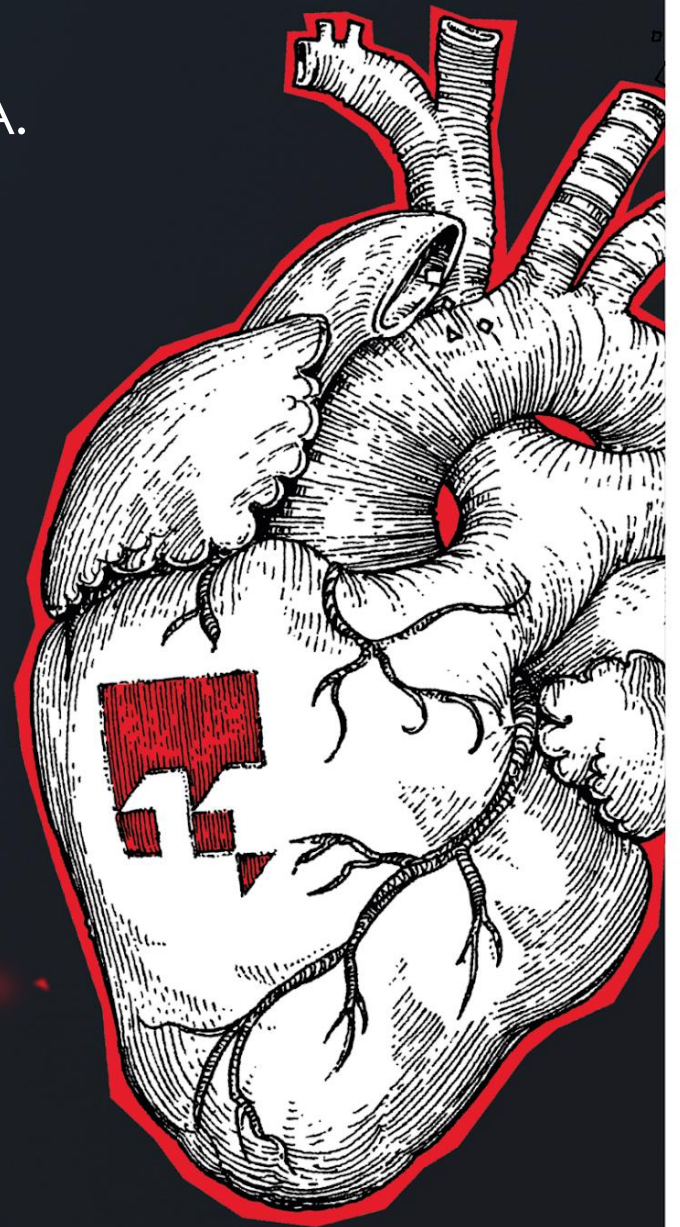


Warsaw, August 24th 2023

HALF-YEAR REPORT OF 11 BIT STUDIOS S.A. FOR THE SIX MONTHS ENDED JUNE 30TH 2023



MAKE
YOUR
MARK **11**bit
STUDIOS

LETTER FROM THE MANAGEMENT BOARD

Warsaw, August 24th 2023

DEAR SHAREHOLDERS AND INVESTORS,

We are pleased to share with you our half-year report for the first six months of 2023. We invite you to read it, and we believe it will provide you with a wealth of compelling and valuable insights.

At the outset, let us present some key figures. After the first six months of this year, we reported revenue of PLN 24.77m, operating profit of PLN 0.86m, and net profit of PLN 4.24m, due to a positive balance of finance income and costs. These figures deviate from the performance benchmarks that both you and we have grown accustomed to in preceding periods. They certainly fall short of our aspirations. However, the decline in our financial results was both anticipated and inevitable, given the absence of major game releases in recent years.

Nevertheless, let us now direct our attention to the future of 11 bit studios S.A., which, as we strongly believe, looks promising. The past years and quarters have witnessed dedicated efforts towards the expansion of our product portfolio, including both proprietary games and third-party productions marketed by our publishing division. This entailed an immense input of time and money. In the first half of 2023 alone, our game development expenditure neared PLN 26m. Cumulatively, over the last year and two years, we have channelled PLN 50.7m and PLN 88m, respectively, into this direction. And our financial commitment continues. We are on the brink of unveiling new games, poised to rejuvenate our financial trajectory and reaffirm our presence in the gaming industry. Our aspiration is to mirror the milestones achieved with the releases of *This War of Mine* in 2014 and *Frostpunk* in 2017.

Coming soon, on November 6th 2023, is the premiere of *The Invincible*, crafted by Kraków-based Starward Industries S.A., in which 11 bit studios S.A. holds a 5.99% stake. This game, inspired by the renowned novel of the same title by Stanisław Lem, will be available on PCs and consoles.

Another upcoming release by our publishing division this year is *The Thaumaturge*, a role-playing game developed by Fool's Theory Sp. z o.o., which is 40% owned by 11 bit studios S.A. and which specialises in the RPG genre. Both titles are currently being presented to the general public at

Gamescom, the largest European trade fair held in Cologne, Germany, where they are garnering highly favourable feedback.

The array of this year's premieres will also include the release of *Frostpunk* for mobile devices. The development studio behind it is our Chinese partner NetEase. We hope that offering this iconic game on the next hardware platform will further improve the visibility of our brand and the game's universe, attracting new fans, which is particularly vital as we swiftly approach the launch of *Frostpunk 2*.

Our 2024 lineup begins with *Project N*, a code name for an as-yet undisclosed title. This is another third-party game from our publishing division. Its themes and atmosphere align perfectly with 11 bit studios S.A.'s philosophy. The official marketing campaign will commence soon.

The first half of 2024 will also see the debuts of our proprietary productions *Frostpunk 2* and *The Alters*. These major releases we are currently working on hold a considerable potential to shape our future performance. Both are currently under exclusive preview at Gamescom for industry insiders. We have high hopes for their reception.

The above is a long list of announced premieres. And there is more on the horizon, with the development of *Project 8*, *Ava* and *Botin* nearing completion, which means further quarters of intense work for the entire Company. We have been scaling up our workforce in anticipation of this increased workload and responsibilities, in particular bolstering our marketing, publishing, and business development departments. Our staff, now exceeding 280 professionals, continues to grow. Having evolved from a small and later medium-size developer that we were during the launch of first *This War of Mine* and then *Frostpunk*, we remain confident that the projects slated for release within a year will manifest our enhanced capabilities, aligned with our strategic vision and aspirations.

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

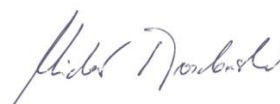
Signed by:



Przemysław Marszał
President of the
Management Board



Grzegorz Miechowski
Member of the
Management Board



Michał Drozdowski
Member of the
Management Board



Paweł Feldman
Member of the
Management Board



Marek Ziemak
Member of the
Management Board

FINANCIAL HIGHLIGHTS

| | PLN | | EUR | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Jan 1-Jun 30 2023 | Jan 1-Jun 30 2022 | Jan 1-Jun 30 2023 | Jan 1-Jun 30 2022 |
| Revenue | 24,775,454 | 45,769,806 | 5,370,790 | 9,858,446 |
| Depreciation and amortisation | (2,312,095) | (3,072,760) | (501,213) | (661,847) |
| Operating profit | 628,869 | 13,417,147 | 136,325 | 2,889,945 |
| EBITDA | 2,940,964 | 16,489,907 | 637,538 | 3,551,793 |
| Profit (loss) before tax | 4,764,079 | 17,805,918 | 1,032,751 | 3,835,251 |
| Net profit (loss) | 4,013,206 | 15,083,775 | 869,977 | 3,248,924 |
| Net cash from operating activities | 2,925,962 | 24,080,772 | 634,286 | 5,186,804 |
| Net cash from investing activities | 2,677,095 | (12,782,837) | 580,337 | (2,753,320) |
| Net cash from financing activities | 2,762,833 | 533,872 | 598,923 | 114,992 |
| Total net cash flows | 8,365,890 | 11,831,807 | 1,813,546 | 2,548,476 |

| | PLN | | EUR | |
|-------------------------|--------------------|--------------------|-------------------|-------------------|
| | Jun 30 2023 | Dec 31 2022 | Jun 30 2023 | Dec 31 2022 |
| Total assets | 266,042,306 | 244,197,441 | 59,780,758 | 52,068,795 |
| Non-current assets | 170,950,383 | 142,547,147 | 38,413,227 | 30,394,496 |
| Current assets | 95,091,923 | 101,650,294 | 21,367,531 | 21,674,299 |
| Equity | 233,791,416 | 224,543,680 | 52,533,855 | 47,878,138 |
| Non-current liabilities | 8,861,270 | 9,457,456 | 1,991,162 | 2,016,558 |
| Current liabilities | 23,389,620 | 10,196,305 | 5,255,741 | 2,174,099 |

The financial highlights presented in the tables below have been translated into the euro at the rates specified below.

- Items of the statement of comprehensive income and statement of cash flows have been translated using the exchange rates calculated as the arithmetic means of the EUR/PLN mid rates quoted by the National Bank of Poland for the last day of each month in the reporting period. The exchange rates were as follows: EUR 1 = PLN 4.6130 from January 1st to June 30th 2023, and EUR 1 = PLN 4.6427 from January 1st to June 30th 2022.
- Items of assets, equity and liabilities in the statement of financial position have been translated using the EUR/PLN exchange rates quoted by the National Bank of Poland for the last day of the reporting period. The exchange rates were as follows: EUR 1 = PLN 4.4503 as at June 30th 2023, and EUR 1 = PLN 4.6899 as at December 31st 2022.

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INTERIM CONDENSED FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A. FOR THE SIX MONTHS ENDED JUNE 30TH 2023

PREPARED IN ACCORDANCE WITH IAS 34 *INTERIM FINANCIAL REPORTING* ENDORSED BY THE EUROPEAN UNION

INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Note | 6 months ended Jun 30 2023 (unaudited) | 6 months ended Jun 30 2022 (unaudited) | 3 months ended Jun 30 2023 (unaudited) | 3 months ended Jun 30 2022 (unaudited) |
|---------------------------------------|------|---|---|---|---|
| Continuing operations | | | | | |
| Revenue | 1.1. | 24,775,454 | 45,769,806 | 10,012,068 | 28,024,253 |
| Other income | 1.3. | 31,472 | 52,952 | (22,698) | (681) |
| Total operating income | | 24,806,926 | 45,822,758 | 9,989,370 | 28,023,572 |
| Depreciation and amortisation | 1.2. | (2,312,095) | (3,072,760) | (1,190,746) | (1,503,814) |
| Raw materials and consumables used | 1.2. | (390,104) | (321,314) | (184,422) | (129,937) |
| Services | 1.2. | (13,622,564) | (18,060,902) | (5,874,947) | (12,522,770) |
| Salaries, wages and employee benefits | 1.2. | (6,475,194) | (6,763,391) | (3,156,342) | (3,871,055) |
| Taxes and charges | 1.2. | (116,320) | (169,186) | 33,739 | (86,769) |
| Other expenses | 1.3. | (1,261,781) | (4,018,058) | (872,401) | (240,960) |
| Total operating expenses | | (24,178,057) | (32,405,611) | (11,245,118) | (18,355,305) |
| Operating profit | | 628,869 | 13,417,147 | (1,255,748) | 9,668,267 |
| Finance income | 1.4. | 6,585,053 | 4,680,494 | 4,701,645 | 2,989,991 |
| Finance costs | 1.4. | (2,528,860) | (215,164) | (1,525,518) | (131,035) |
| Share in profit/(loss) of associate | | 79,017 | (76,559) | (11,749) | (73,263) |
| Profit before tax | | 4,764,079 | 17,805,918 | 1,908,630 | 12,453,960 |
| Income tax expense | 1.5. | (750,873) | (2,722,143) | (361,373) | (1,143,916) |
| NET PROFIT | | 4,013,206 | 15,083,775 | 1,547,257 | 11,310,044 |
| Earnings per share: | | | | | |
| Basic | 1.6. | 1.67 | 6.36 | 1.17 | 4.74 |
| Diluted | 1.6. | 1.66 | 6.26 | 1.17 | 4.68 |
| NET PROFIT | | 4,013,206 | 15,083,775 | 1,547,257 | 11,310,044 |
| Other comprehensive income | | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME | | 4,013,206 | 15,083,775 | 1,547,257 | 11,310,044 |

INTERIM STATEMENT OF FINANCIAL POSITION

| | Note | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|-------------------------------|-------|----------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | 170,950,383 | 142,547,147 |
| Property, plant and equipment | 2.1. | 24,626,812 | 24,894,722 |
| Perpetual usufruct of land | 2.2. | 4,196,939 | 4,225,080 |
| Intangible assets | 2.3. | 124,740,178 | 99,977,460 |
| Deferred tax asset | 2.4. | 0 | 517,619 |
| Investments in associates | 2.5. | 4,043,243 | 3,975,734 |
| Other assets | 2.7. | 124,589 | 166,170 |
| Long-term investments | 2.6. | 12,846,570 | 8,151,523 |
| Financial instruments (IRS) | 3.1 | 372,052 | 638,839 |
| Current assets | | 95,091,923 | 101,650,294 |
| Trade and other receivables | 2.8. | 20,879,334 | 9,471,751 |
| Income tax receivable | 1.5. | 4,614,384 | 2,980,694 |
| Other assets | 2.7. | 1,699,863 | 1,787,640 |
| Financial instruments (IRS) | 3.1 | 82,678 | 125,673 |
| Cash and cash equivalents | 2.10. | 38,951,881 | 30,585,991 |
| Financial assets | 2.9. | 28,863,783 | 56,698,545 |
| TOTAL ASSETS | | 266,042,306 | 244,197,441 |

| | Note | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|-------|----------------------------|--------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity | 2.11. | 233,791,416 | 224,543,680 |
| Share capital | | 241,720 | 238,014 |
| Share premium | | 18,232,710 | 14,422,772 |
| Statutory reserve funds | | 172,043,090 | 149,153,274 |
| Share-based payment reserve | | 39,468,776 | 38,047,889 |
| Retained earnings | | 3,805,121 | 22,681,731 |
| Non-current liabilities | | 8,861,270 | 9,457,456 |
| Borrowings | 2.13. | 5,670,000 | 6,405,000 |
| Provisions | 2.14. | 22,971 | 22,245 |
| Deferred tax liabilities | 2.4. | 150,545 | 0 |
| Lease liabilities | 2.15. | 749,927 | 750,876 |
| Deferred income | | 635,710 | 635,711 |
| Liabilities arising from acquisition of shares in associate | 2.5. | 1,632,117 | 1,643,624 |
| Current liabilities | | 23,389,620 | 10,196,305 |
| Trade and other payables | 2.16. | 2,620,332 | 2,893,912 |
| Royalties payable | 2.17. | 4,198,461 | 4,056,672 |
| Borrowings | 2.13. | 1,260,000 | 1,260,000 |
| Provisions | 2.14. | 1,445,222 | 841,767 |
| Lease liabilities | 2.15. | 15,257 | 15,254 |
| Contract liabilities | 2.18. | 13,850,348 | 1,128,700 |
| Total liabilities | | 32,250,890 | 19,653,761 |
| TOTAL EQUITY AND LIABILITIES | | 266,042,306 | 244,197,441 |

INTERIM STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Statutory reserve funds | Capital reserve | Retained earnings | Total |
|--|----------------|-------------------|-------------------------|-------------------|-------------------|--------------------|
| As at Jan 1 2023 (audited) | 238,014 | 14,422,772 | 149,153,274 | 38,047,889 | 22,681,731 | 224,543,680 |
| Net profit for the financial year | - | - | - | - | 4,013,206 | 4,013,206 |
| Total comprehensive income | - | - | - | - | 26,694,937 | 228,556,886 |
| Allocation of profit to statutory reserve funds | - | - | 22,889,816 | - | (22,889,816) | - |
| Recognition of Series G share-based payments* | 3,706 | 3,809,938 | - | - | - | 3,813,644 |
| Recognition of costs of the 2021–2025 Incentive Scheme | - | - | - | 1,420,887 | - | 1,420,887 |
| As at Jun 30 2023 (unaudited) | 241,720 | 18,232,710 | 172,043,090 | 39,468,776 | 3,805,121 | 233,791,416 |

* Net of the cost of issue of Series G shares of PLN 17,102.

| | Share capital | Share premium | Statutory reserve funds | Capital reserve | Retained earnings | Total |
|--|----------------|-------------------|-------------------------|-------------------|-------------------|--------------------|
| As at Jan 1 2022 (audited) | 236,692 | 13,063,204 | 120,467,692 | 35,092,206 | 28,477,497 | 197,337,291 |
| Net profit for the financial year | - | - | - | - | 15,083,777 | 15,083,777 |
| Total comprehensive income | - | - | - | - | 15,083,777 | 15,083,777 |
| Allocation of profit to statutory reserve funds | - | - | 28,685,582 | - | (28,685,582) | - |
| Recognition of Series G share-based payments* | 1,322 | 1,359,568 | - | - | - | 1,360,890 |
| Recognition of costs of the 2021–2025 Incentive Scheme | - | - | - | 1,478,840 | - | 1,478,840 |
| As at Jun 30 2022 (unaudited) | 238,014 | 14,422,722 | 149,153,274 | 36,571,046 | 14,875,692 | 215,260,798 |

* Net of the cost of issue of Series G shares of PLN 6,104.

INTERIM STATEMENT OF CASH FLOWS

| | Note | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|--|-------------|----------------------------------|----------------------------------|
| Cash flows from operating activities | | | |
| Profit for the financial year | 1.6. | 4,013,206 | 15,083,775 |
| Adjustments: | | | |
| Depreciation and amortisation | 1.2. | 2,312,095 | 3,072,760 |
| Income tax expense recognised in profit or loss | | 750,873 | 2,722,143 |
| Remeasurement of intangible assets | | 41,582 | 25,600 |
| Costs of the 2021–2025 Incentive Scheme | | 1,420,887 | 1,478,840 |
| (Gain)/loss on change in fair value of financial assets at fair value through profit or loss | | (5,004,614) | - |
| Share of (profit)/loss of associate | | (79,017) | - |
| Net interest income | | (1,322,541) | - |
| Other adjustments | | (119,571) | 771,626 |
| Changes in working capital: | | | |
| Change in trade and other receivables | | (11,407,583) | 3,709,635 |
| Change in other assets | | 129,359 | (623) |
| Change in trade and other payables | | (132,740) | 736,646 |
| Change in contract liabilities | | 12,721,652 | (2,750,677) |
| Change in provisions | | 604,181 | 3,527,745 |
| Cash provided by operating activities | | 3,927,771 | 28,377,470 |
| Income tax paid | | (1,001,809) | (4,296,698) |
| Net cash from operating activities | | 2,925,962 | 24,080,772 |
| Cash flows from investing activities | | | |
| Loans to employees | | 509,763 | (1,102,220) |
| Proceeds from bank deposits upon maturity – over 3 months | | 19,726,347 | - |
| Purchase of financial assets | | (7,751,897) | (68,811,494) |
| New bank deposits placed – over 3 months | | (32,000,000) | (2,000,000) |
| Proceeds from redemption of financial assets | | 49,000,000 | 82,500,000 |
| Proceeds from acquisition of shares in an associate | | - | (2,619,216) |
| Proceeds from acquisition of long-term financial assets (Starward Industries S.A. shares) | | (215) | - |
| Payments for property, plant and equipment and intangible assets | | (26,806,903) | (20,749,907) |
| Net cash from investing activities | | 2,677,095 | (12,782,837) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 3,830,746 | 1,366,994 |
| Proceeds/(repayments) under credit facility | | (735,000) | (630,000) |
| Payment of interest on credit facility | | (332,913) | (203,122) |
| Net cash from financing activities | | 2,762,833 | 533,872 |
| Net increase/(decrease) in cash | | 8,365,990 | 11,831,807 |
| Cash at beginning of reporting period | | 30,585,991 | 26,748,530 |
| CASH AT END OF REPORTING PERIOD | | 38,951,881 | 38,580,337 |



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

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OVERVIEW

11 bit studios S.A. (the "Company") was incorporated by a notarial deed of December 7th 2009 before Paweł Andrzej Kania, Notary Public of Warsaw

(number in the register of notarial deeds: Rep. 16069/2009). Company shares are traded in the public market.

| | |
|--|---|
| 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 or interests in joint ventures but has associates.

BASIS OF PREPARATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* endorsed by the European Union ("IAS 34") and the Regulation of the Minister of Finance of March 29th 2018 on current and periodic information to be provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz.U. of 2018, item 757), and they present the financial position of 11 bit studios S.A. as at June 30th 2023 and December 31st 2022, and results of its operations and cash flows for the six months ended June 30th 2023 and June 30th 2022.

These interim condensed financial statements do not include all the information and disclosures required in full-year financial statements and should be read in conjunction with the Company's financial statements for the year ended December 31st 2022.

These interim condensed financial statements have been prepared based on the assumption that the Company will continue as a going concern for the foreseeable future.

As at the date of authorisation of these financial statements, no circumstances were identified which would indicate that the Company may be unable to continue as a going concern.

FUNCTIONAL AND PRESENTATION CURRENCY

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

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.

COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and amended standards and interpretations:

The following new standards and amendments to existing standards effective from January 1st 2023 were applied for the first time in these interim condensed financial statements:

- **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.

IFRS 17 *Insurance Contracts* has replaced IFRS 4, which provided for diverse practices in accounting for insurance contracts. The new Standard substantially changes the accounting practices of all entities that deal with insurance contracts and investment agreements. However, its scope is not limited to insurance companies, and contracts concluded by entities other than insurance companies may also contain a component that meets the definition of an insurance contract (as defined in IFRS 17).

- **Amendments 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 purpose of the amendment is to ensure the usefulness of financial information for investors

during the period of initial application of the new standard by introducing certain expedients with respect to the presentation of comparative data.

The amendment relates to the application of the new IFRS 17 only and does not affect any other requirements of IFRS 17.

- **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.

- **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.

▪ **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 amendment, there was uncertainty as to whether the recognition of equal amounts of an asset and liability for accounting purposes (including initial recognition of leases) that does not affect current tax settlements requires recognition of deferred tax balances or whether the initial recognition exemption applies in such a case, according to which deferred tax balances need not be recognised if the recognition of an asset or liability does not affect accounting or taxable profit as at the time of recognition. The amended IAS 12 has resolved this uncertainty by stating that an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences and

thus in the situation above recognition of deferred tax is required.

▪ **Amendments to IAS 12 *Income Taxes*: global minimum tax (Pillar Two)**

In May 2023, the IASB published amendments to IAS 12 *Income Taxes* in response to global regulations on Pillar Two minimum income tax issued by the Organisation for Economic Cooperation and Development (OECD) in connection with the international tax reform. The amendments to IAS 12 provide for a temporary exemption from the requirement to recognise deferred tax under the adopted tax law which implements Pillar Two's model principles. Companies may apply the guidelines under the amended IAS 12 immediately. Specific disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

The application of the above standards and amendments to standards has had no effect on these interim condensed financial statements.

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

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

▪ **Amendments to IFRS 16 *Leases***

In September 2022, the IASB issued amendments to IFRS 16 *Leases* by clarifying the requirements for subsequent measurement of a lease liability in the case of sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

The amendments require that a seller-lessee subsequently measure lease liabilities arising in leasebacks in such a way as not to recognise any gain or loss relating to the right of use it retains. The new requirement is of particular importance where a leaseback involves variable payments that do not depend on an index or rate, as under IFRS 16 such payments are not 'lease payments'. The amended standard includes a new example that illustrates the application of the new requirement in such situations. The amendment applies from January 1st 2024.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

▪ **Amendment to IAS 1 *Presentation of Financial Statements***

In 2020, the IASB published amendments to IAS 1 to clarify how to classify liabilities as current or non-current. In October 2022, the IASB issued further amendments to IAS 1 that address the classification as current or non-current of liabilities with respect to which the entity is required to comply with certain covenants. The amended IAS 1 provides that liabilities are to be classified as current or non-current depending on the rights existing at the end of the reporting period. The classification is not affected by the entity's expectations or events after the reporting date (for example, waiver or breach of the covenant).

The amendments are effective for financial statements for periods beginning on or after January 1st 2024.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

▪ **Amendment to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* – disclosures on supplier finance arrangements**

In May 2023, the IASB published amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. Under the new requirements introduced by the amendments an entity is required to disclose specific information on supplier finance arrangements to enable users of financial statements to assess how supplier finance

arrangements affect the entity's liabilities, cash flows and exposure to liquidity risk. The purpose of the amendments is to enhance the transparency of disclosures on supplier arrangements. They have no effect on recognition and measurement and only concern the disclosure requirements. The new requirements will be effective for annual periods beginning on or after January 1st 2024.

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 both in the statement of financial position and in the statement of profit or loss and statement of other 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 interim condensed financial statements, endorsement of the amendments has been postponed by the European Union.

STATEMENT OF ACCOUNTING POLICIES

In these interim condensed financial statements, significant accounting policies and significant judgements and estimates applied by the Company

were the same as those described in the notes to the financial statements for 2022.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

When applying the accounting policies adopted by the Company, 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.

Professional judgement in accounting

The principal judgements which the Management Board made in the process of applying the Company's accounting policies and which have the most significant effect on the amounts recognised

in these interim condensed financial statements are the same as those described in the financial statements for 2022.

Uncertainty of estimates

The principal judgements which the Management Board made in the process of applying the

Company's accounting policies and which have the most significant effect on the amounts recognised

in these interim condensed financial statements are the same as those described in the financial statements for 2022.

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.



II.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

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1.

NOTES TO THE INTERIM STATEMENT OF COMPREHENSIVE INCOME

1.1. Revenue

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|----------------------|----------------------------------|----------------------------------|
| Revenue | 24,775,454 | 45,769,806 |
| Total revenue | 24,775,454 | 45,769,806 |

In the reporting period, revenue came in at PLN 24,775,454, down 45.87% from PLN 45,769,806 posted for the same period of the previous year. As in the previous years, in 2023 the main source of

revenue was sales of proprietary games as well as third-party developed games released by the Company as part of its publishing services.

Revenue by geographical region

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

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

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|----------------|----------------------------------|----------------------------------|
| Poland | 2,009,425 | 906,259 |
| European Union | 509,148 | 1,148,560 |
| United Kingdom | 683,879 | 1,745,003 |
| US | 18,144,825 | 35,936,180 |
| Japan | 2,531,174 | 5,419,478 |
| China | 150,805 | 113,296 |
| Other | 746,198 | 501,030 |
| Total | 24,775,454 | 45,769,806 |

Revenue by distribution channel

Of the total revenue amount, PLN 24,550,404 (PLN 45,698,009 the year before) was revenue from sales of games and products directly related to games (such as soundtracks). In the six months to June 30th 2023, the Company's ten largest distribution

partners, including Valve (Steam), Nintendo, Glass Cannon, Sony and Microsoft, accounted for 93.82% of total revenue from sales of games, with revenue from Valve representing more than 50% of total revenue.

1.2. Operating expenses

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|---------------------------------------|----------------------------------|----------------------------------|
| Depreciation and amortisation | 2,312,095 | 3,072,760 |
| Raw materials and consumables used | 390,104 | 321,314 |
| Services | 13,622,564 | 18,060,902 |
| Salaries, wages and employee benefits | 6,475,194 | 6,763,391 |
| Taxes and charges | 116,320 | 169,186 |
| Total operating expenses | 22,916,277 | 28,387,553 |

1.3. Other income and expenses

Other income

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|---|----------------------------------|----------------------------------|
| Compensation received | 26,362 | 8,498 |
| Impairment losses – reversal of ECL provision | 2,318 | 43,813 |
| Other | 2,792 | 641 |
| Total other income | 31,472 | 52,952 |

Other expenses

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|---------------------------------|----------------------------------|----------------------------------|
| Donations | 1,000 | 3,679,405 |
| Non-recoverable withholding tax | - | 62,896 |
| VAT settlements written off | 385,531 | - |
| Other expenses by nature | 875,249 | 275,757 |
| Total other expenses | 1,261,780 | 4,018,058 |

In the six months ended June 30th 2023, the largest item of other expenses was expenses by nature, including travel-for-work and business travel costs.

In the comparative period, the largest item of other expenses was a donation (PLN 3,664,435) transferred to the Ukrainian Red Cross. The funds were raised from the sale of the game *This War of Mine* in the period from February 24th to March 2nd 2022.

1.4. Finance income and costs

Finance income

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|--|----------------------------------|----------------------------------|
| Interest on bank deposits | 915,537 | - |
| Interest on loans advanced | 20,553 | 8,066 |
| IRS for a credit facility – interest | 187,008 | 59,676 |
| Interest income on bonds | 732,838 | 263,474 |
| Measurement of investment fund units | - | 585,707 |
| Increase in the value of Starward Industries S.A. shares | 4,694,832 | - |
| Measurement of IRS | - | 710,421 |
| Expected credit losses on financial instruments | 8,035 | - |
| Exchange differences | - | 3,053,150 |
| Other | 26,250 | - |
| Total finance income | 6,585,053 | 4,680,494 |

Finance costs

| | Jan 1-Jun 30 2023 (unaudited) | Jan 1-Jun 30 2022 (unaudited) |
|-------------------------------|----------------------------------|----------------------------------|
| Interest on public charges | 51,867 | 267 |
| Interest on credit facilities | 332,913 | 201,100 |
| IRS for a credit facility | - | 2,023 |
| Interest on leases | 13,787 | 11,774 |
| Measurement of IRS | 309,782 | - |
| Exchange differences | 1,820,511 | - |
| Total finance costs | 2,528,860 | 215,164 |

1.5. Income tax on continuing operations

Income tax recognised in profit or loss

| | Jan 1-Jun 30 2023 (unaudited) | Jan 1-Jun 30 2022 (unaudited) |
|--|----------------------------------|----------------------------------|
| Current income tax: | | |
| Attributable to current year | 82,709 | 3,863,663 |
| Deferred income tax: | | |
| Attributable to current year | 668,164 | (1,141,520) |
| Tax expense recognised in current year on continuing operations | 750,873 | 2,722,143 |

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:

| | Jan 1-Jun 30 2023 (unaudited) | Jan 1-Jun 30 2022 (unaudited) |
|---|----------------------------------|----------------------------------|
| Profit before tax from continuing operations | 4,764,079 | 17,805,918 |
| Income tax expense at 19% (2022: 19%) | 905,175 | 3,383,124 |
| Tax effect of costs which are not deductible for tax purposes | 380,296 | 319,736 |
| Effect of IP Box tax relief settlement at 5% tax rate | (585,335) | (1,374,634) |
| Other changes | 50,738 | 393,915 |
| Total | 750,873 | 2,722,143 |

The tax rate applied in the above reconciliation in 2023 and 2022 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate was 15.03% in the six months ended June 30th 2023 and 15.29% in the six months ended June 30th 2022.

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 585,335 in the six months ended June 30th 2023, and PLN 1,374,634 in the reference period.

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.

Current tax receivable and payable

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|----------------------------|--------------------------|
| CIT refund receivable | 4,614,384 | 2,980,694 |
| Current tax receivable and payable | 4,614,384 | 2,980,694 |

Tax receivables included the IP Box tax relief described in **Note 1.5** above of PLN 585,335, the tax remaining to be deducted upon receipt of returns

from trading partners, and non-recovered withholding tax.

1.6. Earnings per share

Basic earnings per share

| | Jun 30 2023 (unaudited) | Jun 30 2022 (audited) |
|---|----------------------------|--------------------------|
| Basic earnings per share: | | |
| From continuing operations | 1.67 | 6.36 |
| Total basic earnings per share | 1.67 | 6.36 |
| Diluted earnings per share: | | |
| From continuing operations | 1.66 | 6.26 |
| Total diluted earnings per share | 1.66 | 6.26 |

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

| | Jun 30 2023 (unaudited) | Jun 30 2022 (audited) |
|---|----------------------------|--------------------------|
| Profit for the financial year attributable to shareholders | 4,013,206 | 15,083,775 |
| Total profit used to calculate basic earnings per share | 4,013,206 | 15,083,775 |
| Profit used to calculate basic earnings per share from continuing operations | 4,013,206 | 15,083,775 |

| | Jun 30 2023 (unaudited) | Jun 30 2022 (audited) |
|---|----------------------------|--------------------------|
| Weighted average number of ordinary shares used to calculate earnings per share | 2,396,407 | 2,373,108 |

Diluted earnings per share

| | Jun 30 2023 (unaudited) | Jun 30 2022 (audited) |
|---|----------------------------|--------------------------|
| Profit for the financial year attributable to shareholders | 4,013,206 | 15,083,775 |
| Total profit used to calculate diluted earnings per share | 4,013,206 | 15,083,775 |
| Profit used to calculate diluted earnings per share from continuing operations | 4,013,206 | 15,083,775 |

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:

| | Jun 30 2023 (unaudited) | Jun 30 2022 (audited) |
|--|----------------------------|--------------------------|
| Weighted average number of ordinary shares used to calculate basic earnings per share | 2,396,407 | 2,373,108 |
| Shares expected to be issued: | | |
| Employee stock options | 0 | 37,055 |
| Weighted average number of ordinary shares used to calculate diluted earnings per share | 2,413,818 | 2,408,620 |

The calculation of diluted earnings per share does not include Series H shares which may be issued for the purposes of the 2021–2025 Incentive Scheme as

the financial targets of that Scheme were not achieved as at the reporting date.

2.

NOTES TO THE INTERIM STATEMENT OF FINANCIAL POSITION



2.1. Property, plant and equipment

| | Buildings and premises | Property, plant and equipment under construction | Plant and equipment | Vehicles | Other property, plant and equipment | Total |
|--|------------------------|--|---------------------|------------------|-------------------------------------|-------------------|
| Gross amount as at Jan 1 2023 | 24,394,903 | 130,952 | 4,333,077 | 688,043 | 3,508,541 | 33,055,516 |
| Increase | 34,225 | 704,067 | 442,989 | - | 107,590 | 1,288,872 |
| Decrease | - | - | (32,131) | - | - | (32,131) |
| Reclassification | - | (746,343) | 431,608 | 314,735 | - | 0 |
| Gross amount as at Jun 30 2023 | 24,429,128 | 88,676 | 5,175,544 | 1,002,778 | 3,616,130 | 34,312,257 |
| Cumulative depreciation as at Jan 1 2023 | 2,076,425 | - | 3,642,938 | 388,613 | 2,052,818 | 8,160,794 |
| Depreciation | 381,844 | - | 784,160 | 57,747 | 333,031 | 1,556,782 |
| Decrease | - | - | (32,131) | - | - | (32,131) |
| Cumulative depreciation as at Jun 30 2023 | 2,458,270 | - | 4,394,966 | 446,360 | 2,385,849 | 9,685,445 |
| Net amount as at Jan 1 2023 | 22,318,478 | 130,952 | 690,139 | 299,430 | 1,455,723 | 24,894,722 |
| Net amount as at Jun 30 2023 | 21,970,861 | 88,674 | 780,577 | 556,418 | 1,230,282 | 24,626,812 |

| | Buildings and premises | Property, plant and equipment under construction | Plant and equipment | Vehicles | Other property, plant and equipment | Total |
|--|------------------------|--|---------------------|----------------|-------------------------------------|-------------------|
| Gross amount as at Jan 1 2022 | 24,305,970 | 374,314 | 2,894,560 | 372,854 | 3,459,479 | 31,407,179 |
| Increase | 29,732 | 229,172 | 356,746 | - | 8,229 | 623,879 |
| Reclassification | - | (421,799) | 413,997 | - | 7,802 | - |
| Gross amount as at Jun 30 2022 | 24,335,702 | 181,687 | 3,665,303 | 372,854 | 3,475,510 | 32,031,056 |
| Cumulative depreciation as at Jan 1 2022 | 1,314,700 | - | 2,379,879 | 372,854 | 1,393,267 | 5,460,700 |
| Depreciation | 380,607 | - | 664,543 | - | 330,045 | 1,375,195 |
| Decrease | - | - | - | - | - | - |
| Cumulative depreciation as at Jun 30 2022 | 1,695,307 | - | 3,044,421 | 372,854 | 1,723,313 | 6,835,895 |
| Net amount as at Jan 1 2022 | 22,991,270 | 374,316 | 514,681 | - | 2,066,212 | 25,946,479 |
| Net amount as at Jun 30 2022 | 22,640,395 | 181,687 | 620,882 | - | 1,752,197 | 25,195,161 |

2.2. 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, 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 right 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%.

| | Jun 30 2023 | Dec 31 2022 |
|---|------------------|------------------|
| Perpetual usufruct of land – opening balance | 4,225,080 | 4,281,361 |
| Depreciation | (28,141) | (56,281) |
| Perpetual usufruct of land – closing balance | 4,196,939 | 4,225,080 |

2.3. Intangible assets

Amortisation is calculated based on useful lives of the following intangible assets:

Completed development work:

Completed game engine development work as at June 30th 2023 comprised the capitalised cost of the fifth work phase.

As at June 30th 2023, completed video games development work comprised games released in earlier periods.

Ongoing development work:

As at June 30th 2023, expenditure on ongoing development work included mainly expenditure on the development of games, in particular *Frostpunk 2*, *Project 8*, and *The Alters*, and third-party developed games of the publishing division.

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). The discount rate applied in these financial statements is 12.3%.

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 S.A.'s 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.

An impairment test 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 did not write off any expenditure on discontinued work.

| | Completed development work (game engine) | Completed development work (games) | Licences | Ongoing development work | Total |
|--|--|------------------------------------|------------------|--------------------------|--------------------|
| Gross amount as at Jan 1 2023 | 6,813,631 | 40,207,994 | 1,378,211 | 96,206,816 | 144,606,652 |
| Increase | - | - | 10,000 | 26,412,763 | 26,422,763 |
| Gross amount as at Jun 30 2023 | 6,813,631 | 40,207,994 | 1,388,211 | 122,619,579 | 171,029,415 |
| Cumulative amortisation as at Jan 1 2023 | 5,789,342 | 37,946,932 | 892,918 | - | 44,629,192 |
| Amortisation | 682,587 | 871,817 | 105,642 | - | 1,660,046 |
| Cumulative amortisation as at Jun 30 2023 | 6,471,929 | 38,818,750 | 998,557 | - | 46,289,236 |
| Net amount as at Jan 1 2023 | 1,024,289 | 2,261,062 | 485,293 | 96,206,816 | 99,977,460 |
| Net amount as at Jun 30 2023 | 341,702 | 1,389,244 | 389,654 | 122,619,578 | 124,740,178 |

| | Completed development work (game engine) | Completed development work (games) | Licences | Ongoing development work | Total |
|--|--|------------------------------------|----------------|--------------------------|--------------------|
| Gross amount as at Jan 1 2022 | 6,813,631 | 38,056,770 | 934,772 | 52,926,025 | 98,731,198 |
| Increase | - | - | 31,799 | 21,035,658 | 21,067,457 |
| Reclassification of completed development work | - | 1,512,119 | - | (1,512,119) | - |
| Gross amount as at Jun 30 2022 | 6,813,631 | 39,568,889 | 966,571 | 72,449,564 | 119,798,655 |
| Cumulative amortisation as at Jan 1 2022 | 4,424,169 | 34,556,533 | 612,859 | - | 39,593,561 |
| Amortisation | 682,587 | 1,850,289 | 131,713 | - | 2,664,589 |
| Cumulative amortisation as at Jun 30 2022 | 5,106,756 | 36,406,822 | 744,572 | - | 42,258,150 |
| Net amount as at Jan 1 2022 | 2,389,462 | 3,500,237 | 321,913 | 52,926,025 | 59,137,637 |
| Net amount as at Jun 30 2022 | 1,706,875 | 3,162,067 | 221,999 | 72,449,563 | 77,540,504 |

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

2.4. Deferred tax (net)

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

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|------------------------|-----------------------------------|---------------------------------|
| Deferred tax asset | 1,050,740 | 969,335 |
| Deferred tax liability | (1,201,285) | (451,716) |
| Total | (150,545) | 517,619 |

Income tax assets/liabilities in the reporting period

| | Jan 1 2023 | Recognised in profit or loss | Jun 30 2023 |
|--------------------------------------|----------------|------------------------------|------------------|
| Assets | | | |
| Provisions | 110,807 | 58,671 | 169,478 |
| Royalties payable | 770,768 | 26,940 | 797,708 |
| Liabilities | 25,284 | 6,587 | 31,871 |
| Remeasurement of financial assets | 60,907 | (16,540) | 44,367 |
| Depreciation and amortisation | 1,569 | 5,747 | 7,316 |
| Liabilities | | | |
| Remeasurement of financial assets | (433,493) | (712,260) | (1,145,753) |
| Measurement of financial investments | (18,223) | (37,309) | (55,532) |
| Total | 517,619 | (668,164) | (150,545) |

Income tax assets/liabilities in the comparative period

| | Jan 1 2022 | Recognised in profit or loss | Jun 30 2022 |
|--------------------------------------|----------------|------------------------------|------------------|
| Assets | | | |
| Provisions | 59,849 | 360,387 | 420,236 |
| Royalties payable | 953,494 | 548,536 | 1,502,030 |
| Liabilities | 10,580 | 22,003 | 32,583 |
| Remeasurement of financial assets | - | 26,218 | 26,218 |
| Donation | - | 449,993 | 449,993 |
| Liabilities | | | |
| Remeasurement of financial assets | (43,842) | (284,596) | (328,438) |
| Measurement of financial investments | (22,593) | 18,979 | (3,614) |
| Total | 957,488 | 1,141,520 | 2,099,008 |

2.5. Investments in associates

| | Information on the associate |
|-------------------------------|------------------------------|
| Name | Fool's Theory Sp. z o.o. |
| Principal place of business | Bielsko-Biala |
| Country of incorporation | Poland |
| Ownership interest held | 40% |
| % of total voting rights | 40% |
| Investment recognition method | equity method |

On February 28th 2022, the Company entered into an agreement to purchase 40 shares in Fool's Theory Sp. z o.o. with a par value of PLN 50 per share, representing in total 40% of that company's share capital. This holding gives 11 bit studios S.A. significant influence over Fool's Theory Sp. z o.o..

11 bit studios S.A.'s payment for the acquired shares was divided into two tranches. The first tranche, of PLN 2,619,216, was paid on March 9th 2022. The second tranche will be settled in cash seven months after the market release of *The Thaumaturge*, developed by Fool's Theory Sp. z o.o. 11 bit studios S.A.

is the game's publisher. The amount of the second tranche will depend on net revenue generated by the Company from the sale of *The Thaumaturge* over six months from the game's market release and the percentage of positive user ratings on Steam Reviews received by the game 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. As at June 30th 2023, the value of the second tranche was estimated at PLN 1,632,117 (discounted to June 30th 2023), i.e. PLN 11,507 lower than the estimate as at December 31st 2022. The estimate was based on the planned release date of

The *Thaumaturge*, the forecast revenue from its sale and the expected rating at Steam Reviews, and the value so obtained was then discounted to June 30th 2023 using the Company's cost of capital. The

estimate required an adjustment due to, among other things, an increase in the discount rate.

Measurement of investment in Fool's Theory Sp. z o.o. as at June 30th 2023

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|----------------------------|--------------------------|
| Cost of shares – first tranche | 2,619,216 | 2,619,216 |
| Cost of shares – second tranche (estimate) | 1,632,117 | 1,643,624 |
| Cumulative share of profit/(loss) of associate | (208,089) | (287,106) |
| Investment in associate Fool's Theory Sp. z o.o. | 4,043,243 | 3,975,734 |

On June 5th 2023, 11 bit studios S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which it issued a surety to secure a PLN 3,500,000 one-year multi-purpose credit facility agreement concluded by PKO BP S.A.

with Fool's Theory Sp. z o.o. on June 5th 2023. The surety for up to PLN 5,250,000 is valid until the date of the facility repayment by Fool's Theory Sp. z o.o. It was granted on arm's length terms and does not give 11 bit studios S.A. control over the company.

Selected data from the statement of financial position of Fool's Theory Sp. z o.o. as at June 30th 2023

| | Jun 30 2023 |
|----------------------------|-------------|
| Non-current assets | 19,358,682 |
| Current assets, including: | 806,164 |
| Cash | 6,331 |
| Current liabilities | 3,312,477 |
| Non-current liabilities | - |
| Accruals and deferrals | 17,352,620 |

2.6. Long-term investments

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|------------------------------------|----------------------------|--------------------------|
| Shares in Starward Industries S.A. | 12,846,570 | 8,151,523 |
| Total long-term investments | 12,846,570 | 8,151,523 |

As at December 31st 2022, 11 bit studios S.A. held 16,784 shares in Starward Industries S.A., or 5.99% of its share capital.

On January 2nd 2023, the Company acquired three shares in Starward Industries S.A. on the stock exchange. As a result, as at June 30th 2023, 11 bit studios S.A. held 16,787 shares in Starward Industries S.A., representing 5.99% of its share capital.

2.7. Other assets

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---------------------------------------|----------------------------|--------------------------|
| Insurance | 47,558 | 81,111 |
| Domain names, licences, subscriptions | 1,024,486 | 811,719 |
| Prepaid expenses | 629,032 | 974,553 |
| Trademark | 65,647 | 71,773 |
| Property tax | 44,875 | - |
| Other | 12,854 | 14,654 |
| Total other assets | 1,824,452 | 1,953,810 |
| including: | | |
| - current | 1,699,863 | 1,787,640 |
| - non-current | 124,589 | 166,170 |

Other current assets comprised prepayments and accrued income, including prepaid expenses related to industry events (trade fairs) in which the

Company will take part in subsequent periods, as well as fees for Internet domain names, property insurance, subscriptions, and stock exchange fees.

2.8. Trade and other receivables

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|----------------------------|--------------------------|
| Trade receivables | 19,462,908 | 7,543,245 |
| Taxes, grants, customs duties and social security | 1,433,826 | 1,893,585 |
| Other | 20,417 | 75,056 |
| Impairment losses on trade receivables | (37,817) | (40,135) |
| Total trade and other receivables | 20,879,334 | 9,471,751 |

Trade receivables

The Company recognised impairment losses based on historical credit loss rates determined through an analysis of receivables repayment.

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 as at June 30th 2023 disclosed below included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|-----------|----------------------------|--------------------------|
| Company A | 14,287,896 | 989,918 |
| Company B | 2,957,354 | 3,764,433 |
| Company C | 602,217 | - |
| Company D | 235,526 | 433,313 |

Ageing analysis of trade receivables

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---------------|----------------------------|--------------------------|
| Short-term | 19,042,759 | 6,607,694 |
| 1-30 days | 64,094 | 409,450 |
| 31-60 days | 352,839 | 193,778 |
| 61-90 days | 1,002 | 152,122 |
| 91-120 days | 771 | 179,506 |
| 121-360 days | 1,443 | 695 |
| Over 360 days | - | - |
| Total | 19,462,908 | 7,543,245 |

As at June 30th 2023, there were no reasons to recognise individual impairment losses on past due receivables.

2.9. Current financial assets

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|----------------------------|--------------------------|
| Financial instruments | 7,805,162 | 48,320,428 |
| Loans to employees | 790,099 | 1,309,430 |
| Bank deposits with maturities of more than 3 months | 20,268,522 | 7,068,687 |
| Total current financial assets | 28,863,783 | 56,698,545 |

As at June 30th 2023, financial instruments comprised:

| | Acquisition date | Measurement as at acquisition date | Interest rate (%) | Measurement as at Jun 30 2023 | Maturity date |
|---------------------------|------------------|------------------------------------|-------------------|-------------------------------|---------------|
| PKO Bank Hipoteczny notes | May 23 2023 | 7,751,897 | 6.6 | 7,805,162 | Nov 16 2023 |
| Total | | 7,751,897 | | 7,805,162 | |

* The notes issued by PKO Bank Hipoteczny are discount notes. They will be redeemed by the issuer at the nominal price.

As at December 31st 2022, financial instruments comprised:

| | Acquisition date | Measurement as at acquisition date | Interest rate (%) | Measurement as at Dec 31 2022 | Maturity date |
|----------------------------|------------------|------------------------------------|-------------------|-------------------------------|---------------|
| PKO Leasing notes* | Oct 26 2022 | 11,772,421 | 7 | 11,925,689 | Feb 1 2023 |
| PKO Leasing notes* | Oct 11 2022 | 7,852,418 | 7 | 7,974,399 | Jan 17 2023 |
| PKO Bank Hipoteczny notes* | Oct 6 2022 | 18,369,401 | 7 | 18,672,370 | Apr 3 2023 |
| PKO Bank Hipoteczny notes* | Nov 4 2022 | 9,636,607 | 7 | 9,747,970 | May 9 2023 |
| Total | | 47,630,847 | | 48,320,428 | |

* The notes issued by PKO Leasing and PKO Bank Hipoteczny were discount notes. They were redeemed by the issuers at the nominal price.

The Company classifies its financial instruments as current financial assets as they are used as current liquidity management instruments.

Loans to employees are measured at amortised cost. They bear interest at 12M WIBOR plus 0.5% margin

per annum. Loans are granted for a period of 12 months. Loans to employees are presented as current assets given the time remaining to the repayment date.

2.10. Cash and cash equivalents

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|--|----------------------------|--------------------------|
| Cash in bank accounts and in hand | 27,753,202 | 13,995,204 |
| Short-term deposits (up to 3 months) | 11,213,200 | 16,602,700 |
| Impairment losses on cash and cash equivalents | (14,521) | (11,913) |
| Total | 38,951,881 | 30,585,991 |

As at June 30th 2023, 66.47% of the Company's cash and cash equivalents were deposited with Powszechna Kasa Oszczędności Bank Polski S.A.

Cash in hand and at banks as at June 30th 2023, by currency:

- PLN 6,822,824,
- USD 4,885,506 (PLN 20,062,818),
- EUR 194,909 (PLN 867,403),
- CNY 280 (PLN 158).

Cash in hand and at banks as at December 31st 2022, by currency:

- PLN 2,268,995,
- USD 2,208,132 (PLN 9,719,754),
- EUR 425,247 (PLN 1,994,364),
- CNY 280 (PLN 178).

When measuring its cash, including in foreign currencies, as at June 30th 2023, the Company also

measured expected credit losses (ECL), but the effect was not material.

2.11. Share capital

As at June 30th 2023, the Company's share capital consisted of 2,417,199 fully paid-up ordinary shares totalling PLN 241,719.9.

Ordinary shares fully paid

| | Number of shares | Share capital | Share premium |
|--------------------------|------------------|----------------|-------------------|
| As at Dec 31 2022 | 2,380,144 | 238,014 | 14,422,772 |
| Increase/decrease | 37,055 | 3,706 | 3,809,938 |
| As at Jun 30 2023 | 2,417,199 | 241,720 | 18,232,710 |

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

Changes in the share capital in the six months ended June 30th 2023 resulted from the issue of 37,055 Series G shares.

2.12. Dividends paid

No dividends were paid by the Company in the period from January 1st to June 30th 2023 or in 2022.

Based on a decision of shareholders present at the Annual General Meeting on May 31st 2023, the full

amount of the Company's net profit for 2022 of PLN 22,889,816 was transferred to statutory reserve funds.

2.13. Credit facility

| | Jun 30 2023 | Dec 31 2022 |
|------------------------|------------------|------------------|
| Opening balance | 7,665,000 | 8,820,000 |
| Principal increase | - | - |
| Principal repayment | (735,000) | (1,155,000) |
| Interest accrued | 332,913 | 462,606 |
| Interest paid | (332,913) | (462,606) |
| Closing balance | 6,930,000 | 7,665,000 |
| including: | | |
| - current | 1,260,000 | 1,260,000 |
| - non-current | 5,670,000 | 6,405,000 |

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 property located at ul. Brzeska 2 in Warsaw. The repayment date is December 11th 2028. The facility is repayable in monthly instalments. As at June 30th 2023, 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 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 situated on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP S.A.

On June 26th 2023, the Company signed a PLN 20,000,000 multi-purpose credit facility agreement with PKO BP S.A. Its term ends on June 25th 2025. The facility may be drawn in the złoty or the euro to finance the Company's day-to-day operations.

Financial liabilities (borrowings) of 11 bit studios S.A.

| Lender | Borrowed amount | Currency | As at Jun 30 2023 | As at Dec 31 2022 | Interest Rate | Repayment deadline |
|--------------|-------------------|----------|-------------------|-------------------|------------------|--------------------|
| PKO BP S.A. | 12,600,000 | PLN | 6,930,000 | 7,665,000 | 1M WIBOR + 0.9%. | Dec 11 2028 |
| Total | 12,600,000 | | 6,930,000 | 7,665,000 | | |

2.14. 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 2023 | 23,061 | 590,205 | 83,315 | 167,431 | 864,012 |
| Increase: | | | | | |
| Recognition | 1,367 | 684,293 | 87,540 | 177,973 | 951,173 |
| Decrease: | | | | | |
| Use | | (345,693) | - | (800) | (346,493) |
| Reversal | (499) | - | - | - | (499) |
| As at Jun 30 2023 | 23,929 | 928,805 | 170,855 | 344,604 | 1,468,193 |
| including: | | | | | |
| - current | 958 | 928,805 | 170,855 | 344,603 | 1,445,222 |
| - non-current | 22,971 | - | - | - | 22,971 |

| | 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 2022 | 10,891 | 398,378 | 57,524 | 194,629 | 661,422 |
| Increase: | | | | | |
| Recognition | 112 | 506,882 | 1,211,248 | 1,357,874 | 3,076,116 |
| Decrease: | | | | | |
| Use | | (260,923) | - | (200,549) | (461,472) |
| Reversal | (1,753) | - | - | (315) | (2,068) |
| As at Jun 30 2022 | 9,250 | 644,337 | 1,268,772 | 1,351,639 | 3,273,998 |
| including: | | | | | |
| - current | 613 | 644,337 | 1,268,772 | 1,351,639 | 3,265,361 |
| - non-current | 8,637 | - | - | - | 8,637 |

2.15. Lease liabilities

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|--|----------------------------|--------------------------|
| Lease liabilities – opening balance | 766,130 | 769,979 |
| Increase | - | - |
| Decrease | - | - |
| Charges for perpetual usufruct of land | (946) | (3,849) |
| Lease liabilities – closing balance | 765,184 | 766,130 |
| including: | | |
| - current | 15,257 | 15,254 |
| - non-current | 749,927 | 750,876 |

2.16. Trade and other payables

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|---|----------------------------|--------------------------|
| Trade payables | 1,301,740 | 549,958 |
| Provisions for product returns | 51,696 | 64 461 |
| Guarantee deposits – Brzeska 2 | 10,100 | 9,650 |
| Taxes, customs duties, insurance and other dues | 907,750 | 1,988,841 |
| Accruals and deferred income (provision for audit and other invoices) | 292,933 | 221,014 |
| Amounts payable to employees | 14,318 | 18,195 |
| Other | 41,794 | 41,793 |
| Total trade and other payables | 2,620,332 | 2,893,912 |

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.

2.17. Contractual maturities of liabilities

Time to maturity as at June 30th 2023

| | Up to 1 month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Nominal (undiscounted) amount |
|---|---------------|--------------------------|-------------------------|------------------------|--------------|-------------------------------|
| Trade payables | 1,301,740 | - | - | - | - | 1,301,740 |
| Lease liabilities | 2,456 | 4,912 | 22,104 | 117,888 | 2,102,345 | 2,249,705 |
| Royalties payable | - | 2,996,704 | 1,201,757 | - | - | 4,198,461 |
| Credit facility | 105,000 | 210,000 | 945,000 | 5,040,000 | 630,000 | 6,930,000 |
| Liabilities arising from acquisition of shares in associate | - | - | - | 1,632,117 | - | 1,632,117 |

Time to maturity as at December 31st 2022

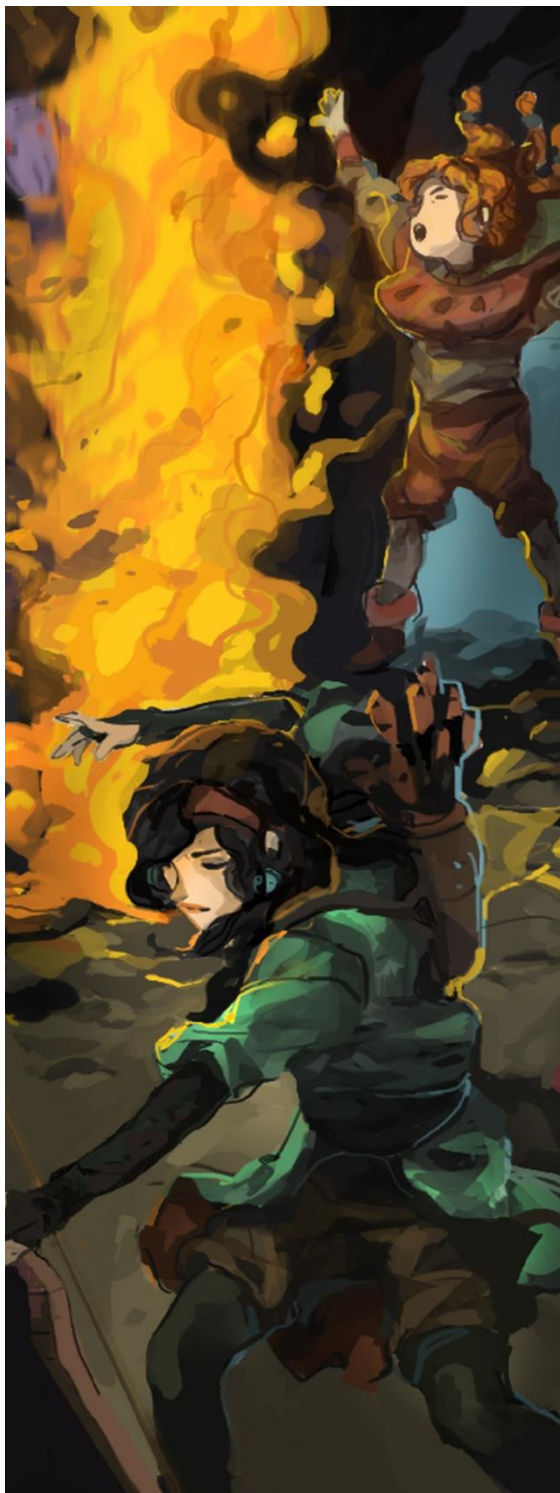
| | Up to 1 month | Over 1 month to 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Nominal (undiscounted) amount |
|---|---------------|--------------------------|-------------------------|------------------------|--------------|-------------------------------|
| Trade payables | 189,501 | 305,186 | 55,271 | - | - | 549,958 |
| Lease liabilities | 2,456 | 4,912 | 22,104 | 147,360 | 2,087,609 | 2,264,441 |
| Royalties payable | - | - | 4,056,672 | - | - | 4,056,672 |
| Credit facility | 105,000 | 210,000 | 945,000 | 5,040,000 | 1,365,000 | 7,665,000 |
| Liabilities arising from acquisition of shares in associate | - | - | - | 1,643,624 | - | 1,643,624 |

2.18. Contract liabilities

| | Jun 30 2023 (unaudited) | Dec 31 2022 (audited) |
|----------------------|----------------------------|--------------------------|
| Contract liabilities | 13,850,348 | 1,128,700 |
| Total | 13,850,348 | 1,128,700 |

The significant increase in the Company's liabilities under contracts with customers as at the reporting date was due to advance payments received from

trading partners (mainly Microsoft Corporation) in respect of future sales of the Company's proprietary games and games from the publishing portfolio.



3.

NOTES ON FINANCIAL INSTRUMENTS

3.1. Financial instruments

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 values as at June

30th 2023 and December 31st 2022. In the case of instruments measured at fair value, the measurement was based on their market value as at the reporting date.

Financial assets and liabilities

| Classes of financial instruments as at Jun 30 2023 | Measured at amortised cost | Measured at fair value through profit or loss | Measured at fair value through other comprehensive income | Total |
|---|----------------------------|---|---|--------------------|
| Financial assets | 88,694,998 | 13,301,300 | | |
| PKO BP Bank Hipoteczny notes | 7,805,162 | - | - | 7,805,162 |
| Cash | 38,951,881 | - | - | 38,951,881 |
| Long-term investments | - | 12,846,570 | - | 12,846,570 |
| Bank deposits with maturities of more than 3 months | 20,268,522 | - | - | 20,268,522 |
| Trade and other receivables | 20,879,334 | - | - | 20,879,334 |
| Loans to employees | 790,099 | - | - | 790,099 |
| IRS | - | 454,730 | - | 454,730 |
| Total | 88,694,998 | 13,301,300 | - | 101,996,298 |
| Financial liabilities | | | | |
| Trade and other payables | 2,620,332 | - | - | 2,620,332 |
| Royalties payable | 4,198,461 | - | - | 4,198,461 |
| Liabilities arising from acquisition of shares in associate | - | 1,632,117 | - | 1,632,117 |
| Credit facility | 6,930,000 | - | - | 6,930,000 |
| Total | 13,748,793 | 1,632,117 | - | 15,380,910 |

| Classes of financial instruments as at Dec 31 2022 | Measured at amortised cost | Measured at fair value through profit or loss | Measured at fair value through other comprehensive income | Total |
|---|----------------------------|---|---|-------------------|
| Financial assets | | | | |
| PKO Leasing and PKO Bank Hipoteczny notes | 48,320,428 | - | - | 48,320,428 |
| Cash | 30,585,991 | - | - | 30,585,991 |
| Long-term investments | - | 8,151,523 | - | 8,151,523 |
| Bank deposits with maturities of more than 3 months | 7,068,687 | - | - | 7,068,687 |
| Trade and other receivables | 9,471,751 | - | - | 9,471,751 |
| Loans to employees | 1,309,430 | - | - | 1,309,430 |
| IRS | - | 764,512 | - | 764,512 |
| Total | 89,687,600 | 8,916,035 | - | 98,603,635 |
| Financial liabilities | | | | |
| Trade and other payables | 2,893,912 | - | - | 2,893,912 |
| Royalties payable | 4,056,672 | - | - | 4,056,672 |
| Liabilities arising from acquisition of shares in associate | - | 1,643,624 | - | 1,643,624 |
| Credit facility | 7,665,000 | - | - | 7,665,000 |
| Total | 14,615,584 | 1,643,624 | - | 16,259,208 |

Fair value of the Company's financial assets and liabilities not measured 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.

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 loans to employees is determined based on future cash flows, discounted at the current interest rate on loans.

Financial assets measured at fair value:

| | Jun 30 2023 | Dec 31 2022 | Fair value hierarchy |
|----------------------------|-------------|-------------|----------------------|
| Starward Industries shares | 12,846,570 | 8,151,523 | Level 1 |
| Measurement of IRS | 454,730 | 764,512 | Level 3 |

3.2. Share-based payments

Employee stock option plan for 2021-2025

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

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

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

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

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

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

incremental 2% of the overperformance, however, the discount amount may not exceed 10% of the issue price. The issue price of Series H shares under the 2021-2025 Incentive Scheme was set at PLN 474.93.

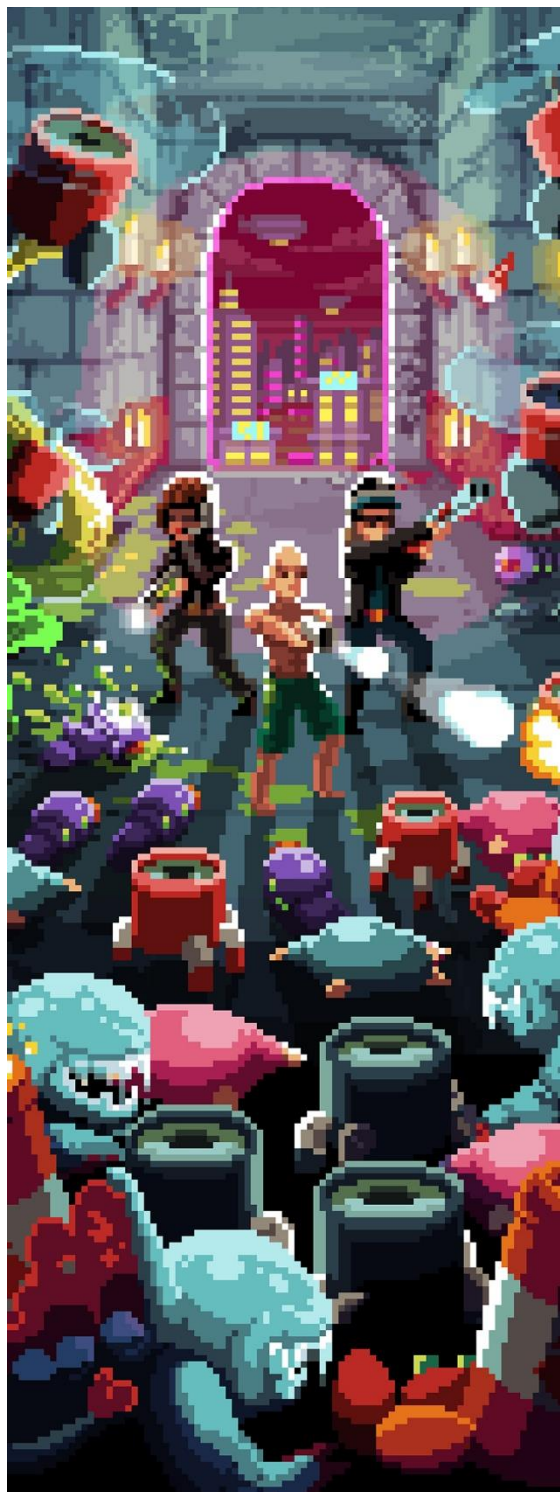
Recognition of the 2021–2025 Incentive Scheme

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. Costs of the Incentive Scheme are recognised in the statement of profit or loss over the entire term of the Incentive Scheme, with a corresponding entry in capital reserves. The terms and conditions of the Incentive Scheme are based on the achievement of

the general corporate objectives and do not apply to individual participants. 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 the statement of comprehensive income in a given period are presented below:

| | |
|--|-------------|
| Service commencement date | Jan 1 2021 |
| Grant date (date of signing the participation agreements) | Mar 10 2021 |
| Vesting date | Dec 31 2025 |
| 11 bit studios S.A. share price on the grant date (PLN) | 517 |
| Six-month volatility of 11 bit studios S.A. share price (%) | 34% |
| Risk-free rate (%) | 0.86% |
| Number of Incentive Scheme warrants | 125,000 |
| Number of Incentive Scheme warrants granted as at Mar 10 2021 | 97,300 |
| Number of Incentive Scheme warrants granted as at Jun 30 2023 | 77,300 |
| Measurement of warrants (PLN) | 200 |
| Total Incentive Scheme cost as at Jun 30 2023 (PLN) | 15,447,893 |
| Total Incentive Scheme cost as at Dec 31 2025 remaining to be recognised (PLN) | 7,723,946 |
| Statement of profit or loss – employee benefits expense in H1 2023 | 1,420,887 |

As at the reporting date, the Company recognised costs in the statement of comprehensive income based on the assumption that the 2021–2025 Incentive Scheme will be implemented in full.



4.

OTHER NOTES

4.1. Related-party transactions

Related parties include members of the Company's Management and Supervisory Boards (key personnel):

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board
- Paweł Feldman – Member of the Management Board
- Marek Ziemak – Member of the Management Board
- Radosław Marter – Chair of the Supervisory Board

- Jacek Czykiel – Deputy Chair of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board
- Milena Olszewska-Miszuris – Member of the Supervisory Board

In addition, the Company's related parties include also the following persons related to members of the key management:

- Paweł Miechowski – Communication Lead, brother of Grzegorz Miechowski, Member of the Management Board.

Fool's Theory Sp. z o.o. has been classified as a related party since February 28th 2022.

Commercial transactions

In addition to the services provided by members of the Company's Management Board, as described in Section II.4, the Company entered into the following

related-party transactions in the periods from January 1st to June 30th 2023 and from January 1st to June 30th 2022:

| | Jan 1–Jun 30 2023 | Jan 1–Jun 30 2022 |
|----------------------------|-------------------|-------------------|
| Arkona – Paweł Miechowski* | 141,733 | 120,000 |
| Marek Ziemak* | 35,832 | not applicable |
| Paweł Feldman* | 37,516 | not applicable |
| Fool's Theory Sp. z o.o.** | 685,196 | 3,911,407 |
| Total | 900,277 | 4,031,407 |

* The entity provides B2B services to the Company and receives consideration from the Company.

** Fool's Theory Sp. z o.o. became a related party of 11 bit studios S.A. on February 28th 2022. The Company paid PLN 685,196 to Fool's Theory Sp. z o.o. on completion of successive milestones in the production of *The Thaumaturge*.

Loans advanced to related parties

In the six months ended June 30th 2023, in accordance with Art. 245.1, 245.4 and 245.8 of the Commercial Companies Code and pursuant to Resolution No. 21/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company entered into a loan agreement with Przemysław Marszał, Member of the Management Board, to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loan amount was PLN 800,000. As at the end of the reporting period, the amount outstanding under the loan (including interest) was PLN 750,959.

On April 18th 2023, the Company advanced a one-month loan of PLN 300,000 to its associate Fool's Theory sp. z o.o., with interest rate set at 8.16% per annum. On May 17th 2023, the parties signed an annex to the loan agreement, extending the loan repayment date until June 10th 2023. On May 11th 2023, 11 bit studios S.A. advanced another one-month loan of PLN 400,000 to Fool's Theory Sp. z o.o., with interest rate also set at 8.16% per annum. Both loans were repaid on June 7th 2023 together with accrued interest.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

On June 5th 2023, 11 bit studios S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which it issued a surety to secure a PLN 3,500,000 one-year multi-purpose credit facility agreement concluded by PKO BP S.A. with Fool's Theory Sp. z o.o. on June 5th 2023. The surety for up to PLN 5,250,000 is valid until the date of the facility repayment by Fool's Theory Sp. z o.o. It was granted on arm's length terms. In the Company's opinion, as at the reporting date there

were no grounds for recognising provisions in respect of the surety.

In the reference period (April 6th 2022), the Company advanced a loan to Paweł Feldman, Member of the Company's Management Board, to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loan amount was PLN 1,269,000. The loan was repaid on April 8th 2023 together with accrued interest.

Borrowings from related parties

The Company did not receive any loans from its related parties in the period from January 1st to June 30th 2023 or in 2022.

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 and Supervisory Board. Remuneration of members of the Company's Management and Supervisory Boards for

discharging managerial and supervisory duties in the six months to June 30th 2023 and in the comparative period is presented below.

Remuneration of the Management Board as at June 30th 2023 – total:

| | Przemysław Marszał | Grzegorz Miechowski | Michał Drozdowski | Paweł Feldman | Marek Ziemak |
|--|--------------------|---------------------|-------------------|----------------|----------------|
| Remuneration for managerial responsibilities | 348,080 | 349,524 | 345,691 | 354,529 | 354,972 |
| Remuneration under civil-law contracts | 35,917 | 35,400 | 35,400 | - | - |
| Remuneration under service contracts | - | - | - | 37,516 | 35,832 |
| Total | 383,997 | 384,924 | 381,091 | 392,045 | 390,804 |

Remuneration of the Management Board as at June 30th 2022 – total:

| | Przemysław Marszał | Grzegorz Miechowski | Michał Drozdowski | Paweł Feldman | Marek Ziemak |
|--|--------------------|---------------------|-------------------|----------------|----------------|
| Remuneration for managerial responsibilities | 623,189 | 623,357 | 618,169 | not applicable | not applicable |
| Remuneration under civil-law contracts | 30,000 | 30,000 | 30,000 | not applicable | not applicable |
| Total | 653,189 | 653,357 | 648,169 | - | - |

In addition, members of the Management Board received consideration for services under civil-law contracts and service contracts.

The members of the Management Board did not receive any other remuneration in the form of profit distributions or stock options for the six months ended June 30th 2023 or the six months ended June 30th 2022. The members of the Management Board participate in the 2021–2025 Incentive Scheme, as described in detail (together with the valuation) in **Note II.3.2** to these financial statements.

As at June 30th 2023, Przemysław Marszał (President of the Management Board), Grzegorz Miechowski

(Member of the Management Board) and Michał Drozdowski (Member of the Management Board) will each have the right to subscribe for 6,500 Series C warrants convertible into Series H shares, on the basis of the 2021–2025 Incentive Scheme participation agreements they have signed. Paweł Feldman and Marek Ziemak (Members of the Management Board) will have the right to subscribe for, respectively, 4,500 and 3,500 Series C warrants convertible into Series H shares. As at June 30th 2023, the total number of warrants to be acquired by persons participating in the 2021–2025 Incentive Scheme, with whom the Company has signed agreements on participation in the Scheme, is 77,300.

Short-term benefits – Supervisory Board:

| | Jan 1–Jun 30 2023 | Jan 1–Jun 30 2022 |
|--|-------------------|-------------------|
| Radosław Marter (Chair of the Supervisory Board) | 57,000 | 40,762 |
| Jacek Czykiel (Deputy Chair of the Supervisory Board) | 51,278 | 35,667 |
| Marcin Kuciapski (Member of the Supervisory) | 36,527 | 26,371 |
| Piotr Wierzbicki (Member of the Supervisory Board) | 37,026 | 26,371 |
| Milena Olszewska-Miszuris (Member of the Supervisory Board since June 21st 2022) | 37,026 | 1,943 |
| Artur Konefał (Member of the Supervisory Board until May 23rd 2022) | - | 24,374 |
| Total | 218,857 | 155,488 |

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.

Other related-party transactions

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

Information on related-party transactions

No transactions were executed on a non-arm's length basis in the period from January 1st to June 30th 2023 or in the comparative period.

4.2. Off-balance-sheet commitments

As at the issue date of this half-year report for the six months to June 30th 2023, the Company had off-balance-sheet commitments to incur expenditure (on intangible assets only) of EUR 3,852,146, PLN

3,038,327, and USD 53,136. The commitments are related to publishing agreements executed by the Company with third-party development studios.

4.3. Contingent assets and liabilities

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 over perpetual usufruct of land and ownership title to the building situated on the property, and assignment of cash receivables under an insurance contract for the property in favour of PKO BP.

Security for a multi-purpose credit facility agreement signed by the Company with PKO BP S.A. in June 2023 to finance the Company's day-to-day operations, comprising a blank promissory note issued by the Company, together with a promissory note declaration, PLN 16,000,000 guarantee issued by Bank Gospodarstwa Krajowego, contractual mortgage of up to PLN 30,000,000 (it will replace the contractual mortgage for the investment credit facility of December 2018) over perpetual usufruct of land and ownership title to the building situated on the property, and assignment of cash receivables

under an insurance contract for the property in favour of PKO BP S.A.

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.

Contingent assets

As at June 30th 2023 and in the comparative period, the Company did not recognise any contingent assets.

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

No seasonal or cyclical fluctuations of a non-recurring nature were reported in the three months to June 30th 2023.

4.5. Events subsequent to the reporting date

By the date of authorisation of these interim condensed financial statements by the Company's Management Board, i.e., August 24th 2023, there were no events with a material bearing on these financial statements.



DIRECTORS' REPORT ON THE OPERATIONS

OF 11 BIT STUDIOS S.A.

FOR THE SIX MONTHS ENDED
JUNE 30TH 2023

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ENDORSED BY THE EUROPEAN UNION



OVERVIEW

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GOVERNING BODIES

Management Board

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board
- Paweł Feldman – Member of the Management Board
- Marek Ziemak – Member of the Management Board

There were no changes in the composition of 11 bit studios S.A.'s Management Board in the reporting period.

The term of office of the members of the Management Board expires on the date the Annual

General Meeting receives the Company's full-year financial statements for the financial year ending December 31st 2025.

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.

Board include supervising the financial, IT and administration divisions.

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





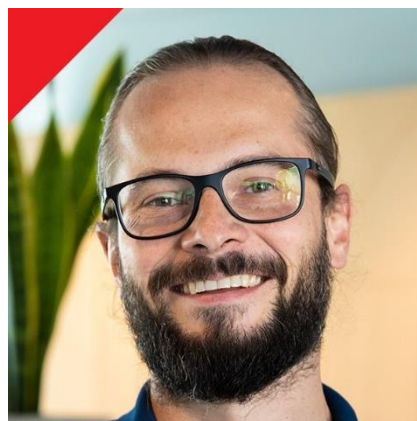
Michał Drozdowski, Member of the Management Board.

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 on the Management Board include all matters related to game creation.

new business lines, including IP, as well as the PR and marketing departments.

Paweł Feldman, Member of the Management Board

Graduate of the Faculty of Management of the University of Warsaw. He has many years of experience in the gaming industry, both from the publisher and developer perspective. He has worked on numerous critically acclaimed titles, such as *Wiedźmin*, *This War of Mine* and *Frostpunk*. He focuses mainly on the strategy, business, sales and marketing activities. He has worked for 11 bit studios since 2012, supervising sales and the publishing business line, among other things. His responsibilities on the Management Board include matters related to development of the Company's



Marek Ziemak, Member of the Management Board

Graduate of the Cybernetics Faculty of the Military University of Technology with a major in Computer Science: IT Management Systems. Completed postgraduate Master of Business Administration programme for IT personnel at Kozminski University. He started his professional career in the video game industry in 2006 when he joined the CD Projekt RED team as a game tester. He later served as a gameplay designer and developer. He left the ranks of CD Projekt RED in 2014 when he joined the nascent publishing division of 11 bit studios. Executive Producer of publishing projects since 2019, and Head of External Development since 2020. His responsibilities on the Management Board include all matters related to the production of proprietary and third-party developed games.



Supervisory Board

- Radosław Marter – Chair of the Supervisory Board
- Jacek Czykiel – Deputy Chair of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board
- Milena Olszewska-Miszuris – Member of the Supervisory Board

There were no changes in the composition of 11 bit studios S.A.'s Supervisory Board in the reporting period.

The term of office of the members of the Supervisory Board expires on the date the Annual General Meeting receives the Company's full-year financial statements for the financial year ending December 31st 2025.

Experience and competences of the Supervisory Board members

Radosław Marter – Chair 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 Chair 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, and 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. In May 2018, he took the position of Managing

Director, Country Manager, at Atos Polska. Since June 2023, he has served as President of the Management Board of Capgemini Polska Sp. z o.o.

Milena Olszewska-Miszuris – Member of the Supervisory Board

Graduate of two faculties of the SGH Warsaw School of Economics: Quantitative Methods and Information Systems and Finance and Banking with a major in Investment Banking. She holds three international finance certifications: CFA (Chartered Financial Analyst), ACCA (Association of Chartered Certified Accountants) and FSA Credential (Fundamentals of Sustainability Accounting). In 2004–2005, she worked at CDM Pekao as equity analyst and then, until 2008, as equity analyst at the

Polish branch of KBC Securities N.V. From 2008 to 2015, she was senior securities analyst at ING Securities. Between 2015 and 2017, she was President of the Management Board of ADS Partners, an investor relations consultancy. Since 2017, she has served as President of the Management Board of WM Advisory, a value creation consultancy. She was an independent member of the supervisory boards of Ten Square Games and R22. Currently, she serves on the supervisory board of STS Holding. In 2020–2021, she was Vice President of CFA Society Poland. Member of the WSE Corporate Governance Consultative Committee and Co-Chair of the 30% Club Poland social campaign.

SHAREHOLDING STRUCTURE AS AT THE DATE OF THIS REPORT

| Name | Number of shares | % of share | Number of votes | % of total voting rights |
|---------------------|------------------|---------------|------------------|--------------------------|
| | capital held | | | at GM |
| Allianz Polska TFI* | 229,878 | 9.51 | 229,878 | 9.51 |
| Grzegorz Miechowski | 168,413 | 6.97 | 168,413 | 6.97 |
| N-N PTE* | 144,900 | 5.99 | 144,900 | 5.99 |
| Esaliens TFI** | 120,965 | 5.00 | 120,965 | 5.00 |
| Przemysław Marszał | 120,863 | 5.00 | 120,863 | 5.00 |
| Michał Drozdowski | 100,044 | 4.14 | 100,044 | 4.14 |
| Paweł Feldman | 10,436 | 0.43 | 10,436 | 0.43 |
| Marek Ziemak | 1,002 | 0.04 | 1,002 | 0.04 |
| Other shareholders | 1,520,698 | 62.92 | 1,520,698 | 62.92 |
| Total | 2,417,199 | 100.00 | 2,417,199 | 100.00 |

* Number of shares registered at the Annual General Meeting held on May 31st 2023.

** Number of shares registered at the Extraordinary General Meeting held on February 9th 2023.

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

In Current Report No. 7/2023 of April 4th 2023, 11 bit studios S.A. announced that on that day the Company received notifications under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, President of the Management Board, and Members of the Management Board Grzegorz Miechowski, Michał Drozdowski, Paweł Feldman and Marek Ziemak concerning disposals of 11 bit studios S.A. shares. Przemysław Marszał sold a total of 1,050 shares, Grzegorz Miechowski sold 2,000 shares, Michał Drozdowski sold 3,000 shares, Paweł Feldman sold 3,500 shares and Marek Ziemak sold 1,540 shares in 11 bit studios S.A. The trades were executed during a stock exchange session on April 4th 2023 at a price of PLN 635 per share.

In Current Report No. 8/2023 of April 12th 2023, 11 bit studios S.A. announced that on April 12th 2023 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 April 12th 2023, Marcin Kuciapski purchased a total of 200 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 618.855 per share.

In Current Report No. 9/2023 of April 12th 2023, 11 bit studios S.A. announced that according to information it received from Dom Maklerski BOŚ S.A. 37,055 Series G shares were duly subscribed and paid for as part of a public offering on April 12th 2023, for a total amount of PLN 3,830,745.90. The shares were issued for the purposes of the 2017–2019 Incentive Scheme. The Company also announced that as of April 12th 2023 the Company's share

capital was PLN 241,719.9 and comprised 2,417,199 shares with a par value of PLN 0.1 per share.

In Current Report No. 10/2023 of April 12th 2023, 11 bit studios S.A. announced that on April 12th 2023 the Company received notifications under Article 19(1) of the Market Abuse Regulation from Przemysław Marszał, President of the Management Board, and Michał Drozdowski, Member of the Management Board, concerning acquisitions of 11 bit studios S.A. shares. On April 12th 2023, Przemysław Marszał acquired 18,413 Company shares at a price of PLN 103.38 per share under the 2017–2019 Incentive

Scheme. On April 12th 2023, Michał Drozdowski acquired 18,414 shares in 11 bit studios S.A. at a price of PLN 103.38 per share under the 2017–2019 Incentive Scheme.

Following the share acquisition transaction referred to above, Przemysław Marszał's holding increased to 120,863 shares, representing 5.00% of the share capital and conferring 5.00% of voting rights in the Company. A notification to that effect was received by 11 bit studios S.A. on April 12th 2023 and was announced in Current Report No. 11/2023 of April 12th 2023.

COMPANY SHARES HELD BY MEMBERS OF ITS MANAGEMENT AND SUPERVISORY STAFF

| | | Number of shares | Number of shares | Number of shares |
|---------------------|-----------------------------------|-------------------------------------|-------------------|-------------------|
| Position | | as at the issue date of this report | as at Dec 31 2022 | as at Dec 31 2021 |
| Przemysław Marszał | President of the Management Board | 120,863 | 103,500 | 103,500 |
| Grzegorz Miechowski | Member of the Management Board | 168,413 | 170,413 | 170,413 |
| Michał Drozdowski | Member of the Management Board | 100,044 | 84,630 | 84,630 |
| Paweł Feldman | Member of the Management Board | 10,436 | 13,936 | not applicable |
| Marek Ziemak | Member of the Management Board | 1,002 | 2,542 | not applicable |
| Marcin Kuciapski | Member of the Supervisory Board | 1,500 | 1,300 | 1,155 |

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

In the reporting period, there were changes in the holdings of Company shares by the supervisory staff

of 11 bit studios S.A. The changes are described in detail on **pp. 52–53**.

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

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.

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 computer 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 limited control over 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 computer game.

Delayed completion of the production work on computer 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 the closed platforms (consoles) of Sony, Microsoft and Nintendo. These producers reserve the right to check the product that is to be launched on their platform. As a consequence, the Company bears the risk of non-acceptance of its product by a closed platform holder.

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

In March 2014, a new publishing department was set up within the Company. Its purpose is the production and distribution of games made by 11 bit studios S.A. or third-party developers from Poland and abroad. The Company's engagement in those activities may entail 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 independent contractors

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 independent contractors with the greatest 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 independent contractors. Loss of such personnel entails the need to recruit, train and on-board new people.

The employment contracts concluded by the Company with its employees and other contracts made with independent contractors contain clauses prohibiting the provision of services to other entities or trading partners 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 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. There is also a potential risk arising from Art. 44 of the Copyright and Related Rights Act of February 4th 1994, that is a risk of authors claiming additional remuneration if games based on IP acquired from them turn out to be more successful than expected. Such claim cannot be contractually restricted.

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 issue of this half-year report for the six months ended June 30th 2023, the founding shareholders held a total of 389,320 shares in the Company, representing 16.11% of the share capital and conferring the right to 16.11% 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 factors related to the environment in which the Company operates

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

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

Risk of changes in the legal environment

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

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

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

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

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

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

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

Risk of currency exchange rate fluctuations

In its operations the Company is exposed to the risk of fluctuations of foreign exchange rates. As the Company sells its products in foreign markets (North America, Western Europe, Central and Eastern Europe, including Russia and China), the main settlement currencies in foreign transactions are the US dollar (80% share) and the euro (16% 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 computer games for direct distribution to mobile and fixed hardware platforms. The conditions and demand for products in the gaming 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. All 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.

MAJOR ACHIEVEMENTS IN THE SIX MONTHS ENDED JUNE 30TH 2023

The key drivers of 11 bit studios S.A.'s revenue in the first six months of 2023 were robust sales of *Frostpunk* (including the boxed version, released in the first quarter of the year), *Moonlighter* and *Children of Morta* (the last two are the publishing

division's titles), bolstered by strong revenue from sales of other products (the back catalogue), led by *This War of Mine*. Monetisation was supported by promotional and sale campaigns (e.g. Publisher Sale on Steam and other distribution platforms).

Game development

In the six months ended June 30th 2023, 11 bit studios S.A. continued its development work (started a few years before) on the production of three proprietary games: *Frostpunk 2*, *The Alters* and *Project 8* (code name). The teams responsible for these titles had over 70 members, close to 50 members, and over 50 members, respectively, as at the date of issue of this Report, and are being consistently expanded. The growing production resources translated into increased spending on game development, which reached PLN 25,972,722 in the six months ended June 30th 2023 vs PLN 20,983,128 in the comparative period. The Company estimates that the development expenditure on the three games may total approximately PLN 150m (the amount does not include marketing costs). Development of all proprietary titles in the reporting period progressed on schedule. Since the games, including *Project 8*, were in advanced development stages, in the six months to June 30th 2023 they underwent successive rounds of external testing, which will continue in subsequent periods.

The release dates for the proprietary titles have not been disclosed yet. However, at the Annual Investor Conference held on June 14th 2023, the Company announced that *Frostpunk 2* and *The Alters* would be launched in the first half of 2024. The Management Board also upholds the plan to release *Project 8* by the end of 2025.

Given the upcoming premieres of *Frostpunk 2* and *The Alters*, in the reporting period the Company stepped up marketing efforts to increase fans' interest in both productions. They are bringing tangible results, as evidenced by the high positions of both games on wishlists compiled by Steam, GOG and Epic Games Store. Marketing campaigns for *Frostpunk 2* and *The Alters* will gain more momentum in the second half of 2023, starting with the Gamescom Fair held in Cologne, Germany, in August, where both games are being presented to industry media for the first time.

In addition, in the reporting period China's NetEase, one of the world's major gaming companies with a

very strong position in the mobile games sector , was well advanced in developing *Frostpunk* for mobile devices. This version of the game will be offered in the F2P (free-2-play) model, and will include micropayments to unlock additional in-

Publishing division

In the six months ended June 30th 2023, 11 bit studios S.A.'s publishing division focused on producing new games developed by third-party studios and acquiring new titles for the publishing portfolio as well as monetising the titles released in previous quarters, that is *Moonlighter* and *Children of Morta*.

As at the issue date of this half-year report , 11 bit studios S.A.'s publishing portfolio comprised five titles, including *The Thaumaturge* developed by Fool's Theory of Bielsko-Biała, and *The Invincible* developed by Starward Industries S.A. of Kraków. 11 bit studios S.A. holds 40% and 5.99 of shares, respectively, in the companies. The portfolio also included two games being produced by Spanish developers, with working titles *Botin* and *Ava*, as well as *Project N*, started in the reporting period. The total investment budget allocated to those projects is approximately PLN 50m.

The Invincible is scheduled to premiere on November 6th 2023, and *The Thaumaturge* is set to

Other developments

On February 9th 2023 the Extraordinary General Meeting resolved to amend the Company's Articles of Association to reflect amendments made to the Commercial Companies Code. The shareholders also decided to change the remuneration of Supervisory Board members.

On April 4th 2023, 11 bit studios S.A. announced that members of the Management Board had sold small holdings of Company shares. For details, see **pp. 52-53** of this Report.

On April 12th 2023, 11 bit studios S.A. announced a share capital increase and issue of 37,055 Series G shares related to the implementation of the 2017-2019 Incentive Scheme . For details, including information on changes to the Company's shareholding structure related to the acquisition of some of the shares by two members of the Company's Management Board, see **pp. 52-53** of this Report.

game content. Work also continued on the release of a series of books by third-party authors, which are set in the *Frostpunk* universe. Jacek Dukaj, a popular science fiction author, is an artistic supervisor for the project.

find its way to the market by the end of this year as well, as announced at the Investor Conference in June. Intense promotional efforts were run in the six months to June 30th 2023 in connection with the approaching release dates, which helped the games to steadily move up the Steam wishlist. As part of these efforts, the first trailer of *The Thaumaturge* (previously code-named as *Vitriol*) was published during the reporting period (on February 27th 2023), and it was very well received by fans. The campaigns for *The Invincible* and *The Thaumaturge* will extend into the latter half of 2023, commencing with the first public presentation of the titles at Gamescom in Cologne.

11 bit studios S.A. intends to step up the expansion of its publishing division and increase its budget. The Company is negotiating new publishing agreements, which will be announced in subsequent periods.

On June 14th 2023, in line with its long-term practice, 11 bit studios S.A. held an annual Investor Conference where it presented its growth plans for subsequent quarters and years, including a plan for the publishing business. The conference took the form of both offline and online event. It was broadcast over the Internet and simultaneously interpreted into Polish. The recording is available on the Company's YouTube channel at:

On May 31st 2023, the Annual General Meeting decided to allocate the entire net profit earned by the Company in 2022, of PLN 22,889,816, to statutory reserve funds.

On June 28th 2023, the Company announced that it had signed an agreement with Microsoft Corporation whereby selected games from its portfolio would be made available in subsequent periods in the Game Pass programme operated by Microsoft Corporation.

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.



FINANCIAL CONDITION OF 11 BIT STUDIOS S.A.

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INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | Jan 1-Jun 30 2023 (audited) | Jan 1-Jun 30 2022 (audited) | Change y/y (%) |
|---------------------------------------|-----------------------------------|-----------------------------------|-------------------|
| Continuing operations | | | |
| Revenue | 24,775,454 | 45,769,806 | (45.87) |
| Other income | 31,472 | 52,952 | (40.57) |
| Total operating income | 24,806,926 | 45,822,758 | (45.86) |
| Depreciation and amortisation | (2,312,095) | (3,072,758) | (24.76) |
| Raw materials and consumables used | (390,104) | (321,313) | 21.41 |
| Services | (13,622,564) | (18,060,902) | (24.57) |
| Salaries, wages and employee benefits | (6,475,194) | (6,763,391) | (4.26) |
| Taxes and charges | (116,320) | (169,186) | (31.25) |
| Other expenses | (1,261,781) | (4,018,058) | (68.60) |
| Total operating expenses | (24,178,057) | (32,405,609) | (25.39) |
| Operating profit | 628,869 | 13,417,150 | (95.31) |
| Finance income | 6,585,053 | 4,680,494 | 40.69 |
| Finance costs | (2,528,860) | (215,164) | 1,075.32 |
| Share in profit/(loss) of associate | 79,017 | (76,559) | - |
| Profit before tax | 4,764,079 | 17,805,921 | (73.24) |
| Income tax expense | (750,873) | (2,722,143) | (72.42) |
| NET PROFIT | 4,013,206 | 15,083,777 | (73.39) |
| Earnings per share: | | | |
| Basic | 1.67 | 6.36 | (73.24) |
| Diluted | 1.66 | 6.26 | (73.48) |
| NET PROFIT | 4,013,206 | 15,083,777 | (73.39) |
| Other comprehensive income | - | - | - |
| TOTAL COMPREHENSIVE INCOME | 4,013,206 | 15,083,777 | (73.39) |

In the six months ended June 30th 2023, 11 bit studios S.A. posted revenue of PLN 24,775,454, down 45.87% year on year, from PLN 45,769,806 earned in the corresponding period of 2022. The year-on-year decline in revenue was mainly attributable to the high base, as well as the gradual ageing of the Company's products, which has an adverse effect on the sales volumes and prices of games from the proprietary and publishing portfolios. The last major release (*Children of Morta*) took place in 2018.

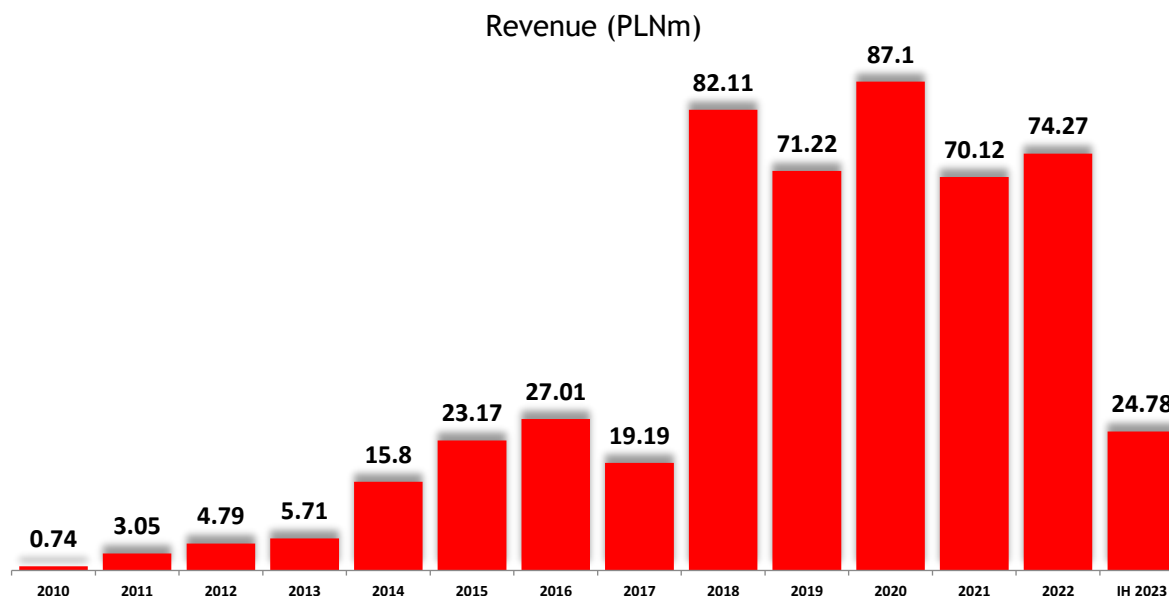
An important driver of the revenue in the six months ended June 30th 2022 was the sales campaign of *This War of Mine* in the period from February 24th to March 2nd 2022 (in response to Russian invasion of Ukraine), where entire revenue (PLN 3,676,405) was donated to the Ukrainian Red Cross. A development with an even more significant effect on revenue in that period was the signing of an agreement with Netflix for the distribution of a mobile version of *Moonlighter* on its platform. It was the largest agreement of this type (with a flat fee) ever signed by 11 bit studios S.A. In the reporting period, flat-fee agreements had an only minor effect

on revenue. The majority of revenue was attributable to current sales supported by periodic sales campaigns, the effectiveness of which is decreasing owing to their recurring nature.

In the reporting period, like in the previous periods, the Company continued its focus on a tight control of operating expenses. In the six months to June 30th 2023, they amounted to PLN 24,178,057, down 25.39% year on year. The largest decrease (of 68.60%, to PLN 1,261,781) was recorded in other expenses, which in 2022 included mainly the donation to the Ukrainian Red Cross described above. The six months ended June 30th 2023 also saw a year-on-year decrease in the largest items of operating expenses, i.e. cost of services (down 24.76%, to PLN 13,622,564), which included mainly royalties paid to third-party developers (using the Company's publishing services) and costs of independent contractors (B2B contracts), as well marketing expenditure, which is rapidly growing in connection with the marketing campaigns launched for new games in the Company's portfolio. Salaries and wages fell (by 4.26%, to PLN 6,475,194) despite a

gradual increase in the number of employees. The decrease was due to the much smaller amount of provisions for annual bonuses tied to the Company's profit before tax relative to the comparative period. It is worth reminding that salaries and wages also

included a non-cash provision recognised in respect of the Company's 2021–2025 Incentive Scheme. In the six months to June 30th 2023, the provision amounted to PLN 1,420,887.

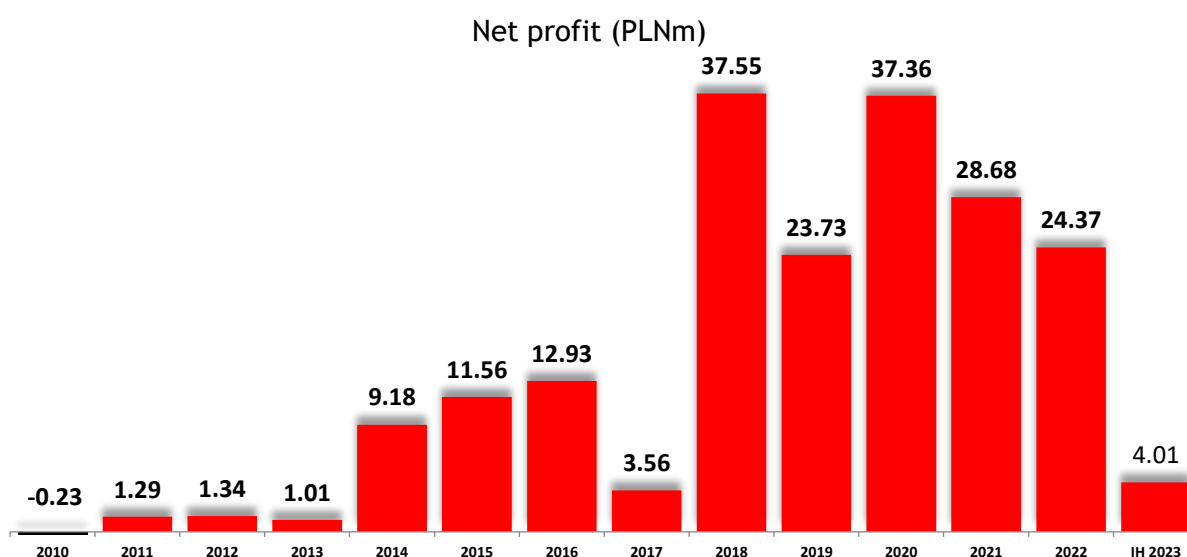


Owing to the sharp decline in revenue in the six months ended June 30th 2023, despite the reduction in operating expenses, the Company generated only PLN 628,869 in operating profit, i.e. 95.31% less than in the previous year (PLN 13,417,150), with the operating profit margin at 2.54%, down from 29.31% the year before. In the reporting period, EBITDA came in at PLN 2,940,964, compared with PLN 16,489,908 in the reference period. EBITDA margin went down to 11.87%, from 36.03% in the six months ended June 30th 2022.

Due to continuing high interest rates, cash reserves earned 11 bit studios S.A. interest income of PLN 1,123,098 in the first six months of 2023, vs PLN 67,742 the year before. An even better result was reported in terms of other finance income, which amounted to PLN 5,461,955, compared with PLN 4,612,752 the year before. In the reporting period, it included mainly an increase in the value of Starward Industries S.A. shares held by the Company. In the six months ended June 30th 2022, the largest item of other finance income was a gain on remeasurement of the Company's cash resources denominated in foreign currencies, driven by the depreciation of the zloty against the US dollar and the euro. After the trend in the foreign exchange market reversed and the zloty appreciated against the US dollar and the euro, in the reporting period the remeasurement of foreign-currency surplus cash resulted in the

recognition of finance costs. As in the previous year, finance costs (totalling PLN 2,528,860 in the six months ended June 30th 2023, compared with PLN 215,165 the year before) also included interest expense on the investment credit facility contracted from PKO BP S.A. at the end of 2018. The total balance of finance income and finance costs in the six months ended June 30th 2023 was PLN 4,056,193, down 9.16% on the corresponding period of the previous year, when it stood at PLN 4,465,330.

Thanks to the positive impact of finance income, in the six months to June 30th 2023 11 bit studios S.A.'s profit before tax reached PLN 4,764,079, compared with PLN 17,805,921 a year earlier, which means a decrease of 73.24%. The Company's income tax for the reporting period was PLN 750,873 relative to PLN 2,722,143 in the previous year. As in the previous year, a factor with a material bearing on the amount of income tax was the IP Box tax relief used by the Company. In the first six months of 2023, it amounted to PLN 585,335 vs PLN 1,374,634 in the reference period. All in all, 11 bit studios S.A.'s net profit for the six months ended June 30th 2023 was PLN 4,013,206, compared with PLN 15,083,777 in the corresponding period of 2022 (down 73.39%). The Company's net profit margin fell to 16.20% in the first six months of 2023, from 32.96% in the reference period.



INTERIM STATEMENT OF FINANCIAL POSITION

As at June 30th 2023, the Company's total assets amounted to PLN 266,427,837, up by 9.10% from PLN 244,197,441 as at December 31st 2022.

| | Jun 30 2023 (audited) | Share (%) | Dec 31 2022 (audited) | Share (%) |
|-------------------------------|--------------------------|--------------|--------------------------|--------------|
| ASSETS | | | | |
| Non-current assets | 170,950,383 | 64.26 | 142,547,147 | 58.37 |
| Property, plant and equipment | 24,626,812 | 9.26 | 24,894,722 | 10.19 |
| Perpetual usufruct of land | 4,196,939 | 1.58 | 4,225,080 | 1.73 |
| Intangible assets | 124,740,178 | 46.89 | 99,977,460 | 40.94 |
| Deferred tax asset | - | - | 517,619 | 0.21 |
| Investments in associates | 4,043,243 | 1.52 | 3,975,734 | 1.63 |
| Other assets | 124,589 | 0.05 | 166,170 | 0.07 |
| Long-term investments | 12,846,570 | 4.83 | 8,151,523 | 3.34 |
| Financial instruments (IRS) | 372,052 | 0.14 | 638,839 | 0.26 |
| Current assets | 95,091,923 | 35.74 | 101,650,294 | 41.63 |
| Trade and other receivables | 20,879,334 | 7.85 | 9,471,751 | 3.88 |
| Income tax receivable | 4,614,384 | 1.73 | 2,980,694 | 1.22 |
| Other current assets | 1,699,863 | 0.64 | 1,787,640 | 0.73 |
| Financial instruments (IRS) | 82,678 | 0.03 | 125,673 | 0.05 |
| Cash and cash equivalents | 38,951,881 | 14.64 | 30,585,991 | 12.53 |
| Financial assets | 28,863,783 | 10.85 | 56,698,545 | 23.22 |
| TOTAL ASSETS | 266,042,306 | 100 | 244,197,441 | 100 |

| | Jun 30 2023 (audited) | Share (%) | Dec 31 2022 (audited) | Share (%) |
|---|----------------------------------|------------------|----------------------------------|------------------|
| EQUITY AND LIABILITIES | | | | |
| Equity | 233,791,416 | 87.88 | 224,543,680 | 91.95 |
| Share capital | 241,720 | 0.09 | 238,014 | 0.10 |
| Share premium | 18,232,710 | 6.85 | 14,422,772 | 5.91 |
| Statutory reserve funds | 172,043,090 | 64.57 | 149,153,274 | 61.08 |
| Share-based payment reserve | 39,468,776 | 14.84 | 38,047,889 | 15.58 |
| Retained earnings | 3,805,121 | 1.43 | 22,681,731 | 9.29 |
| Non-current liabilities | 8,861,270 | 3.33 | 9,457,456 | 3.87 |
| Borrowings | 5,670,000 | 2.13 | 6,405,000 | 2.62 |
| Long-term provisions | 22,971 | 0.01 | 22,245 | 0.01 |
| Deferred tax liability | 150,545 | 0.06 | - | - |
| Lease liabilities | 749,927 | 0.28 | 750,876 | 0.31 |
| Deferred income | 635,710 | 0.24 | 635,711 | 0.26 |
| Liabilities arising from acquisition of shares in associate | 1,632,117 | 0.61 | 1,643,624 | 0.67 |
| Current liabilities | 23,389,620 | 8.79 | 10,196,305 | 4.18 |
| Trade and other payables | 2,620,332 | 0.98 | 2,893,912 | 1.19 |
| Royalties payable | 4,198,461 | 1.58 | 4,056,672 | 1.66 |
| Borrowings | 1,260,000 | 0.47 | 1,260,000 | 0.52 |
| Provisions | 1,445,222 | 0.54 | 841,767 | 0.34 |
| Lease liabilities | 15,257 | 0.01 | 15,254 | 0.01 |
| Contract liabilities | 13,850,348 | 5.21 | 1,128,700 | 0.46 |
| Total liabilities | 32,250,890 | 12.10 | 19,653,762 | 8.05 |
| TOTAL EQUITY AND LIABILITIES | 266,042,306 | 100 | 244,197,441 | 100 |

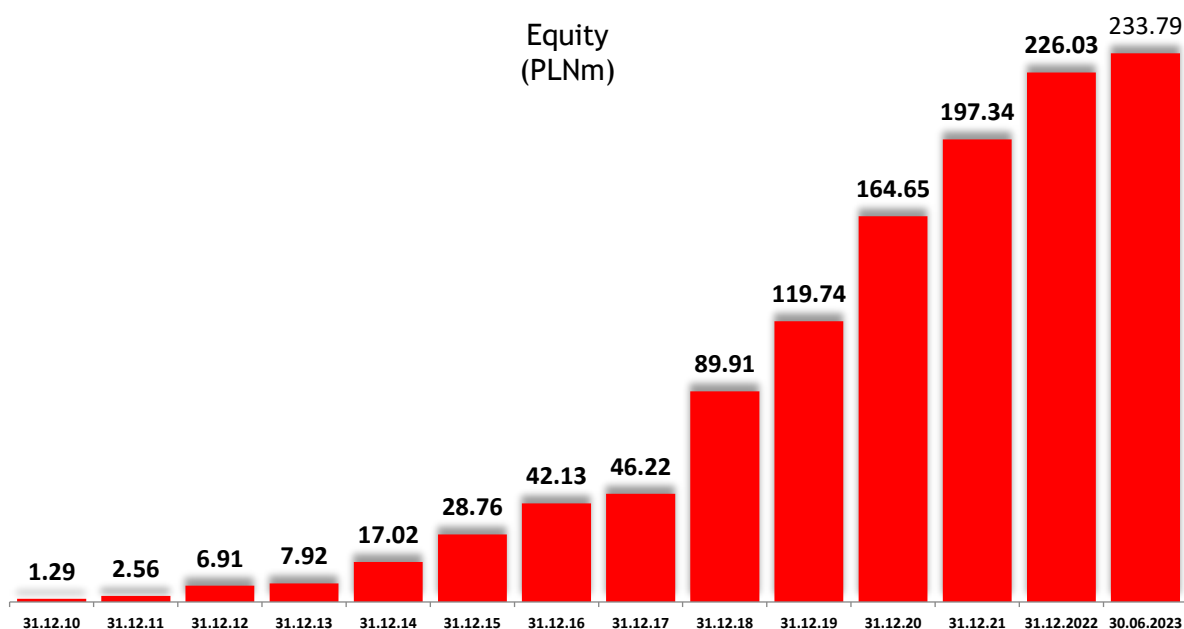
As at the end of June 2023, current assets represented the majority (64.26%) of the Company's total assets, amounting to PLN 170,950,383 (end of 2022: PLN 142,547,147), up 19.93% year on year. As at the end of 2022, non-current assets accounted for 58.37% of 11 bit studios S.A.'s total assets. The item of non-current assets with the largest value was intangible assets of PLN 124,740,178, up from PLN 99,977,460 six months earlier. They grew by as much as 24.77% and their share in the Company's total assets rose to 46.89% from 40.94% at the end of 2022. Intangible assets included partly amortised expenditure on games in the proprietary and publishing portfolios which have already been placed on the market. The largest item, though, was expenditure on ongoing development work (*Frostpunk 2*, *Project 8*, *The Alters* projects) and on new games from the publishing division (*The Invincible*, *The Thaumaturge*, *Project N*, *Ava* and *Botin*). Another component of non-current assets as at June 30th 2023, with a value significantly lower than that of intangible assets, was property, plant and equipment of PLN 24,626,812 vs PLN 24,894,722 six months earlier. The largest asset among the Company's property, plant and equipment was the property located at ul. Brzeska 2 in Warsaw, which the Company purchased in late 2018 for its new

headquarters. Other significant non-current assets included non-current financial assets, i.e. shares in Fool's Theory Sp. z o.o. and Starward Industries S.A. As at June 30th 2023, their value was PLN 4,043,243 (1.7% more than half a year earlier) and PLN 12,846,570, respectively. In the case of Starward Industries S.A., the value grew by a steep 57.6% as a result of appreciation of the company's stock on the NewConnect market.

As at the end of June 2023, 11 bit studios S.A.'s current assets were PLN 95,091,923, down 6.45% on the end of the comparative period, when they amounted to PLN 101,650,294. Just like at the end of 2022, cash and cash equivalents were the largest item, with a value of PLN 38,951,881 as at June 30th 2023, up 27.35% relative December 31st 2022. This means that cash and cash equivalents accounted for 14.64% of the Company's total assets as at the reporting date. Six months earlier, their share was 12.53%. As at June 30th 2023, another major item of current assets was current financial assets, including PKO BP Bank Hipoteczny notes, valued at PLN 28,863,783 (end of 2022: PLN 56,698,545). That was 10.85% of total assets. Six months earlier, the share was 23.22%.

Trade and other receivables of PLN 20,879,334 were also a material component of the Company's current assets as at the reporting date (December 31st 2022: PLN 9,471,751), having grown by as much as 120.44%. The item included a part of the payment due to 11 bit studios S.A. under the agreement with

Microsoft Corporation signed in the second quarter of 2023. A considerable item, representing 1.73% of total assets, was income tax receivable of PLN 4,614,384, compared with PLN 2,980,694 as at December 31st 2022.



The most significant item of the Company's equity and liabilities was statutory reserve funds, which amounted to PLN 172,043,090 as at the end of June 2023, i.e. 64.67% of total equity and liabilities. As at the end of 2022, the respective figures were PLN 149,153,274 and 61.08%. Statutory reserve funds increased following the transfer of the Company's net profit for 2022. The decision to allocate the entire profit for 2022 (PLN 22,889,816) to statutory reserve funds was made by the shareholders at the General Meeting held on May 31st 2022. As at the end of the reporting period, retained earnings were a significant component of the Company's equity and liabilities. At PLN 3,805,121, they accounted for 1.43% of total equity and liabilities. As at the end of 2022, retained earnings amounted to PLN 22,681,731 (9.29% of total equity and liabilities). The decline was attributable to the low net profit earned by the Company in the six months ended June 30th 2023 relative to the previous year. Another large item under 11 bit studios S.A.'s equity and liabilities as at the end of June 2023 (PLN 39,468,776 vs PLN 38,047,889 as at the end of 2022) was the share-based payment reserve, created, among other things, in connection with the 2017–2019 Incentive Scheme (the last tranche of Series G shares in connection with its implementation was issued in the second quarter of 2023) and the 2021–2025 Incentive Scheme. An increase was also seen in the

share premium account, whose value went up to PLN 18,232,710, from PLN 14,422,772 as at the end of 2022. As at June 30th 2023, it accounted for 6.85% of total equity and liabilities, compared with 5.91% the year before.

As at June 30th 2023, the Company's total liabilities amounted to PLN 32,250,890, compared with PLN 19,653,762 as at the end of December 2022. They rose by 64.10%, and their share in total equity and liabilities grew to 12.10% from 8.05% at the end of 2022. As at the end of June 2023, the Company's non-current liabilities stood at PLN 8,861,270 relative to PLN 9,457,456 six months before. Their main component (PLN 5,670,000) was a PLN 12,600,000 investment credit facility contracted by the Company with PKO BP S.S. at the end of 2018 to finance the purchase of the property at ul. Brzeska 2 in Warsaw. As at June 30th 2023, the Company's current liabilities stood at PLN 23,389,620 relative to PLN 10,196,305 at the end of the comparative period. They rose by 129.39%, and their share in total equity and liabilities grew to 8.78% from 4.18% six months earlier. The higher amount of current liabilities was mainly attributable to an increase (from PLN 1,128,700 as at December 31st 2022 to PLN 13,850,347) in liabilities under contracts with customers, comprising advance payments received by the Company from its trading partners (mainly

Microsoft Corporation) towards future sales of the Company's products (games). They accounted for 5.20% of the Company's total equity and liabilities as at June 30th 2023. A significant item under the Company's current liabilities as at the end of June 2023 (PLN 4,198,461) was royalties paid to third-party

developers in connection with publishing services provided to them, as well as trade payables, which fell 9.45%, from PLN 2,893,913 as at December 31st 2022 to PLN 2,620,332. The amount comprised payments relating to the Company's day-to-day operations.

INTERIM STATEMENT OF CASH FLOWS

| | Jan 1–Jun 30 2023 (unaudited) | Jan 1–Jun 30 2022 (unaudited) |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Profit for the financial year | 4,013,206 | 15,083,775 |
| Adjustments: | | |
| Depreciation and amortisation | 2,312,095 | 3,072,760 |
| Income tax expense recognised in profit or loss | 750,873 | 2,722,143 |
| Remeasurement of intangible assets | 41,582 | 25,600 |
| Costs of the 2021–2025 Incentive Scheme | 1,420,887 | 1,478,840 |
| (Gain)/loss on change in fair value of financial assets at fair value through profit or loss | (5,004,614) | - |
| Share of (profit)/loss of associate | (79,017) | - |
| Net interest income | (1,322,541) | - |
| Other adjustments | (119,571) | 771,626 |
| Changes in working capital: | | |
| Change in trade and other receivables | (11,407,583) | 3,709,635 |
| Change in other assets | 129,359 | (623) |
| Change in trade and other payables | (132,740) | 736,646 |
| Change in contract liabilities | 12,721,652 | (2,750,677) |
| Change in provisions | 604,181 | 3,527,745 |
| Cash provided by operating activities | 3,927,771 | 28,377,470 |
| Income tax paid | (1,001,809) | (4,296,698) |
| Net cash from operating activities | 2,925,962 | 24,080,772 |
| Cash flows from investing activities | | |
| Loans to employees | 509,763 | (1,102,220) |
| Proceeds from bank deposits upon maturity – over 3 months | 19,726,347 | - |
| Purchase of financial assets | (7,751,897) | (68,811,494) |
| New bank deposits placed – over 3 months | (32,000,000) | (2,000,000) |
| Proceeds from redemption of financial assets | 49,000,000 | 82,500,000 |
| Proceeds from acquisition of shares in an associate | - | (2,619,216) |
| Proceeds from acquisition of long-term financial assets (Starward Industries S.A. shares) | (215) | - |
| Payments for property, plant and equipment and intangible assets | (26,806,903) | (20,749,907) |
| Net cash from investing activities | 2,677,095 | (12,782,837) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 3,830,746 | 1,366,994 |
| Proceeds/(repayments) under credit facility | (735,000) | (630,000) |
| Payment of interest on credit facility | (332,913) | (203,122) |
| Net cash from financing activities | 2,762,833 | 533,872 |
| Net increase/(decrease) in cash | 8,365,990 | 11,831,807 |
| Cash at beginning of reporting period | 30,585,991 | 26,748,530 |
| CASH AT END OF REPORTING PERIOD | 38,951,881 | 38,580,337 |

In the six months ended June 30th 2023, the Company generated cash flows from operating activities of PLN 3,927,771, 86.16% less than in the

comparative period. The decrease was due mainly to the significantly lower net profit, attributable to declining sales of games from the proprietary and

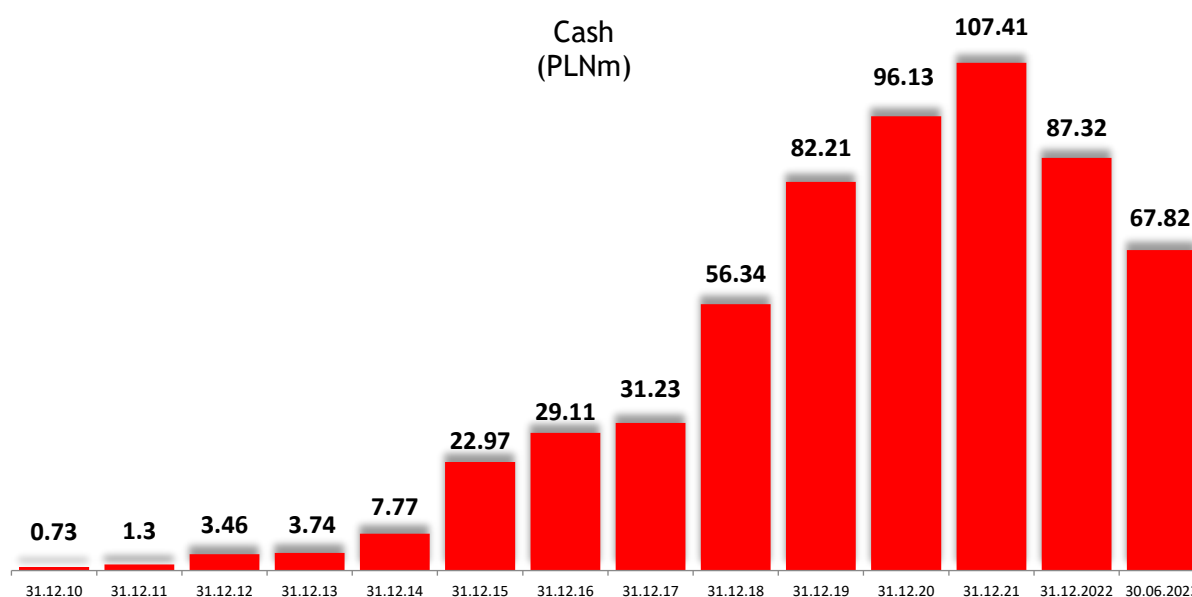
publishing portfolios (caused by their natural ageing) and a high comparative base of the first six months of 2022. It should also be noted that the level of operating cash flows was adversely affected by growing trade receivables, which included a portion of payments due to 11 bit studios S.A. under the agreement with Microsoft Corporation signed in the second quarter of 2023. As a result, net of income tax paid (PLN 1,001,809), net cash provided by the Company's operating activities in the six months ended June 30th 2023 amounted to PLN 2,925,962, compared with PLN 24,080,772 a year earlier, a decrease of 87.85%.

In the first six months of 2023, the Company reported net cash flows from investing activities of PLN 2,677,095. In the comparative period, net cash flows from investing activities were negative, at PLN - 12,782,837. A significant part of the investments (PLN 32,000,000 vs PLN 2,000,000 in the comparative period) comprised bank deposits with maturities of more than three months. In addition, the Company allocated PLN 7,751,897 (PLN 68,811,494 a year earlier) to investments in financial assets (with a conservative risk profile). The Company recognised PLN 49,000,000 in proceeds from redemption of financial assets (PLN 82,500,000 a year earlier). The transactions described above were part of the management of surplus cash held by 11 bit studios S.A. Another important item under cash flows used in investing activities in the first half of 2023 (PLN 26,806,903) was payments for property, plant and equipment and intangible assets (mainly the production of games in the proprietary and publishing portfolio). In the six months ended June

30th 2022, this item was considerably lower, at PLN 20,749,907.

Cash flows from financing activities in the six months ended June 30th 2023 included payments related to the servicing of the 10-year investment credit facility contracted from PKO BP S.A. in late 2018 to purchase the property at ul. Brzeska 2 in Warsaw. In the first six months of 2023, 11 bit studios S.A. spent PLN 735,000 (PLN 630,000 a year earlier) on repayment of the principal, with further PLN 332,913 in interest payments (2022: PLN 203,122). Proceeds from the issue of shares for the purposes of the 2017-2019 Incentive Scheme were also a considerable item (PLN 3,830,746). In the six months ended June 30th 2023, 11 bit studios S.A. issued 37,055 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 June 30th 2023, the Company held cash and cash equivalents of PLN 38,951,881 vs PLN 38,580,336 as at June 30th 2022, an increase of 0.96% year on year. It should be noted that at the end of the reporting period the Company also held PLN 28,863,783 invested in financial instruments with a conservative risk profile, including PKO BP Bank Hipoteczny notes. Total cash resources available to the Company at the end of June 2023 amounted to PLN 67,815,664, a 38.07% decrease from PLN 109,510,608 the year before. Inclusive of trade receivables (PLN 20,879,334 as at June 30th 2023 relative to PLN 12,775,512 the year before), 11 bit studios S.A.'s total financial assets as at the end of the reporting period, excluding income tax receivable, was PLN 88,694,729.



BANK AND NON-BANK BORROWINGS IN THE SIX MONTHS ENDED JUNE 30TH 2023

On June 26th 2023, the Company signed a PLN 20,000,000 multi-purpose credit facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to finance its day-to-day operations. The agreement expires on June 25th 2025. The interest rate was set at 1M WIBOR/1M EUROIBOR plus bank margin of 1.3pp (per annum, with interest charged only on the amounts drawn). As at the date of issue

of this Report, the Company did not make any drawdowns under the facility.

In addition, since April 9th 2018 the Company has used a 10-year investment credit facility from PKO BP S.A. contracted to finance a part of the purchase price for the office building at ul. Brzeska 2 in Warsaw (the Company's current headquarters). For full details, see **Note 2.13**.

LOAN ADVANCED IN THE SIX MONTHS ENDED JUNE 30TH 2023

In the six months ended June 30th 2023, in accordance with Art. 245.1, 245.4 and 245.8 of the Commercial Companies Code and pursuant to Resolution No. 21/06/2020 of the Company's Annual General Meeting of June 9th 2020, the Company entered into a loan agreement with an employee to directly finance the acquisition of shares offered under the 2017–2019 Incentive Scheme. The loan amount was PLN 800,000. As at the end of the reporting period, the amount outstanding under the loan (including interest) was PLN 750,959.

Furthermore, in the reporting period, the Company entered into four loan agreements with its employees and independent contractors, totalling PLN 26,000. The loans are to be used to finance the borrowers' own needs. As at June 30th 2023, the

total amount outstanding under this type of loans, including loans advanced in previous periods, was PLN 39,140 (inclusive of interest).

On April 18th 2023, the Company advanced a one-month loan of PLN 300,000 to its associate Fool's Theory sp. z o.o., with interest rate set at 8.16% per annum. On May 17th 2023, the parties signed an annex to the loan agreement, extending the loan repayment date until June 10th 2023. On May 11th 2023, 11 bit studios S.A. advanced another one-month loan of PLN 400,000 to Fool's Theory Sp. z o.o., with interest rate also set at 8.16% per annum. Both loans were repaid on June 7th 2023 together with accrued interest.

SURETIES AND GUARANTEES PROVIDED IN THE SIX MONTHS ENDED JUNE 30TH 2023 AND OTHER MATERIAL OFF-BALANCE-SHEET ITEMS

On June 5th 2023, 11 bit studios S.A. signed a surety agreement with Powszechna Kasa Oszczędności Bank Polski S.A., under which it issued a surety to secure a PLN 3,500,000 one-year multi-purpose credit facility agreement concluded by PKO BP S.A. with Fool's Theory Sp. z o.o. on June 5th 2023. The surety for up to PLN 5,250,000 is valid until the date of the facility repayment by Fool's Theory Sp. z o.o. It was granted on arm's length terms.

For information on material off-balance sheet items related to 11 bit studios S.A.'s publishing activities, see **Note 4.2**.

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.

DESCRIPTION AND ASSESSMENT OF FACTORS AND NON-RECURRING EVENTS WITH A BEARING ON THE COMPANY'S RESULTS IN THE SIX MONTHS ENDED JUNE 30TH 2023

In the reporting period, there were no events of a non-recurring nature with a bearing on the results of the Company's operations.



DEVELOPMENT AND PROSPECTS OF 11 BIT STUDIOS S.A.

| | |
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DESCRIPTION OF THE MARKET IN WHICH THE COMPANY OPERATES

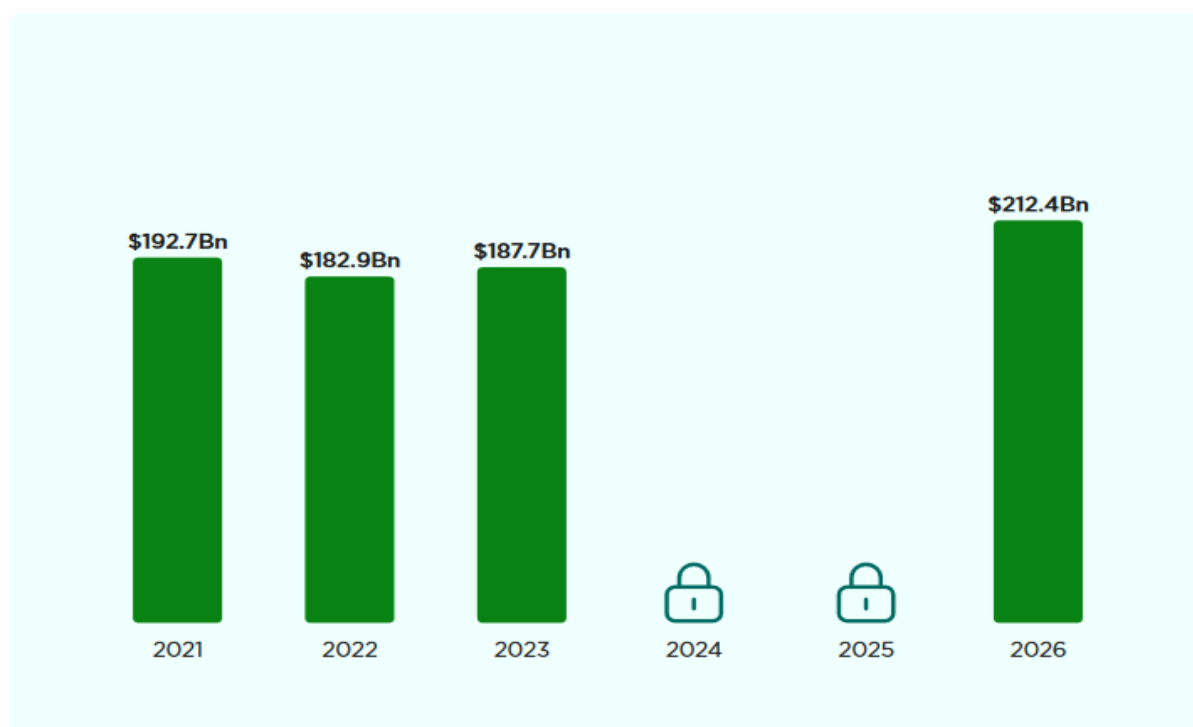
11 bit studios S.A. operates within the dynamic landscape of the global computer games market. For a number of years, computer games have been the fastest growing segment of the entertainment industry, the value of the gaming market being already greater than that of the film and music markets combined. In 2022, as estimated by Newzoo, a Dutch provider of games analytics, the global computer games market was valued at USD 182.9bn (based on final data; earlier forecasts had put the market value at USD 184.4bn), a decrease of 5.1% compared with the previous year, when it was worth USD 192.7bn.

According to Newzoo, the reason behind this disappointing decline was mainly the high comparison base of 2021, when gamers were confined to their homes during COVID-19 lockdowns and had much more free time to spend on their favourite form of entertainment, which drove up demand for games. After the pandemic restrictions were lifted, many people opted for other forms of spending their leisure time than playing computer games at home. The view that the pandemic has distorted long-term trends in the gaming market is corroborated by the observation that the most

substantial correction witnessed in the industry in 2022 was in the realm of mobile games, which had been the fastest-growing segment during the pandemic due to the low entry barriers for mobile entertainment (games for mobile devices are affordable or free to play) as well as the proliferation of mobile devices worldwide. In 2022, the mobile games market faced additional challenges stemming from technological modifications introduced by Apple, constraining the availability of games on its devices. Concurrently, a global economic slowdown and surging inflation further dampened consumer expenditure on entertainment, including on computer games.

Based on Newzoo's projections for 2023, the gaming industry is set to return to the long-term trajectory of growth, and the underperformance in 2022 should be viewed as a 'deviation from the norm'. According to the experts, computer game enthusiasts will spend USD 187.7bn on games in 2023, 2.6% more than in 2022. The upcoming years seem to offer equally promising prospects for game developers, as fans' spending on this form of entertainment will continue to grow, to reach USD 212.4bn in 2026.

Global game revenues per segment 2021-2026



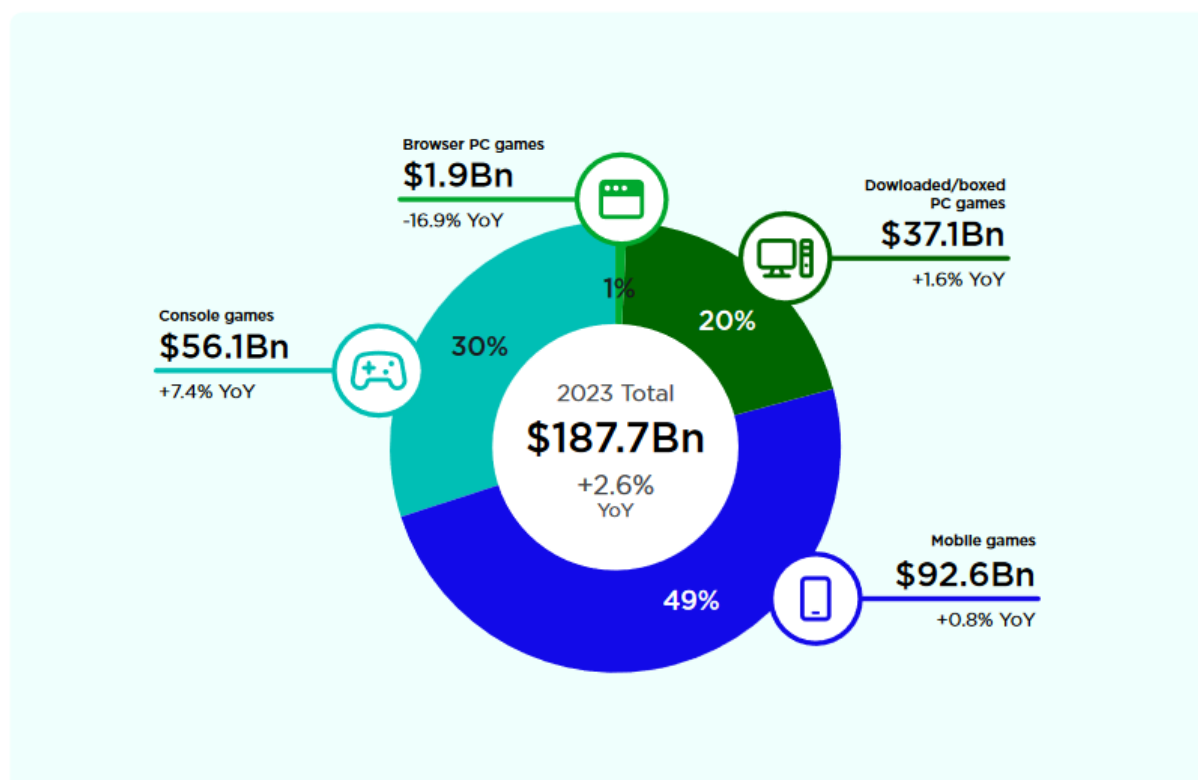
Source: Newzoo, Global Games Market report, August 2023.

The forecasts from Dutch experts indicate that the fastest growing computer games segment in 2023 will be console games. Compared with 2022, fans' spending on games dedicated to these hardware platforms is expected to rise by 7.4% year on year, to USD 56.1bn. Consequently, the share of console games in the total computer games market will reach 30%. This high growth rate is partly attributable to the effective resolution of certain widespread problems with the production and supply of new generation Sony and Microsoft consoles that had persisted in previous periods. In 2021 and 2022, the absence of next-generation consoles on retail shelves had a discernible impact on game sales as fans were reluctant to buy their

favourite titles for the older generation of consoles and deferred their purchases. The second possible growth driver making the console game segment the fastest growing segment of the gaming market this year (based on Newzoo's analysis) is the marked increase in AAA game (blockbusters) premieres. During the 'pandemic' years, a number of high-budget releases were postponed. According to Newzoo, this postponement could be partly explained by major game developers transitioning to remote or hybrid work models amid the COVID-19 pandemic. A large number of these eagerly anticipated premieres either have taken or will take place in 2023, with a cumulation expected in the second half of the year.

2023 Global games market

Per segment



Source: Newzoo, Global Games Market report, August 2023.

Consistent with preceding years, the mobile games segment is expected to maintain its standing as the largest segment of the computer games market in 2023, with a 49% share. According to insights from Newzoo analysts, its value can reach USD 92.6bn. This means it will grow by 0.8% relative to 2022, which is a pronounced slowdown following the years of pandemic-induced rapid expansion, characterised by double-digit growth rates. The slower growth dynamics can be attributed, as previously mentioned, to people having less free time, which they willingly spent on simple mobile

games during the pandemic while now consumers increasingly opt for outdoor recreational pursuits. Another influential factor significantly shaping the trajectory of the mobile games segment pertains to regulatory adjustments implemented by Apple and Google. These changes pose challenges for mobile game developers, limiting game availability on distribution platforms and giving rise to constraints on monetisation and promotional activities. In this situation, the key driver sustaining the ongoing growth of the mobile games segment is the swelling population of mobile device users worldwide.

However, this expansion predominantly occurs within developing markets, where consumers are less willing to pay for games due to comparatively lower purchasing power in contrast to their counterparts in more mature Western markets.

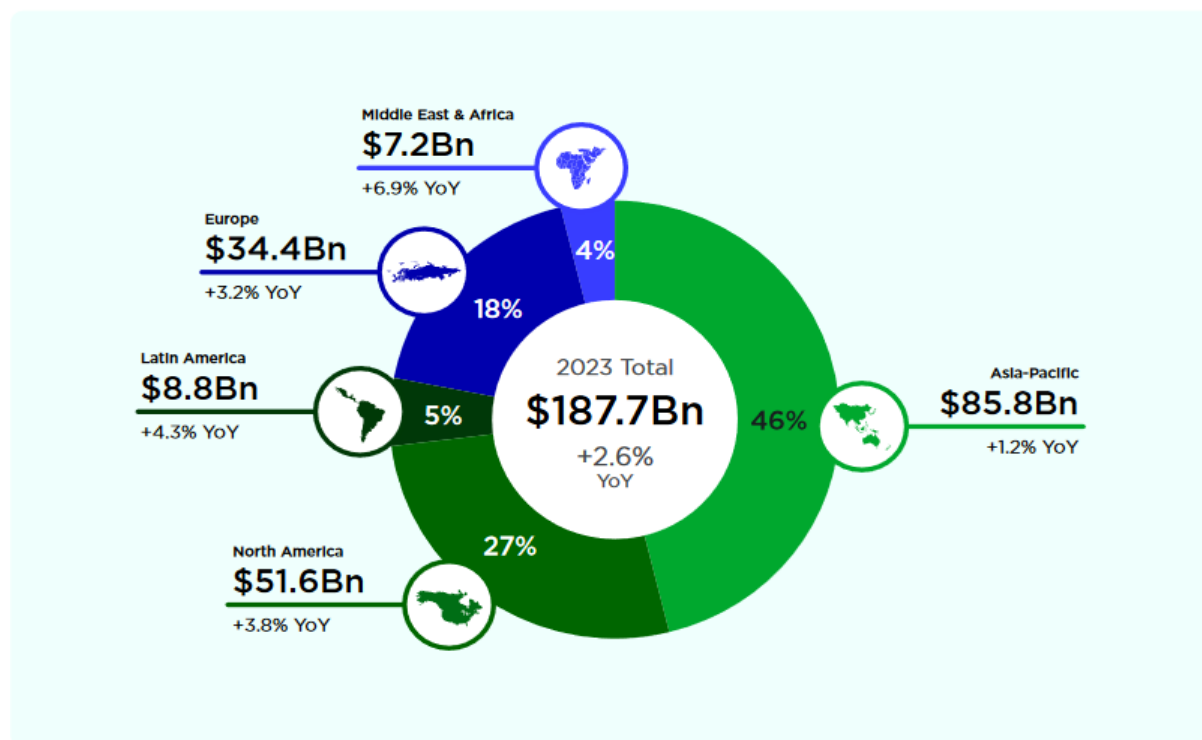
The PC games segment should also fare well in 2023 according to Newzoo. Compared with the preceding year, it will grow by 1.6% (at a pace somewhat slower

than the broader gaming industry) , to USD 37.1bn, giving it a 20% share of the global gaming market.

As has been the trend, the weakest performance in 2023 is expected from the web browser games segment (a year-on-year contraction of 16.9%, to USD 1.9bn), as browser game fans tend to migrate to the mobile games segment.

2023 Global games market

Per region



Source: Newzoo, Global Games Market report, August 2023.

In geographical terms, based on Newzoo data, the Asia-Pacific region is poised to maintain its status as the world's foremost gaming market in 2023. This region, prominently featuring China which outranked the US a few years ago, is projected to witness a 1.2% increase in value compared with 2022 (a year when the Asian market contracted for the first time in history), to USD 85.8bn, representing an impressive share of 46% of the global gaming market.

More substantial growth rates are anticipated in other geographical markets, particularly the Far East and Africa (slated to expand by 6.9%, to USD 7.2bn, according to Newzoo forecasts) and Latin America (with a projected growth at 4.3% according to Newzoo, to USD 8.8bn). Accordingly, their shares of the global gaming market will be 4% and 5%, respectively. This growth is underpinned by the

underpenetrated computer and smartphone markets as well as the fast-growing number of users of this type of equipment in those regions. Similarly, the mature North American and European markets are anticipated to rebound from their subdued 2022 performance, bolstered by a rapid expansion of the console games segment (the largest market segment in North America) and PC games segment (numerous AAA game releases). According to the authors of the forecasts, the market in North America will grow by 3.8%, to USD 51.6bn, while the value of the European market will reach USD 34.4bn, or 3.2% more than in 2022. As such, the US market will account for a substantial 27% of the global gaming market, with Europe capturing an 18% share.

GROWTH PROSPECTS

11 bit studios S.A. is a producer of cross-platform video games marketed all over the world, mainly through specialised online distribution platforms, with Steam in the lead. Export sales accounted for 91.89% of the Company's total revenue in the six months ended June 30th 2023 (97.55% in the 12 months of 2022).

It is 11 bit studios S.A.'s objective to maintain constant growth at a rate faster than that of the computer games market as a whole (for a description of and forecasts for the global computer games market, see pp. 72–74 of this Report), which is to be achieved through the development of the product portfolio, including both proprietary games and third-party productions for which 11 bit studios S.A. is the publisher. At the same time, the Company intends to increase the budgets of the games it produces and publishes, which, coupled with growing marketing spending, should improve the commercial potential of the games, and thus their sales. The Company's strategy is to have three in-house development teams, comparable in size (each approximately 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. The Company also plans to further grow its publishing business, which accounted for 30–40% of total revenue in recent quarters and years. This share may ultimately reach even 50%. In the medium term, 11 bit studios S.A. wants to launch three to four third-party games annually. In recent quarters, the Company has stepped up efforts to expand its publishing portfolio (strengthening its publishing team and other resources accordingly).

11 bit studios S.A.'s performance over the next months, including in the second half of 2023, will be driven by the monetisation of the existing portfolio of games, notably *Frostpunk*, and two releases planned for this year in the publishing division: *The Invincible* (November 6th 2023) and *The Thaumaturge*.

The Invincible, developed by Starward Industries S.A. (a company 5.99%-owned by 11 bit studios S.A., listed on NewConnect and preparing for listing on the main market of the WSE), is based on a book of the same title by the Polish writer Stanisław Lem. In the game the player takes on the role of savvy astrobiologist Yasna, who wakes up on the hostile surface of the distant planet Regis III and is drawn into a rescue mission to find the missing crew members of an interstellar scientific expedition. Promotional efforts for *The Invincible* have been run for several quarters now. The game and related marketing materials have been very well received by fans and players, as demonstrated by the place *The*

Invincible occupies on the Steam wishlist and numerous publications in top global gaming media. The scheduled release date is, as mentioned above, November 6th 2023.

The other game planned for launch in 2023 is *The Thaumaturge*, developed by Fool's Theory Sp. z o.o., a studio based in Bielsko-Biala that is 40% owned by 11 bit studios S.A. In February 2023, 11 bit studios S.A. started a promotional campaign for *The Thaumaturge*, unveiling the official title of the game (which was previously code-named as *Vitriol*) and releasing the first trailer. Further materials were published throughout the reporting period. *The Thaumaturge* is an isometric, story-rich RPG with a unique take on turn-based combat, character development features, and investigation mechanics, touching upon the complex theme of inner demons. The game unfolds in early 20th century Poland after it has been annexed by the Russian Empire. The exact release date is yet to be set.

The two premieres are going to be important drivers of 11 bit studios S.A.'s performance in the coming months. As mentioned above, they will be supported by continuing sales of *Frostpunk* and paid DLCs for this title released as part of the Season Pass. The *Frostpunk* brand is being developed also in other formats. Its board game version, produced by Glass Cannon Unplugged, is already available in stores (resulting in a high share of domestic sales in the Company's revenue in the six months to June 30th 2023). In the coming months, fans will also be presented with the mobile version of *Frostpunk*, which is being developed by NetEase of China. In addition, a series of novels and short stories centred on the *Frostpunk* universe is under preparation. The project is supervised by Jacek Dukaj, a science fiction writer, one of the most popular in Poland and known globally.

The Company's revenue in future periods will also be driven, apart from *Frostpunk*, by other back catalogue products, including primarily *This War of Mine*. The Company makes constant effort to extend the life cycle of this game, which is already considered quite long (nine years have passed from its release) given its unique theme: war seen through the eyes of a civilian. As a result of these efforts, *This War of Mine* has been included in the official supplementary reading list for secondary schools in Poland, something that the Company has campaigned for over the past couple of years.

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 in-house development teams consisted of three titles: *Frostpunk 2*, *The Alters*, and *Project 8* (working title). Their total development budget is estimated at approximately PLN 150m. The release dates have not been disclosed yet, however, at the Investor Conference on June 14th 2023, 11 bit studios S.A. announced that *Frostpunk 2* and *The Alters* would premiere in stores in the first half of 2024. *Project 8* is planned to be launched by the end of 2025, which is the last year of the 2021–2025 Incentive Scheme.

The pipeline of games in the publishing division as at issue date of this Report comprised five projects, i.e. *The Invincible*, *The Thaumaturge*, and three productions still known under code names: *Project N*, planned to be released in the first quarter of 2024, *Ava* and *Botin*. The Company's total capital expenditure on these projects is estimated at over PLN 50m.

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 (pp. 53–59 of this Report).

The ongoing technological and market changes in the computer 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 publishing division). Publishing activities are expected to increasingly contribute to the Company's financial performance by the year. In the game development area, in the three months to June 30th 2023 the Company continued to build three teams, which will enable it to ultimately own multiple product lines (brands – IP). With three development teams and several product lines, 11 bit studios S.A. will be able to optimise and better utilise its production resources and stabilise its performance.

FEASIBILITY OF INVESTMENT PLANS

As at June 30th 2023, the Company's cash in hand and at banks (cash and cash equivalents) amounted to PLN 38,951,881. As at the end of 2022, the cash balance was PLN 30,585,991. The Company also held PLN 28,863,783 (end of 2022: PLN 56,698,545) invested in short-term financial assets. In addition, it had PLN 20,879,334 in (mainly trade) receivables (end of 2022: PLN 9,471,751) and PLN 4,614,384 in income tax receivables (PLN 2,980,694 six months earlier). The total value of 11 bit studios S.A.'s current assets reported as at June 30th 2023 was PLN 95,091,923 (end of 2022: PLN 101,650,294).

Liabilities (current and non-current) totalled PLN 32,250,890 as at June 30th 2023 (end of 2022: PLN 19,653,762). Of that amount, PLN 6,930,000 was attributable to the regularly repaid credit facility

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 2022, the value of the facility was PLN 7,665,000.

With the abundant 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 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 trading partners (game publishers and distributors). However, the Company does not rule out such an option.

MANAGEMENT BOARD'S REPRESENTATION

We hereby represent that this half-year report of 11 bit studios S.A. for the six months ended June 30th 2023 comprises the letter from the President of the Management Board, financial highlights, financial statements, and Directors' Report on the operations of 11 bit studios S.A. in the six months ended June 30th 2023.

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 results, and that the Directors' Report on the Company's operations in the six months ended June 30th 2023 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 six months ended June 30th 2023 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 auditor's 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 Company 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.

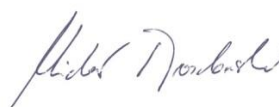
Signed by:



Przemysław Marszał
President of the
Management Board




Grzegorz Miechowski
Member of the
Management Board



Michał Drozdowski
Member of the
Management Board



Paweł Feldman
Member of the
Management Board



Marek Ziemak
Member of the
Management Board



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