



CI GAMES **CAPITAL GROUP**

MANAGEMENT BOARD REPORT
OF THE CAPITAL GROUP OPERATIONS
FOR THE FIRST SIX MONTHS OF 2015



CI GAMES S.A. Management Board Statement

Pursuant to the Regulation of the Minister of Finance of 19 February 2009 (Journal of Laws no. 33, item 259 as amended) *on the ongoing and periodic information submitted by the securities issuers and the requirements of considering the information required under the law of the non-member state as equivalent*, the Management Board of CI Games S.A. represents that according to their best knowledge the half-yearly consolidated financial statement and comparable data were prepared in compliance with the applicable accounting principles and reflect the material and financial standing of CI Games Capital Group, and its financial result, truly, accurately and clearly and that the half-yearly report on the Group operations includes a true picture of the development, achievements and standings of CI Games Capital Group, including the list of basic threats and risk.

The Management Board of CI Games S.A. represents the entity authorized to audit the financial statements, auditing the financial statement of the Group, was appointed in accordance with the legal regulations and that entity and chartered auditors met the conditions for issuing an independent and impartial report on auditing the financial statement according to the applicable regulations and professional standards.

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Management Board Member

Łukasz Misiurski

Management Board Member

Warsaw, August 31, 2015

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1. Financial highlights

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	HY1 2015		HY1 2014	
	PLN	EUR	PLN	EUR
	thousand	thousand	thousand	thousand
Net revenue from sales	7,457	1,804	25,811	6,177
Profit / (Loss) from operating activities	-4,779	-1,156	-13,267	-3,175
Gross profit / (loss)	-3,725	-901	-13,496	-3,230
Net profit / (loss)	-2,794	-676	-13,387	-3,204
Number of shares (in thousands)	13,914	13,914	13,914	13,914
Profit (loss) per ordinary share (PLN/share)	-0.20	-0.05	-0.96	-0.23

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	Q2 2015		Q2 2014	
	PLN	EUR	PLN	EUR
	thousand	thousand	thousand	thousand
Net revenue from sales	3,502	850	19,138	4,592
Profit / (Loss) from operating activities	-4,170	-1,012	-11,805	-2,833
Gross profit / (loss)	-4,258	-1,034	-11,954	-2,868
Net profit / (loss)	-2,827	-686	-11,929	-2,862
Number of shares (in thousands)	13,914	13,914	13,914	13,914
Profit (loss) per ordinary share (PLN/share)	-0.20	-0.05	-0.86	-0.21

CONSOLIDATED STATEMENT OF CASH FLOWS	HY1 2015		HY1 2014	
	PLN	EUR	PLN	EUR
	thousand	thousand	thousand	thousand
Net cash flows from operating activities	13,915	3,366	3,021	723
Net cash flows from investing activities	-10,242	-2,477	-15,326	-3,668
Net cash flows from financing activities	-41	-10	8,093	1,937
Net cash flows	3,632	879	-4,212	-1,008

CONSOLIDATED BALANCE SHEET	30.06.2015		30.06.2015		31.12.2014	
	PLN	EUR	PLN	EUR	PLN	EUR
	thousand	thousand	thousand	thousand	thousand	thousand
Non-current assets	62,592	14,923	66,608	16,008	56,997	13,372
Current assets	29,882	7,124	26,160	6,287	42,261	9,915
Total assets	92,474	22,047	92,768	22,295	99,258	23,287
Equity	80,256	19,134	67,334	16,183	83,042	19,483
Share capital	1,391	332	1,391	334	1,391	326
Liabilities	12,218	2,913	25,434	6,113	16,216	3,804
Non-current liabilities	3,868	922	2,647	636	4,468	1,048
Short-term liabilities	8,350	1,991	22,787	5,476	11,748	2,756
Total equity and liabilities	92,474	22,047	92,768	22,295	99,258	23,287

2. Organizational structure of CI Games Capital Group, including consolidated entities

The CI Games Capital Group operates in the global video game development and publishing market. The parent company, CI Games S.A., is the first publicly traded company in this sector in Central and Eastern Europe and the first to emerge as an international player and generate outstanding market and financial performance. The Group's strategic goal is to build a portfolio of recognizable brands in the most popular video-game genres using its advanced know-how and experienced team.

In the gaming market, the Capital Group operates as:

- Developer, with in-house production studios,
- Publisher of own games and licensed products, being responsible for marketing strategy and product roll outs using local distributors,
- Distributor, selling products directly to retail chains and online.

The Group is investing in expanding its management and creative team through hiring developers with years of experience in managing projects at well-respected studios throughout the world. The Group also works with leading technology providers and makes use of the latest equipment and software. The Issuer has executed agreements on game development and independent distribution with owners of the most popular gaming consoles, i.e. Sony and Microsoft. The Group produces games for previous generation platforms (PlayStation®3 and Xbox360®), new generation (Xbox One® and PlayStation®4), as well as for PCs. In order to maximize sales performance and marketing potential, CI Games collaborates with international distributors who operate in specific regional markets and are responsible for implementing promotional plans.

Through combining the above three functions, the Group may effectively control the process of game development and distribution.

Composition of the CI Games Capital Group as at 6/30/2015:

- **CI Games S.A.** (formerly City Interactive S.A.) – a Warsaw-based company. Share capital: PLN 1,391,449.90. Group parent.
- **CI Games USA Inc.** (formerly City Interactive USA Inc.) – a company having its registered office in Delaware, USA. Share capital: USD 50,000. 100% of shares held by CI Games S.A. Company subject to consolidation from Q2 2008.
- **CI Games Germany GmbH** (formerly City Interactive Germany GmbH) – a company having its registered office in Frankfurt am Main, Germany. Share capital: EUR 25,000. 100% of shares held by CI Games S.A. The Company is subject to consolidation starting from Q2 of 2008. On 24 July 2015, due to the absence of any material transactions and operations in the Company, the Issuer started the process of its liquidation.
- **City Interactive Studio S.R.L.** – a company having its registered office in Bucharest, Romania. 100% of shares held by CI Games S.A. This company is subject to consolidation from Q4 2011. On Friday, November 7, 2014, the company filed for bankruptcy at the VII Civil Division, Court in Bucharest.
- **Business Area Sp. z o.o.** - a company having its registered office in Warsaw, subject to consolidation from Q3 of 2010. Share capital of PLN 5,000. 100% of shares held by CI Games S.A.
- **Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna** (transformed from Business Area Spółka z ograniczoną odpowiedzialnością S.K.A.) – company headquartered in Warsaw. The company is subject to consolidation from Q1 2014. On Friday, September 26, 2014, Business Area Spółka z ograniczoną odpowiedzialnością S.K.A. was transformed into Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna.
- **CI Games Spółka Akcyjna Spółka Jawna** (transformed from CI Games IP Sp. z o.o.) – company headquartered in Warsaw. 99.99% of shares held by CI Games Cyprus Ltd. On 13 May 2014, pursuant to the Agreement by and between CI Games Cyprus Ltd. and Business Area Spółka z ograniczoną odpowiedzialnością S.K.A., the shares were transferred to Business Area Spółka z ograniczoną odpowiedzialnością S.K.A.; 0.01% of shares are held by the Group parent. The company is subject to consolidation from Q1 2014. On Friday, September 19, 2014, CI Games IP Sp. z o.o. was transformed into CI Games Spółka Akcyjna Spółka Jawna.
- **CI Games Cyprus Ltd.** – company headquartered in Nicosia, Cyprus. Share capital: EUR 1,200. 100% of shares held by CI Games S.A. The company is subject to consolidation from Q1 2014.
- **City Interactive Canada Inc.** – company headquartered in Ontario, Canada, founded in October 2010. Share capital of CAD 10. 100% of shares held by CI Games S.A. The Company is not subject to consolidation as its financial results are not important to assess the Issuer's standing.

On 6 February 2014 the Issuer sold 100% shares in City Interactive Spain S.L. headquartered in Madrid, Spain.

In 2008, CI Games S.A. acquired shares in the following companies operating in Latin America, and then in 2009, ceased their further development: Currently these entities are not subject to consolidation, as their operations have been discontinued and the Parent has created appropriate provisions:

- City Interactive Peru SAC (formerly UCRONICS SAC) - a company having its registered office in Lima, Peru. 99% of shares held by CI Games S.A. Share capital: Sol 2,436,650. The company was subject to consolidation from the date of acquisition of a controlling block of shares to the end of 2008.
- City Interactive Jogos Electronicos LTDA - a company having its registered office in Sao Paulo, Brazil. Initial capital: BRL 100,000. 90% shares held by CI Games S.A., remaining 10% held by CI Games USA Inc.
- City Interactive Mexico S.A. de C.V. - a company having its registered office in Mexico City, Mexico. Initial capital: MXN 50,000 95% share held by CI Games S.A., remaining 5% held by CI Games USA Inc.

3. Indicating the effects of changes in the business unit structure

In the period from 1 January 2015 to the publication date of this report, the Issuer did not make any changes to the business unit structure.

4. Management Board standing referring to the feasibility of the foreseen results published before

The Management Board of CI Games S.A. did not publish the foreseen financial results of the Company and its Capital Group for HY1 2015.

5. Indication of shareholders holding directly or indirectly through subsidiaries at least 5% of total votes at the Issuers's General Meeting

The total number of votes at the General Shareholders Meeting of the Parent, CI Games S.A., is 13,914,999.

Parent's shareholding structure as at the publication date of this report

Item	Number of shares	% share in capital	Number of votes at GSM	% of votes at GSM
Marek Tymiński	6,356,357	45.68%	6,356,357	45.68%
Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna	772,888	5.55%	772,888	5.55%
Quercus Towarzystwa Funduszy Inwestycyjnych S.A.	702,324	5.05%	702,324	5.05%
Other shareholders	6,083,430	43.72%	6,083,430	43.72%
Total:	13,914,999	100%	13,914,999	100%

6. Presentation of the Issuer's shareholdings right to shares by the Issuer's management or supervisory personnel

Person	Position	As at 1 January 2015 (balance sheet date)	Increase in shareholding during the period from 1 January 2015 to 30 June 2015	Decrease in shareholding during the period from 1 January 2015 to 30 June 2015	As at 31 August 2015 (report publication date)
Marek Tymiński	President of the Management Board	6,356,357	-	-	6,356,357
Lech Tymiński	Member of the Supervisory Board	9,565	-	-	9,565

7. Indication of proceedings in progress before a court, competent authority for arbitration proceedings or public administration authority

As at the report publication date, the Issuer's Management Board has no information on the pending material proceedings (with the value exceeding 10% of the Issuer's equity) with the participation of the Parent Company and its subsidiaries.

8. Information on the material transactions entered by the Issuer or its subsidiary with affiliates

In the reporting period the Issuer did not enter any material transactions with affiliates and the ones entered did not deviate from market conditions.

9. Information on the credit or loan sureties or guarantees granted by the Issuer or its subsidiary

Borrower	Total amount based on the agreement	Repayment term	Loan and interest in the foreign currency	Loan and interest in PLN
CI Games Germany GmbH	EUR 3,500	9/30/2016	EUR 3,645.04	15,166.65

10. Other information which the Issuer believes is essential for assessment of its HR, asset or financial situations, financial result and change thereto, as well as information essential for assessing the Issuer's ability to satisfy its liabilities

PROFIT AND LOSS STATEMENT

Net trading receivables of the Group in HY1 2015 reached PLN 7.5 million that is were 18.3 million lower than in HY1 2014. The major factor affecting the difference in comparable periods was the relatively high sales volume of Sniper: Ghost Warrior 2 game in HY1 2014.

For the first 6 months of 2015 the Issuer recorded the loss of PLN 2.8 million, when compared to the loss of PLN 13.4 million in the analogous period last year. The major cause of the loss was low sales volume resulting from the absence of newly released games in the reporting period.

BALANCE SHEET

The balance sheet total of CI Games Capital Group as at 30 June 2015 was PLN 92.5 million that is PLN 294 thousand less than on 30 June 2014.

The fixed assets reached PLN 62.6 million in the balance sheet as at 30 June 2015 and were 6% lower when compared to the value as at 30 June 2014. The difference stems from the changed progress of works on the new game titles and the games sales volume, not depreciated so far.

The Group current assets as at 30 June 2015 reached PLN 29.9 million and were 14% higher when compared to the comparable period which resulted primarily from the receivable level decrease by PLN 2.5 million and cash increase by PLN 6.1 million.

The Group equity as at 30 June 2015 was PLN 80.3 million which means 19% (PLN 12.9 million) increase when compared to 30 June 2014. The increase in equity results primarily from the loss of PLN 13.4 million generated in HY1 last year.

The Group liabilities as at 30 June 2015 reached PLN 12.2 million and dropped by PLN 13.2 million when compared to the liabilities as at the end of June 2014. This resulted primarily from repayment of bank loans.

CASH FLOWS

The net cash flow on operating activities in the reporting period was PLN 13.9 million and largely resulted from the decrease in the trade receivables.

Net cash flow on investment activity was negative and reached PLN -10.2 million. The investment cash flows were most affected by the expenses related to the development works connected with creating SNIPER: GHOST WARRIOR 3 game.

Net cash flow on financial activity was negligible and reached PLN -41 thousand.

Cash as at the end of the reporting period was PLN 13.1 million and was PLN 6 million higher than as at the end of the comparable period.

HEDGING TRANSACTIONS

As at 30 June 2015 the Group had open hedging transactions (buying currency for the expenses related to game production) of forward type as below:

Settlement date	currency	amount in the foreign currency	PLN amount
30 July 2015	USD	437,380.00	1,648,441.48
31 August 2015	USD	158,730.00	598,761.31
30 September 2015	USD	128,700.00	486,048.42
30 October 2015	USD	128,700.00	486,717.66
Total:		853,510.00	3,219,968.87

INCENTIVE PROGRAM FOR KEY EMPLOYEES AND ASSOCIATES OF THE COMPANY, INCLUDING MANAGEMENT BOARD MEMBERS

On 28 April 2015 the Ordinary General Meeting of Shareholders adopted a resolution on the conditional increase in the Company initial capital by no more than PLN 50,000.00.

The conditional increase in the initial capital of the Company will take place by issuing no more than 500,000 subscription warrants B class entitling to acquire no more than 500,000 F class shares for the nominal price of PLN 0.10 each and the issue price of PLN 7.02 each. One warrant entitles to acquire one F class share. All warrants were issued at the same time. B class subscription warrants were emitted free of charge; they are dematerialized.

The conditional increase in the Company initial capital was connected with the Incentive Program for the key employees and associates of the Company, including the Management Board Members. The initial capital increase was accompanied by excluding the right to acquire newly issued shares for the existing shareholders of the Company in whole.

The allotment of B class warrants and F class shares within the Incentive Program will take place in three stages, each of them connected with the marketing of the new games published by the Company starting from 2016. Pursuant to the authorization by the Ordinary General Meeting of Shareholders, the detailed terms and conditions of the Incentive Program and the group of its participants for each of the three stages shall be determined by the Company Supervisory Board by way of an appropriate resolution.

On 25 May 2015, pursuant to the authorization of the Ordinary General Meeting of Shareholders on 28 April 2015, the Company Supervisory Board adopted a resolution imposing the Incentive Program Rules and appointed people eligible to participate in the First Stage of the Incentive Program, attended by the key employees and associates of the Company, excluding Management Board Members according to the composition as at the date when the said resolution was adopted by the Company Supervisory Board. Within the first stage of the Incentive program 115,000 subscription warrants will be issued, allowing in the future for the acquisition of 115,000 series F shares.

LOAN LIABILITIES

On 27 May 2015 CI Games S.A. executed two loan agreements with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna: overdraft facility and open-end current loan agreements with the total value of PLN 15,000,000.00 (say: fifteen million PLN). Both agreements have been concluded for the period of two years.

Earlier, on 27 February 2015 the reverse factoring agreement in Alior Bank S.A. expired, while on 31 March 2015 the loan agreement with Bank Spółdzielczy in Ostrów Mazowiecka expired.

MANAGEMENT BOARD EXTENSION

On 24 June 2015 the Company Management Board appointed Mr Łukasz Misiurski and Ms Monika Rumianek to be Company Management Board Members.

11. Indication of factors which, in the opinion of the Issuer, may have an impact on the financial results achievement by the company in the future

THE MOST IMPORTANT EXTERNAL RISK FACTORS FROM THE ISSUER'S PERSPECTIVE ARE AS FOLLOWS:

Risk related to the macroeconomic situation

The computer gaming market where CI Games Capital Group operates is characterized by high competitiveness, rapid technological changes and changing consumer interests. An important factor affecting the activity negatively is the macroeconomic fluctuations in particular markets. To reduce the risk, the Group has developed its activity globally. In recent years, the entertainment sector has developed dynamically and it is estimated that the video gaming market value has exceeded the one of the film sector.

Competition risk

The Capital Group operates on the market where the major position is held by companies with strong, established reputation. The Group is using its most important advantages effectively: the experienced team, global distribution network, cost advantage connected with lower profitability threshold when compared to other, much bigger producers. Flat organizational structure, on the other hand, provides an advantage of flexibility and quick operations.

Trend change risk

CI Games Capital Group operates in the area of new technologies and virtual entertainment where the product life cycle is relatively short. It is impossible to exclude the risk of the emergence of new solutions which may cause the offered products are no longer attractive and fail to generate the desired earnings. To reduce the risk, the strategy of following the trends and offering verified products on the market, recognized by buyers, on the market. The trend setting strategy would be more expensive and risky.

The main activities of the Group in this direction are based on regular monitoring of the market with respect to the development of new technologies (e.g. 3D) and entering segments created by the newly-created consoles, mobile devices and the Internet.

The number of projects implemented ensures a versatile offer and reduces market risk.

Risk of amended legal and tax regulations

The Issuer's activity can be threatened by very frequent amendments to the legal and tax regulations in Poland and worldwide. This refers to the regulations and interpretations of regulations related to the intellectual property protection, capital market, labour and social security law, tax law or commercial law regulations. In some countries, the subject of prohibiting the marketing of video games with violence is recurring frequently. There is a risk of amending the regulations in some states where the Capital Group offers its products which could adversely affect the Group results.

The Group has carried out action to eliminate the risk by cooperating with specialized legal offices worldwide and product third party liability insurance for the entire publication catalogue.

FX risk

In the first six months, most revenues of the Capital Group were generated in two currencies: EUR and USD. The parent company protects itself from the FX risk by contracting liabilities in those currencies.

THE RISK FACTORS RELATED DIRECTLY TO THE GROUP ACTIVITY INCLUDE:

Risk related to losing key employees

The Group success largely depends on the knowledge and expertise of the employees. This is characteristic of video game producers, for whom the intellectual values are of key importance. It is difficult to hire qualified specialists in this sector. The recruitment of new workers entails their onboarding which causes lower efficiency of work for some time.

Risk related to losing key customers

The commercial activity is based on the developed retail chain channels and Poland and close cooperation with foreign distributors headquartered worldwide. There is a risk that the distribution agreement can be dissolved or bankruptcy declared for the distribution channels being formal buyers of goods and for whom the Group is a creditor. To minimize the possibility of losses, the Parent Company has subsidiaries on all the most important markets, such as e.g. U.S., the tasks of which are to expand the distribution opportunities and cooperate with the distributors closely.

Supplier-related risk

One of the supplier-related risk categories is the introduction of titles to specific console platforms and cooperation with their owners during their certification process. The failure to obtain a certificate and the likelihood of terminating publishing agreements for consoles are the two major risk components which actually exist and can affect the Capital Group financial results. It should, however, be stressed that the Issuer makes effort to carry out and satisfy all the liabilities stemming from the agreements between those entities and the Issuer and their subsidiaries. The payments related to publishing console games are the major amount of the trade payables of the Group in the reporting period and are made in due time.

Risk related to the development plan implementation

The growing costs of game production can cause increased demand for external financing. CI Games S.A. parent company is able to obtain financing from the financial sector - if it becomes necessary to finance other projects.

Risk related to the offered products

The video gaming market is stimulated by expectations related to new products' release. There is a risk that some products will be finished later than planned. This can negatively affect the generated cash flows and financial result in particular periods.

The external factors likely to postpone the new release date are connected with the determination of time required to complete the game production process so as it meets quality requirements. Issuing a game not meeting high standards adopted by the Group could adversely affect the earnings from the sales of a specific product, but also impair its image.

An external factor likely to affect the decision to postpone the release is the market situation as it is an important aspect of the decision-making process to issue the game when the competition of other products is the lowest. Another important factor is the suppliers' delay to prepare the ordered game components in time.

Postponing the release date is frequently connected with a marketing aspect of a "long-awaited game" which contributes to building the product image.

Another aspect is the risk of making a claim concerning copyright to the games, their components, logos or registered names for particular products vis-a-vis some company belonging to the Capital Group. Especially the activity in the U.S. is exposed to such a risk due to the stricter legislation. To avoid losses on that grounds, the Capital Group uses the support of legal offices specializing in the intellectual property protection and registers the trademarks for its products. Making such an application to protect the trademarks in the entire European Union and other countries worldwide, it is necessary to verify its presence on particular markets and assess the risk of violating third party copyright.

Liquidity risk

The Capital Group is exposed to high liquidity risk. To protect against the buyers' insolvency risk, their financial standing is analyzed and the receivables inflow is constantly monitored. The parent company is able to obtain financial resources in the form of a bank debt or issue of financial instruments.

MARKET OPPORTUNITIES AND PROSPECTS

In autumn this year the Issuer is planning to release the LORDS OF THE FALLEN game for mobile phones and tablets. The game will be distributed in a Free to Play model, with the earnings generated from micropayments and ads.

At present the Issuer is working on the game called SNIPER: GHOST WARRIOR 3, belonging to the First Person Shooter type, targeted for the new generation consoles: PlayStation®4 and XboxOne® as well as PCs. The game release is planned for 2016. The Company carries out active promotion e.g. by participating in the largest computer gaming fair E3 in the U.S. and Gamescom in Germany, as well as by the social media.

The Issuer is also carrying out concept works on the game called LORDS OF THE FALLEN 2, to be released in 2017.

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Management Board Member

Łukasz Misiurski

Management Board Member

Warsaw, Monday, August 31, 2015

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