



CI GAMES CAPITAL GROUP

REPORT
OF THE CAPITAL GROUP OPERATIONS
FOR YEAR 2016



Dear Shareholders, Associates and Partners,

Year 2016 abounded in highly significant events related to the production of "Sniper Ghost Warrior 3". It was the period of intense work thanks to which we are today on the eve of one of the most important events in our corporate history. At the same time, thanks to the experience gained in this project, we got new competences opening up new perspectives to develop new games.

The third part of our sniper trilogy is the largest and most complex project we have ever completed. We have made every effort to give the players the highest quality title, ensuring quality entertainment, redefining the sniper game genre anew on 25 April 2017. I am confident this objective will be accomplished which will translate also to the commercial success of this enterprise.

The development of "Sniper Ghost Warrior 3" made our organisation develop, mature and entered a new tier. Over one hundred of high-class specialists, employed in CI Games, makes a harmonious team, stronger than ever before. Working on AAA class project enabled us also to get precious know-how related to cooperation with external partners. We have mastered the business model consisting in outsourcing particular tasks. Still, we retain control over the key game components, production management and artistic vision. This helps us manage the resources and time of key people more efficiently which we are going to use when performing future projects. By the end of the first six months of 2017, we wish to present an ambitious development strategy in which we are going to disclose our publishing plans.

Last year, besides new experience and competence related to game production and production management, we developed also our expertise and technology to a significant degree. This will be reflected in "Sniper Ghost Warrior 3" game, though this expertise will also be used in subsequent products. Our operations and ideas in this respect were recognised by the National Centre for Research and Development which issued positive recommendations for the funding of our two development projects within GameINN programme.

Another important experience gained from "Sniper Ghost Warrior 3" project is the communication with media and fans. We presented the game chunks during the most important events worldwide, collected opinions, drew conclusions and implemented solutions based thereon. Only last year, we were present e.g. at GameStop, TwitchCon, PAX West, Paris Games Week and PlayStation Experience. The open beta tests of our game, carried out in early 2017, helped us collect invaluable feedback from the players which will translate into the final version of "Sniper" and improved players' experience starting from the release date.

In 2016, just like in the previous year, we did not have any new release affecting our financial result. Consequently, we are closing it with a loss which is not uncommon in our sector, dependent on the publishing cycle. It is worth paying attention to the revenues amounting to PLN 24.2 million which were retained on the previous-year level and EBIDTA amounting to PLN 1.1 million. This results e.g. from the fact that our older productions have still enjoyed the players' interest. As at the year end, the cash held by the company exceeded PLN 25.4 million. The safe and stable financial situation of CI Games gives us full comfort of working on "Sniper" release and enables to carry out a suitable marketing action related to the ongoing release of this title.

Summing up the previous year and the results of our work on "Sniper Ghost Warrior 3", we are looking also to the future. We hope our project will be as successful as it deserves. The game release for PC and consoles will be accompanied by subsequent game for mobile platforms. We presuppose both version will offer mutual marketing support.

We are also starting other, fascinating projects. We have already completed conceptual works on the second part of "Lords of the Fallen" which is going to enter the next development stage soon.

I would like to thank the Employees, Partners and Shareholders for their trust and another year of cooperation. We have an exceptional, jubilee year ahead which will be very important not only because of the release of "Sniper Ghost Warrior 3", but also of working on our subsequent games. I believe we are bound to succeed which will enable us to perform even larger and braver projects in the future.

Best regards,

Marek Tymiński

President of the Management Board

CI Games S.A.

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 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 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 risks.

The Management Board of CI Games S.A. represents the entity authorized to audit the financial statements, auditing the yearly 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.

CI Games S.A. Management Board

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Member of the Management Board

Warsaw, 31 March 2017

1. GENERAL DESCRIPTION OF OPERATIONS AND RESOURCES OF CI GAMES CAPITAL GROUP

1.1. Mission of CI Games Capital Group

We focus on creating high value and innovative products, thanks to which we have been strengthening our position in the video game sector.

Acting based on a carefully considered vision of our operations, we consistently strive to offer more and more advanced games which will bring commercial and financial success to us.

In response to dynamically changing market conditions, we rest our business model on the expertise and cooperation with carefully selected entities, believing this strategy can ensure optimum efficiency and control of the titles published under our logo.

1.2. General description of operations and resources of CI Games Capital Group

The CI Games Capital Group operates in the global video game development and publishing market. Parent Company, CI Games S.A. ("**the Company**") 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 CI Games 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. CI Games Group has cooperated with owners of the most popular gaming consoles, i.e. Sony and Microsoft with respect to the production and independent release of games.



In order to optimise sales efficiency and marketing potential, CI Games Group collaborates with international distributors who operate in specific regional markets and are responsible for implementing promotional plans.

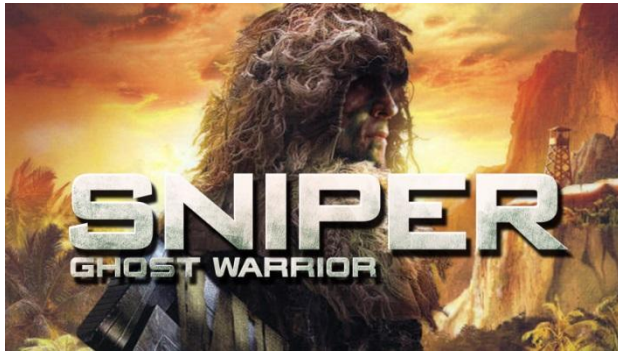
Through combining the above three functions, the Group may effectively control the process of game development and distribution.

1.3. Products of CI Games Capital Group

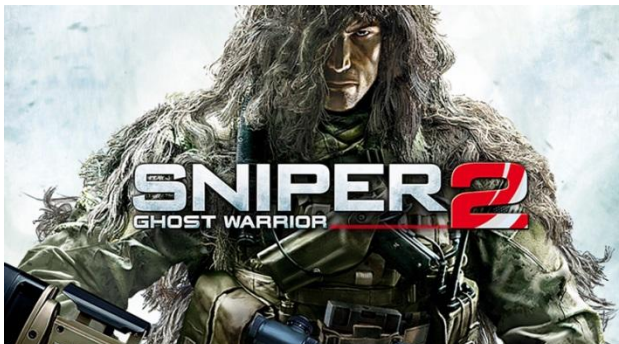
CI Games S.A. is a globally recognizable game producer. The key products of the Company include games in the "Sniper Ghost Warrior" and "Lords of the Fallen" series.



Characteristics of the Company's bestsellers:



- ✓ **3.8 million copies sold**
- ✓ First-person shooter (FPS)
- ✓ Released in June 2010
- ✓ Compatible with PC, PS® 3 and Xbox 360®
- ✓ Score awarded by the editors of gry-online.pl: 7.5/10



- ✓ **Over 2.4 million copies sold**
- ✓ First-person shooter (FPS)
- ✓ Released in March 2013
- ✓ Compatible with PC, PS®3 and Xbox 360®



- ✓ Action-RPG game addressed to adult players
- ✓ Game co-produced with German studio Deck 13
- ✓ Game for consoles PS®4 and Xbox One®
- ✓ Release in October 2014



1.4. Description of the game production process

Production of games for consoles and PCs is composed of the following stages:

1st stage — concept design (about 6 months)

Game creation starts from an idea and initial concept. Based on:

- analysis of trends on the gaming market and broadly-taken entertainment market,
- analysis of selling results for particular titles,
- determination of success factors for particular titles,

a decision is made on the game type and its concept design. The idea is often a modification of a game released before.

2nd stage — pre-production (about 6 months)

Pre-production is an early stage in which the creators focus on designing the intrigue components and document creation. One of the major objectives at this stage is creation of clear and understandable documents, containing all project guidelines and work schedule.

At the pre-production stage, prototypes are created which can be used as the so-called concepts.

3rd stage — production (about 12 months)

Production is the main game creation stage when a source code, graphic design and sounds are created. This process is supported by a team of several dozen to several hundred people. Computer game testing starts when the first source code is completed and lasts until the DVD is handed over for pressing/selling.

At early production stage, the game enters alpha phase. It is when all the major intrigue components have been implemented.

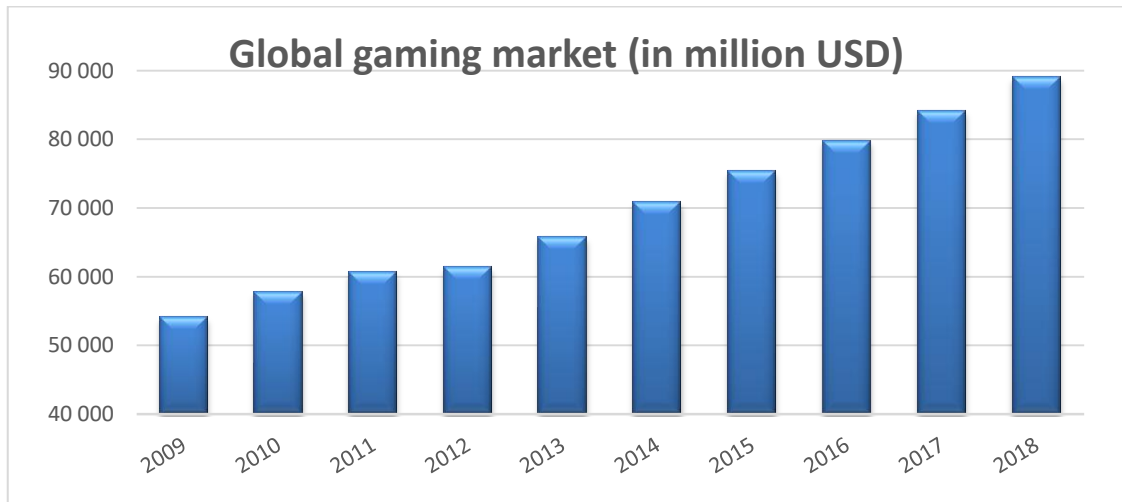
In the beta version all functions have been implemented and the game creators focus on debugging. Beta version tests take place two to three months before the release. When the game is sent to the pressing facility for mass production, it is marked as "golden" version. The golden version is sent in an electronic format to Sony and Microsoft to have the console games certified.

4th stage — DVD pressing (about 3 weeks)

After the certificate is obtained, the game is sent for pressing on DVDs. Then, the finished game is distributed to stores worldwide. On the release date, the buyer can purchase the game in different formats, e.g. on a DVD right in the store or online. The customer can download games from websites e.g. Steam.com or PSN.

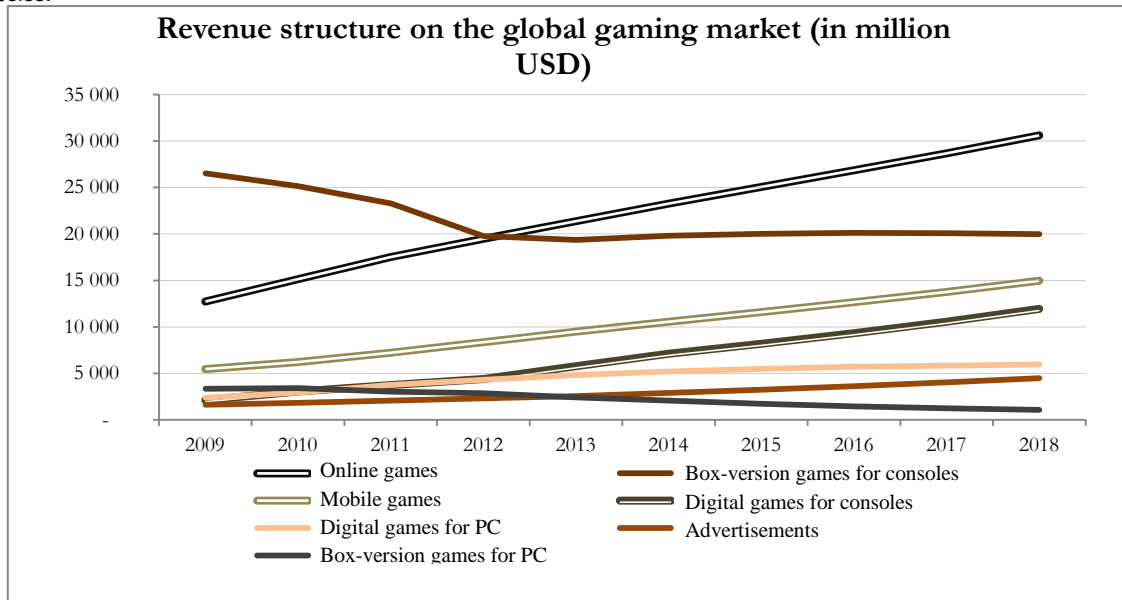
1.5. Description of the market the Capital Group operates on

Video gaming market is the largest and most dynamic segment of a broader entertainment market (film, music, games). Budgets of certain AAA games exceed the budgets of the largest Hollywood productions and companies producing mass game titles reach very high values (Mojang, creator of "Minecraft", was sold to Microsoft with the valuation of USD 2.5 billion, i.e. eight times the revenues).



source: PwC 'Global entertainment and media outlook: 2015-2018'

The growth dynamics for gaming market revenues will be stimulated primarily by online and mobile games and digital games for consoles.



source: PwC 'Global entertainment and media outlook: 2015-2018'

1.6. Composition of CI Games Capital Group

Composition of the CI Games group as at 31 December 2016:

- **CI Games S.A.** (formerly City Interactive S.A.) – a Warsaw-based company. Share capital: PLN 1,501,499,90.
- **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. On 24 July 2015, due to the absence of any material transactions and operations in this subsidiary, CI Games S.A. started the process of its liquidation.
- **City Interactive Studio S.R.L.** – a company headquartered in Bucharest, Romania. 100% of shares held by CI Games S.A. The Company was dissolved following the bankruptcy proceedings finished in May 2016.
- **Business Area sp. z o.o.** – company headquartered in Warsaw. Share capital: PLN 5,000. 100% of shares held by CI Games S.A.
- **Business Area sp. z o.o. sp.j.** – company headquartered in Warsaw, created from Business Area Spółka z ograniczoną odpowiedzialnością S.K.A. 0.01% of shares held by CI Games S.A., 99.9% of shares held by Business Area sp. z o.o.
- **CI Games S.A. sp.j.** – company headquartered in Warsaw, created from CI Games IP sp. z o.o. 0.01% shares held by Business Area spółka z o.o. spółka jawna. 99.99% of shares held by CI Games S.A.
- **CI Games Cyprus Ltd.** – company headquartered in Nicosia, Cyprus. Share capital: EUR 1,200. 100% of shares held by CI Games S.A.

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% of shares held by CI Games S.A., remaining 5% held by CI Games USA Inc.

1.7. Share capital

- a) As at 31 December 2016, the share capital of CI Games S.A. is PLN 1,501,499.90 and is divided into 15,014,999 shares with the nominal value of PLN 0.10 each:
 - 10,000,000 A series shares
 - 40,000 B series shares
 - 2,500,000 C series shares
 - 110,000 D series shares
 - 1,264,999 E series shares.
 - 1,100,000 G series shares.
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- b) The initial capital of CI Games S.A. as at submitting this report, e.g. following the distribution of shares made pursuant to the resolution of the Extraordinary General Meeting of the Company of 31 January 2017 is PLN 1,501,499.90 and is divided into 150,149,990 shares with the nominal value of PLN 0.01 each:
 - 100,000,000 A series shares,
 - 400,000 B series shares,
 - 25,000,000 C series shares,
 - 1,100,000 D series shares,
 - 12,649,990 E series shares,
 - 11,000,000 G series shares.

A series shares were acquired by the existing shareholders of City Interactive sp. z o.o. on the day when the Company was transformed into a joint stock company.

B series shares were issued within an incentive programme and acquired by employees and associates of the parent Company. The Registration Court for the Company registered the increase in the share capital resulting from issuing B series shares on 10 August 2007.

C series shares were included in the public offering in November 2007 which was successful. All offered shares were acquired and paid. On 17 December 2007, the Registration Court for the Company registered increase in the share capital of the Company as a result of C series shares issue.

D series shares were issued within an incentive programme and acquired by employees and associates of the Company. The Registration Court for the Company registered the increase in the Company's share capital resulting from issuing D series shares on 9 October 2009.

E series shares were a subject of a private subscription in December 2015. All offered shares were acquired and paid. On 6 February 2016, the shares were introduced to trading in the primary parallel market in ordinary procedure.

G series shares were a subject of private subscription in November 2016 in connection with the Company's share capital increase within the target capital. All offered shares, i.e. 1,100,000, were acquired and paid.

There are no securities offering special control rights with respect to the Company as under the Articles of Association of CI Games S.A., all issued shares are ordinary bearer shares with identical nominal values and resulting rights and obligations are identical for every shareholder, without any shareholding or personal privilege.

1.8. The shareholding of CI Games S.A. as at 31 December 2016

SHARE CAPITAL - STRUCTURE	Number of shares	% of votes
Marek Tymiński	5,966,357	39.74%
Other shareholders	8,275,754	55.12%
Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna	772,888	5.15%
All shareholders in aggregate	15,014 999	100.00%

1.9. The shareholding of CI Games S.A. as at submitting this report (including the distribution of shares on 31 January 2017)

SHARE CAPITAL - STRUCTURE	Number of shares	% of votes
Marek Tymiński	59,663,570	39.74%
Other shareholders	82,757,540	55.12%
Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna	7,728,880	5.15%
All shareholders in aggregate	150,149,990	100.00%

1.10. Own shares

In the reporting period and as at this report's submission, the Company did not acquire and hold its own shares.

1.11. Entity's resources

The operations of CI Games Group are largely based on creative conceptual and intellectual work. The resources required for game production are widely available (computers, servers, Internet connections, specialist software). The Company uses human resources in a flexible way and commissions particular works for specialists and artists regardless of their nationality or place of abode as required. Many works are carried out on assignment, depending on the project needs and implementation stage. Consequently, the employment structure changes dynamically which is a consequence of the strategy adopted.

1.12. Composition of CI Games S.A. bodies (parent company)

CI Games S.A. Management Board

Marek Tymiński	Management Board President	for the whole 2016
Adam Pieniacki	Management Board Member	for the whole 2016
Monika Rumianek	Management Board Member	for the whole 2016
Łukasz Misiurski	Management Board Member	by 23 March 2016

CI Games S.A. Supervisory Board

Dasza Gadomska	Supervisory Board Chairwoman	for the whole 2016
Norbert Biedrzycki	Supervisory Board Member	for the whole 2016
Grzegorz Leszczyński	Supervisory Board Member	for the whole 2016
Tomasz Litwiniuk	Supervisory Board Member	for the whole 2016
Mariusz Sawoniewski	Supervisory Board Member	for the whole 2016

1.13. Information about holding the shares of CI Games S.A. by the members of the Management and Supervisory Boards

Person	Position	As at 31 December 2015*	Increase in shareholding during the period from 31.12.2015 to 31.03.2017*	Decrease in shareholding during the period from 31.12.2015 to 31.03.2017*	As at 31 March 2017
Marek Tymiński	President of the Management Board	63,663,570	-	4,000,000	59,663,570
Adam Pieniacki	Member of the Management Board	-	150,000	150 000	-

*number of shares following the distribution of shares on 31 January 2017

1.14. Information on the control system for the employee share programmes

All shareholders, whose share in the Issuer's share capital exceeded 2% as at the date when the prospectus was approved of, obliged to the parent company, CI Games S.A. that during twelve months after the date of the first listing of the Issuer's shares at GPW they shall not encumber, pledge, except for any pledge for the bank to secure a loan, shall not sell or transfer the ownership title otherwise, and shall not oblige to carry out such activities with respect to all shares or a fraction thereof, in any way, to any person, without a consent for such an activity granted by the parent Company's Supervisory Board. The obligation was to become invalid if the CI Games S.A. share price (closing price at GPW) exceeds the issue price by at least 20%.

The said obligation referred to the total number of 8,987,265 A series shares held by the shareholders named above which constituted 90% of the shares held by them as at the prospectus approval. All shares subject to any agreements limiting their transferability, were deposited at brokerage accounts kept by Dom Maklerski IDMSA.

In July 2007, the parent Company issued 40,000 B series shares with the issue price of PLN 1, as a part of the incentive programme for its employees and important associates. Those taking the B series shares executed "lock-up" agreements with the Parent company, limiting the transferability of the shares for two or three years. In this way the Issuer's employees or associates, holding 40,000 B series shares of CI Games S.A. altogether, i.e. 100% B series shares of the Issuer, executed agreements with the parent Company, pursuant to which they obliged to exclude transferability of 100% B series shares held by them for 1 year and:

- 70% of B series shares held for one more year for 20,150 shares altogether;
- 90% of B series shares held for two more years for 19,850 shares altogether.

Moreover, some of the incentive programme participants acquired also A series shares bought for PLN 1. The Issuer's employees and associates, holding 35,650 A series shares of CI Games S.A. altogether, made an official statement to exclude transferability of 100% of shares held by them for 1 year and 90% of shares for another two years.

All shares subject to any agreements limiting their transferability, were deposited at brokerage accounts kept by Dom Maklerski IDMSA.

If the employment or cooperation with the shareholder holding the said shares acquired during the incentive programme was terminated, the shares were or are transferred to another person named by the Parent company's Management Board.

On 30 June 2009, 110,000 ordinary D series shares of the Parent company were issued. The shares were acquired by the CI Games S.A. employees for the issue price of PLN 1 per share.

There are no limitations concerning exercise of the voting right resulting from the Company's shares acquired within the said incentive programme.

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 resolution was then amended by the Extraordinary General Meeting of Shareholders on 31 January 2017.

The conditional increase in the initial capital of the Company will take place by issuing no more than 5,000,000 B series subscription warrants entitling to acquire no more than 5,000,000 F series shares for the nominal price of PLN 0.01 each and the issue price of PLN 0.70 each. One warrant entitles to acquire one F series share. All warrants were issued at the same time. B series subscription warrants are dematerialized.

The conditional increase in the Company initial capital was connected with the Incentive Programme 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 series warrants and F series shares within the Incentive Programme will take place in three stages, each of them connected with the marketing of the new game published by the Company starting from 2017. Pursuant to the authorization by the Ordinary General Meeting of Shareholders, the detailed terms and conditions of the Incentive Programme 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 1 March 2017, under the authorisation from the Ordinary General Meeting of the Company's Shareholders of 28 April 2015, the Supervisory Board adopted the resolution adopting the uniform text of the Incentive Programme Rules. The Supervisory Board named people eligible to participate in the Company's Incentive Programme, including three Members of the Company's Management Board.

LOAN LIABILITIES

On 27 May 2015, CI Games S.A. executed two loan agreements with Powszechna Kasa Oszczędności Bank Polski S.A., i.e. overdraft facility amounting to PLN 5 million and open-end current loan with the value of PLN 10 million. Both agreements have been concluded for the period of two years.

On 10 February 2016, the Management Board of CI Games S.A. executed an appendix to the open-end current loan with Powszechna Kasa Oszczędności Bank Polski S.A. resulting in increasing the limit of the awarded loan from PLN 10 million to 20 million.

On 22 February 2017, CI Games S.A. executed a closed-end current loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to finance the costs related to pressing Sniper Ghost Warrior 3 amounting to USD 2.5 million, with the repayment date on 27 May 2017.

As at 31 December 2016, the debt related to the used current bank loan was PLN 19,677,288, while for the overdraft facility it was PLN 4,239,794.

The detailed information is contained in note 15 to the consolidated financial statement.

CHANGE OF THE MANAGEMENT BOARD

On 23 March 2016, Łukasz Misiurski notified of his resignation from the position of the Management Board Member in the Company, taking effect on 23 March 2016.

1.15. Research and development works

In the game production process, it is necessary to implement many unusual and unique solutions concerning intrigue components, artificial intelligence, simulator work, character models, creation of broadly-taken virtual world components.

The Company implemented a prototype of innovative technology related to antagonists' behaviour and creation of a world for computer games from the first-person perspective ("FPS"), with open world components ("sandbox").

In December 2016, two Company's projects were selected for funding within the projects submitted in the Operational Programme Smart Growth 2014–2020 action 1.2. The Company intends to carry out R&D works covered by the funding in 2017–2018.

2. GROUP OBJECTIVES AND RISK

The objective of the Group operations is to offer high quality entertainment products for consoles, PCs and mobile devices to players worldwide. The operations cover production, publishing and distribution of video games. The company has extensive competence in all above fields thanks to which it can be successful reaching the above objective.

From the perspective of the Group value increase, the Management Board wishes to increase the operations related to the games created both with respect to the projects and marketing activities. The Group achieves its goals also through continuous improvement of particular projects' profitability.

2.1. Important Group risk factors and hazards

In the reporting period the bodies authorised to control and supervise the operations did not detect any violation of legal regulations of significant importance for its situation.

The Issuer's Management Board did not publish any other estimates or forecasts concerning the Group's results other than those presented in this report.

According to the Management Board, there are no significant circumstances pointing to the inability or serious threat to the ability to continue operations by the entity in the foreseeable future.

The Management Board believes there are no serious threats to the continued operations.

The most important external risk factors from the Group'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 develops its operations globally, carrying out its independent publishing activities on all important global markets. 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. Since mid-2016, the Group has developed games solely for the new generation of platforms (Sony PlayStation4®, XboxOne®) and PCs, offering high trading potential.

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 Group adopted the strategy of following the trends and offering verified products, 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 2016, 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 risks 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 in Poland and close cooperation with foreign distributors headquartered worldwide. There is a risk that the distribution agreement can be dissolved or bankruptcy declared for companies 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 potential 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 to ensure 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 these 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 issuance of bonds.

Risk of mistaken estimation of the number of copies and future sales

Production, publication and distribution of products requires estimation of the future value of selling own or licensed products before the market release date. In practice, there are significant differences between specific products with respect to the number of pieces sold and their ability to generate revenue. Based on its long experience, the Group estimates the commercial potential of every new title but is not able to eliminate the risk of mistaken estimation of the number of copies and future sales.

Risk of delays in game production

Postponements and delays of computer game releases are a standard phenomenon on the gaming market. Computer game production is a complex and costly process, based largely on creative and artistic works, resulting in the risk of mistaken estimation of the work schedule for a given title, risk of technical problems related to the software layer (e.g. the game not meeting quality requirements or not operating properly), absent or insufficient funds.

Risk related to producing games for consoles, smartphones and tablets

Production of games for consoles and iOS devices requires the certification process to be completed with the platform owner. There is a risk that cooperation with the platform owner can be terminated, the delays happen or that the produced game does not obtain the certificate which is likely to postpone the release. The Group starts operations in the mobile game sector and risks related to the new market are minimised by selecting partners experienced in this market sector.

2.2. Evaluation of the investment project feasibility.

CI Games Capital Group is able to finance investment projects. In financial year 2017, the Group intends to maintain the existing investment level. To finance investment projects, it shall use its own resources and the ones obtained from the banking or financial sector.

3. OPERATION RESULTS AND FINANCIAL STANDING**3.1. Description of material achievements or failures of the Group in 2016, as well as events affecting financial results**

In 2016, the Company focused primarily on the marketing and continued works on Sniper Ghost Warrior 3.

On 10 February 2016, the Management Board of CI Games S.A. executed an appendix to the open-end current loan with Powszechna Kasa Oszczędności Bank Polski S.A. resulting in increasing the limit of the awarded loan from PLN 10 million to 20 million (more details in 3.14).

In the reporting period, the Company increased its capital by issuing G-series shares (more details in 3.15).

- **General Meeting of Shareholders of CI Games S.A.**
On 29 April 2016, an Ordinary General Meeting of Shareholders of CI Games S.A. was held, when the following resolutions were adopted:
 - No. 1/2016 concerning election of the Chairman of the Ordinary General Meeting of Shareholders,
 - No. 2/2016 concerning abandonment of appointing the Tellers,
 - No. 3/2016 on approval of the meeting agenda,
 - No. 4/2016 on approving of the Management Board's report on CI Games S.A. operations for year 2015,
 - No. 5/2016 on approving of the financial statement of CI Games S.A. for financial year 2015,
 - No. 6/2016 on approving of the Parent Company's Management Board report on the operations of CI Games Capital Group for 2015,
 - No. 7/2016 on approving of the consolidated financial statement of CI Games Capital Group for 2015, prepared by the parent company,
 - No. 8/2016 on approving of the Supervisory Board's report on operations for 2015,
 - No. 9/2016 on covering the loss incurred in 2015,
 - No. 10/2016 on granting discharge to the Management Board President for performance of his obligations in 2015,
 - No. 11/2016 on granting discharge to the Management Board Member for performance of his obligations in 2015 (A. Pieniacki),
 - No. 12/2016 on granting discharge to the Management Board Member for performance of his obligations in 2015 (M. Rumianek),
 - No. 13/2016 on granting discharge to the Management Board Member for performance of his obligations in 2015 (Ł. Misiurski),
 - No. 14/2016 on granting discharge to the Supervisory Board Chairman for performance of his obligations in 2015 (K. Sroczyński),
 - No. 15/2016 on granting discharge to the Supervisory Board Chairwoman for performance of her obligations in 2015 (D. Gadomska),
 - No. 16/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (L. Tyminiński),
 - No. 17/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (M. Dworak),
 - No. 18/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (T. Litwiniuk),
 - No. 19/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (G. Leszczyński),
 - No. 20/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (N. Biedrzycki),
 - No. 21/2016 on granting discharge to the Supervisory Board Member for performance of his obligations in 2015 (M. Sawoniewski),

3.2. FX rates

Balance sheet data were translated using the average exchange rate published by the National Bank of Poland as at the end of the reporting period:

- as at 31 Dec. 2015 – PLN/EUR 4.2615,
- as at 31 Dec. 2016 - PLN/EUR 4.4240.

Items in the statement of profit and loss and statement of cash flows were translated according to the average exchange rate calculated as the arithmetical average of exchange rates announced by the National Bank of Poland as at the last day of the month in a given period.

- for 2015 - PLN/EUR 4.1848,
- for 2016 - PLN/EUR 4.3757.

3.3. Financial highlights

STATEMENT OF PROFIT AND LOSS	2016		2015	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net revenue from sales	24,231	5,538	25,019	5,979
Profit (loss) from operating activities	-14,348	-3,279	-9,001	-2,151
Gross profit (loss)	-13,835	-3,162	-8,065	-1,927
Net profit (loss)	-16,240	-3,711	-7,860	-1,878

Net trading receivables of the Group reached PLN 24.2 million that is were slightly lower than in 2015 (by PLN 0.8 million). The major factor affecting the sales results in the period was the absence of new releases both in 2015 and in 2016.

The selling profit was PLN 2.8 million, whereas the operating activities resulted in a loss of PLN 14.3 million.

The highest effect on the result in 2016 was exerted by the depreciation of games released in previous years, amounting to PLN 15.1 million in total. Only in the fourth quarter 2016, the depreciation of the Lords of the Fallen was PLN 7.9 million. As at 31 December 2016, all titles released by the end of 2016, were fully depreciated.

In 2016, the net loss of the Group was PLN 16.2 million which results from the above reasons.

BALANCE SHEET	12/31/2016		12/31/2015	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Non-current assets	83,648	18,908	71,396	16,754
Current assets	34,194	7,729	19,282	4,525
Total assets	117,842	26,637	90,678	21,278
Equity	83,643	18,907	75,227	17,653
<i>Share capital</i>	<i>1,501</i>	<i>339</i>	<i>1,391</i>	<i>326</i>
Liabilities	34,199	7,730	15,451	3,626
Non-current liabilities	2,751	622	2,748	645
Short-term liabilities	31,448	7,108	12,703	2,981
Total equity and liabilities	117,842	26,637	90,678	21,278

The balance sheet total of CI Games Capital Group as at 31 December 2016 was PLN 118 million that is 30% more than on 31 December 2015.

The fixed assets in the balance sheet as at 31 December 2016 were PLN 84 million that is 17% more than on 31 December 2015.

The increase in fixed assets results primarily from the investment outlays for SNIPER GHOST WARRIOR 3 game.

The Group current assets reached PLN 34 million as at 31 December 2016 and increased by 77% when compared to the situation as at the end of 2015 which resulted primarily from the increase in cash obtained from issuing G series shares.

The Group equity as at 31 December 2016 was PLN 83.6 million (71% of the balance sheet total) which means PLN 8.4 million more when compared to 31 December 2015. The equity increase results from the issue of G series shares and from the current year result.

The Group liabilities as at the balance sheet date reached PLN 34.2 million and increased by PLN 18.7 million when compared to the end of 2015 which resulted from the increase in debts resulting from the bank loans contracted.

STATEMENT OF CASH FLOWS	2016		2015	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net cash flows from operating activities	4,533	1,036	18,296	4,372
Net cash flows from investing activities	-28,975	-6,622	-26,257	-6,274
Net cash flows from financing activities	42,683	9,755	5,635	1,347
Net cash flows	18,241	4,169	-2,326	-555

The Group started 2016 with cash amounting to PLN 7.2 million.

Net cash flow on operating activity reached PLN 4.5 million. The greatest influence on the cash flow had the proceeds from the current sales of games.

Net cash flow on investment activity was negative and reached PLN 28.9 million. They were related primarily to expenditure connected with financing works on SNIPER GHOST WARRIOR 3 game.

Net cash flows on financial activities were positive. They reached PLN 42.7 million and resulted primarily from the bank loan and share issue.

Cash as at the end of the reporting period reached PLN 25.4 million.

3.4. Net profit margin

Item	unit	2016	2015
Return on sales	%	11.5%	26.1%
EBITDA profitability	%	4.7%	7.1%
Return on EBIT operating activity	%	-59.2%	-36.0%
Gross return	%	-57.1%	-32.2%
Net return	%	-67.0%	-31.4%
Return on assets (ROA)	%	-13.8%	-8.7%
Return on equity (ROE)	%	-19.4%	-10.4%

In 2016, the return on sales reached 11.5%, i.e. decreased by 14.7 percentage points when compared to 2015 and results from a relatively long period following the last game release and price reductions.

3.5. Asset structure

Item	unit	2016	2015
Intangible assets / Assets	%	50.3%	50.7%
Tangible fixed assets / Assets	%	0.8%	1.1%
Net trade receivables / Assets	%	2.3%	6.2%
Inventory / Assets	%	2.9%	4.8%
Short-term investments / Assets	%	0.0%	0.0%
Cash and cash equivalents / Assets	%	21.6%	7.9%
Deferred income tax assets / Assets	%	19.5%	27.0%
Other assets / Assets	%	2.6%	2.3%

The structure of assets as at the end of 2016 (similar to previous years) is predominated by intangible assets comprising primarily expenditure for R&D works related to new game creation. As at 31 December 2016, this item is 50.3% of the Capital Group assets. The second important component is the deferred tax assets (19.5% of the balance sheet total).

3.6. Turnover ratio

Item	unit	2016	2015
Asset turnover ratio	Turnover number	0.2	0.3
Inventory turnover ratio		7.1	5.8
Debtors ratio	Number of days	41	83
Payback period		98	67

Indicator calculation rules

Asset turnover ratio = revenue from sale/assets

Inventory turnover ratio = revenue from sale/inventory as at the period end

Debtors ratio = (trade and other receivables / revenue from sale) * number of days in the period

Payback period = (trade payables / revenue from sale) * number of days in the period

In 2016, the inventory turnover ratio increased by 7.1 days which results from the absence of new releases in 2016 and low inventory. The debtors ratio of 41 days results from the sale structure (high share of digital sale) and the model employed by Valve, Sony and Microsoft to settle the sale. The absence of new releases affected also the liability structure and the payback period, reaching 98 days.

3.7. Debt ratios

Item	2016	2015
General debt ratio	0.29	0.17
Debt to equity ratio	0.41	0.21
Equity to assets ratio	1.03	1.09
Short-term debt ratio	0.27	0.14
Long-term debt ratio	0.02	0.03

Indicator calculation rules

General debt ratio = (short-term liabilities + long-term liabilities) / total liabilities

Debt to equity ratio = (short-term liabilities + long-term liabilities) / equity

Equity to assets ratio = (equity + long-term liabilities) / fixed assets

Short-term debt ratio = short-term liabilities / total liabilities

Long-term debt ratio = long-term liabilities / total liabilities

The debt ratios are higher than in the previous year. This results from the absence of any new releases in 2016 and the game production expenditure, including but not limited to: Ghost Warrior 3 game.

3.8. Liquidity ratios

Item	2016	2015
Current ratio	1.09	1.52
Quick ratio	0.98	1.18
Acid ratio	0.81	0.57

Indicator calculation rules

Current ratio = current assets / short-term liabilities

Quick ratio = (current assets - inventory) / short-term liabilities

Acid ratio = cash and cash equivalents / short-term liabilities

As there were no new releases in 2016 (lower sale) and it was necessary to finance Sniper Ghost Warrior 3 game, the quick ratio and current ratio decreased when compared to 2015, but they remain on a safe level.

3.9. Financing structure

Item	unit	2016	2015
Equity	%	71.0%	83.0%
Long-term liabilities	%	2.3%	3.0%
Short-term liabilities	%	26.7%	14.0%

The Capital Group, just like in previous years, finances its operations based on its equity, being 71% of the total liabilities in its financial structure.

Performance indicators and the ratios related to the financial and material standing prove a satisfactory situation of the Capital Group and offer grounds for further development and achieving strategic goals of the Group. According to the parent Company Management Board, there are no circumstances revealing any threat for continued operations and lost liquidity of the Group and, consequently, payables payment in the ordinary course of business activity.

3.10. Information on product sale

The CI Games Capital Group operates in the global video game development and publishing market. The Group attaches much importance to selling finished media with computer software by means of distribution, though in certain cases it sells license to distribute the software in a specific region and time.

The structure of revenue from sale, obtained by the Group in 2015–2016, by the type of product offered, was as follows in terms of value:

Structure of revenue from sale, based on values (data in thousand PLN)

Revenue	2016	% share	2015	% share	2015/2014
Own products	8,412	34.71%	8,080	74.22%	104.11%
Licenses	3,319	13.70%	108	1.79%	3073.14%
Online sales	11,076	45.71%	16,463	23.97%	67.28%
Other sales	1,425	5.88%	368	0.02%	387.14%
Total	24,231	100.00%	25,019	100.00%	96.85%

In 2016, the highest sale growth dynamics was recorded in the digital sale sector which results from the absence of any new release in 2016. Digital sale (game download from the distributor's website) is the most profitable sale channel for the Group and the Company and does not require any financial outlays for the physical production of media.

Structure of revenue from sale in quantitative terms

Revenue	2016	% share	2015	% share	2015/2014
Own products	444,490	21%	269,101	46%	165%
Licenses	412,500	20%	160,014	18%	258%
Online sales	1,229,800	59%	442,453	36%	278%
Other sales	622	0%	330	0%	188%
Total	2,087,412	100.00%	871,898	100.00%	239.41%

3.11. Information about markets, indicating dependence on customers and suppliers

In 2016, the share of foreign sale in total revenues of the Group reached 95%. The largest market for the Group is U.S. and the Company's products are distributed in the digital format in most countries worldwide.

Share of import in the revenues from sale in 2016 – 2015

data in thousand PLN

Sale	2016	2015
Abroad	23,133	24,155
Share	95%	97%
Country	1,097	864
Share	5%	3%
Total	24,231	25,019

Quantitatively, the share of export was 94.25% and decreased by 5 percentage points when compared to 2015.

Sale	2016	2015
Abroad	1,967,410	871,568
Share	94%	99%
Country	120,002	330
Share	5%	0.04%
Total	2,087,412	871,898

The customers whose share in the Group sale exceeded 5% in 2016, include Valve Corporation, Sony and Microsoft. The other vendors did not exceed the selected materiality level.

The list below presents suppliers whose share in the Group purchase exceeded 10% in 2016: Microsoft Ireland Operations Ltd, Sony DADC USA INC, Sony DADC Austria AG CZECHY, Sony DADC Austria AG.

The other suppliers did not exceed the selected materiality level.

3.12. Information on agreements significant for the business activity of CI Games Capital Group.

1. Agreements significant for the business activity:

In the reporting period, the Company did not execute any agreements important for the business activity carried out.

2. Insurance agreements

In the reporting period, CI Games Capital Group had the following insurance agreements:

Insurer's name	Subject and scope of insurance	Insurance period	Insurance sum
AIG Europe Limited	Third party liability insurance of the Company's Management Board	07.01.2015 – 06.11.2016	PLN 60,000,000
AIG Europe Limited	Third party liability insurance of the Company's Management Board	07.01.2016 – 06.11.2017	PLN 60,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	05.05.2015 – 04.05.2016	USD 3,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	05.05.2016 – 04.05.2017	USD 3,000,000
AIG Europe Limited	Third party liability insurance – related to product liability	10.06.2015 – 09.06.2016	USD 2,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	10.06.2016 – 09.06.2017	USD 2,000,000
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	15.09.2015 – 14.09.2016	PLN 1,846,843
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	15.09.2016 – 14.09.2017	PLN 2,383,089
Swett & Crawford	Third party liability insurance of the Company's Management Board	26.01.2015 – 26.01.2016	USD 2,000,000
Scotsdale Insurance Company	Third party liability insurance of the Company's Management Board	09.02.2016 – 09.02.2017	USD 60,000,000

Moreover, the Group had third-party liability and Comprehensive Cover insurance policies for two passenger cars owned.

3. Agreements executed by and between shareholders

The Management Board of CI Games S.A. is not aware of any agreements between the shareholders of the Parent Company in 2016.

3.13. The agreements between the Issuer and the management, providing for compensation if they resign or are dismissed from their position without important grounds or if their dismissal or revocation takes place because of the Issuer's merger through acquisition

No such agreements were executed.

3.14. Information on loan and credit agreements, including their maturity dates, and on the surety and guarantees of the parent Company CI Games S.A.

1. Loan and credit agreements

On 27 May 2015, CI Games S.A. executed two loan agreements with Powszechna Kasa Oszczędności Bank Polski S.A., i.e. overdraft facility amounting to PLN 5 million and open-end current loan with the value of PLN 10 million. Both agreements have been concluded for the period of two years.

On 10 February 2016, the Management Board of CI Games S.A. executed an appendix to the open-end current loan with Powszechna Kasa Oszczędności Bank Polski S.A. resulting in increasing the limit of the awarded loan from PLN 10 million to 20 million.

On 22 February 2017, CI Games S.A. executed a closed-end current loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A. to finance the costs related to pressing Sniper Ghost Warrior amounting to USD 2.5 million, with the repayment date on 27 May 2017.

As at 31 December 2016, the debt related to the used current bank loan was PLN 19,677,288, while for the overdraft facility it was PLN 4,239,794.

The detailed information is contained in note 15 to the consolidated financial statement.

2. Financial lease agreements

As at 31 December 2016, the Parent company CI Games S.A. did not have any financial lease agreements.

3. Guarantee and surety agreements

The parent company has a bank guarantee issued by PKO Bank S.A. on 5 May 2016 up to the amount of PLN 433,816.66 for Bertie Investment Sp. z o.o. concerning the lease of the office space at ul. Puławska 182. The guarantee is valid until December 25, 2018.

As at 31 December 2016, the Group did not have any contingent liabilities.

3.15. For securities issued in the period covered with the financial statement - description of how the inflows from the issue are used

In the reporting period, the Company issued G series shares, being a subject of private subscription in November 2016 in connection with the Company's share capital increase within the target capital. All offered shares, i.e. 1,100,000, were acquired and paid. The issue proceeds reached PLN 24,970,000. The share issue was appropriated primarily for the global marketing of "Sniper: Ghost Warrior 3" game.

3.16. Information about loans granted by CI Games S.A.

In 2016, the Group did not grant any loans to employees or suppliers.

3.17. Value of remuneration, rewards, benefits paid, due or potentially due to the management or supervisory board members of the Parent company of CI Games S.A.

The value of remuneration (gross) for the management or supervisory board members paid in 2016 (data in PLN):

CI Games S.A. Management Board

Marek Tymiński - President	1,002,000
Adam Pieniacki - Member	416,800
Monika Rumianek - Member	219,863
Łukasz Misiurski - Member	54,537

CI Games S.A. Supervisory Board

Dasza Gadomska - Chairwoman	20,000
Grzegorz Leszczyński - Member	18,000
Tomasz Litwiniuk - Member	18,000
Norbert Biedrzycki - Member	15,000
Mariusz Sawoniewski - Member	18,000

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

All below-mentioned transactions were executed pursuant to market terms and conditions. Transactions of the Parent company with the companies belonging to the Capital Group (data in thousand PLN):

Entity	Costs	Revenue	Receivables	Payables
CI Games Germany GmbH	-	-	16	-
CI Games USA Inc.	-	-	9,264	-
City Interactive Peru	-	-	-	-

City Interactive Studio S.R.L.	-	-	-	-
CI Games Cyprus Ltd.	-	-	184	2,116
Business Area Sp. z o.o.	7	-	2	-
Business Area Sp. z o.o. S.J.	106	-	-	74
CI Games S.A. Sp. J.	7	177	-	216
TOTAL	120	177	9,466	2,406

Transactions of the Parent company with the entities related personally with Marek Tymiński, major shareholder of the CI Games S.A. who controls, directly or indirectly, the following entities (data in thousand PLN):

Entity	Costs	Revenue	Receivables	Payables
Onimedia Sp. z o.o.	-	1	4	-
Premium Restaurants Sp. z o.o.	-	1	-	12
Premium Food Restaurants S.A.	-	56	23	-
Fine Dining	3	27	30	-
TOTAL	3	85	57	12

Issuer's transactions with the entities related personally with the Supervisory Board and Management Board members of the Parent company (data in thousand PLN):

	Costs	Revenue	Receivables	Payables
Marek Tymiński	60	-	-	5
APKO Adam Pieniacki	345	-	-	25
TOTAL	405	0	0	30

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

Information on pending court proceedings is included in Note 35 to the Annual consolidated financial statement.

3.20. Information on agreements signed with the entity authorised to audit financial statements

- Company name Misters Audytor Adviser Spółka z o.o.
- The Agreement to audit an individual and consolidated financial statement for 2016 - 1 July 2016. The agreement refers to the review and the audit of the financial statement of the Company and the Capital Group for 2016 (half-yearly review and yearly audit).
- The total value of remuneration due for the review and audit of the financial statement of the entity and the Group in 2016 - PLN 39,600 net.
- The financial statement of the Company and the Capital Group for 2015 was audited (half-yearly review and yearly audit) by Misters Audytor Adviser Spółka z o.o. The total value of remuneration due for the review and audit of the financial statement of the Company and the Capital Group in 2015 was PLN 39,500 net.

4. PERSPECTIVES

The most important event in 2017 will be the global release of Sniper Ghost Warrior 3. The game will be released for PlayStation 4, Xbox One and PCs on 25 April 2017. Sniper Ghost Warrior brand is, together with Lords of the Fallen, the most recognizable title of the Group. Over 6.2 million copies of this series of games have been sold so far.

Performance of "Sniper Ghost Warrior 3" project enabled the organisation to develop intensely, acquire new competences and expand know-how. The experience and expertise obtained during the game development enable the Company to initiate new, even more ambitious productions.

CI Games developed a cooperation model with external partners. Thanks to outsourcing particular works to subcontractors, it may manage the key resources and the entire project better which is bound to translate into increased game production efficiency.

The Management Board intends to build the Company's value based on the development of the existing brands which have already achieved global success, i.e. Sniper Ghost Warrior and Lords of the Fallen. There are no plans to create new titles at present.

The Group shall also, based on its own structures and the existing good experience, continue the development of the distribution and publishing activity in North and South America.

According to the Issuer, both the existing and future projects will translate into the Group's financial success and strengthening its position on the global markets.

In Q2 2017, the Management Board shall present the Group development strategy in which it will present e.g. its publication plans.

5. CORPORATE GOVERNANCE

The Corporate Governance rules are described in a separate document: 'STATEMENT OF FOLLOWING CORPORATE GOVERNANCE RULES IN 2016'.

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Member of the Management Board

Warsaw, 31 March 2017