financing activities		
Proceeds from issue of shares	656,209	7,544,694
Proceeds/(repayments) under credit facility	(1,260,000)	(1,260,000)
Payment of interest on credit facility	(323,733)	(272,543)
Net cash from financing activities	**(927,524)**	**6,012,151**
Net increase /(decrease) in cash	2,613,882	9,252,130
Cash at beginning of reporting period	24,134,648	14,882,519
CASH AT END OF REPORTING PERIOD	**26,748,530**	**24,134,649**

In 2021, the Company generated cash flows from operating activities of PLN 39,914,102, 9.51% less than in 2020, despite no new game releases significantly contributing to its performance. The high level of cash flows from operating activities (higher than the net profit earned by 11 bit studios S.A. in the whole of 2021) was attributable to very good sales of the games placed on the market in previous periods, mainly *Frostpunk* (and its paid add-ons offered as part of the Season Pass),

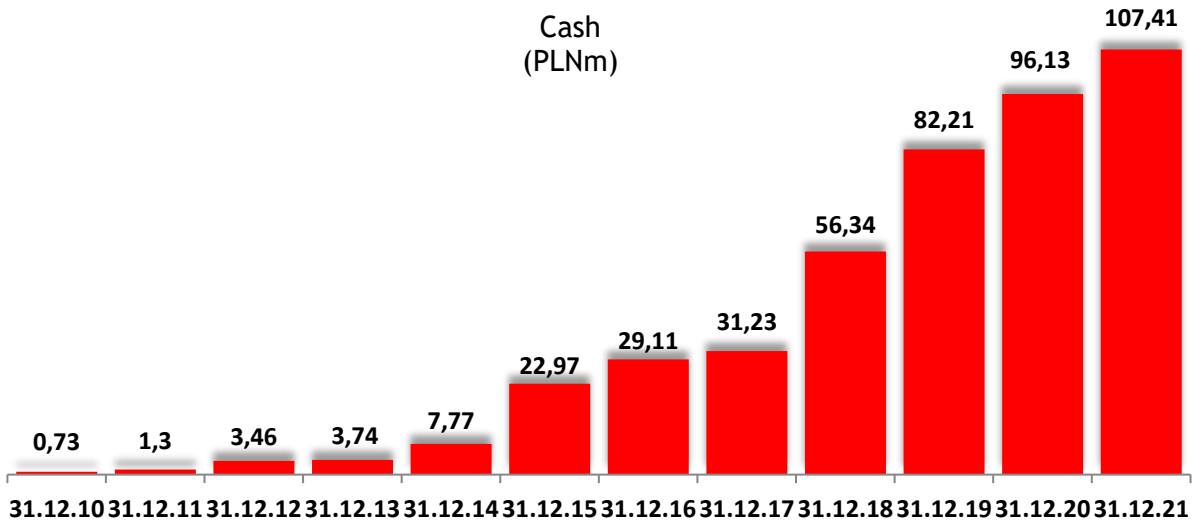
Moonlighter and *Children of Morta* (the latter two were third-party developed titles released by the publishing division). Sales of *This War of Mine* were another major contributor to revenue. It should be stressed that despite the game's natural ageing, revenue from its sale in 2021 was similar to that generated in 2020.

The drop in profit before tax earned in 2021 did not affect the amount of income tax paid by 11 bit studios S.A. in that year. Its amount (charged to profit or loss) was PLN 3,148,882, compared with PLN 3,288,690 in 2020. Consequently, net cash provided by the Company's operating activities in 2021 amounted to PLN 40,942,289, up 8.70% from PLN 37,664,667 in 2020.

At the same time, the Company spent PLN 37,400,883 on investments, compared with PLN 34,424,689 in 2020. A major part of that amount was represented by financial investments (purchase of financial instruments with a conservative risk profile), used by 11 bit studios S.A. to manage its cash resources. Payments for property, plant and equipment and intangible assets (mainly game development) were also an important expenditure item (PLN 28,878,349), having decreased slightly from PLN 29,754,426 in 2020. The item included high capital expenditure on new games in the proprietary and publishing division's portfolios.

Cash flows from financing activities in 2021 included payments related to the servicing of a 10-year investment credit facility with PKO BP, taken out in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. As in 2020, in 2021 11 bit studios S.A. spent PLN 1,260,000 on principal repayments. PLN 323,733 was paid in interest (2020: PLN 272,543). A considerable item (PLN 656,209) was proceeds from shares issued as part of the 2017−2019 Incentive Scheme. In 2021, 11 bit studios S.A. issued 6,376 Series G shares at an issue price of PLN 103.38 per share (the par value of the shares is PLN 0.1).

As at December 31st 2021, the Company held cash and cash equivalents of PLN 26,748,530 vs PLN 24,134,648 as at the end of 2020, an increase of 10.83% year on year. It should be noted that at the end of 2021 the Company also held PLN 80,475,972 invested in financial instruments with a conservative risk profile. Another item was loans advanced to employees to purchase shares under the 2017−2019 Incentive Scheme and for other purposes, amounting to PLN 190,013. As at the end of 2020, the value of such investments (including loans to employees) was PLN 71,998,826. This means that total cash resources available to 11 bit studios S.A as at the end of 2021 amounted to PLN 107,414,514, an 11.73% increase on 2020, when they stood at PLN 96,133,471. Inclusive of trade receivables (PLN 16,485,147 as at the end of 2021 relative to PLN 11,601,604 the year before), 11 bit studios S.A.'s total financial assets as at December 31st 2021 hit an all-time high of PLN 123,899,662 (December 31st 2020: PLN 107,735,075).



4.6.4. Borrowings in the financial year 2021

In 2021, 11 bit studios S.A. did not enter into any credit facility or loan agreements.

The only credit facility held by the Company is the 10-year investment credit facility contracted with Powszechna Kasa Oszczędności Bank Polski S.A. For full details, see **Note 3.26**.

4.6.5. Loans advanced in the financial year 2021

In 2021, in accordance with Art. 245.1, Art. 245.4 and Art. 245.8 of the Commercial Companies Code and pursuant to Resolution No. 22/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company entered into three loan agreements with employees to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme and two loans with employees to finance other purposes. The loans totalled PLN 293,808. As at the end of the reporting period, the outstanding amount of the loans (including interest) was PLN 190,153.

4.6.6. Sureties and guarantees issued in the financial year 2021 and other material off-balance sheet items

The Company did not issue any sureties or guarantees in the financial year 2021. For information on material off-balance sheet items related to 11 bit studios S.A.'s publishing activities, see **Note 3.31**.

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

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

4.6.8. Description and assessment of factors and non-recurring events with a bearing on the results of the Company's operations in the financial year 2021

In 2021, there were no non-recurring factors affecting the Company's performance in that period.

4.7. Agreements significant to the Company's operations (excluding credit facility and loan agreements) executed in 2021 and by the issue date of this Report

After the reporting date, on February 28th 2022 11 bit studios S.A. announced (in Current Report No. 8/2022) that it had signed an agreement to purchase 40% of shares in Fool's Theory sp. z o.o. For full details, see **Note 3.37.**

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

The Company did not publish any forecasts for 2021.

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

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

As at the issue date of this Report, the Company issued (starting from July 2020) a total of 80,669 Series G shares, generating proceeds of PLN 8,339,561.221 (gross). In the reporting period: 6,376 Series G shares and proceeds of PLN 659,150.88 (gross). The funds were allocated to the Company's working capital and are to be used to finance the day-to-day operation and growth investments (production of new games).

4.10. The Company on the capital market

11 bit studios S.A. has been present on the Warsaw Stock Exchange since October 28th 2010, when Company shares were first listed on the NewConnect market. In 2015, the Company's shareholders decided to change the listing market on the WSE. The shares were first traded on the main market on December 18th 2015. At the start of the first trading session, their price was PLN 68.1. At that time, 2,217,199 Series A – Series E shares were floated on the WSE. From June 22nd 2017, following an increase in the Company's share capital by 70,000 Series F shares (issued for the purposes of the 2014–2016 Incentive Scheme), 2,287,199 Series A – Series F shares were traded on the stock exchange. As of mid-2020, the Company published several current reports announcing share capital increases through the issue of Series G shares, issued for the purposes of the 2017–2019 Incentive Scheme. Therefore, as at the reporting date, the Company's share

capital comprised 2,366,921 Series A – Series G shares. Between the end of the reporting period and the issue date of this Report, 11 bit studios S.A. announced an increase of its share capital by another 947 Series G shares (February 2022), which were also issued for the purposes of the Scheme referred to above. This means that as at the reporting date, the share capital of 11 bit studios S.A. comprised 2,367,868 shares.

The Company founders, i.e., Przemysław Marszał (President of the Management Board) as well as Grzegorz Miechowski and Michał Drozdowski (Members of the Management Board) remain its major shareholders. As at the issue date of this 2021 Full-Year Report, they controlled jointly 358,543 shares in the Company, representing 15.14% of the share capital and the same proportion of voting rights at the General Meeting.

By a decision of the WSE Management Board, the 11 bit studios stock has been included in the mWIG40 index since June 15th 2018. As at the date of issue of this Report, its weight in the index was 1.63% (2020: 1.93%).

11 bit studios S.A. shares are also a constituent of the WIG.GAMES5 index, published since March 18th 2019 and featuring the largest gaming companies listed on the WSE. As at the date of issue of this Report, the 11 bit studios S.A. stock's weight in the index was 20.73% (2020: 18.39%).

Company shares are also included in the WIG-ESG Index, published since September 3rd 2019, which brings together socially responsible businesses, i.e. those that adhere to CSR standards, in particular with respect to environmental, social, economic and corporate governance aspects. 11 bit studios S.A. shares account for 0.47% of the index. (2020: 0.56%).

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

Throughout 2020, the Company's stock enjoyed great interest from investors on the WSE, as reflected in its price increase. During that period, the Company's share price increased by 16.87%, while the WIG Games index, featuring the largest gaming companies listed on the WSE, went down 22.75%. It should be added that in 2021 the broad-market WIG index rose by 22.62%, while the mWIG40 index, which includes 11 bit studios, increased 33.07%.

Chart: Performance of 11 bit studios S.A. shares on the Warsaw Stock Exchange in 2021 (PLN)

Source: Parkiet.com

In 2021, the price of 11 bit studios shares on the WSE ranged from PLN 397.2 (at the trading session on October 6th 2021) to PLN 587.0 (at the trading session on February 25th 2021). The fourth quarter of 2021 was a particularly favourable period for the price of Company shares when, after hitting a floor, the price picked up quickly on the back of a rebound in the global gaming industry. As a result, the price of 11 bit studios shares at the close of trading on the last session day in 2021 was PLN 554. At the end of 2021, the market value of 11 bit studios S.A. exceeded PLN 1.31bn (67th position among the largest Polish companies listed on the WSE), having grown by almost PLN 200m year on year.

The price growth was accompanied by satisfying liquidity of the shares. In the reporting period, the total value of trading in Company shares on the WSE was PLN 848.57m (EUR 186.04m), which means that 11 bit studios S.A. ranked 43rd among WSE-listed companies with the largest value of trading in 2020. The average daily trading volume of Company shares was 6,812 shares, with 460 trades executed daily.

Investors' strong interest in the 11 bit studios S.A. stock translated into good equity research coverage. Throughout 2021, stock analysts from different brokerage houses and offices issued 12 equity research reports on 11 bit studios S.A., compared with 14 in 2020. As many as seven reports in 2021 included 'buy' recommendations. In one case, analysts recommended accumulation of the Company's stock, and in two cases the recommendation was: 'hold' There was also one 'reduce' and one 'sell' recommendation.

In 2021, given the COVID-19 pandemic and the related restrictions on mobility and organisation of events, 11 bit studios S.A. had to slightly limit its direct meetings with market participants, including Investors and Shareholders. The Company intends to resume this practice as soon as the restrictions are lifted. On the other hand, in 2021 11 bit studios S.A. increased significantly its activity as regards meetings held using electronic communication channels

(Microsoft Teams, Zoom, Google Meets, etc.). Apart from ongoing one-on-one discussions with managers and stock analysts from brokerage houses and offices in Poland and abroad, in 2021 the Company participated in selected investor conferences, including outside Poland, for instance the ones organised by Wood&Co (February), HSBC (June), the WSE (June) and Wood&Co (December).

In line with its long-standing practice, 11 bit studios S.A. also held an annual Investor Conference in 2021, which for the first time took the form of a virtual event. The meeting was attended by more than 100 guests, including stock analysts, managers and representatives of economic media, and twice as many retail investors. The conference was broadcast over the Internet and simultaneously interpreted into English. The recording is available on the Company's YouTube channel at

https://www.youtube.com/watch?v=WNuKKoNvlug

https://www.youtube.com/watch?v=cg1grE0-XaU&t=8s (English version)

4.11. Growth prospects

11 bit studios S.A. is a producer of cross-platform video games sold all over the world, mainly through specialised online platforms, with Steam in the lead. In 2021, foreign sales accounted for over 97.9% of the Company's total revenue (2020: 97.6%). The computer games market, where 11 bit studios S.A. operates, has for years been the fastest-growing entertainment business whose value exceeds that of the music or film market. In 2021, according to the estimates of Newzoo, a Dutch provider of games analytics, the market was valued at USD 180.3bn, an increase of 1.4% compared with the previous year, when it was worth USD 177.8bn.

The long-term objective of 11 bit studios S.A. is to grow much faster than the entire video games market and to steadily increase its market share. The success of *This War of Mine* and *Frostpunk* consolidated the Company's position as one of the leading developers in the indie (independent) segment of the gaming industry. From the game's and its paid DLCs' release to the end of 2021, revenue from its sales for all hardware platforms exceeded PLN 120m. Sale of products based on IP related to *Frostpunk* brought more than PLN 170m (in a period shorter than four years after the release of the game for PCs). This corresponds well with the Company's strategy, which assumes production of ever larger, and thus ever more costly, games (but with a greater commercial potential) and thus a gradual exit from the indie segment.

Over the next few quarters, 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 almost two years 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 2021, 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, 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 issue date of this Report, 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 and more than 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, code named 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 this Report, the Company's total capital commitments were as follows: EUR 3,225,566, PLN 4,909,915 and USD 198,766.

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. On February 28th 2022, the Company announced that it had acquired 40% of shares in Fool's Theory (developer of *Vitriol*, a game that will be published by 11 bit studios S.A.). For details of the transaction, see **Note 3.37.** As at the issue date of this Report, the Company was holding talks with several other entities, which were at various stages of advancement. Internally generated funds are viewed as the preferred source of financing potential transactions. However, the Company does not exclude other acquisition financing models.

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

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

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

Among the internal factors relevant to the development of 11 bit studios S.A. one should point to the diversification of activities and sources of income. In addition to the production of games, since 2014 the Company has also been engaged in their publishing (the 11 bit publishing division). Publishing activities are expected to increasingly contribute to the Company's financial performance by the year. In the game development area, the Company continued to build three teams in 2021, which will enable it to ultimately own multiple product lines (brands – IP). With three development teams and several product lines, the 11 bit studios S.A. will be able to optimise and better utilise its production resources and stabilise its performance.

4.13. Feasibility of investment plans

As at December 31st 2021, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 26,748,529. In the previous year, it amounted to PLN 24,134,648. As at the end of 2021, 11 bit studios S.A. also held PLN 80,475,972 invested in financial instruments

with a conservative risk profile. Inclusive of PLN 190,013 in loans advanced by the Company to employees to finance the purchase of shares under the 2017−2019 Incentive Scheme, total cash resources available to the Company at the end of 2021 amounted to PLN 107,414,514, an 11.73% increase on 2020, when they stood at PLN 96,133,471. In addition, the Company had PLN 16,079,147 in receivables (mainly trade receivables) (end of 2020: PLN 11,601,604). The total value of 11 bit studios S.A.'s financial assets reported as at December 31st 2021 was an impressive PLN 123,493,662 (2020: PLN 107,735,075), an increase of close to 14.63% year on year.

At the same time, liabilities (current and non-current) totalled PLN 22,175,672 as at December 31st 2021, compared with PLN 21,691,098 the year before. Of that amount, PLN 8,519,433 was attributable to the credit facility (including measurement of the interest rate swap used by the Company to hedge against interest rate risk) contracted with PKO BP at the end of 2018 to purchase the property at ul. Brzeska 2 in Warsaw, which has been home to the Company's headquarters since March 2020. As at the end of 2020, the facility (including the interest rate swap) was valued at PLN 10,856,743.

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

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

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

5.1. Company overview

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

The Company was established for indefinite time.

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

The Company's principal business activity includes:

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

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

5.2. Governing bodies

5.2.1. Management Board

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

The composition of the Management Board of 11 bit studios S.A. did not change in the reporting period. The joint term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021.

Experience and competences of the Management Board Members

Przemysław Marszał, President of the Management Board

Graduate of the Faculty of Architecture at the University of Ecology and Management. Member of the Management Board of Metropolis Software in 2005–2009. He started his career in the video games industry as a graphic designer. As the chief artist, he is responsible for the final appearance of all 11 bit studios S.A. games, from the first sketch to the day of their release. He designed the entire 'charcoal drawing' appearance, which became one of the most distinctive features of *This War of Mine*. One of the key authors of *Frostpunk*. His responsibilities in the Management Board include strategy and planning, and overseeing the T&C (Team&Culture) division.

Grzegorz Miechowski, Member of the Management Board

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

Michał Drozdowski, Member of the Management Board

Graduate of the Faculty of Economics and Management at the Higher School of Commerce and Law. He worked as a designer for Lead 3D in 2002–2005. In 2006, he joined Metropolis Software, where he served as the Design Director from 2007. At 11 bit studios S.A., Michał Drozdowski was responsible for the design of all 11 bit studios S.A. games, including titles from the *Anomaly* series, *Funky Smugglers*, *This War of Mine* and *Frostpunk*. His responsibilities in the Management Board include all issues related to the production of proprietary and third-party developed (publishing division's) games.

5.2.2. 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

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

The joint term of office of the current Supervisory Board expires on May 23rd 2022.

Experience and competences of the Supervisory Board Members

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

Mr Marter has worked in the pharmaceutical/medical and technology industries for over 20 years. From 2000 to 2007, he was involved in managing Media Vision's sales department. Between 2007 and 2017, he was a co-founder and Vice President of the Management Board of Active Pharm, a company which he managed for over 10 years, implementing projects in the area of multi-channel marketing, clinical trials, medical systems and applications, as well as marketing strategies for the largest pharmaceutical corporations. Author of publications and articles on digital transformation based on organisations' gamification platforms. In addition to his work in the pharmaceutical and technology sectors, he has gained experience in supporting non-profit organisations by implementing strategies for image building, management and execution of social campaigns. At present, he is Managing Partner at the one2tribe Group and CEO at OnePharma.

His passion is new media and technologies as well as challenging projects, which he often communicated as a speaker at conferences, in publications and in social media.

Jacek Czykiel – Deputy Chairman of the Supervisory Board

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

Marcin Kuciapski – Member of the Supervisory Board

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

Piotr Wierzbicki – Member of the Supervisory Board

Graduate of the Warsaw School of Economics (SGH). He has also completed a number of training programmes in finance, management, financial reporting (IAS, US GAAP) and project management, including the Business Programme for Top Executives at IMD Business School, and ACCA Training. In 1993–1996 he worked at PWC as a Senior - Audit&Business Advisory Services. In 1996–2008, with Sun Microsystems, initially as CFO and, from 2002, as CEO. In 2009–2010, he was employed at Sygnity as Executive VP, CFO. In the following years, he worked at a number of companies, including EMC, YieldPlanet (currently as Member of the company's Supervisory Board) and again at Sygnity. Since May 2018, he has served as Managing Director, Country Manager, at Atos Polska.

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

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

5.3. Auditors

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

In Current Report No. 2/2020 of February 6th 2020, the Company announced that in accordance with the applicable laws and professional standards the competent body, i.e. the Company's Supervisory Board, at a meeting held on February 5th 2020, acting pursuant to Art. 66.4 of the Accounting Act of September 29th 1994, Art. 8.4 of the Company's Articles of Association, and Section 7.3 of the Rules of Procedure for the Company's Supervisory Board, and having considered the Audit Committee's recommendation, appointed PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., with registered office at ul. Polna 11, 00-633 Warsaw, to audit the Company's full-year financial statements and review its interim financial statements for the financial years ending December 31st 2020 and 2021. PricewaterhouseCoopers Polska, Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. is entered in the list of qualified auditors of financial statements maintained by the National Chamber of Statutory Auditors under Reg. No. 144. The Company had not previously engaged PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k. to audit or review its financial statements or provide any other advisory services.

The auditor's fees were agreed at: PLN 110,000 (for the audit of the full-year financial statements for 2021) and PLN 49,000 (for the review of the Company's interim financial statements for 2021). The same fees were paid for the audit of the full-year financial statements for 2020 and the review of the interim financial statements for 2020. In 2021, the parties also signed an annex to the agreement for the audit of the 2019 and 2020 remuneration reports (the fee was PLN 17,500) and the 2021 remuneration report (PLN 15,000). Between the end of the reporting period and the issue date of this Report, the parties also signed an annex concerning the review of the full-year financial statements for 2021, prepared in accordance with the ESEF Regulation (html format). The fee was set at PLN 3,000.

5.4. Share capital

As at the issue date of this Report, the Company's share capital amounted to PLN 236,786.8 and comprised 2,367,868 shares with a par value of PLN 0.10 per share, including:

- 1,000,000 Series A bearer shares,
- 494,200 Series B bearer shares,
- 376,561 Series C bearer shares,
- 40,938 Series D bearer shares,
- 305,500 Series E bearer shares,
- 70,000 Series F bearer shares,
- 80,669 Series G bearer shares.

The shares have been fully paid-up.

5.5. Shareholding structure as at the date of this Report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Grzegorz Miechowski	170,413	7.20	170,413	7.20
Przemysław Marszał	103,500	4.37	103,500	4.37
Michał Drozdowski	84,630	3.57	84,630	3.57
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
NN PTE	143,055	6.04	143,055	6.04
Other shareholders	1,730,171	73.07	1,730,171	73.07
Total	**2,367,868**	**100.00**	**2,367,868**	**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.

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.

In Current Report No. 31/2021 of November 30th 2021, 11 bit studios S.A. announced that on November 30th 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 November 30th 2021, Marcin Kuciapski purchased a total of 105 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 482.11 per share.

In Current Report No. 33/2021 of December 13th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on December 13th 2021 1,500 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 155,070. At the same time, the Company announced that as of December 13th 2021 the Company's share capital was PLN 236,692.1 and comprised 2,366,921 shares with a par value of PLN 0.1 per share.

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

In Current Report No. 1/2022 of January 11th 2022, 11 bit studios S.A. announced that on January 11th 2022 the Company received a notification given under Art. 87.1.2b of the Public Offering Act of July 29th 2005, submitted by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A., to the effect that following the acquisition of 11 bit studios S.A. shares on December 30th 2021 the funds managed by N-N PTE S.A. hold 118,764 Company shares, representing 5.018% of total voting rights at the Company's General Meeting and 5.018% of the Company's share capital.

In Current Report No. 5/2022 of January 31st 2022, 11 bit studios S.A. announced that on January 31st 2022 the Company received a notification given under Art. 69 of the Public Offering Act of July 29th 2005, submitted by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne

S.A., to the effect that following the acquisition of 11 bit studios S.A. shares on January 24th 2022 Nationale-Nederlanden Otwarty Fundusz Emerytalny holds a total of 125,316 Company shares, representing 5.294% of total voting rights at the Company's General Meeting and 5.294% of the Company's share capital. N-N PTE S.A. also notified the Company that a total of 143,055 shares in 11 bit studios S.A. were recorded in the accounts of the funds managed by N-N PTE S.A.

In Current Report No. 6/2022 of February 11th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on February 11th 2022 947 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 97,900.86. At the same time, the Company announced that as of February 11th 2022 the Company's share capital was PLN 236,786.8 and comprised 2,367,868 shares with a par value of PLN 0.1 per share.

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

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Dec 31 2021 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	106,500	103,500	106,500
Grzegorz Miechowski	Member of the Management Board	177,413	170,413	177,413
Michał Drozdowski	Member of the Management Board	84,630	84,630	84,630
Marcin Kuciapski	Member of the Supervisory Board	1,155	1,155	550

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

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

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

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

For full details of remuneration for members of the Company's Management and Supervisory Boards, see Note **3.32.**

5.8. Other related-party transactions

In addition to the transactions described above, the Company also entered into transactions with entities related to key personnel of the Company (key management). For a detailed description of the related-party transactions, see **Note 3.32**.

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

As at December 31st 2021 and as at the date of this Report, members of the Company's management and supervisory staff provide their services on the basis of an appointment under a relevant resolution and there are no agreements providing for compensation in the event of their resignation or removal.

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

As described in **Note 3.31**, the Company operates the 2017–2019 Incentive Scheme for key employees and independent contractors, and the 2021–2025 Incentive Scheme for Members of the Management Board, employees and independent contractors. Following implementation of the two Schemes, there may be a change in the percentages of shares held by the shareholders.

5.11. Control system for employee share ownership schemes

For full details of the 2017–2019 Incentive Scheme for key employees and independent contractors, and the 2021–2025 Incentive Scheme for Members of the Management Board, employees and independent contractors, see **Note 3.31.**

5.12. Purchase of own shares

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

5.13. Changes in the Company's principal governance rules

In 2021, there were no changes in the Company's principal governance rules.

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

Current financial assets (financial instruments with a conservative risk profile) and cash and cash equivalents were the largest item of the Company's assets. As at December 31st 2021, they stood at, respectively, PLN 70,404,173 (end of 2020: PLN 69,932,222) and PLN 26,748,530 (end of 2020: PLN 24,134,648). In total, the Company's current assets as at the end of 2021 amounted to PLN 128,157,204 (2020: PLN 115,941,625).

As at the end of 2021, 11 bit studios S.A.'s non-current assets stood at PLN 90,540,049, relative to PLN 70,397,597 at the end of 2020. A major item of the Company's non-current assets as at the end of 2021 was property, plant and equipment (PLN 25,946,478), comprising the property at ul. Brzeska 2 in Warsaw, purchased by the Company in December 2018 to house its new headquarters. The largest item of non-current assets was intangible assets, which included expenditure on ongoing development work (*Frostpunk 2*, *Project 8*, *Dolly*, and productions of 11 bit publishing), amortised expenditure on games already present on the market (*Frostpunk*, *Moonlighter* and *Children of Morta*) and expenditure on the game engine development. As at the end of 2021, intangible assets totalled PLN 59,137,637 (2020: PLN 37,985,129).

In 2021, the large amounts of surplus cash held by the Company enabled it to finance its current operations and investment projects with own funds, without the need for any borrowings.

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

As at December 31st 2021, 11 bit studios S.A. did not hold any shares in other entities.

After the end of the reporting period, on February 28th 2022, the Company announced (in Current Report No. 8/2022) that it had signed an agreement to purchase 40% of shares in Fool's Theory sp. z o.o. from Jakub Rokosz and Krzysztof Mąka. *Vitriol* (the game's working name) is developed by the Bielsko-Biała-based company and published by 11 bit studios S.A. As of the first quarter of 2022, 11 bit studios S.A. will recognise Fool's Theory's results using the equity method.

5.16. Management of the Company's risks

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

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

Risk of the Company failing to achieve its strategic objectives

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

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

Work on the Company's individual products takes from 12 to 60 months, depending on the size of the project. The market success of a product, measured by the size of demand and sales revenue, allows the Company to recover the expenses incurred during the game's production process and to earn profits, if any. The popularity of a product and, as a consequence, the amount of revenue it generates depend to a large extent on the changing tastes of consumers, hard-to-predict trends on the gaming market, and existing competitor products. Therefore, there is a high risk of an 'unsuccessful' product, i.e. one that prospective customers are not interested in because it does not suit their preferences. This may be due to poor quality or wrong targeting. For this reason, when launching a new product, the Company is not able to predict customer reactions and, consequently, to foresee with a high degree of probability the expected amount of revenues.

Risk related to possible delays in game production

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

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

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

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

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

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

- Risk of the lack of attractive titles to be acquired by the publishing division
  The supply of attractive third-party projects is limited. It may happen that for a long time the Company will not be able to find a product that would meet all expectations.
- Risk of strong competition from other publishers
  In the Company's immediate environment there are at least a few companies looking for similar products that satisfy the same evaluation criteria. The more limited the supply of

attractive projects, the more difficult it is to stand out from the competition and offer something unique to developers.

- Risk of missing significant market trends
  The gaming market is changing dynamically. New technological trends are emerging, Failure to identify a trend early enough and adapt accordingly may result in losses if the Company markets products which are not trendy.
- Risk associated with higher prices of software used to create games
  A more limited availability (due to changes in pricing policies or other reasons) of popular 3D engines used to develop independent games may complicate the manufacturing process and indirectly extend the time required to create a game, resulting in a reduction in the number of new products.
- Risk related to the growing popularity of crowd-sourcing portals and self-publishing
  As a result of the growing popularity of crowd-sourcing portals, the demand for publishing services, one of the most important advantages of which was financing or co-financing of production, is diminishing. The projects that have the biggest chance of success in crowd-sourcing campaigns are those with high market potential, that is those that are also interesting from the perspective of publishing activities. As a result, the Company loses many potentially profitable projects.
- Growing number of entities providing publishing services for small and medium-sized developers
  The increase in the number of companies offering publishing services consisting in co-financing production and supporting marketing activities may bring about a drop in prices/commissions charged for publishing services and difficulties in acquiring new projects.
- Risk of limited effectiveness of PR activities
  The declining reach of industry media may significantly reduce the effectiveness of PR activities and make it impossible to use the existing know-how. In such conditions, the Company may be required to undertake costly promotional activities to effectively inform potential customers about the products it offers.

Risk related to the Company's key human resources

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

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

Risk related to difficulties in finding experienced employees

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

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

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

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

In the light of the rapid technological progress, also in video game development, there is a risk that the Company may use the acquired works in a field of use other than those specified in the copyright transfer contract and, consequently, may be required to pay additional remuneration to the authors.

Risk related to licence agreements concluded by the Company

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

than the laws of Poland, e.g. the laws of the state of Washington, which significantly hinders correct assessment of the contractual obligations for the Company and the scope of its liability.

Risk related to contracts concluded with foreign partners

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

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

Risk related to the shareholding structure of the Company

As at the date of this 2021 Annual Report, the founding shareholders held a total of 358,543 shares in the Company, representing 15.14% of the share capital and conferring the right to 15.14% of total voting rights at the General Meeting. In the case of concerted actions of the abovementioned shareholders, they will have a significant impact on the activities of the Company. In addition, considering the fact that the said shareholders are also members of the Company's governing bodies, they can practically decide on resolutions adopted by the General Meeting in all matters relevant to the Company.

Risk related to distribution agreements and licence agreements

The Company has concluded a number of distribution and licence agreements regarding the rules for distribution or sharing of games developed by the Company through various types of platforms or data carriers. A significant part of these agreements have been subjected to a regime of and are governed by regulations other than Polish laws (e.g. laws of England, Germany, or the state of Texas).

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

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

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

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

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

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

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

Risk of changes in the legal environment

Laws in Poland are subject to quite frequent changes. Interpretations of the law and the practice of its application change as well. The changes may be favourable to businesses, but may also bring adverse effects. Changing laws or their differing interpretations, in particular in relation to tax laws, business laws, labour and social security laws, or securities laws may have negative consequences for the Company. Changes in the interpretations of tax regulations are particularly frequent and involve particular risks. There is no uniformity in the practice of their application by tax authorities and in judicial decisions in the area of taxation. If tax authorities adopt an interpretation of tax laws which is different from the interpretation applied by the Company, this may result in a deterioration of the Company's financial position and thus adversely affect its performance and growth prospects.

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

For example, tax settlements may be subject to inspection by the authorities, which, if irregularities are found, are entitled to assess tax arrears with interest. Corporate tax returns may be subject to inspection by the tax authorities for a period of five years, and some transactions

carried out during that period, including transactions with related parties, may be questioned for tax purposes by the competent tax authorities. As a result, the amounts disclosed in the financial statements may change at a later date after their amount is finally determined by the tax authorities.

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

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

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

There is a significant risk of changes to regulations in each of those areas of law given that some of them are still in the process of being adapted to EU requirements. Possible regulatory changes will always have an impact on the Company's legal environment, triggering the obligation to take measures to ensure compliance. Any change to normative regulations causes problems, in particular related to interpretative doubts concerning new laws, which creates a risk of discrepancies in the practice of public authorities, including courts. Differences in the interpretation of the laws by public authorities and by courts (including the EU courts) complicate the operation of businesses in the Polish legal system, which is not fully harmonised with the EU system.

Risk of currency exchange rate fluctuations

In its operations the Company is exposed to the risk of fluctuations of foreign exchange rates. As the Company sells its products in foreign markets (North America, Western Europe, Central and Eastern Europe, including Russia and China), the main settlement currencies in foreign transactions are the US dollar (78% share) and the euro (18% share). Consequently, the amount of the Company's revenue is negatively correlated with the value of the Polish złoty. Strengthening of the Polish currency means deterioration of the Company's revenue from sale of video games in the złoty.

Risk related to competition

For the Company, the risk related to competition results primarily from significant difficulties in defining and describing the competitors due to significant fragmentation of the industry. In the event that any competition stronger than expected appears on the market, this may affect customers' interest in the products offered by the Company. In addition, as the number of entities

offering similar products for the same platforms is increasing, there may be growing difficulties in obtaining authorisations from platform manufacturers for the production of games for a given platform.

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

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

Risk of unpredictable events

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

5.17. Company as an employer

The gaming industry significantly differs from other sectors of the economy and so does its HR area. The Company hires employees and also works with other entities given extensive autonomy in the creation process. Further in this note is presented key information about the team of experts creating the individual game elements such as sound, graphics or animation, thus directly contributing to the development of thought-provoking, ambitious games that fit with the Company's philosophy.

5.17.1. Management and supervisory bodies

Management Board

Years of service of Members of the 11 bit studios S.A. Management Board

	Number of years
Przemysław Marszał	12
Grzegorz Miechowski	12
Michał Drozdowski	12

Supervisory Board

Supervisory Board by age group

	Number of persons
30–50 years	3
>50 years	2
Total	**5**

5.17.2.Workforce

As at the end of 2021, 11 bit studios S.A. employed or worked with 189 individuals, of whom 20 were foreigners.

Employees by gender (%)

Women	21
Men	79
Total	**100**

Employees and independent contractors by age group

	Number of persons
0-19	0
20–29 years	68
30–39 years	98
>40 years	23
Total	**189**

Average length of employees' and independent contractors' service at the Company (years)

Women	2
Men	2
Total	**2**

Workforce structure (Company divisions)

	Number of persons
Board	3
Administration	6
AI	3
Animation	9
Art	36
BizDev	4
Code	33
Design	23
DevOps	3
Finance	9
HR	14
IT	4
Marketing	5
PR	2
QA	24

X Dev	11
Total	**189**

5.17.3.New hires in 2021

In 2021, 11 bit studios S.A. took on 68 new employees and independent contractors.

New employees and independent contractors

	Number of persons
Women	19
Men	49
Total	**68**

5.17.4.Internal communication

Vanity

The bulletin was established with the purpose of sending a monthly recap of key events to all team members. Initially, *Vanity* was designed as a newsletter, but over time it has taken a more user-friendly form of a newspaper in the PDF format. After the change, *Vanity* has also become an employer branding element promoting culture and showing what we are really like.

We11

As in the case of *Vanity*, We11 – a group meeting of all employees with the Management Board – has been designed to enable the exchange of key information personally, and not merely using an internal messenger (Slack). Each We11 participant has an opportunity to ask questions, which enhances transparency between the Company and its employees.

5.17.5.Benefits and incentives

11 bit studios S.A.'s incentive system is based not only on financial compensation. The employees and independent contractors are also offered a number of benefits.

Health care

The Company finances or co-finances Allianz medical packages for those who want to use private medical care.

Sport activities

The Company finances or part-finances MultiSport cards for those interested in using partners' sport facilities, such as gyms, swimming pools and many others. The office also features a generally available 24/7 gym.

Flexible working hours

Employees and independent contractors can start working any time between 8 am and 10 am.

Dog-friendly office

11 bit studios S.A. is supportive of all team members who are dog owners. Each employee and independent contractor is free to bring their pet to the office.

Events

11 bit studios S.A. organises team building events on a regular basis (a few times a year). The highlight of 2021 was the event held to celebrate the Company's 11th anniversary.

Training

Each new employee and independent contractor receives onboarding training on their first day at work so that they are introduced to both for their division and the team at large. The training also helps them navigate around the office. However, the key training point for each new team member is to familiarise them with the Company's values, vision and culture. Each team has a separate training budget, which may be used at will to further educate all employees.

Loyalty bonuses

Employees and independent contractors receive an individual annual bonus.

5.17.6.Employer branding

11 bit studios S.A. pursues a number of internal and external initiatives aimed at building the Company's image as the employer of choice. It is committed to creating development opportunities for its employees, fostering a friendly office atmosphere and effectively promoting the Company externally.

5.18. Environment

11 bit studios S.A.'s registered office is situated at ul. Brzeska 2 in Warsaw, in a Company-owned office building with a total area of 4,974.15 m2. It has a usable floor area of 2,657.37 m2 and is situated on a plot of land with a total area of 1,044 m2.

5.18.1.Office building

11 bit studios S.A. is headquartered in a modern building to which heat is supplied from the municipal heating network. In the last two years, the Company modernised the heating and air-conditioning systems in the building. Combined with control automation, the modernisation has helped optimise consumption of utilities and contributed to low emission performance of the building.

The building has a mechanical ventilation system with recuperation. The system, including two air handling units, operates a process of recovering energy from polluted air by means of the recuperator. Mechanical ventilation with heat recovery supplies fresh, external filtered air by removing used air with a high CO2 concentration. Such exchange takes place throughout the year and in all rooms, without opening the windows and without loss of energy.

In order to reduce water and energy consumption, dedicated social space/coffee points have been equipped with high quality energy-efficient household appliances, dishwashers with the top energy ratings, toasters, and refrigerators.

New and energy-efficient LED lighting has been installed in all office rooms, additionally controlled by motion sensors in sanitary spaces.

The choice of furniture, decoration and finishing materials used on office space walls was guided by the need to create a friendly, comfortable and creative workplace atmosphere. The

building has numerous hush office booths, many conference rooms on all floors, and a resting space for employees on the ground floor. It is equipped with acoustic panels and features modern artwork, furniture and built-in cabinets made from natural materials, which has a positive effect on work comfort.

The Company's registered office is situated close to the centre of Warsaw and two railway stations: Warszawa Wschodnia and Warszawa Wieleńska. The employees have easy access to the metro and a well-developed public transport network, which encourages them to opt for collective transport or bicycles and scooters instead of cars.

As the underground garage floors in the building offer bicycle and scooter racks, two-wheelers are gaining in popularity among 11 bit studios S.A. employees.

5.18.2.Environmentally-friendly waste management

At 11 bit studios S.A., all waste is segregated. The bins for segregating the various types of waste are situated in the break rooms (the coffee point, chill room, kitchen space). Plastic and paper waste is segregated in the office rooms. The appropriate number of segregation points and transparent marking encourage the staff to segregate waste.

11 bit studios S.A. does not buy any beverages in plastic packaging. The Company uses only glassware and biodegradable bamboo coffee cups. In the numerous coffee points and employee kitchens, water taps are equipped with filters. The supply of high-quality filtered water has completely eliminated the use of plastic water containers and bottles by the Company's employees and guests.

11 bit studios S.A. minimises its waste output. It uses environmentally-friendly envelopes, packing straps and cardboard packaging to secure its letters and parcels. The Company reuses the packages it receives.

Its electronic waste and spent toners are recycled by licensed operators.

5.18.3.Utilities

2021 saw a surge in the consumption of water, electricity and heat relative to 2020. The change followed from the fact that the Company started to use the office building only in March 2020 and at the same time it switched to remote work due to the COVID-19 pandemic. In 2021, some employees returned to the office or switched between home and office work, which had a noticeable impact on the consumption of utilities during that period.

	2021	2020	Unit of measure
Water	744.60	166.25	m3
Electricity	319,492	292,102	kWh
Heating	1,657.03	1,209.28	GJ

	2021	2020	Unit of measure
Organic waste	10,560	11,520	litre
Glass	5,280	4,608	litre
Paper	63,910	62,832	litre
Plastic	33,880	49,896	litre
Mixed	69,300	110,880	litre

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

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

Signed by:

Przemysław Marszał
President of
the Management Board

Grzegorz Miechowski
Member of
the Management Board

Michał Drozdowski
Member of
the Management Board

Warsaw, March 24th 2022

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY

11 BIT STUDIOS S.A. IN 2021

6.OVERVIEW

Until June 30th 2021, 11 bit studios S.A. was subject to the corporate governance standards contained in the document 'Best Practice for GPW Listed Companies 2016', which were adopted by resolution of the Stock Exchange Supervisory Board No. 26/1413/2015 of October 13th 2015 and which came into force on January 1st 2016.

On July 30th 2021, in Current Report No. 2/2021 (EBI), the Company reported on the scope of application of corporate governance standards resulting from 'Best Practice for GPW Listed Companies 2021' effective from July 1st 2021. The text of 'Best Practice for GPW Listed Companies 2021' is publicly available on the website of the Warsaw Stock Exchange at: https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf and at the registered office of the Warsaw Stock Exchange.

All information resulting from the corporate governance standards adopted by the Company, reflecting subsequent updates, is published at https://ir.11bitstudios.com/wp-content/uploads/2022/02/Dobre-praktyki-2021.pdf

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

The Company undertook to apply all corporate governance principles contained in 'Best Practice for GPW Listed Companies 2021', except for the following:

1.Disclosure policy and investor communications

1.3.1. "Companies integrate ESG factors in their business strategy, including in particular environmental factors, including measures and risks relating to climate change and sustainable development."

The Company's comments: The strategy the Company is currently pursuing does not set out any detailed rules regarding environmental factors. As a result, ESG matters have not been formally addressed by identifying measures or risks for these areas. In the near future, the Company plans to take appropriate steps and adopt policies and procedures concerning ESG factors and sustainable development. Ultimately, it also plans to address these matters in its strategy.

1.3.2. "Companies integrate ESG factors in their business strategy, including in particular: social and employee factors, including among other actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations",

The Company's comments: The strategy the Company is currently pursuing does not set out any detailed rules regarding social and employee factors. However, in its operations, the Company attaches particular importance to matters relating to the elimination of behaviour and threats that may lead to unequal treatment or discrimination, as well as to matters relating to working conditions and respect for employees' rights.

1.4. "To ensure quality communications with stakeholders, as a part of the business strategy, companies publish on their website information concerning the framework of the strategy, measurable goals, including in particular long-term goals, planned activities and their status, defined by measures, both financial and non-financial. ESG information concerning the strategy should among others:";

The Company's comments: The strategy the Company is currently implementing does not take into account any non-financial aspects, including ESG. The business strategy information published on the Company's website is limited to outlining its general objectives and pillars of long-term growth.

1.4.1. "explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks";

The Company's comments: As part of the strategy currently in place, climate change is not addressed in the Company's decision-making processes due to the nature of its business. However, the Company's governing bodies and employees are committed to ensuring that environmentally-friendly solutions are applied in the company's day-to-day functioning.

1.4.2. "present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target";

The Company's comments: The Company, operating in a very competitive industry, pursues an active labour and payroll policy, aligning it with the labour market and business environment requirements on an ongoing basis. This makes it difficult to compare or average the working conditions and salaries of the Company's employees, even within individual departments. The differences in remuneration at the Company are attributable to the nature and type of positions held and the overall pay volatility in particular specialisations. The Company observes the principle of equal pay for women and men employed in comparable positions and gender does not affect the terms of employment at the Company.

2. Management Board and Supervisory Board

2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

The Company's comments: The Company does not have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. Key personnel decisions with respect to the Company's governing bodies are made by the General Meeting and the Supervisory Board, based on a person's qualifications to perform certain functions, professional experience, knowledge of the industry in

which the Company operates, and education. Factors such as sex or age are not taken into account when appointing a person to the governing bodies. The shareholders have the right to nominate candidates to the Supervisory Board and to elect Supervisory Board members at their own discretion. However, they do take into account additional criteria, such as independence, knowledge of accounting and financial reporting, and knowledge of the industry in which the Company operates. The participation of the minority group in the Company's governing bodies is currently below 30%.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

The Company's comments: Decisions on appointment of members to the Company's Management Board or Supervisory Board are made by the Supervisory Board and the General Meeting, as appropriate, based solely on the candidate's qualifications to perform certain functions and professional experience. Factors such as age or gender of the candidate have never played any part in appointing members of the Company's governing bodies.

2.11.6. In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. The report referred to above shall include at least: information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.

The Company's comments: The Company does not have in place a diversity policy applicable to the management board or the supervisory board.

3. External systems and functions

3.1. Listed companies maintain efficient internal control, risk management and compliance systems and an efficient internal audit function adequate to the size of the company and the type and scale of its activity; the management board is responsible for their functioning.

The Company's comments: The Company applies a range of internal policies and processes concerning protection of information, document circulation, compliance supervision, as well as operational and financial risk management. The directors in charge of particular business areas are responsible for effective and correct application of the policies and processes. Given the scale of its business, the Company does not have a separate internal audit function. In the future, as the Company's business grows, steps will be taken to establish such function.

3.3. Companies participating in the WIG20, mWIG40 or sWIG80 index appoint an internal auditor to head the internal audit function in compliance with generally accepted international standards for the professional practice of internal auditing. In other companies which do not appoint an internal auditor who meets such requirements, the audit committee (or the supervisory

board if it performs the functions of the audit committee) assesses on an annual basis whether such person should be appointed.

The Company's comments: Given the scale of its business, the Company does not have a separate internal audit function. In the future, as the Company's business grows, steps will be taken to establish such function. If the Company's Audit Committee, operating within the Supervisory Board, issues an opinion to the effect that an internal auditor should be appointed, the Company will promptly fulfil this obligation and update the report as regards compliance with this principle.

3.10. Companies participating in the WIG20, mWIG40 or sWIG80 index have the internal audit function reviewed at least once every five years by an independent auditor appointed with the participation of the audit committee.

The Company's comments: The Supervisory Board and its audit committee monitor the effectiveness of internal control and risk management systems and internal audit based on periodic information provided directly by persons responsible for individual organisational units and the Company's Management Board. On this basis, an annual assessment of these systems is carried out, which, in the Company's opinion, is sufficient given the nature and size of the Company's business.

6.2. Shareholders with major holdings

The table below presents shareholders holding 5% or more of voting rights at the General Meeting as at December 31st 2021, based on the statements received by the Company under applicable laws.

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Przemysław Marszał	103,500	4.38	103,500	4.38
Grzegorz Miechowski	170,413	7.20	170,413	7.20
Michał Drozdowski	84,630	3.58	84,630	3.58
Aviva Investors Poland TFI*	136,099	5.75	136,099	5.75
Other shareholders	1,872,279	79.09	1,872,279	79.09
Total	**2,366,921**	**100.00**	**2,366,921**	**100.00**

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

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

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

6.4. Restrictions on voting rights

Pursuant to the Articles of Association of 11 bit studios S.A., there are no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes,

deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

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

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

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

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

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

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

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

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

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

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

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

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

6.8. Proceedings of the General Meeting and its powers

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

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

6.9. Composition of the Management Board and description of the operation of the Company's management and supervisory bodies and committees in 2021

6.9.1. Management Board

Management Board

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

In the reporting period, the composition of the 11 bit studios S.A. Management Board did not change. The joint term of office of the Management Board members expires on the date when the

General Meeting approves the Company's financial statements for the financial year ending December 31st 2021.

The scope of responsibilities of individual Members of the Company's Management Board is as follows:

Przemysław Marszał, President of the Management Board (CEO)
- Strategy, planning
- Supervision of the T&C (Team&Culture) division

Grzegorz Miechowski, Member of the Management Board (COO)
- Finance, accounting
- Business development
- Marketing
- IT & DevOps
- Administration

Michał Drozdowski, Member of the Management Board (CPO)
- Art director and creative director
- Supervision over the game development teams

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

6.9.2. Supervisory Board

Supervisory Board

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

** – Independence criteria for members of supervisory boards are set out in Principle 2.3 of 'Best Practice for GPW Listed Companies 2021'.*

The composition of the Supervisory Board of 11 bit studios S.A. changed in the reporting period. For details, see **Note 5.2.2.** The term of office of the current Supervisory Board expires on May 23rd 2022.

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

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

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

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

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

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

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

The Company states that the Chairman of the Audit Committee meets the independence criteria set out in Annex II to Commission Recommendation 2005/162/EC of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

In 2021, the Audit Committee held five meetings.

- April 23rd 2021 (remote meeting) – summary of the review of the financial statements for 2020;
- May 10th 2021 – adoption of the financial statements for 2020 and the Management Board's proposal on allocation of profit for 2020, selection of the entity to audit the report on remuneration for 2019-2020,
- July 6th 2021 – preliminary discussion on the selection of an audit firm for subsequent years;
- August 27th 2021 – summary of the review of the financial statements for the first half of 2021;
- December 21st 2021 (remote meeting) – meeting with the PwC team – discussion of the planned scope and schedule of work on the Company's 2021 Annual Report. Presentation of PwC's information on the planned audit strategy for the 2021 Annual Report.

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

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

The Company has in place internal control systems required to keep accounting records and prepare financial statements and reports. Substantive supervision over the process of preparing the Company's financial statements and periodic reports is exercised directly by the Management Board. In 2021, the accounting books of 11 bit studios S.A. were kept by internal accounting services.

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

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

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

In 2021, 11 bit studios S.A. was actively involved in charitable and sponsorship activities. The total amount of donations was PLN 632,375. The bulk of the funds (PLN 598,748) was provided to The Humane Society International, an organisation engaging in the protection of animals. The source of the funds were proceeds from the sale of *Children of Morta – Paws and Claws*, a DLC for *Children of Morta* which introduced animal characters in the game. In 2021, the Company also supported the Synapsis foundation. In addition, 11 bit studios S.A. lent support to universities and other educational institutions by providing them with free licences for games used in education and training.

After the reporting period, the Company actively engaged in helping the victims of war in Ukraine and already on February 24th 2022, the day when Russia's invasion of our eastern

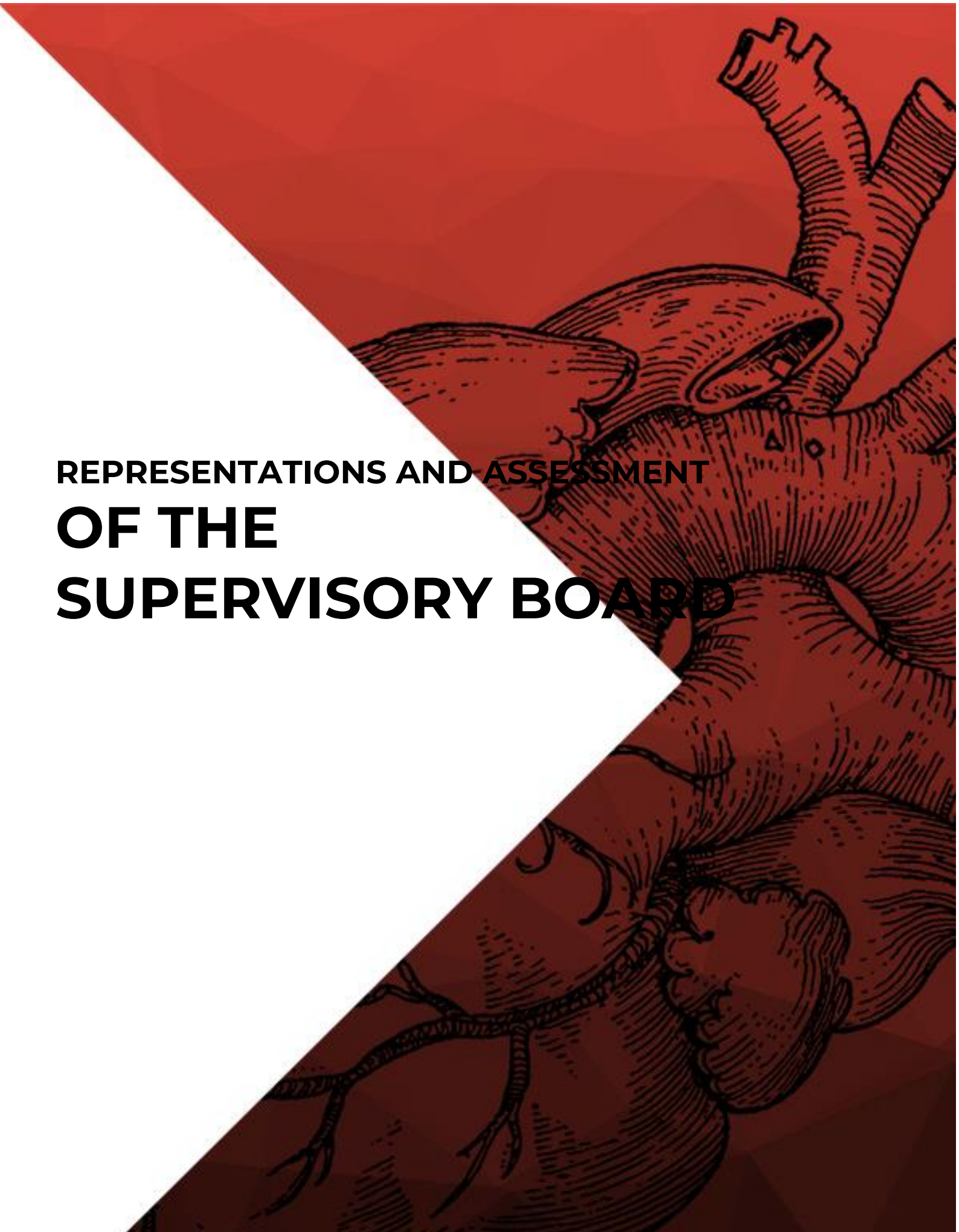
neighbour began, decided that all revenue generated in the following week from the sale of *This War of Mine*, together with DLCs, would go to the Ukrainian Red Cross. The initiative met with a very good response of fans and media globally (the world's leading media, including *The Washington Post,* wrote about the initiative) and within seven days the Company raised as much as USD 850,000 for the noble cause.

Signed by:

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

Warsaw, March 24th 2022

11bit studios



REPRESENTATIONS AND ASSESSMENT

OF THE SUPERVISORY BOARD

7.1. Selection of the audit firm

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

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

7.2. The Audit Committee

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

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

Radosław Marter, Chairman of the Supervisory Board

Jacek Czykiel, Deputy Chairman of the Supervisory Board

Artur Konefał, Member of the Supervisory Board,

Marcin Kuciapski, Member of the Supervisory Board

Piotr Wierzbicki, Member of the Supervisory Board

The original document bears the relevant signatures

Warsaw, March 24th 2022

7.3. Assessment by the 11 bit studios S.A. Supervisory Board of the financial statements and the Directors' Report on the operations of 11 bit studios S.A. in 2021 in terms of their consistency with the underlying accounting records, documents and facts

The 11 bit studios S.A. Supervisory Board, acting pursuant to Art. 382.3 of the Commercial Companies Code in conjunction with Section 70.1.14 and Section 71.1.12 of the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, having read the data and information presented in the financial statements of 11 bit studios S.A. for the year ended December 31st 2021 and the Directors' Report on the operations of 11 bit studios S.A. in the year ended December 31st 2021, hereby represents that, to the best of its knowledge, the said financial statements and the Directors' Report have been prepared in compliance with the applicable accounting policies, give a true, fair and clear view of the Company's assets, financial condition and financial performance, and are consistent with the underlying accounting records, documents and facts.

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

Radosław Marter, Chairman of the Supervisory Board

Jacek Czykiel, Deputy Chairman of the Supervisory Board

Artur Konefał, Member of the Supervisory Board,

Marcin Kuciapski, Member of the Supervisory Board

Piotr Wierzbicki, Member of the Supervisory Board

The original document bears the relevant signatures
Warsaw, March 24th 2022