



CI GAMES

CAPITAL GROUP

Half-yearly report on the issuer's
Capital Group operations
covering the period of the first six months
of 2017



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1. Financial highlights

PROFIT AND LOSS STATEMENT

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	HY1 2017		HY1 2016	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net revenue from sales	73,178	17,229	11,518	2,629
Profit (loss) from operating activities	4,127	972	-2,556	-583
Gross profit (loss)	2,273	535	-2,004	-457
Net profit (loss)	1,489	351	-2,659	-607
Number of shares (in thousands)	150,700	150,700	13,914	13,914
Profit (loss) per ordinary share (PLN/share)	0.01	0.00	-0.19	-0.04

Net trading receivables of the Group in HY1 2017 reached PLN 73.2 million, which means they were 61.6 million higher than in HY1 2016. The main factor influencing the growth was the release of "Sniper Ghost Warrior 3" in the second quarter of 2017.

Within the first 6 months of 2017 the Issuer recorded the loss of PLN 1.5 million in comparison to the loss of PLN 2.7 million in the corresponding period of the previous year.

CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS	HY1 2017		HY1 2016	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net cash flows from operating activities	15,838	3,729	2,979	680
Net cash flows from investing activities	-15,938	-3,752	-13,153	-3,003
Net cash flows from financing activities	-9,049	-2,130	9,118	2,081
Net cash flows	-9,149	-2,153	-1,056	-242

The net cash flows from operating activities in the reporting period were PLN 15.8 million and largely resulted from the sales of "Sniper Ghost Warrior 3".

Net cash flow on investment activities were negative and reached PLN -15.9 million. The investment cash flows were mostly affected by the expenditure on development works and physical production of "Sniper Ghost Warrior 3". The net cash flows from financial activities reached PLN -9 million and resulted from partial repayment of credit obligations. Cash as at the end of the reporting period was PLN 16.3 million and was PLN 9.1 million lower than as at the end of 2016.

BALANCE SHEET

CONSOLIDATED BALANCE SHEET	6/30/2017		12/31/2016		6/30/2016	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Non-current assets	76,690	18,145	83,648	18,908	79,251	17,908
Current assets	39,232	9,282	34,194	7,729	14,279	3,227
Total assets	115,922	27,427	117,842	26,637	93,530	21,134
Equity	85,395	20,205	83,643	18,907	72,497	16,382
<i>Share capital</i>	<i>1,501</i>	<i>355</i>	<i>1,501</i>	<i>339</i>	<i>1,391</i>	<i>314</i>
Liabilities	30,527	7,223	34,199	7,730	21,033	4,753
Non-current liabilities	356	84	2,751	622	2,745	620
Current liabilities	30,171	7,139	31,448	7,108	18,288	4,132
Total equity and liabilities	115,922	27,427	117,842	26,637	93,530	21,134

The total balance sheet of the CI Games Capital Group as at 30 June 2017 was PLN 116 million, which is PLN 1.8 million lower in comparison to the balance sheet as at 31 December 2016. Fixed assets in the balance sheet as at 30 June 2017 were PLN 76.6 million, which is lower by 7 million (8%) in comparison to the balance sheet as at 31 December 2016. The decrease results from the commencement of capitalization of expenditure on production of "Sniper Ghost Warrior 3".

The Group's current assets as at 30 June 2017 were PLN 39.2 million and were higher by PLN 25 million in comparison to the comparable period, which results from the increase in stocks by PLN 4.1 million, in receivables by PLN 9.7 million and in cash by PLN 10.1 million.

The equity of the Group as at 30 June 2017 was PLN 85.4 million, which means that they were higher by PLN 1.8 million (2%) in comparison to the equity as at 31 December 2016. Increase in the equity results mainly from generating profit for 2017. Liabilities of the Group as at 30 June 2017 were PLN 30.5 million and were lower by 3.7 million in comparison to the liabilities as at 31 December 2016. It mainly resulted from the decrease in bank loan debt.

2. Description of the significant achievements and failures of the Issuer in the reporting period

A list of the most significant events related to the Issuer

- On 25 April 2017, "Sniper Ghost Warrior 3" was released. The game was released in 10 language versions at the same time for PCs, Xbox One and PlayStation 4 in both digital and box versions. "Sniper Ghost Warrior 3" was released on all major markets around the world through well-coordinated releasing activities in every region. As at 30 June 2017, 748,526 items of the game (digital sale and on physical carrier media) were sold, a significant part of which went to the players.
- The "Sniper Ghost Warrior 3" premiere sale was carried out in the following business models: physical carrier media sales (boxed release) and digital sales.
- HY1 2017 was the period of the marketing campaign before the release of "Sniper Ghost Warrior 3". At that time, the Company ran the largest marketing campaign in its history, covering all the product key tools and placements, namely essential electronic and traditional media, such as TV, radio, press, cinemas, outdoor advertising, point-of-sale advertising and numerous PR events.
- The Company carried out a series of digital channel promotions at the end of the HY1 2017, which resulted in intensification of sales of "Sniper Ghost Warrior 3", "Lords of the Fallen" and other games from the catalog. "Sniper Ghost Warrior 3" was also covered by promotions and selective discounts on physical carrier media sales channels.
- CI Games worked hard on patches for "Sniper Ghost Warrior 3" on all platforms. After the game premiere, the Studio released a number of patches, including major improvements: map loading times, optimization, graphics and animation changes, and save system fixes, which resulted in improvement in game scoring and gamer's feedback improvement.
- The Company worked on "Sniper Ghost Warrior" for mobile devices, which was launched in August 2017.

3. Description of factors and events, in particular extraordinary ones, affecting the financial results significantly

In the reporting period there were no extraordinary factors or events significantly affecting the financial results.

4. Effects of changes in organizational structure of the economic entity, including as a result of merging economic entities, acquisition or disposal of Issuer's capital group entities, non-current investments, divisions, restructuring and discontinuation of activity.

On 23 March 2017, the Management Board of CI Games S.A. passed a resolution on liquidation of CI Games S.A. in Bydgoszcz - i.e. CI Games S.A. in Warsaw Branch in Bydgoszcz.

5. 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 Capital Group for HY1 2017.

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

As at 30 June 2017 a total number of votes at the General Meeting of Shareholders of the Parent Company, CI Games S.A., was 150,699,990 votes. As at 30 June 2017 a total number of shares in CI Games S.A. was 150,699,990.

The shareholding of CI Games S.A. as at 30 June 2017 was as follows:

Item	Number of shares	% in share capital	Number of votes at GSM	% of votes at GSM
Marek Tymiński	59,663,570	39.59%	59,663,570	39.59%
TFI PZU Spółka Akcyjna	7,728,880	5.13%	7,728,880	5.13%
Other	83,307,540	55.28%	83,307,540	55.28%
Total:	150,699,990	100%	150,699,990	100%

After 30 June 2017, as a result of continued issue of series F shares under the Incentive Scheme in CI Games S.A., there were further changes in the shareholding structure. As at the date of submission of the interim report for HY1 2017, the total number of shares and the total number of votes in CI Games S.A. is 150,849,990.

The shareholding of CI Games S.A. as at the date of abovementioned report submission is as follows:

Item	Number of shares	% in share capital	Number of votes at GSM	% of votes at GSM
Marek Tymiński	59,663,570	39.55%	59,663,570	39.55%
TFI PZU Spółka Akcyjna	7,728,880	5.12%	7,728,880	5.12%
Other	83,457,540	55.33%	83,457,540	55.33%
Total:	150,849,990	100%	150,849,990	100%

7. Presentation of the Issuer's shareholding or rights to shares by the Issuer's management or supervisory personnel

Person	Position	As at 1/1/2017 (balance sheet date)	Increase in shareholding during the period from 1/1/2017 to 6/30/2017	Decrease in shareholding during the period from 1/1/2017 to 6/30/2017	As at 9/7/2017 (report publication date)
Adam Pieniacki	CI GAMES S.A. Management Board Member until 16 May 2017.	15,000 (after share splitting:150,000)	100,000	150,000	N/a
Monika Rumianek	CI GAMES S.A. Management Board Member	0	150,000	0	150,000

8. 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.

As at the reporting date, the aggregate sum of all proceedings pending against the Issuer is c.a. PLN 3.7 million, while the aggregate sum of all proceedings initiated by the Issuer is PLN 1.3 million.

9. Information on the material transactions conducted by the Issuer or its subsidiary with affiliates

In the reporting period, the Issuer did not conduct any material transactions with affiliates and those which were conducted did not deviate from market conditions.

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

In the reporting period, neither the Issuer nor its subsidiary entity offered any surety for the loan or any guarantee with the amount exceeding 10% of the Issuer's equity.

11. 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

HEDGING TRANSACTIONS

As at 30 June 2017, the CI Games Group did not have any open hedge transactions.

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

On 28 April 2015, the Ordinary General Meeting of Shareholders of CI Games S.A. adopted a resolution on the conditional increase in the Company's share capital by no more than PLN 50,000.00. Conditional increase of the share capital, including the issue of series B subscription warrants and series F bearer ordinary shares was combined with the Incentive Scheme for key employees and associates of CI Games S.A., including Members of the CI Games S.A. Management Board, adopted by the Ordinary General Meeting of Shareholders of CI Games S.A. on 28 April 2015.

On 28 March 2017, CI Games S.A. launched issue of series F bearer ordinary shares. These shares are successively acquired by eligible participants of the Incentive Scheme and introduced to the Warsaw Stock Exchange.

The conditional increase in the Company's share capital will take place through issue of no more than 5,000,000 series B 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 0.7 each. One series B subscription warrant entitles to acquire one series F share. All warrants were issued at the same time. B series subscription warrants were issued free of charge; they are dematerialized.

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

Allocation of B series subscription warrants and F series shares under the Incentive Scheme will take place in three stages, each of which is associated with the premiere of the new game released by the Company, starting from 2016. The first stage of the Incentive Scheme was linked to the release of "Sniper Ghost Warrior 3". Following the authorization of the Ordinary General Meeting of Shareholders of the Company, the detailed terms and conditions of the Incentive Scheme and a circle of participants of the Incentive Scheme within each of the three stages are determined by the Supervisory Board of the Company at any time through an appropriate resolution/ appropriate resolutions.

As at 30 June 2017, a total of 550,000 series F bearer ordinary shares were covered by the First Stage of the Incentive Scheme.

As at the date of publication of the consolidated financial statement for HY1 2017, a total of 760,000 series F bearer ordinary shares were covered by the First Stage of the Incentive Scheme.

On 25 August 2017 - 1 September 2017, the Participants of the Incentive Scheme for key employees and associates ("Incentive Scheme"), indicated by the Company's Supervisory Board, including Members of Management Board of CI Games S.A., subscribed for series F shares issued by the Company for the purpose of the Incentive Scheme. The subscriptions for series F shares were accepted within private subscription by way of submitting their offer of acquisition of series F shares to persons indicated by the Company by Bank Zachodni WBK S.A. – Dom Maklerski BZ WBK with its seat in Poznań. The abovementioned Participants of the Incentive Scheme acquired in total 60,000 (sixty thousand) series F bearer ordinary shares at PLN 0.70 per each share and of nominal value of PLN 0.01 per each share. All shares covered by subscription were fully paid up. Series F shares are issued due to the conditional increase in the Company's share capital in accordance with §10b of the Articles of Association.

LOAN LIABILITIES

On 22 February 2017, CI Games S.A. concluded a non-revolving working capital facility agreement with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in convertible currency in the amount of USD 2,500,000 (say: two million five hundred thousand US dollars). The agreement was subsequently amended with an annex on 8 May 2017. The loan agreement was terminated on 29 June 2017 after full repayment of the abovementioned loan.

On 8 May 2017 and June 28, 2017, the Company concluded two annexes to the revolving working capital facility agreement with Powszechna Kasa Oszczędności Bank Polski S.A. in the Polish currency of 27 May 2015, in the total amount of PLN 20,000,000. Pursuant to these annexes, the repayment date of the abovementioned loan was extended: first until 30 June 2017 and then until 18 December 2017. On 29 June 2017, CI Games S.A. repaid the first tranche of this loan, in the amount of PLN 5,000,000, in accordance with the aforementioned provisions of the annex of 28 June 2017.

On 27 July 2017, CI Games S.A. made a total early repayment of the revolving working capital facility granted in the Polish currency in the total amount, together with interest, of PLN 15,022,283.18.

Moreover, on 26 May 2017 CI Games S.A. made a complete, timely repayment of the revolving loan on the current account in the amount of PLN 5,000,000 granted by Powszechna Kasa Oszczędności Bank Polski S.A. with its registered office in Warsaw, pursuant to the loan agreement of 27 May 2015.

12. 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 manufacturers. 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 was adopted. 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, labor 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 activities to eliminate the risk by cooperating with specialized legal offices worldwide and product third party liability insurance for the entire publication catalog.

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 on-boarding which causes lower efficiency of work for some time.

Risk related to losing key customers

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 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. USA, the tasks of which are to expand distribution opportunities and closely cooperate with distributors.

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's 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. Payments related to publishing console games form the main part 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 capital 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 on time.

Postponing the release date is frequently connected with a marketing aspect of a 'long-awaited game' which contributes to building the product's 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 more stringent legislation. To avoid resulting losses, the Capital Group benefits from 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

The Company is currently working on another tactical game in the action game segment, in which the Company has so far achieved several big commercial successes. The team benefits from experience gained during works on "Sniper Ghost Warrior 3" and feedback from gamers and reviewers. Among other things, on this basis the Company has decided to change the open world of the game into large open missions in the new project. The project will be based on all the resources and know-how gained during works on "Sniper Ghost Warrior 3", including programming solutions concerning gameplay as well as game performance on particular hardware platforms.

From 2018, the Company is planning to make at least one release a year and is also planning to work on several projects at the same time. Depending on the project (case-by-case), the Company will work within its own team, outsource some tasks to its outsourcing partners or outsource its entire project to one external contractor.

The Company's game sales model in the coming years will be continued in relation to the mode of releasing games so far. At the same time, the power of digital distribution will grow, which should translate into increased margins and improved profitability of the projects.

The Company is pursuing a sales strategy that maximizes sales in digital sales channels, while maintaining presence in the traditional physical distribution model (boxed versions).

The Company also actively and on the long-term basis supports sales through effective management of the back catalog of all games of the Company.

The Company is considering continuation of production of games for mobile platforms as a complement of its main activity. SGW will be released on the mobile market in the third quarter of 2017.

13. CI Games S.A. Management Board Statement

Pursuant to the Regulation of the Minister of Finance of 19 February 2009 (Journal of Laws of 2014, item 133, 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 of the CI Games Capital Group and comparable data were prepared in compliance with the applicable accounting principles and reflect the material and financial standing of the CI Games Capital Group and its financial result, truly, accurately and clearly as well as that the half-yearly report on the CI Games Group operations includes a true picture of the development, achievements and standings of the CI Games Capital Group, including the list of basic threats and risk.

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

Marek Tymiński

Management Board President

Maciej Nowotny

Management Board Member

Monika Rumianek

Management Board Member

Warsaw, Thursday, September 7, 2017

CI GAMES S.A.
ul. Puławska 182
02-670 Warsaw

phone: +48 22 718 35 00
fax: +48 22 718 35 01

www.cigames.com