

# **City Interactive S.A.**

Independent Statutory Auditor's Opinion and Report  
Financial year ended  
December 31, 2012

## **INDEPENDENT STATUTORY AUDITOR'S OPINION**

To the Shareholders and Supervisory Board of City Interactive S.A.

We audited the enclosed financial statements of City Interactive S.A., having its registered office in Warsaw, ul. Żupnicza 17 (the "Company"), which consist of the balance sheet drawn up as at December 31, 2012, statement of profit and loss, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year January 1 to December 31, 2012 and notes to the financial statements.

The Company's Management Board is responsible for drawing up the financial statements and report on the Company's operations in accordance with legal regulations.

The Management Board and members of the Supervisory Board or other supervisory body are required to ensure that the financial statements and report on the Company's operations fulfill the requirements provided for in the Accounting Act of September 29, 1994 (Polish Journal of Laws of 2009, no. 152, item 1223 as amended), hereinafter referred to as the "Polish Accounting Act".

Our objective was to audit and express an opinion on whether the financial statements are compliant with the required accounting principles (policy), whether they reliably and clearly present all significant aspects of the financial situation, asset position and financial result of the Company and whether the accounts constituting the basis for their preparation are maintained correctly.

We audited the financial statements in accordance with the following:

- 1) Section 7 of the Polish Accounting Act;
- 2) National financial audit standards issued by the National Chamber of Statutory Auditors in Poland.

We planned and carried out the audit of the financial statements in such manner as to gain the rational certainty necessary for us to express an opinion on the financial statements. In particular, the audit covered verification of the accounting principles (policies) and significant estimates applied by the Company and examination, primarily on a test basis, of evidence supporting the figures and disclosures in the financial statements, together with an overview of the financial statements.

We consider that the audit provided us with sufficient basis to provide an opinion.

In our opinion, the audited financial statements, in all significant aspects:

- a) give a true and accurate view of all information significant for assessment of the financial situation and asset position of the audited Company as at December 31, 2012, as well as its financial result for the financial year January 1 to December 31, 2012,
- b) were drawn up in accordance with International Accounting Standards, International Financial Reporting Standards and associated interpretations published in the form of European Commission regulations, and where not governed by such standards then appropriate to the requirements of the Polish Accounting Act and secondary legislation issued on its basis, and also pursuant to correctly maintained accounts,

- c) are compliant with the provisions of law and of the Company's articles of association which impact the content of financial statements.

Without raising reservations as to the correctness and accuracy of the audited financial statements, we point out that:

- As at the end of the reporting period the Company maintained low liquidity ratios and generated a loss for the financial year. The Management Board believes that this does not constitute a threat to its status as a going concern, as described in point 2 c) of the introduction to the financial statements,
- The Company did not publish its financial statements for the preceding year in the *Monitor Polski B* official gazette.

The management report on the Company's operations is complete in the meaning of art. 49, sec. 2 of the Polish Accounting Act and complies with the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognizing information required by the law of a non-member state as equivalent (Polish Journal of Laws of 2009, no. 33, item 259), and the information contained in it, as sourced from the audited financial statements, is compliant therewith.

[signature]

Statutory Auditor no. 11505

Jędrzej Szalacha

Lead Statutory Auditor

conducting the audit

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

Entity authorized to audit financial statements, entered into the list of authorized entities, no. 3767, held by the National Chamber of Statutory Auditors.

Warsaw, March 7, 2013

# **City Interactive S.A.**

Report on Audit of the Financial Statements  
Financial year ended  
December 31, 2012

## CONTENTS

I. GENERAL PART OF THE REPORT .....	6
1. Identification data and basic information on the Company .....	6
1.1. Name, legal form and registered address of the Company .....	6
1.2. Objects of the Company .....	6
1.3. Legal basis for the Company's operations .....	6
1.4. Company registration for tax and statistical purposes .....	7
1.5. Company share capital .....	7
1.6. Company Management Board .....	7
2. Information on the financial statements for the preceding year .....	7
3. Data identifying the authorized entity and lead statutory auditor .....	8
3.1. Entity authorized to audit the financial statements .....	8
3.2. Lead statutory auditor .....	8
3.3. Information on the agreement on provision of assurance services; audit dates and independence .....	8
II. ANALYTICAL PART OF THE REPORT .....	9
1. Company financial data .....	9
1.1. Balance sheet – assets .....	9
1.2. Balance sheet – equity and liabilities .....	10
1.3. Statement of profit and loss .....	11
1.4. Statement of comprehensive income .....	12
2. Analysis of the Company's financial data .....	13
III. DETAILED PART OF THE REPORT .....	14
1. Extent of the audit .....	14
2. Company accounting system .....	14
3. Notes to the financial statements and report on the Company's operations .....	14
4. Information on the statutory auditor's opinion .....	15

## **I. GENERAL PART OF THE REPORT**

### **1. Identification data and basic information on the Company**

#### **1.1. Name, legal form and registered address of the Company**

City Interactive S.A.  
ul. Żupnica 17  
03-821 Warsaw, Poland

#### **1.2. Objects of the Company**

In accordance with the Company's articles of incorporation, its principal objects are:

- manufacture of electronic games, including computer games,
- manufacture of computer media;
- production of audio recordings, video recordings and reproduction of computer media;
- retail sale of computer games, audio recordings, video recordings and computer media;
- computer hardware and software advisory;
- software distribution;
- advertising;
- wholesale of electronic games, audio recordings, video recordings and computer media;
- publishing activity;
- printing activity;
- retail sale of books, newspapers and written material;
- retail sale outside of a network of stores;
- data processing;
- database activity;
- activity connected with film and the video industry;
- other forms of education not elsewhere classified;
- recruitment and provision of personnel;
- commercial activity not elsewhere classified;
- research and development work in technical sciences.

#### **1.3. Legal basis for the Company's operations**

City Interactive S.A. (a public limited company) was formed through transformation from City Interactive Sp. z o.o. (a limited liability company). The resolution on transformation was adopted by the general meeting of City Interactive Sp. z o.o. on May 16, 2007. The duration of the Company is unlimited. The Company is registered at the District Court for the Capital City of Warsaw in Warsaw, 13<sup>th</sup> Commercial Division of the National Court Register, entry number KRS 0000282076.

#### 1.4. Company registration for tax and statistical purposes

NIP (taxpayer identification number): 1181585759

REGON (statistical identification number): 017186320

#### 1.5. Company share capital

As at December 31, 2012 the Company's registered share capital was PLN 1 265 000, divided into 12 650 000 shares with a nominal value of PLN 0.10 each. Shares are not preferred shares.

The Company's shareholding structure as at December 31, 2012 was as follows:

Shareholder name	Number of shares	Nominal value of shares (PLN thousands)	Number of votes held (%)	Type of shares
Marek Tymiński	6 347 285	634.7	50.2%	Ordinary
QUERCUS TFI	663 734	66.4	5.2%	Ordinary
Others < 5%	5 638 981	563.9	44.6%	Ordinary
	12 650 000	1 265	100%	

City Interactive S.A. is part of the City Interactive Group, of which it is the parent, and draws up consolidated financial statements.

#### 1.6. Company Management Board

The Company's Management Board performs management functions.

As at December 31, 2012 the Company's Management Board comprised:

- Marek Tymiński – President of the Management Board,
- Andreas Jaeger – Member of the Management Board.

Andreas Jaeger was appointed Member of the Management Board on March 14, 2012. He replaced Michał Sokolski, who on the same day resigned as Member of the Management Board.

## 2. Information on the financial statements for the preceding year

The Company's financial statements for the preceding financial year, i.e. the year ended December 31, 2011 were audited by CSWP Audyt Sp. z o.o. and the independent statutory auditor's opinion, dated April 13, 2012, contains neither reservations nor comments.

On June 28, 2012 the general meeting approved the financial statements for the preceding year and allocated the PLN 17 103 000 net profit for the preceding year to the dividend fund.

The financial statements for the preceding year were submitted to the National Court Register on February 25, 2013. The Company did not publish its financial statements for the preceding financial year in the *Monitor Polski B* official gazette.

The closing balance as at the end of the preceding financial year was correctly introduced into the accounts as the opening balance for the audited year.

### **3. Data identifying the authorized entity and lead statutory auditor**

#### **3.1. Entity authorized to audit the financial statements**

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.  
ul. Nowy Świat 49  
00-042 Warsaw, Poland

NIP: 525-25-23-102  
REGON: 145894054  
KRS: 0000402544

Company registered at the District Court for the Capital City of Warsaw in Warsaw, 12<sup>th</sup> Commercial Division of the National Court Register.

Entry into the list of entities authorized to audit financial statements: no. 3767.

#### **3.2. Lead statutory auditor**

Jędrzej Szalacha, statutory auditor no. 11505.

#### **3.3. Information on the agreement on provision of assurance services; audit dates and independence**

The basis for performance of the audit is the agreement of May 28, 2012. The decision on selection of statutory auditor was taken through the resolution of the Supervisory Board of May 23, 2012.

The time frame for audit of the financial statements at the Company's registered office was as follows:

- From July 25 to August 3, 2012 – initial audit,
- From January 28 to February 1, 2013 – final audit,
- From February 18 to 22, 2013 – final audit.

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k., the lead statutory auditor and persons participating in the audit of the Company's financial statements fulfill the requirements for independence in relation to the audited Company in the meaning of art. 56, sections 3 and 4 of the act on statutory auditors and their self-regulation, entities authorized to audit financial statements and public oversight.



## II. ANALYTICAL PART OF THE REPORT

### 1. Company financial data

#### 1.1. Balance sheet – assets

ASSETS	Dec 31, 2012 (PLN thousands)	% share in carrying value	Dec 31, 2011 (PLN thousands)	% share in carrying value
<b>Non-current assets</b>				
Property, plant and equipment	1 048	1.4	957	1.3
Intangible assets	38 214	51.9	24 149	34.0
Interests in subsidiaries, associates and jointly controlled entities	223	0.3	308	0.4
Deferred income tax assets	5 122	7.0	2 246	3.2
<b>Total non-current assets</b>	<b>44 607</b>	<b>60.6</b>	<b>27 660</b>	<b>38.9</b>
<b>Current assets</b>				
Inventories	2 024	2.7	3 909	5.5
Current investments	1 717	2.3	4 078	5.7
Advances paid	78	0.1	1 049	1.5
Trade and other receivables	8 778	11.9	16 857	23.7
Income tax receivables	-	-	855	1.2
Cash and cash equivalents	14 398	19.6	14 062	19.8
Other current assets	2 051	2.8	2 660	3.7
<b>Total current assets</b>	<b>29 046</b>	<b>39.4</b>	<b>43 470</b>	<b>61.1</b>
<b>TOTAL ASSETS</b>	<b>73 653</b>	<b>100.0</b>	<b>71 130</b>	<b>100.0</b>

The increase in carrying value results chiefly from an increase in intangible assets, including the costs of development work connected with the production of software, together with increase in the value of deferred income tax assets. The growth in deferred income tax assets results from the increase in negative temporary differences arising in connection with the recognition of significant impairment losses on intangible assets (unsuccessful releases and discontinued production of certain games), together with the tax loss for the current year.

The decrease in current assets results primarily from a decline in trade receivables, which in turn is a result of lower revenue from sales (lack of successful game releases throughout 2012).

## 1.2. Balance sheet – equity and liabilities

<b>EQUITY AND LIABILITIES</b>	<b>Dec 31, 2012 (PLN thousands)</b>	<b>% share in carrying amount</b>	<b>Dec 31, 2011 (PLN thousands)</b>	<b>% share in carrying amount</b>
<b>Equity</b>				
Share capital	1 265	1.7	1 265	1.8
Share premium	4 556	6.2	4 556	6.4
Revaluation reserve	-	-	(2 021)	2.8
Buy-back provision	16 000	21.7	16 000	22.5
Retained earnings	19 801	26.8	38 797	54.4
<b>Total equity</b>	<b>41 622</b>	<b>56.4</b>	<b>58 597</b>	<b>82.3</b>
<b>Non-current liabilities</b>				
Provision for pensions and similar	32	0.1	15	-
Finance lease liabilities	39	0.1	29	0.1
Deferred income tax provision	43	0.1	290	0.4
<b>Total non-current liabilities</b>	<b>114</b>	<b>0.3</b>	<b>334</b>	<b>0.5</b>
<b>Current liabilities</b>				
Borrowings including credits, loans and other debt instruments	20 602	28.0	-	-
Trade and other payables	7 266	9.9	8 032	11.3
Finance lease liabilities	51	0.1	26	0.0
Financial liabilities	-	-	2 954	4.2
Other liabilities	285	0.3	298	0.4
Other current provisions	985	1.3	889	1.3
Deferred income	2 728	3.7	-	-
<b>Total current liabilities</b>	<b>31 917</b>	<b>43.3</b>	<b>12 199</b>	<b>17.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>73 653</b>	<b>100.0</b>	<b>71 130</b>	<b>100.0</b>

Equity decreased in comparison with the preceding year as a result of the net loss generated for 2012.

The significant increase in liabilities results from the Company's issue of short-term bonds, presented in liabilities under borrowings including credits, loans and debt instruments.

### 1.3. Statement of profit and loss

	Jan 1, 2012 – Dec 31, 2012 (PLN thousands)	% share in revenue from sales	Jan 1, 2011 – Dec 31, 2011 (PLN thousands)	% share in revenue from sales
<b>CONTINUING OPERATIONS</b>				
<b>Net revenue from sales</b>				
Revenue from sale of products and services	29 927	96.6	68 566	98.0
Revenue from sale of goods for resale and materials	1 055	3.4	1 367	2.0
	<b>30 982</b>	<b>100.0</b>	<b>69 933</b>	<b>100.0</b>
<b>Cost of products, goods for resale and services sold</b>				
Cost of manufacture of products sold	24 274	78.3	36 447	52.1
Value of goods for resale and materials sold	641	2.1	1 003	1.5
	<b>24 915</b>	<b>80.4</b>	<b>37 450</b>	<b>53.6</b>
<b>Gross profit on sales</b>	<b>6 067</b>	<b>19.6</b>	<b>32 483</b>	<b>46.4</b>
Other operating revenue	329	1.1	670	1.0
Distribution costs	5 849	18.9	6 554	9.4
Administrative expenses	4 897	15.8	4 510	6.4
Other operating costs	16 457	53.1	1 504	2.2
<b>Profit/(loss) on operating activities</b>	<b>(20 807)</b>	<b>67.2</b>	<b>20 585</b>	<b>29.4</b>
Finance income	456	1.5	1 566	2.2
Finance costs	2 257	7.3	345	0.5
<b>Profit/(loss) before tax</b>	<b>(22 608)</b>	<b>73.0</b>	<b>21 806</b>	<b>31.2</b>
Income tax	(3 612)	11.7	4 703	6.7
<b>Profit/(loss) on continuing operations</b>	<b>(18 996)</b>	<b>61.3</b>	<b>17 103</b>	<b>24.5</b>
<b>Net profit/(loss)</b>	<b>(18 996)</b>	<b>61.3</b>	<b>17 103</b>	<b>24.5</b>

The Company generated a net loss in 2012, resulting from the fact that the Company did not note any significant new game releases. The release of flagship titles is planned in 2013 and 2014.

In addition, the Company recognized a significant impairment loss on finished and unfinished game development, amounting to PLN 12.9 million, which was recognized under other operating costs.

**1.4. Statement of comprehensive income**

	Jan 1, 2012 – Dec 31, 2012 (PLN thousands)	% share in revenue from sales	Jan 1, 2011 – Dec 31, 2011 (PLN thousands)	% share in revenue from sales
<b>Net profit</b>	<b>(18 996)</b>	<b>61.3</b>	<b>17 103</b>	<b>24.5</b>
<b>Total other comprehensive income</b>				
Result of financial asset measurement	(77)	0.2	35	0.1
Result of hedging instrument measurement	2 098	6.8	(2 098)	3.0
	<b>2 021</b>	<b>6.5</b>	<b>(2 063)</b>	<b>2.9</b>
<b>Total comprehensive income for the financial year</b>	<b>(16 975)</b>	<b>54.8</b>	<b>15 040</b>	<b>21.5</b>

In 2012, other comprehensive income mainly concerned reversal of hedging instrument measurement. The Company did not apply hedge accounting during the current period and as at the end of period did not have any open forward contracts.

**2. Analysis of the Company's financial data**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>1. Net sales margin</b>			
$\frac{\text{Net profit} \times 100\%}{\text{Net revenue}}$	Negative value	24.5%	35.6%
<b>2. Return on equity</b>			
$\frac{\text{Net profit} \times 100\%}{\text{Equity} - \text{net profit}}$	Negative value	41.2%	145.6%
<b>3. Receivables turnover</b>			
$\frac{\text{Net trade receivables} \times 365 \text{ days}}{\text{Net revenue from sales}}$	103 days	88 days	98 days
<b>4. Debt ratio</b>			
$\frac{\text{Liabilities and provisions for liabilities} \times 100\%}{\text{Total equity and liabilities}}$	43.5%	17.6%	26.9%
<b>5. Current ratio</b>			
$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.9	3.6	2.7

Due to the net loss incurred, profitability ratios were negative in 2012.

The increase in debt results from the drop in equity due to a net loss, together with an increase in the balance of current liabilities as a result of bond issues.

The decline in the current ratio results from the decrease in equity, increase in debt instrument liabilities and significant expenditures on non-current assets (game development).

The financial forecasts presented by the Management Board show that the positive cash flows and earnings from sales of Sniper Ghost Warrior 2, the release of which is planned for March 2013, will be fully sufficient for the buy-back of bonds and to maintain the Company's liquidity in 2013.

### **III. DETAILED PART OF THE REPORT**

#### **1. Extent of the audit**

The audit was carried out for the shareholders and Supervisory Board of City Interactive S.A., having its registered office in Warsaw at ul. Żupnica 17.

The financial statements comprise a balance sheet drawn up as at December 31, 2012, statement of profit and loss, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year January 1 to December 31, 2012, and notes to the financial statements.

There was no limitation in the extent of the audit and the Company's Management Board submitted and provided access to all declarations, explanations, documents and information requested by the auditor.

#### **2. Company accounting system**

Pursuant to the completed audit we can state that, in all aspects significant to the financial statements, the Company:

- holds the documentation required pursuant to art. 10 of the Polish Accounting Act;
- consistently and diligently applies the adopted accounting principles (policy) approved by the Company's Management Board;
- holds correct documentation relating to commercial transactions;
- maintains its accounts in a reliable, correct and verifiable manner, and the entries made in the accounts are linked to invoices and other source documents, as well as the financial statements;
- takes adequate steps to limit access to data and the computer systems used for data processing;
- completed an inventory of assets and equity and liabilities in accordance with the requirements of the Polish Accounting Act, the results of which were correctly included in the accounts;
- ensures appropriate protection of accounting documentation, accounting records and the financial statements.

The aim of our audit was not to express a comprehensive opinion on the accounting system, although on the basis of procedures applied we did not discover significant irregularities concerning this system which were not subsequently rectified and which could have a significant impact on the audited financial statements as a whole.

#### **3. Notes to the financial statements and report on the Company's operations**

On the basis of the audit we found that, in all significant aspects, the report on the Company's operations and the notes to the financial statements, forming an integral part of these statements, were drafted in a comprehensive and correct manner.

#### 4. Information on the statutory auditor's opinion

As a result of the audit carried out on the Company's financial statements drafted as at and for the period ended December 31, 2012, we have issued an unqualified opinion with the following supplementary explanations:

"Without raising reservations as to the correctness and accuracy of the audited financial statements, we point out that:

- As at the end of the reporting period the Company maintained low liquidity ratio and generated a loss for the financial year. The Management Board believes that this does not constitute a threat to its status as a going concern, as described in point 2 c) of the introduction to the financial statements,
- The Company did not publish its financial statements for the preceding year in the *Monitor Polski B* official gazette."

[signature]

Statutory Auditor no. 11505

Jędrzej Szalacha

Lead Statutory Auditor

conducting the audit

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

Entity authorized to audit financial statements, entered into the list of authorized entities, no. 3767, held by the National Chamber of Statutory Auditors.

Warsaw, March 7, 2013