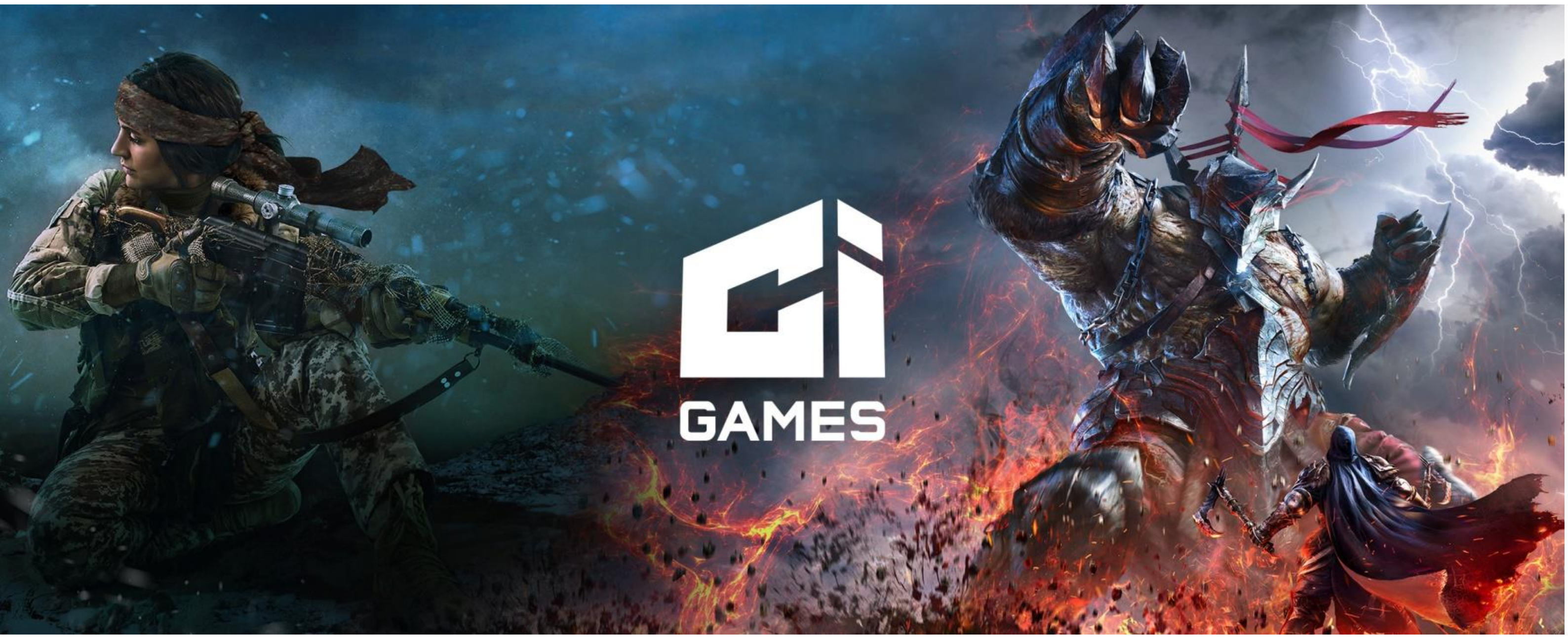
Annual

# FINANCIAL STATEMENT

## FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

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# I. Introduction to the financial statement for the period from 1/1/2018 to 12/31/2018

## 1. Information about the Company

a) CI Games S.A. was registered on 6/1/2007, as City Interactive S.A., by transforming CITY INTERACTIVE Sp. z o.o. under a notarised deed Rep. A 2682/2007 of 5/16/2007. On 8/7/2013, the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register recorded the change of the Company's name from the existing one to CI Games S.A. The company registered office is in Warsaw, at ul. Zajęcza 2B.

b) The Company is entered in the Register of Entrepreneurs under KRS no. 0000282076. The entry was made by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register.

c) The core activities of the Company include production, publication and distribution of computer games.

d) According to the Company's Articles of Association, the term of the Company is not limited.

e) In 2018, the Management Board Members were:

| | | |
|---|---|---|
| Marek Tymiński | President of the Management Board | for the whole year 2018 |
| Maciej Nowotny | Member of the Management Board | to October 17, 2018 |
| Monika Rumianek | Member of the Management Board | for the whole year 2018 |

f) In 2018, the Supervisory Board was as follows:

| | | |
|---|---|---|
| Ryszard Bartkowiak | Supervisory Board Chair | for the whole year 2018 |
| Grzegorz Leszczyński | Member of the Supervisory Board | for the whole year 2018 |
| Tomasz Litwiniuk | Member of the Supervisory Board | for the whole year 2018 |
| Norbert Biedrzycki | Member of the Supervisory Board | for the whole year 2018 |
| Marcin Garliński | Member of the Supervisory Board | from September 27, 2018 |
| Mariusz Sawoniewski | Member of the Supervisory Board | to October 5, 2018 |

g) The Company is the parent company of the Capital Group, which prepares the consolidated financial statement.

The subsidiaries of CI Games S.A. as at 12/31/2018:

- United Label S.A. with its registered office in Warsaw. Initial capital: PLN 100,000; 100% shares held by CI Games S.A.
- CI Games USA Inc. – a company having its registered office in Delaware, U.S. Initial capital of USD 50,000; 100% of shares held by CI Games S.A.
- Business Area sp. z o.o. – company with registered office in Warsaw, Poland, initial capital: PLN 5,000. 100% of shares held by CI Games S.A.
- Business Area sp. z o.o. sp.j. 99.99% of shares in this company is held by CI Games S.A., 0.01% of the remaining shares held by Business Area sp. z o.o.
- CI Games S.A. sp.j. (transformed from CI Games IP sp. z o.o. as at 9/19/2015) – with its registered office in Warsaw. 99.99% of shares in this company is held by Business Area sp. z o.o., 0.01% of the remaining shares held by CI Games S.A.

**Organizational changes in 2018:**

- On 3/14/2018, CI Games S.A. liquidated (closed) a branch of the Company in Rzeszów – CI Games S.A. in Warsaw branch in Rzeszów. Thus, the production studio of CI Games S.A. in Rzeszów was closed. This was accompanied by a decrease of production team in the Warsaw studio of CI Games S.A.

# 2. Basis for presentation and preparation of the financial statements

a) The financial statement covers the period from 1/1/2018 to 12/31/2018. The comparative data cover the period from 1/1/2017 to 12/31/2017.

b) The financial statements were drawn up in accordance with International Accounting Standards and International Financial Reporting Standards (IAS/IFRS).

c) The financial statement was drawn up assuming continued operations in the foreseeable future. The Management Board believes the Company is able to:

- carry out its current activities and pay liabilities;
- continue production of new games in 2019.

According to the Management Board, in relation to the games published in the previous years, the proceeds from their sales and the bank credit, enable to cover the current operating costs and continue the ongoing projects in 2019. According to the Management Board, there is no significant uncertainty related to the assumed continued operations for at least 12 months from the date of the release the financial statements..

# 3. Applied accounting principles

**a) Application of International Accounting Standards**

These annual financial statements are prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) adopted by the European Union ("EU") and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), applicable in the business conducted by the Company and binding in annual reporting periods commencing on 1/1/2007, together with the requirements of the Ordinance of the Minister of Finance of 3/29/2018, concerning current and periodical information provided by issuers of securities and the terms and conditions for information required by the provisions of law of a non-member state recognized as equivalent (Journal of Laws of 2018, item 757).

The financial statement for the period from 1/1/2018 to 12/31/2018 is a subsequent financial statement prepared in accordance with IAS/IFRS. The comparable data for the period from 1/1/2017 to 12/31/2017 come from the statement drawn in accordance with IAS/IFRS. IAS/IFRS were adopted on 1/1/2007.

**b) Basis for preparing the financial statement**

Amounts in the financial statements in the notes to the financial statements are presented in thousand Polish zlotys, which is the presentation currency and functional currency.

The financial statement was drawn up on historical cost basis. Preparation of financial statements in accordance with IAS/IFRS requires that the Management Board provide professional judgments, estimates and assumptions which have an impact on the adopted principles and the value of assets, liabilities, revenues and costs presented. Estimates and associated assumptions are based on previous experience and other factors which are acknowledged as reasonable in given circumstances and their results provide a basis for professional judgment concerning the carrying amount of assets and liabilities which does not directly result from their sources. Actual values may differ from estimates.

Estimates and associated assumptions are subject to systematic verification. Changes in assumptions are recognized in the period in which they were made.

The principles of the accounting policy presented below were applied in relation to all periods presented in the submitted financial statements as well as in preparing an opening balance sheet in accordance with

IAS/IFRS as at 1/1/2007, for the purposes of implementing the transition from Polish accounting standards to IAS/IFRS-compliant reporting.

**c) Property, plant and equipment**

(i) Own property, plant and equipment

Property, plant and equipment are fixed assets which are retained to be used in the production process or in supplying goods and providing services, in order for them to be handed over to other entities for use pursuant to a rental agreement and where there is expectation that they will be used for longer than one period.

Costs borne at a later time are included in the carrying amount of an asset or are indicated as a separate asset only if it is probable that the Company will achieve future economic benefits connected with such an asset and the purchase price for a given item may be measured reliably. Expenses for repair and maintenance are recognized in the profit and loss statement in the period in which they were borne. The cost of production is increased by fees and for defined assets by the costs of external finance capitalized in accordance with the principles defined in the Company's accounting policy.

Property, plant and equipment is measured at purchase price or manufacture cost less depreciation and impairment at the end of the reporting period.

Depreciation concerning such fixed assets commences at the moment they are commissioned. Each new fixed asset must, in as far as possible, be broken down into separate components, with the depreciation method specified.

Fixed assets under construction intended for production, lease or administrative purposes, as well as for undefined purposes, are presented in the balance sheet at cost of manufacture less impairment.

Profit or loss arising from disposal/liquidation or suspension of the use of fixed assets is defined as the difference between revenues from disposal and the net value of such fixed assets and are included in the profit and loss statement.

Property, plant and equipment is depreciated using the straight-line method with the following rates:

- technical equipment and machinery: 20-60%,
- other fixed assets: 20%.

(ii) Property, plant and equipment used pursuant to lease agreements

Leases are classified as finance leases if in principle the terms and conditions of the agreement transfer all potential ownership benefits and risk to the lessee. All other types of leases are treated as operating leases.

Assets used pursuant to a finance lease agreement are treated as the Company's assets and are valued at fair value as of the moment of their acquisition, although at a level not exceeding the value of their current minimum lease payments.

Liability towards the lessor arising on this account is presented in the balance sheet under finance lease liabilities.

Lease payments are divided into interest and principal. Financial costs are recognized in the profit and loss statement.

(iii) Later expenditures

Costs aimed at exchange of separate components of an element of property, plant and equipment borne in a subsequent period are capitalized. Other costs are capitalized only if they can be reliably measured and increase future economic benefits connected with a fixed asset. Other expenses are systematically recognized in the profit and loss statement.

**d) Intangible assets**

(i) Intangible assets.

The Company recognizes intangible assets only when:

a) it is probable that the future economic benefits that are attributable to the assets will flow to the Company, and

b) the purchase price or cost of production of a given asset may be measured reliably.

An intangible asset is initially valued at purchase price or cost of production. Intangible assets are subject to amortization. Amortization rates have been established with consideration to the period of economic usefulness of intangible assets.

Intangible assets are amortized using the straight-line method with the following rates:

- licenses: 20%-90%;
- computer software: 50%.

Expenses on research works are recognized as costs at the moment they are incurred.

Costs of development works borne before the commencement of production or application of new technological solutions are classified as intangible assets if the Company can prove the following:

- the possibility, from a technical point of view, to complete an intangible asset so that it is suitable for use or sale,
- the intent to complete an intangible asset and to use or sell it,
- the capacity to use or sell an intangible asset,
- the means in which an intangible asset will create potential economic benefits. Amongst others, the Company should prove the existence of a market for products created thanks to the intangible asset or the asset itself or – if the asset is to be used by the entity – the usefulness of the intangible asset,
- the availability of appropriate technical, financial and other resources which are to serve completion of development works and the use or sale of the intangible asset,
- the possibility to establish outlays borne during development works which may be assigned to such intangible asset.

The Company considers outlays for game production as Development works costs. Development works costs of usage for the fixed period, for which it is possible to determine estimates concerning the volume of sales, are subject to activity amortization proportionally to the realized volume of sale. Amortization charges ends at the moment a given asset is classified for sale or ceases to be included in the accounts.

The amortization period is equal to the period of economic usefulness of a resource held. Costs of development works are amortized during the anticipated period of achieving revenues from sale, however not longer than 5 years.

The Company does not amortize the costs of development works with an undefined useful life.

Intangible assets with undefined useful life are subject to an annual impairment test, in application of the guidelines of IAS 36 "Impairment of Assets".

External financing costs (e.g. interest on loans and borrowings and exchange differences on loans and borrowings denominated in foreign currencies) which may be directly assigned to the purchase or production of assets increase the purchase or production cost of such an item.

Net financing costs include interest payable on debt, established on the basis of the effective interest rate, interest due on funds invested by the Company, dividends due, foreign exchange gains and losses and profit and loss concerning hedging instruments, which are recognized in the statement of profit and loss.

(ii) Impairment

At the end of each reporting period the Company reviews assets in order to confirm that there have been no circumstances indicating the possibility of their impairment.

In the event of such circumstance existing, the recoverable amount of a given asset is estimated in order to establish a potential write-down.

In a situation where an asset does not generate cash flows which are to a large extent independent of cash flows generated by other assets, analysis is carried out for the group of assets generating cash flows to which a given asset belongs.

In the case of intangible assets with an undefined useful life, the impairment test is carried out both annually and in the event of circumstances indicating the possibility of impairment. The recoverable amount is established as the higher of two values: fair value less costs to sell, or its value in use. This final amount corresponds to the present value of estimated future discounted cash flows using a discount rate taking into consideration the present value of money and asset-specific risk.

If the recoverable amount is lower than the net book value of an asset (or group of assets), the book value is decreased to the recoverable amount.

Impairment loss is recognized as a cost in the period it occurred, with the exception of a situation where an asset has been recognized at restated value (in this case the impairment is treated as a decrease in the previous restatement).

At the moment when the impairment is subject to subsequent reversal, the net value of the asset (or group of assets) is increased to the new estimated recoverable amount, however not higher than the net value of such asset as it would have been established had impairment not been identified in the previous years.

Reversal of impairment is recognized in revenue in as far as the asset has not been subject to prior restatement – in this event reversal of impairment is recorded in the revaluation reserve.

**e) Investments**

Investments other than property, intangible and financial assets are recognized at purchase price, less impairment.

Investments recognized at historical cost expressed in a foreign currency as at the end of the reporting period are valued using the average exchange rate announced by the National Bank of Poland as at the end of the reporting period.

**f) Financial instruments**

Financial assets and liabilities are recognized in the balance sheet at the moment when the Company becomes a party to a binding agreement.

The Company classifies each agreement which results in simultaneous occurrence of a financial asset with one party and a financial liability or equity instrument with the other party as a financial instrument, on condition that unambiguous economic effects result from a contract executed between two or more parties.

All assets used as financial instruments on the day of their purchase are classified into three categories:

- instruments held for trading (at fair value through profit or loss) – financial assets or liabilities which have been acquired or have arisen in order to generate profit achieved due to short-time price fluctuations,
- financial instruments held to maturity – financial assets with fixed or determinable payments or fixed maturity dates, which the Company has the intent and capability to hold to maturity, with the exception of loans granted by associates and own debt claims valued based on the amortized cost, using the effective interest rate method,
- available-for-sale financial instruments – financial assets other than loans granted and own receivables, assets held to maturity or other than financial assets not held for trading, carried at fair value,
- loans and receivables – non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. At initial recognition, the Company values financial

assets and liabilities at purchase cost (price), i.e. according to the fair value of the payment made in the case of assets, or the amount received in the case of liabilities.

The Company includes transaction costs in the initial value of all financial assets and liabilities.

Differences in restatement and revenues achieved or costs borne appropriate to classification of a financial asset are recognized in profit or loss or the revaluation provision as available-for-sale financial assets, respectively.

Principles for valuation of financial instruments as at the end of the reporting period are evaluated by the Company at amortized costs, with consideration of the effective interest rate of:

- assets held to maturity,
- loans granted and receivables, and
- other financial liabilities not classified as held for trading.

Valuation may also take place:

- at the value requiring payment if the discount effect is not significant;
- at the amount requiring payment: receivables and liabilities with short maturity period;
- at fair value: financial assets and liabilities held for trading and available-for-sale financial assets.

Changes in the fair value of financial assets held for trading not being part of hedges are recognized as finance revenue or costs when they arise.

Shares and interests in other entities are valued at purchase price less impairment.

### g) Trade and other receivables

Current trade and other receivables are valued at repayment value in as far as the effect of charging interest is not significant. Otherwise receivables are initially recognized at fair value and subsequently valued at amortized cost in application of the effective interest rate. In accordance with the principle adopted by the Company, receivables with maturity of longer than 180 days are subject to discounting.

### h) Financial liabilities

The financial liabilities held for trading, including the derivative instruments with a negative fair value, which were not assigned as hedging instruments, are revealed in their fair values, while the profits and losses resulting from their valuation are disclosed directly in the profit and loss account.

The other financial liabilities are evaluated based on the amortized cost, using the effective interest rate method.

All financial liabilities are introduced into the books as at the contract date.

**The rules of financial instrument valuation and presentation in the financial statement are as follows:**

| Group of assets or liabilities | Rules of valuation | Rules of presentation in the financial statement |
|---|---|---|
| The assets evaluated based on their fair value by the financial result | Based on the fair value (except for the ones the fair value of which is impossible to determine for) | The valuation difference included in the financial result for the current reporting period in the financial revenues or financial costs. |
| Liabilities held for trading | Based on the fair value (except for the ones the fair value of which is impossible to determine for) | The valuation difference included in the financial result for the current reporting period in the financial revenues or financial costs. |

| | | |
|---|---|---|
| Other liabilities | Based on the amortized purchase price, using effective interest rate (IRR) | The valuation difference adjusts the value of the appraised asset and is included in the financial result for the current reporting period. |
| Loans granted and receivables | Based on the amortized purchase price using effective interest rate (IRR) and if the payment date is unknown, based on the purchase price (e.g. for loans granted without a set payment date) | The valuation difference adjusts the value of the appraised asset and is included in the financial result for the current reporting period. |
| Assets held to maturity | Based on the amortized purchase price, using effective interest rate (IRR) | The valuation difference adjusts the value of the appraised asset and is included in the financial result for the current reporting period. |
| Available-for-sale financial assets | Based on the fair value (except for the ones the fair value of which is impossible to determine for) | The valuation difference to the fair value included in the revaluation provision.<br>For the debt instruments, the accrued interest is included directly in the profit and loss account. |

### i) Inventory

The initial value (cost) of inventories includes all costs (acquisition, production, etc.) borne in connection with bringing inventories to their current location and condition.

The purchase price of inventories includes the purchase price increased by import duty and other taxes (not subject to subsequent refund from tax authorities), costs of transport, loading, unloading and other costs directly connected with the acquisition of inventories, decreased by discounts, rebates and other similar reductions.

Inventories are measured at initial value (purchase price or cost of production) or at net sale price depending on which is lower.

In relation to other inventories, costs are established using the first in, first out (FIFO) method.

Impairment losses on inventory:

Impairment losses on current assets connected with their impairment or valuation as at the end of the reporting period correspond to their own operating costs (IAS 2).

The Company creates impairment losses on inventory value to net realisable values of inventory. The net realisable value is the sale price established in normal operations reduced by finishing costs and estimated costs necessary for sale to be effected.

Reversal of an inventory depreciation write-down resulting from an increase in the net recoverable value is recognized as a decrease in inventory recognized as other operating revenue which the write-down reversal concerns.

As at the balance sheet date, the inventory is valued at acquisition or purchase price, and such a price may not exceed the net sales price for a given inventory item.

Foreign-currency advance payments are recognized at the currency selling FX rate of the bank used by the Company.

The Company measures advance payments for inventory at nominal value and presents these in the financial statement at the historic rate less impairment. The Company inventories prepayments through the provision by contracting parties of confirmation that prepayments included in auxiliary ledgers to general ledger “supplier accounts” and provides explanations and settlement of potential variance.

### j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits. Current investments which are not subject to significant change in value, which may be easily exchanged for a defined amount of cash and which constitute a part of the Company's liquidity management policy are recognized as cash and cash equivalents for the purposes of the statement of cash flows.

**k) Initial capital**

Initial capital is recognized at the nominal value of issued and paid-up shares.

(i) Purchase of own shares

In the event of purchase of own shares, the payment amount, together with direct transaction costs, is recognized as a change in equity. Purchased shares are recognized as a decrease in equity.

(ii) Dividends

Dividends are recognized as a liability in the period in which they are authorized.

**l) Provisions**

Provisions are liabilities of uncertain time and amount. The company creates provisions when all of the following conditions are met simultaneously:

- the companies are burdened with an existing obligation (legal or constructive) resulting from past events,
- it is probable that fulfillment of an obligation will result in necessary outflow of resources representing economic benefits,
- the amount of such obligation can be reliably estimated.

The Company creates the following provisions for liabilities:

- deferred income tax provision created in connection with the occurrence of positive differences between the book value of assets and liabilities and their tax value,
- provisions for employee benefits - provisions for pension gratuities are calculated based on own estimates, however with regard to the low average age of employees and the insignificant value of the provision resulting from this, there is currently no provision created,
- other provisions.

Release of unused provisions occurs as at the date on which they are acknowledged as unnecessary.

**m) Trade and other payables**

Trade and other payables are divided into current and non-current payables through application of the following criteria:

- maturing in under 12 months from the end of the reporting period - classified as current payables,
- payables not classified as trade payables and which do not fulfill the criteria for classification as current constitute non-current payables.

Trade payables with maturity of up to 180 days are valued as at the end of the reporting period at repayment value, increased by potential interest for delay due as at the valuation date.

Trade payables within maturity of over 180 days are valued as at the end of the reporting period at amortized cost (i.e. discounted in application of the effective interest rate).

All turnovers and account balances should be reconciled, and potential adjustments should be made to the accounts, including in the financial statement of the entity. In the event of discrepancies in agreeing a balance between the entity and the contracting party, the seller's position prevails and, after closing the year, potential adjustments are entered in the accounts for the current year.

Payables denominated in foreign currencies are valued at the current average exchange rate for a given currency on a given date established by the National Bank of Poland.

Interest for late payment of liabilities is not charged if the authorized entity submits a written declaration on opt-out of such interest. In other instances, interest is calculated and recorded as per the principles below:

- systematically, pursuant to interest notes received,
- at estimated value, where estimation is based on historical data reflecting the amount of interest charged by specific contracting parties in relation to the level of debt.

In each instance when calculating interest, the Company takes into account other significant risks causing that such interest may be charged.

In the notes to the financial statements the Company indicates the fact of occurrence of overdue liabilities and the associated risk that interest will be charged by creditors.

**n) Revenue**

Revenue from sale of products and services includes sale of products manufactured by the Company to which it has exclusive license rights for their production, or it purchased a license for release and distribution, together with services provided by the Company to other entities.

Revenue from sale of goods for resale and materials includes sale of products which were purchased and are held for further sale in a non-processed form, together with sale of materials for manufacture.

Revenue from sale of products and goods is recognized if the following conditions are met:

- the Company has transferred significant risk and benefits resulting from the right of ownership of goods and products to the purchaser,
- the Company ceases to be permanently involved in managing the sale of goods or products to the extent that such function is usually exercised in relation to goods and products to which there is right of ownership, and it does not exercise effective control over them,
- the revenue amounts may be measured reliably,
- it is probable that the Company will achieve economic benefits from the transaction,
- costs borne and those which will be borne by the Company in connection with the transaction may be valued in a reliable manner.

Revenue is recognized if achievement by the Company of economic benefits connected with the executed transaction is probable.

If there is uncertainty regarding the collectability of an amount due which is already counted as revenue, then the uncollectible amount in relation to which achievement has ceased to be probable is recognized as costs and not as a correction of the initially recognized revenue amount.

Revenue from sale is recognized at the fair value of payments received or due and represents receivables for products, goods and services supplied under normal business activity after decrease by discounts, VAT and other sales-related taxes.

Revenue from interest is recognized cumulatively in relation to the principal amount, in accordance with the effective interest rate method on lease.

**o) Costs**

The Company draws up a profit and loss statement in multiple-step format. Costs are classified in accordance with their function.

(i) Finance lease payments

Lease payments are divided into a part constituting the cost of finance and a part decreasing the liability. The part constituting the cost of finance is allocated to specific periods during the term of the lease applying the effective interest rate method.

(ii) Net financing costs

Net financing costs include interest payable on debt, established on the basis of the effective interest rate, interest due on funds invested by the Company, dividends due, foreign exchange gains and losses and profit and loss concerning hedging instruments, which are recognized in the statement of profit and loss.

Interest revenue is recognized in the statement of profit and loss on an accrual basis applying the effective interest rate. Income from dividends is recognized in the statement of profit and loss at the moment when the Company acquires the right to the receipt thereof. The part constituting the financing cost arising in connection with finance lease fees is indicated in the statement of profit and loss with the use of the effective interest rate method.

**p) Tax**

Mandatory encumbrances on the result include current tax (CIT) and deferred tax.

The current tax obligation is calculated on the basis of the tax result (basis for taxation) for a given financial year. Tax for the current and previous periods is recognized as a liability in the amount which has not been paid.

Tax profit (loss) differs from net book profit (loss) in connection with the exclusion of revenues subject to taxation and tax-deductible expenses in subsequent years and items of cost and revenue which will never be subject to taxation.

Deferred tax is calculated using the balance sheet method as tax subject to payment or refund in the future on the difference between the carrying amounts of assets and liabilities and the corresponding tax values used to calculate the basis for taxation.

Deferred income tax assets and provisions for deferred income tax are valued with application of tax rates which will be applied, according to predictions, if an asset is realized or a provision liquidated, adopting as the basis the tax rates (and tax regulations) legally effective or substantially effective as at the end of the balance sheet date.

A deferred tax asset is subject to analysis as at the end of the reporting period, and in the event of it being expected that future tax profits will be insufficient to realize an asset or part thereof, it is written off. Deferred income tax assets and provisions for deferred income tax are not discounted.

Deferred tax is recognized in the profit and loss statement, aside from a situation where it concerns items directly recognized in equity. In this last instance deferred tax is also settled directly in equity. The Company offsets deferred income tax assets with provisions for deferred income tax exclusively when it has an enforceable legal title to offset deferred income tax assets with provisions for deferred income tax.

**q) Foreign-currency transactions**

Transactions executed in foreign currencies are converted into the functional currency in application of exchange rates in force on the date of executing such transactions, in the following manner:

- in the case of selling foreign currencies and receivable repayment transactions – using the bid rate applied by the bank used by the Company;
- in the case of purchasing foreign currencies and liability repayment transactions – using the ask rate applied by the bank used by the Company;
- in the case of other transactions – according to the average exchange rate announced for a given currency by the National Bank of Poland in as far as customs documents do not give another exchange rate.

Cash items recognized at historical cost expressed in a foreign currency are recorded at the end of the reporting period using the average exchange rate announced by the National Bank of Poland as at the end of the reporting period. Non-monetary balance sheet items recorded at historical cost expressed in a foreign currency are recorded in application of the exchange rate as at the date the transaction is executed. Non-monetary balance sheet items recorded at fair value in a foreign currency are recorded in application of the exchange rate in force during establishment of fair value.

Foreign exchange gains and losses resulting from settlement of transactions in foreign currencies and from translation of cash assets and liabilities according to average National Bank of Poland exchange rates as at the end of the year are indicated in the statement of profit and loss, with the exception of settlement in equity fulfilling the criteria for recognition of cash flow hedges.

### r) Segment reporting

A reportable segment is a separate part of the Company which deals with the supply of defined products or services (operating segment) or supply of products or services in a defined economic environment (geographical segment), which is subject to risks and derives benefits differently to other segments.

CI Games S.A. presents revenue from sales broken down into the following segments:

- operating – covering sales divided into products, goods and services;
- geographical – covering sales divided into the following areas: Europe, North and South America and Asia and Africa.

Revenue from sale of products covers sale of products manufactured by the Company to which it has exclusive licensing rights for their production, or it purchased a license for release and distribution.

Revenue from sale of services covers revenues for services provided by the Company to other entities.

Revenue from sale of goods and materials includes sale of products which were purchased and are held in a non-processed form for resale, together with sale of materials for manufacture.

Operating costs are divided as follows:

- direct costs, which may be assigned to a given product or service, or the value of goods or materials sold at purchase price,
- indirect costs i.e. costs which cannot be directly assigned to a defined product, e.g. administrative, sales and other operating costs.

Segment reporting – assignment to specific operating segments - concerns direct costs and such part of indirect costs as can be assigned to a given segment. The Company distinguishes a single segment and starting from 2018 it distinguished its publishing activity.

### s) Operations being discontinued and non-current assets held for sale

Immediately before reclassification to the assets held for sale, valuation of assets (or all assets and liabilities constituting a group held for sale) is updated in accordance with the appropriate IFRS. Subsequently, as at the day of initial classification as held for sale, a non-current asset or group of assets held for disposal are recognized according to the lower value: carrying amount or fair value less cost to sell.

Impairment identified at initial classification as held for sale is recognized in the profit and loss statement even in the event of value restatement. This also concerns profit and loss resulting from subsequent change in value.

Discontinued operation is a part of the Company's activity which constitutes a separate main business line or geographic segment or is a subsidiary acquired exclusively for further sale.

Classification as discontinued operation takes place as a result of disposal or at the moment when the operation fulfills the criteria for classification to the group held for sale.

# 4. Accounting principles change (financial statement conversion)

The accounting principles (policy) applied to draw up this financial statement are compliant with the ones used for drawing up the financial statement of the Company for the year ended on December 31, 2017, except for the change in the accounting policy of the Company concerning the extension of the period for revenues on sale of products and the following changes to the standards and new interpretations in force for the annual periods starting on January 1, 2018:

## Standards and interpretations used for the first time in 2018

- **IFRS 9 Financial Instruments** (published on 7/24/2014) – applicable to the annual periods starting on 1/1/2018 or later,

  The Company made an assessment of the assets and financial liabilities held in terms of changes after the introduction of IFRS 9. The Company applied the requirements of IFRS 9 with the use of modified retrospective approach taking effect on 1/1/2018. In accordance with the possibility foreseen by the standards, the Company abstained from the transformation of comparative data.

  Since 1/1/2018, the Company recognizes assets and financial liabilities as one category:

  - measured at amortized cost,
  - measured at fair value through other comprehensive income,
  - measured at fair value through profit or loss
  - measured of hedge accounting. The Company does not use the hedge accounting rules, therefore, the provisions of IFRS 9 in this regard do not apply.

  The Company recognizes the financial assets in the appropriate category, depending on the business model of financial assets management and depending on the characteristics of contractual cash flows for a given item of financial assets.

  The Company classifies the liabilities on deliveries and services, credits, loans and bonds as liabilities appraised in the depreciated cost.

  <u>Financial assets measured at amortized cost</u>

  The Company classifies the receivables due to deliveries and services, loans granted, other financial receivables and cash and cash equivalents as assets evaluated at the amortized cost.

  The Company uses the effective interest rate method to appraise the financial assets measured at the amortized cost. Revenues on deliveries and services after the initial recognition are measured in the amount of the amortized cost with the use of effective interest rate method, taking into account the value loss impairment, while the revenues due to services and deliveries maturing earlier than 12 months from the day they occurred (that is with no financing element) and not forwarded for factoring are not discounted and are measured per nominal value.

  <u>Financial assets measured at fair value </u>through other comprehensive income

  Profit and loss generated on financial assets classified as capital instrument which were classified as measured at fair value through other comprehensive income, is recognized in other comprehensive income, except for revenues due to dividends.

  <u>Financial assets measured at r fair value by profit or loss</u>

The profits or losses resulting from the measurement of financial assets item classified as measured at fair value by profit or loss is recognized in the financial result in the period when they occurred. Profits or losses resulting from the measurement of items at fair value by profit or loss include also the revenues due to interests and dividend.

The table below presents the influence of implementation of IFRS 9 on the change of classification and measurement of financial assets of the Company as at 1/1/2018:

| **Classes of financial instruments** | **IAS 39** | **IFRS 9** | **Balance sheet value acc. to IFRS 9 and IAS 39 as at January 1, 2018 (PLN thousand)** |
|---|---|---|---|
| Shares and non listed stock | Recognized at fair value | Measured at fair value recognized at amortized cost | 4,597 |
| Receivables on deliveries and services | Loans and receivables recognized at amortized cost | Financial assets recognized at amortized cost | 7,700 |
| Loans granted | Loans and receivables recognized at amortized cost | Financial assets recognized at amortized cost | 162 |
| Cash and cash equivalents | Financial liabilities measured at amortized cost | Financial liabilities recognized at amortized cost | 7,969 |
| Liabilities on deliveries and services | Financial liabilities recognized at amortized cost | Financial liabilities recognized at amortized cost | 2,734 |
| Financial liabilities | Financial liabilities recognized at amortized cost | Financial liabilities recognized at amortized cost | 149 |

Impairment of financial assets

IFRS 9 changes the manner of determining write-offs from the model of incurred losses to the model of expected losses. The most important items of the financial assets in the financial statement of the Company that are subject to changed rules of calculation of expected credit losses are trade receivables. As at every balance sheet day, the Company makes assessment of the expected credit losses, irrespective of the fact if there were grounds for the value impairment. The Company uses simplified approach that is about the assessment of the probability of non-payment of receivables on the basis of historical data taking into account the outdated receivables balances. The Company also allows for individual possibility to determine the expected credit losses, taking into account the legal status of the debtor (liquidation, bankruptcy) and other factors. The write-off of expected credit losses is updated as at every balance sheet date.

To the (losses)/reversal of losses on financial instruments impairment mainly the (losses)/reversal of losses on receivables impairment due to deliveries and services and (losses)/reversal of losses on loans granted impairment are recognized.

- **IFRS 15 “Revenue from Contracts with Customers” and explanations to IFRS 15**.

This standard defines the manner of revenues recognition from sales of goods and rendering of services to customers according to a rule that the entity recognizes revenue to reflect the transaction of transfer of the goods and services to the customer in the amount reflecting the value of remuneration that the entity expects to receive for these goods and services. This standard establishes “five-step model” of recognition of revenues resulting from agreements with customers.

The Company analyzed the concluded agreements with customers in terms of application of IFRS 15 in the following categories:

Sale of royalty payments from the sale of licenses for the distribution of games

The new standard assumes that the entity granting a license for its own intellectual property must determine if the entity has the right to the license in the determined period or once at the moment of granting the license. In case of the Company, the recognition of revenue takes place at the moment of transfer of the intellectual property, carried out by the distributor in a given reporting period. It means that the revenue on the sale of licenses is recognized in the period of sale not earlier than once the distribution has started. Due to this fact, there is no difference in the recognition of revenues from royalty payments according to the current standard IAS 18 and new standard IFRS 15.

Sale with the right to return

IFRS 15 contains also guidelines on the sale with the right to return in a situation when the customer has taken the control over a product but has the right to return it. The right of return applies to some of the agreements with distributors of physical carriers and, as a result, influences the changeability of our revenues as the obtained sales revenues may change. As a result, the Company recognized revenues from sale as a probable amount, taking into account historical data. The recognition of effects of an agreement that takes into account the right of return or expectations towards the execution of that right by the customer covers the following record:

- Revenue from the products handed over in the value of remuneration to which the entity, according to its expectations, will be entitled (meaning after adjustment in the part concerning revenues from products that according to expectations can be returned);
- Liabilities due to the return of payment being a part or whole of the already received amount or revenues payable in the future, to which the company expects that it will not be entitled due to return;
- Asset due to the right of return in the original balance sheet value of that asset (product, goods) less the expected costs of return and potential asset impairment.

The Company analyzed the results of the application of IFRS 15 and the amounts of assets and liabilities do not differ significantly from the amounts of write-off decreasing the sale in 2018. The Company decided not to adjust the opening balance of retained profits of the Company due to the implementation of IFRS 15.

Advance payments received from customers

The Company receives short-term advance payments from the customers for the future sale of games in boxes. The Company has been recognizing the advance payments as the decrease of receivables and the moment a pro-forma sales invoice was issued, the revenues from sale was recognized. With regard to such short-term advance payments, the Company applied the simplification provided for in the IFRS 15 and will not be recognizing the financing element.

- **Amendments to IFRS 2 "Share-based Payment".** Classification and measurement of share-based payment transactions.

  This standard does not influence the current financial statements of the Company.

- **Amendments to IFRS 4 "Insurance Contracts": Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance Contracts"**

  This standard does not influence the current financial statements of the Company.

- **Amendments to IAS 40 "Investment Property"** Transfers of investment property.

  This standard does not influence the current financial statements of the Company.

- **Amendments resulting from IFRS Review 2014-2016 – the Amendments to IFRS 12** apply to annual periods starting on 1/1/2017 or later, while Amendments to IFRS 1 and IAS 28 apply to annual periods starting on 1/1/2018 or later. These amendments are directed towards the explanation of inconsistencies and clarification of wording.

  This standard does not influence the current financial statements of the Company.

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – applicable to the annual periods starting on 1/1/2018 or later, the standard clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

  This standard does not influence the current financial statements of the Company.

## Standards and interpretations published and approved by the European Union, not yet applicable

The following standards and interpretations were published by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee – standard published and approved by the European Union, not yet binding:

- **IFRS 16 "Leases"** – applicable to the annual periods starting on 1/1/2019 or later.
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (published on 6/7/2017) – applicable to the annual periods starting on 1/1/2019 or later.
- **Amendments to IFRS 9 Prepayment Features with Negative Compensation** (published on 12/12/2017) – not approved by EU before this financial statement was approved – applicable to the annual periods starting on 1/1/2019 or later.

The Company is currently analyzing if the abovementioned standards will have influence on the financial statements of the Company.

## Standards and interpretations adopted by the International Accounting Standards Board (IASB) that await the approval of the European Union.

- **IFRS 14 "Regulatory Deferral Accounts"** (published 9/30/2014). According to the decision of the European Commission, the process of standard approval in the initial version shall not be initiated before the completed version of the standard is published. Applicable to the annual periods starting on 1/1/2016 or later.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in affiliated entities and joint ventures"** Transaction of sale or contribution of assets between investor and its affiliated entity or joint venture – the works leading to the approval of these amendments were postponed by the EU for indefinite period.
- **IFRS 17 "Insurance Contracts"**. Applicable to the annual periods starting on 1/1/2021 or later.

- **Amendments to IFRS 3 “Business Combinations”** Definition of a business.
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.** Definition of material.
- **Amendments to IAS 19 “Employee Benefits”** – Plan Amendment, Curtailment or Settlement – (effective for annual periods beginning on or after 1/1/2018).
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** Applicable to the annual periods starting on 1/1/2019 or later.
- **Amendments to IFRS (period 2015-2017)** within the procedure of annual changes made to IFRS (IFRS 3, IFRS 11, IAS 19 and IAS 23) – directed to settle inconsistencies and made the wording more accurate , effective for annual periods beginning on or after 1/1/2019.

Effective dates are the dates resulting from the contents of the standards published by International Financial Reporting Council. The date the standards become effective in EU can differ from the date of application stemming from the standards contents and are published the moment the standard is approved by European Union.

# II. Financial highlights

The balance sheet data was converted based on the mean FX rate announced by the President of the National Bank of Poland as at the financial statement date, being as follows as at the balance sheet date:

- as at 12/31/2018 – PLN/EUR 4.3000,
- as at 12/31/2017 – PLN/EUR 4.1709.

The data in the profit and loss account and cash flow statement were converted to EUR based on the FX rate being the arithmetic mean of mean rates announced by the President of the National Bank of Poland as at the last day of each month in a year:

- for 2018 – PLN/EUR 4.2669,
- for 2017 – PLN/EUR 4.2447.

| Consolidated P&L | 2018 r. | | 2017 r. | |
|---|---|---|---|---|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Net revenue from sales | 21 003 | 4 922 | 93 740 | 22 084 |
| Profit (loss) from operating activities | (21 018) | (4 926) | 12 067 | 2 843 |
| Gross profit (loss) | (20 563) | (4 819) | 11 898 | 2 803 |
| Net profit (loss) | (21 508) | (5 041) | 6 477 | 1 526 |
| Number of shares (in thousands) | 151 110 | 151 110 | 151 070 | 151 070 |
| Profit (loss) per ordinary share (PLN/share) | -0,14 | -0,03 | 0,04 | 0,01 |

| Consolidated statement of cash flows | 2018 r. | | 2017 r. | |
|---|---|---|---|---|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Net cash flows from operating activities | 6 828 | 1 600 | 40 290 | 9 492 |
| Net cash flows from investing activities | (25 545) | (5 987) | (21 864) | (5 151) |
| Net cash flows from financing activities | 15 739 | 3 689 | (24 022) | (5 659) |
| **Net cash flows** | **(2 978)** | **(698)** | **(5 596)** | **(1 318)** |

| Consolidated balance sheet | 31.12.2018 r. | | 31.12.2017 r. | |
|---|---|---|---|---|
| | thousand PLN | thousand EUR | thousand PLN | thousand EUR |
| Non-current assets | 77 157 | 17 943 | 83 835 | 20 100 |
| Current assets | 17 283 | 4 019 | 23 547 | 5 646 |
| **Total assets** | **94 440** | **21 963** | **107 382** | **25 746** |
| Equity | 68 416 | 15 911 | 89 904 | 21 555 |
| Initial capital | 1 511 | 351 | 1 511 | 362 |
| **Liabilities** | **26 024** | **6 052** | **17 478** | **4 190** |
| Non-current liabilities | 17 209 | 4 002 | 9 569 | 2 294 |
| Current liabilities | 8 815 | 2 050 | 7 909 | 1 896 |
| **Total equity and liabilities** | **94 440** | **21 963** | **107 382** | **25 746** |

# III. Financial highlights of CI Games S.A. for the period from 1/1/2018 to 12/31/2018

## Financial statement

| Assets | Note | 31.12.2018 r. thousand PLN | 31.12.2017 r. Thousend PLN |
|---|---|---|---|
| **Non-current assets** | | **77 157** | **83 835** |
| Property, plant and equipment | 1 | 1 083 | 913 |
| Intangible assets | 2 | 52 161 | 52 794 |
| Shares in subordinated entities | 3 | 4 604 | 4 597 |
| Long term investments | 6 | 121 | 149 |
| Deferred income tax asset | 4 | 19 151 | 25 198 |
| Other non-current assets | 10 | 37 | 184 |
| **Current assets** | | **17 283** | **23 547** |
| Inventory | 5 | 2 687 | 4 920 |
| Current investments | 6 | - | 13 |
| Advances granted | 7 | 13 | 341 |
| Trade receivables | 7 | 8 772 | 7 700 |
| Cash and cash equivalents | 9 | 4 991 | 7 969 |
| Other current assets | 10 | 820 | 2 604 |
| **Total assets** | | **94 440** | **107 382** |

| Liabilities & equity | | 31.12.2018 r. thousand PLN | 31.12.2017 r. Thousend PLN |
|---|---|---|---|
| **Equity** | | **68 416** | **89 904** |
| Share capital | 11 | 1 511 | 1 511 |
| Share premium | 12 | 40 588 | 40 568 |
| Exchange differences on translation of foreign operations | 13 | 16 000 | 16 000 |
| Reserve capital for the acquisition of shares | | 1 017 | 1 017 |
| Retained earnings | | 9 300 | 30 808 |
| including profit for the period | 32 | (21 508) | 6 477 |
| Equity attributable to owners of the Parent | | 68 416 | 89 904 |
| Equity attributable to non-controlling interests | | - | - |
| **Liabilities** | | **26 024** | **17 478** |
| **Non-current liabilities** | | **17 209** | **9 569** |
| Loans, credit and other debt intsruments | 15 | 12 744 | - |
| Finance lease liabilities | 15 | 303 | 96 |
| Other long-term provisions | | - | 210 |
| Deferred income tax provision | 4 | 4 162 | 9 263 |
| **Current liabilities** | | **8 815** | **7 909** |
| Borrowings including credits, loans and other debt inst | 15 | 3 468 | - |
| Income tax liabilities | 8 | - | 106 |
| Trade liabilities | 18 19 | 4 340 | 2 734 |
| Finance lease liabilities | 15 | 224 | 53 |
| Other liabilities | 20 | 303 | 181 |
| Other current provisions | 21 | 480 | 3 626 |
| Deferred revenues | | - | 1 209 |
| **Total equity and liabilities** | | **94 440** | **107 382** |
| Book value (in PLN thousand) | | 68 416 | 89 904 |
| Number of shares (in thousands) | | 151 110 | 151 070 |
| **Book value per share (in PLN)** | | **0,45** | **0,59** |

## Statement of comprehensive income

| | NOTE | 2018 r. thousand PLN | 2017 r. Thousend PLN |
|---|---|---|---|
| **Continuing operations** | | | |
| **Net revenue from sales** | 22 | **21 003** | **93 740** |
| Revenue from sale of products and services | | 21 003 | 93 732 |
| Revenue from sale of goods and materials | | - | 8 |
| **Costs of products, goods and services sold** | 23 | **(17 217)** | **(52 947)** |
| Manufacturing cost of products sold | | (17 217) | (52 810) |
| Value of goods and materials sold | | - | (137) |
| **Gross profit (loss) on sales** | | **3 786** | **40 793** |
| Other operating revenues | 25 | 420 | 649 |
| Selling costs | 23 | (2 610) | (18 646) |
| General and administrative costs | 23 | (4 633) | (5 306) |
| Other operating expenses | 26 | (17 981) | (5 423) |
| **Profit (loss) on operating activities** | | **(21 018)** | **12 067** |
| Financial revenues | 27 | 844 | 1 897 |
| Financial expenses | 27 | (389) | (2 066) |
| **Profit (loss) before tax** | | **(20 563)** | **11 898** |
| Income tax | 28 29 | (945) | (5 421) |
| **Profit (loss) on continuing operations** | 32 | **(21 508)** | **6 477** |
| Discontinued operations | | - | - |
| Loss from discontinued operations | | - | - |
| **Net profit (loss)** | | **(21 508)** | **6 477** |
| **Total other comprehensive income, including:** | | | |
| Exchange differences on translation of foreign operations | | | - |
| **Total income for the financial year** | | **(21 508)** | **6 477** |
| Net profit (loss) in thousands of PLN | | (21 508) | 6 477 |
| Number of shares (in thousands) | | 151 110 | 151 070 |
| **Profit (loss) per ordinary share (in PLN)** | | **-0,14** | **0,04** |

# Statement of changes in equity

| For the period from 1/1 to 12/31/2018 | Share capital<br>thousand PLN | Share premium<br>thousand PLN | Reserve capital for the purchase of own shares<br>thousand PLN | Other reserve capitals<br>thousand PLN | Translation losses/profits<br>thousand PLN | Retained earnings<br>thousand PLN | Total equity<br>thousand PLN |
|---|---|---|---|---|---|---|---|
| **As at 1/1/2018** | **1 511** | **40 568** | **16 000** | **-** | **1 017** | **30 808** | **89 904** |
| Changes in accounting policy | - | - | - | - | - | - | - |
| **As at 1/1/2018, after conversion** | **1 511** | **40 568** | **16 000** | **-** | **1 017** | **30 808** | **89 904** |
| **Changes in equity** | | | | | | | |
| Profit and loss for the period | - | - | - | - | - | (21 508) | (21 508) |
| Share issue | - | 20 | - | - | - | - | 20 |
| **As at 12/31/2018** | **1 511** | **40 588** | **16 000** | **-** | **1 017** | **9 300** | **68 416** |

| For the period from 1/1 to 12/31/2017 | Share capital<br>thousand PLN | Share premium<br>thousand PLN | Reserve capital for the purchase of own shares<br>thousand PLN | Other reserve capitals<br>thousand PLN | Translation losses/profits<br>thousand PLN | Retained earnings<br>thousand PLN | Total equity<br>thousand PLN |
|---|---|---|---|---|---|---|---|
| **As at 1/1/2017** | **1 501** | **39 975** | **16 000** | **-** | **1 017** | **24 330** | **82 823** |
| Changes in accounting policy | - | - | - | - | - | - | - |
| **As at 1/1/2017, after conversion** | **1 501** | **39 975** | **16 000** | **-** | **1 017** | **24 330** | **82 823** |
| **Changes in equity** | | | | | | | |
| Profit and loss for the period | - | - | - | - | - | 6 478 | 6 478 |
| Share issue | 9 | 593 | - | - | - | - | 602 |
| **As at 12/31/2017** | **1 511** | **40 568** | **16 000** | **-** | **1 017** | **30 808** | **89 904** |

## Statement of cash flows

| | 2018 r. thousand PLN | 2017 r. thousand PLN |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Gross profit (loss)** | **(20 563)** | **10 816** |
| **Total adjustments** | **27 391** | **29 474** |
| Depreciation | 11 506 | 25 196 |
| Impairment loss (reversal) | 15 231 | 2 400 |
| Profit (loss) on foreign exchange differerences | 8 | 13 |
| Interest | 33 | (1 543) |
| Comission on loans | 37 | 310 |
| Profit (loss) on sale of non-current assets | 320 | - |
| Change in receivables | (1 075) | 3 841 |
| Change in inventory and prepayments | 2 388 | (1 227) |
| Change in trade and other payables | 1 626 | (3 375) |
| Change in employee benefit provisions and liabilities | (3 356) | 3 445 |
| Change in other current assets | 1 882 | (892) |
| Tax paid | - | 97 |
| Deferred revenues | (1 209) | 1 209 |
| Other adjustments | 6 828 | 40 290 |
| **Net cash flows from operating activities** | | |
| **Cash flows from investing activities** | **87** | - |
| Repayment of loans granted | 16 | 1 |
| Cash inflows on disposal of property, plant and equipme | (1 107) | (550) |
| Cash outflows on acquisition of property, plant and equi | (24 265) | (21 175) |
| Cash outflows on development works | (109) | - |
| Cash outflows on loans granted | (167) | (140) |
| **Net cash from investing activities** | **(25 545)** | **(21 864)** |
| **Cash flows from financing activities** | | |
| Net proceeds from the issue of shares and other capital i | 20 | 603 |
| Incurrence of borrowings | 16 212 | 9 498 |
| Repayment of borrowings | - | (33 644) |
| Repayment of finance lease liabilities | (230) | 149 |
| Interest | (151) | (318) |
| Other financial outflows | (112) | (310) |
| **Net cash from financing activities** | **15 739** | **(24 022)** |
| **Total net cash flows** | **(2 978)** | **(5 596)** |
| Exchange differences on cash | - | - |
| Balance sheet changes in cash and cash equivalents | (2 978) | (5 596) |
| **Cash and cash equivalents at the beginning of the** | **7 969** | **13 565** |
| **Cash and cash equivalents at the end of the period** | **4 991** | **7 969** |

# IV. Additional information to the financial statement of CI Games S.A.

## Note 1 Changes in fixed assets by type

| For the period from 1/1 to 12/31/2018 | Buildings, premises, civil and water engineering | Technical equipment and machinery | Vehicles | Other tangible fixed assets | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 1/1/2018** | **999** | **2 432** | **366** | **144** | **25** | **3 966** |
| **Increases:** | **-** | **91** | **633** | **3** | **769** | **1 496** |
| - acquisition | - | - | - | - | 769 | 769 |
| - transfer | - | 91 | 633 | 3 | - | 727 |
| **Decreases:** | **(999)** | **(845)** | **-** | **(98)** | **(794)** | **(2 736)** |
| - liquidation | (999) | (845) | - | (93) | | (1 937) |
| - transfer | - | - | - | (5) | (722) | (727) |
| - other | - | - | - | - | (72) | (72) |
| **Gross value as at 12/31/2018** | **-** | **1 678** | **999** | **49** | **-** | **2 726** |
| **Depreciation as at 1/1/2018** | **908** | **1 953** | **96** | **96** | **-** | **3 053** |
| **Increases:** | **85** | **232** | **153** | **17** | **-** | **487** |
| - depreciation | 85 | 232 | 153 | 17 | - | 487 |
| **Decreases:** | **(993)** | **(817)** | **-** | **(87)** | **-** | **(1 897)** |
| - liquidation | (993) | (817) | - | (87) | - | (1 897) |
| **Depreciation as at 12/31/2018** | **-** | **1 368** | **249** | **26** | **-** | **1 643** |
| **Net value** | | | | | | |
| **As at 1/1/2018** | **91** | **479** | **270** | **48** | **25** | **913** |
| **As at 12/31/2018** | **-** | **310** | **750** | **23** | **-** | **1 083** |

## Note 1 Changes in fixed assets by type ctd.

| For the period from 1/1 to 12/31/2017 | Buildings, premises, civil and water engineering structures | Technical equipment and machinery | Vehicles | Other tangible fixed assets | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 1/1/2017** | **999** | **3 220** | **77** | **133** | **13** | **4 442** |
| **Increases:** | **-** | **236** | **289** | **14** | **415** | **954** |
| - acquisition | - | 130 | - | 6 | 415 | 551 |
| - transfer | - | 106 | 289 | 8 | - | 403 |
| **Decreases:** | **-** | **(1 024)** | **-** | **(3)** | **(403)** | **(1 430)** |
| - liquidation | - | (1 024) | - | (4) | - | (1 028) |
| - transfer | - | - | - | - | (403) | (403) |
| - exchange differences on translation of foreign operati | - | - | (1) | - | - | (1) |
| **Gross value as at 12/31/2017** | **999** | **2 432** | **366** | **144** | **25** | **3 966** |
| **Depreciation as at 1/1/2017** | **705** | **2 679** | **66** | **75** | **-** | **3 525** |
| **Increases:** | 203 | **297** | 30 | **23** | - | 553 |
| - depreciation | 203 | 297 | 30 | 23 | - | 553 |
| **Decreases:** | - | **(1 023)** | - | **(2)** | - | (1 025) |
| - liquidation | - | (1 023) | - | (2) | - | (1 025) |
| - exchange differences on translation of foreign operatio | - | - | (1) | - | - | (1) |
| **Depreciation as at 12/31/2017** | **908** | **1 953** | **96** | **96** | **-** | **3 053** |
| **Net value** | | | | | | |
| **As at 1/1/2017** | **294** | **541** | **11** | **58** | **13** | **917** |
| **As at 12/31/2017** | **91** | **479** | **270** | **48** | **25** | **913** |

### Note 2 Changes in intangible assets by type

All intangible assets of the Company have a specific useful life and are amortized. The recoverable value of the used intangible assets as at the balance sheet date is higher than their non-amortized value. The development works disclosed as an intangible asset will be, according to the Management Board, completed and will bring the anticipated economic results except for those for which write-downs were created.

| For the period from 1/1 to 12/31/2018 | R&D expenses | Proprietary copyright, licenses, concessions | Rights to press titles | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Gross value as at 1/1/2018** | **183 690** | **200** | **51** | **2 441** | **186 382** |
| **Increases:** | **24 127** | **-** | **-** | **973** | **25 100** |
| - purchase | - | - | - | 973 | 973 |
| - produced internally | 24 127 | - | - | - | 24 127 |
| **Decreases:** | **(15 044)** | **-** | **-** | **(1 341)** | **(16 385)** |
| - liquidation | - | - | - | (1 341) | (1 341) |
| - impairment loss | (15 044) | - | - | - | (15 044) |
| **Gross value as at 12/31/2018** | **192 773** | **200** | **51** | **2 073** | **195 097** |
| **Cumulative depreciation as at 1/1/2018** | **131 100** | **200** | **51** | **2 237** | **133 588** |
| **Increases:** | **10 679** | **-** | **-** | **339** | **11 018** |
| - depreciation | 10 679 | - | - | 339 | 11 018 |
| **Decreases:** | **-** | **-** | **-** | **(1 670)** | **(1 670)** |
| - liquidation | - | - | - | (1 670) | (1 670) |
| **Cumulative depreciation as at 12/31/2018** | **141 779** | **200** | **51** | **906** | **142 936** |
| **As at 1/1/2018** | **52 590** | **-** | **-** | **204** | **52 794** |
| **As at 12/31/2018** | **50 994** | **-** | **-** | **1 167** | **52 161** |

Development expenses were PLN 24.1 million in this period.

As at 12/31/2018, the parent company carried out a test for impairment of development works on the production of “Sniper Ghost Warrior 3” (hereinafter “SGW 3”) game resulting from the verification of sales plans. At the stage of assumptions for the test for assets impairment in accordance with IAS 36 – Impairment of Assets – what was considered was the legitimacy and actual possibility of estimating the fair value and the use value of developmental works concerning “SGW 3”. It was assumed that the best reflection of the recoverable amount of that asset is its use value in accordance with IAS 36.20.

When estimating the use value, the forecast cash flows were discounted to their current value with the use of discount rate before the taxation effects were taken into account. The discount rate reflected the current market estimate of cash value in time and the typical risk for a given asset.

As a result of the tests, the adjustment for asset impairment was recognized in the total amount of PLN 12,226 thousand concerning development works of “SGW 3”.

In 2018, the Company made a write-off on the mobile version of “Lords of the Fallen” in the amount of PLN 2,818 thousand.

### Note 2 Changes in intangible assets by type (ctd.)

| For the period from 1/1 to 12/31/2017 | R&D expenses | Proprietary copyright, licenses, concessions | Rights to press titles | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Gross value as at 1/1/2017** | **164 862** | **200** | **51** | **2 092** | **167 205** |
| **Increases:** | **21 228** | **-** | **-** | **349** | **21 577** |
| - produced internally | 21 228 | - | - | 349 | 21 577 |
| **Decreases:** | **(2 400)** | **-** | **-** | **-** | **(2 400)** |
| - impairment loss | (2 400) | - | - | - | (2 400) |
| **Gross value as at 12/31/2017** | **183 690** | **200** | **51** | **2 441** | **186 382** |
| **Depreciation as at 1/1/2017** | **106 393** | **200** | **51** | **1 901** | **108 545** |
| **Increases:** | **24 707** | **-** | **-** | **336** | **25 043** |
| - depreciation | 24 707 | - | - | 336 | 25 043 |
| **Depreciation as at 12/31/2017** | **131 100** | **200** | **51** | **2 237** | **133 588** |
| **As at 1/1/2017** | **58 469** | **-** | **-** | **191** | **58 660** |
| **As at 12/31/2017** | **52 590** | **-** | **-** | **204** | **52 794** |

## Note 3 Shares and interests in entities

| SHARES | as at 31.12.2018<br>thousand PLN | as at 31.12.2017<br>thousand PLN |
|---|---|---|
| City Interactive PERU | 2 489 | 2 489 |
| City Interactive GERMANY | - | 88 |
| City Interactive USA | 109 | 109 |
| City Interactive BRAZIL | 106 | 106 |
| City Interactive MEXICO | 11 | 11 |
| City Interactive CYPRUS | 5 | 5 |
| Business Area Sp. z o.o. | 9 | 9 |
| Busziness Area Sp. z o.o. Sp. j. | 4 384 | 4 384 |
| CI Games S.A. Sp. j. | 2 | 2 |
| United Label | 100 | - |
| **Gross investments in subsidiaries** | **7 215** | **7 203** |
| write-down | (2 611) | (2 606) |
| **nett investments** | **4 604** | **4 597** |

## Note 4 Assets and deferred tax provision

| DEFFERED TAX | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| **Deferred tax assets** | | |
| **Opening value** | **25 198** | **23 024** |
| **Including assets compared to the financial result** | **25 198** | **23 024** |
| **Increases compared to the financial result** | **19 151** | **25 198** |
| cost provision | 105 | 155 |
| receivables valuation allowances | 249 | 304 |
| interest valuation allowances | - | 495 |
| inventory impairment | 36 | 13 |
| intangible assets write-offs | - | 456 |
| valuation of short-term investments | - | 4 |
| tax loss | 18 759 | 21 852 |
| deferred revenue | - | 230 |
| value of bought trade marks | - | 1 689 |
| Other | 2 | - |
| **Decreases compared to the financial result** | **25 198** | **23 024** |
| **Closing value** | **19 151** | **25 198** |

| | | |
|---|---|---|
| **Deferred tax provisions** | | |
| **Opening value** | **9 263** | **2 751** |
| **Including assets compared to the financial result** | **9 263** | **2 751** |
| **Increases compared to the financial result** | **4 162** | **9 263** |
| reserve valuation for returns | - | 1 |
| receivables valuation allowance | - | 2 |
| receivables valuation allowance | 46 | - |
| payables valuation | 6 | - |
| other | - | 1 |
| difference between the balance-sheet and tax value of tangible fixed assets | 4 110 | 9 259 |
| **Decreases compared to the result** | **9 263** | **2 751** |
| **Closing value** | **4 162** | **9 263** |

The Company has at its disposal a forecast of investment expenditures for current and future productions, sales and cost forecasts together with the tax result for the years 2019-2023 that assume that the Company from 2019 will be generating tax profit to utilize the tax losses.

The table below shows the tax losses together with years in which they occurred and the last year in which the tax loss  can be utilized. .

| Year of loss | Total loss from the year thousand PLN | Last year of using the loss thousand PLN |
|---|---|---|
| 2014 | 10 220 | 2 019 |
| 2015 | 15 202 | 2 020 |
| 2014 | 19 840 | 2 021 |
| 2017 | 51 187 | 2 022 |
| 2018 | 2 284 | 2 023 |
| | **98 733** | |

The Management Board of the Company plans to use these tax losses from 2019 on the basis of forecast based on the following assumptions:

- The Company assumes one game release a year: the next release of "Sniper Warrior Contracts" will take place in 2019. Due to the release of this game, the Management expects significant revenues in the second half of 2019.
- The investment expenditures for the started productions are presented in the current production budgets, while the expenditures for the future projects were assessed on the basis of strategic plans of the Management concerning the publication of games in the subsequent years.
- The forecasts contain assumptions concerning volumes divided into sale on physical carriers in specified distribution channels and into digital sale. These assumptions were assumed on the basis of the current level of game prices, market potential and historic volumes of sales generated by the Company. The prices reflect the expected quality level of the game and benchmark to similar productions on the market and were assessed on the basis of potential of the market and many years of experience of the Company.
- Other elements of forecasts such as marketing costs, overhead, costs of royalty payments, costs of engine and other costs were assumed on the basis of the current best knowledge of the Management.

## Note 5 Inventory – breakdown and aging

| INVENTORY | as at 31.12.2018<br>thousand PLN | as at 31.12.2017<br>thousand PLN |
|---|---|---|
| Materials | 687 | 1 441 |
| Finished goods | 2 186 | 3 548 |
| Commodities | - | - |
| **Total gross inventory** | **2 873** | **4 989** |
| **Valuation allowance** | **(186)** | **(69)** |
| **Total net inventory** | **2 687** | **4 920** |

| Inventory – aging | as at 31.12.2018<br>thousand PLN | as at 31.12.2017<br>thousand PLN |
|---|---|---|
| 0-90 days | 360 | 1 122 |
| 91-180 days | 131 | 256 |
| 181-360 days | 824 | 1 263 |
| above 360 days | 1 558 | 2 348 |
| Valuation allowance | (186) | (69) |
| **Total net inventory** | **2 687** | **4 920** |

According to the Issuer's Management Board, all inventories not covered with the write-down for their impairment represent the recoverable value higher than their accounting value.

## Note 6 Long- and short-term investments

Loans granted and loan revaluation deductions

| Loans granted | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Loans granted | 121 | 162 |
| **Total loans** | **121** | **162** |

The granted loans concern a loan granted to United Label S.A. amounting to PLN 2 million granted on the basis of loan agreement on 12/12/2018. The loan shall be made available in tranches at the request of the subsidiary. The date of loan re-payment is 12/12/2023; the interest rate of the loan is equal to the base rate WIBOR 3M plus margin. As at 12/31/2018 the loan balance (with interest) amounted to PLN 121 thousand.

## Note 7 Trade receivables and advance payments

| Receivables - breakdown | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Trade receivables from related parties | 6 177 | 5 044 |
| Trade receivables from other parties | 4 326 | 4 094 |
| up to 12 months | 4 326 | 4 094 |
| above 12 months | - | - |
| **Trade receivables** | **10 503** | **9 138** |
| **Valuation allowances for trade receivables** | **(1 731)** | **(1 438)** |
| **Net trade receivables** | **8 772** | **7 700** |

| | | |
|---|---|---|
| **Advances made** | **13** | **341** |

| Receivables – aging | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| when due | 3 244 | 2 427 |
| behind due: | 7 259 | 6 711 |
| 1-30 days | 283 | 917 |
| 31-90 days | 404 | 3 010 |
| 91-180 days | 445 | 839 |
| above 180 days | 6 127 | 1 945 |
| Valuation allowance | (1 731) | (1 438) |
| **Net trade receivables** | **8 772** | **7 700** |

| Receivables – currency structure | as at 31.12.2018 | as at 31.12.2017 |
|---|---|---|
| PLN | 355 | 199 |
| EUR | 226 | 215 |
| GBP | 9 | 9 |
| USD | 1 969 | 1 884 |

Receivables from subsidiaries and receivables above 180 days concern mostly CI Games USA and results from the settlement between the parent company and its subsidiary in the USA. The Company does not create write-offs for receivables from subsidiaries.

## Note 8 Deferred tax receivables

| Income tax settlements | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| **Income tax liabilities** | **-** | **106** |
| - from legal persons | - | 106 |

## Note 9 Cash and cash equivalents

| Cash and cash equivalents | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Bank accounts | 4 977 | 7 949 |
| Short-term deposits | - | - |
| Cash in hand | 14 | 20 |
| **Total cash and cash equivalents** | **4 991** | **7 969** |

## Note 10 Other assets

| Other assets | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Tax receivables (excl. income tax) | 403 | 1 123 |
| Other settlements with employees | 94 | 71 |
| Deposits | 1 | 577 |
| Other settlements | - | 183 |
| **Prepayments** | **359** | **834** |
| Insurance | 129 | 71 |
| Subscriptions | 9 | 122 |
| Other prepayments | 221 | 641 |
| **Total other assets** | **857** | **2 788** |
| **including long-term:** | **37** | **184** |
| Prepayments | 37 | 184 |

## Note 11 initial capital

As at 12/31/2018, the initial capital was composed of seven series of shares with the following parameters:

| SHARE SERIES | QUANTITY | NOMINAL VALUE | REGISTRATION | THE RIGHT TO DIVIDENT FROM |
|---|---|---|---|---|
| A - ordinary bearer / paid up | 100 000 000 | 1 000 | 2007-06-01 | 2007-01-01 |
| B - ordinary bearer / paid up | 400 000 | 4 | 2008-08-10 | 2007-01-01 |
| C - ordinary bearer / paid up | 25 000 000 | 250 | 2008-12-17 | 2007-01-01 |
| D - ordinary bearer / paid up | 1 100 000 | 11 | 2009-10-09 | 2009-01-01 |
| E - ordinary bearer / paid up | 12 649 990 | 126 | 2014-01-09 | 2014-01-01 |
| G - ordinary bearer / paid up | 11 000 000 | 110 | 2016-12-06 | 2016-01-01 |
| F - ordinary bearer / paid up | 960 000 | 10 | 2017-11-30 | 2017-01-01 |
| **Total** | **151 109 990** | **1 511** | | |

In the reporting period, CI Games S.A. issued 40,000 ordinary bearer series F shares within the Incentive Program addressed to key employees and associates of the Company, including the Members of the Board of CI Games S.A. Within the above mentioned issue till 12/31/2018 the total revenue amounting to PLN 28,000 was received. Surplus exceeding the nominal value of shares of PLN 27,600 was classified as the share premium.

The shareholding structure was as follows as at signing this financial statement:

| Share capital -structure | No of shares | % of votes |
|---|---|---|
| Marek Tymiński | 59 663 570 | 39,48% |
| Other shareholders | 91 446 420 | 60,52% |
| **All shareholders in total** | **151 109 990** | **100%** |

## Note 12 Share premium

| Share series | LICZBA | NADWYŻKA |
|---|---|---|
| B - ordinary bearer / paid up | 400 000 | 36 |
| C - ordinary bearer / paid up | 25 000 000 | 22 250 |
| D - ordinary bearer / paid up | 1 100 000 | 99 |
| E - ordinary bearer / paid up | 12 649 990 | 11 259 |
| G - ordinary bearer / paid up | 11 000 000 | 24 860 |
| F - ordinary bearer / paid up | 960 000 | 663 |
| **Total** | **51 109 990** | **59 167** |
| Reduction due to C series issue costs | | (1 829) |
| Reduction due to E series issue costs | | (285) |
| Transfer to the reserve capital | | (16 000) |
| Reduction due to G series issue costs | | (416) |
| Reduction due to F series issue costs | | (49) |
| **As at December 31, 2018** | | **40 588** |

## Note 13 Reserve capital for the purchase of own shares

Created by the resolution of the Extraordinary General Meeting of CI Games S.A. of 11/8/2010 in connection with the resolution of the same day, concerning the consent for the Company to acquire its own shares. The capital was created by transferring, from the Company's supplementary capital, amounts which under Art. 348 para. 1 Commercial Companies' Code, can be distributed among shareholders.

The supplementary capital for buying own shares as at 12/31/2018: PLN 16,000,000. (12/31/2017: PLN 16,000,000)

The own shares were not bought by the Issuer by the date when the financial statement was drawn up.

## Note 14 Revaluation reserve

In the reporting period, the Company did not have revaluation reserve and open position in forward contracts.

## Note 15 Borrowings including credits, loans and financial lease

| Loan liabilities | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Finance lease liabilities - short-term | 224 | 53 |
| Finance lease liabilities - long-term | 303 | 96 |
| Loan liabilities, including in open-end current loans | 16 212 | - |
| **Total** | **16 739** | **149** |

## Note 16 Information about the credits raised and liabilities under debt securities

On 1/9/2018, CI Games S.A. entered into two credit agreements with mBank S.A.: agreement for revolving credit facility in Polish zlotys and an overdraft agreement of the total value of PLN 35 million. Revolving credit facility agreement has been concluded for a definite period till 6/30/2020. The overdraft agreement has been concluded for a definite period till 1/29/2020.

Collateral for the revolving credit facility agreement consists of: 1) registered pledge on the Company's shares in the amount of 15,000,000, held by Marek Tymiński, Company's shareholder; 2) blank promissory note issued by the Company together with promissory note declaration; 3) global transfer of liabilities to the mBank resulting from the agreements with selected Company's partners.

Collateral for the overdraft agreement consists of: 1) loan repayment guarantee granted within the portfolio guarantee line de minimis; 2) blank promissory note issued by the Company together with promissory note declaration; 3) global transfer of liabilities to the Bank resulting from the agreements with selected Company's partners; 4) registered pledge on the Company's shares in the amount of 15,000,000, held by Marek Tymiński, Company's shareholder.

## Note 17 Provisions for employee benefits

Provisions for employee benefits cover the sums in lieu of holiday leaves unused as at 12/31/2018.

Provisions for the retirement and disability compensation related to low mean age of employees and resulting negligible provision value were not created.

## Note 18 Trade payables

| **Liabilities - breakdown** | **as at 31.12.2018 thousand PLN** | **as at 31.12.2017 thousand PLN** |
|---|---|---|
| Trade payables to related parties | 966 | 409 |
| Trade payables to other parties | 3 374 | 2 325 |
| up to 12 months | 3 374 | 2 325 |
| above 12 months | - | - |
| **Trade liabilities** | **4 340** | **2 734** |

| **Payables - currency structure** | **as at 31.12.2018** | **as at 31.12.2017** |
|---|---|---|
| PLN | 1 531 | 1 438 |
| EUR | 242 | 162 |
| GBP | 5 | 4 |
| USD | 464 | 173 |

**Currency liabilities presented in the original currency.*

## Note 19 Trade payables aging

| **Payables - aging** | **as at 31.12.2018 thousand PLN** | **as at 31.12.2017 thousand PLN** |
|---|---|---|
| **when due** | **2 178** | **1 378** |
| **behind due:** | **2 162** | **1 356** |
| 1-30 days | 572 | 586 |
| 31-90 days | 283 | 72 |
| 91-180 days | - | 69 |
| above 180 days | 1 307 | 629 |
| **Trade liabilities** | **4 340** | **2 734** |

## Note 20 Other liabilities

| **Other liabilities** | **as at 31.12.2018 thousand PLN** | **as at 31.12.2017 thousand PLN** |
|---|---|---|
| Tax payables except Corporate Income Tax | 298 | 118 |
| Other liabilities | 4 | 64 |
| **Trade payables** | **302** | **182** |

## Note 21 Other current provisions

| **Other provisions** | **as at 31.12.2018 thousand PLN** | **as at 31.12.2017 thousand PLN** |
|---|---|---|
| Provision for balance sheet auditing costs | 23 | 48 |
| Provision for non-invoiced costs | 267 | 805 |
| Provision for marketing costs | - | 80 |
| Provisions for paid leave | 190 | 179 |
| Provisions for returns | 74 | 2 514 |
| **Total** | **554** | **3 626** |

## Note 22 Net revenues on sales of products

| Sales structure - quantitative share | 2018 | 2017 |
|---|---|---|
| Gry na konsole | 82% | 59% |
| Gry na PC | 18% | 41% |

| Revenue | 2018 | % share | 2017 | % share |
|---|---|---|---|---|
| Own products | 2 592 | 12% | 61 304 | 65% |
| Licenses | 0 | 0% | 815 | 1% |
| Online sales | 18 410 | 88% | 31 449 | 34% |
| Other Sales | 1 | 0% | 172 | 0% |
| **Total** | **21 003** | **100%** | **93 740** | **100%** |

| Units | 2018 | Udział % | 2017 | Udział % |
|---|---|---|---|---|
| Own products | 145 929 | 8% | 870 240 | 49% |
| Licenses | 0 | 0% | 26 500 | 1% |
| Digital sales | 1 582 275 | 92% | 869 407 | 49% |
| Other Sales | 0 | 0% | 3 072 | 0% |
| **Total** | **1 728 204** | **100%** | **1 769 219** | **100%** |

Share in digital sale as % of the total revenues from sale increased from 34% in 2017 to 88% percent in 2018 due to the fact that “SGW 3” entered subsequent later stage of its life cycle. At this stage of product life cycle that is a dozen months after the release, the sale of games on carriers usually decreases. Also, the sale of older games “Sniper Ghost Warrior” and “Lords of the Fallen” takes place mostly in the digital channel.

### Territorial structure

| Revenue | 2018 | 2017 |
|---|---|---|
| Abroad | 21 332 | 91 301 |
| Share | 102% | 97% |
| Country | -329 | 2 440 |
| Share | -2% | 3% |
| **Total** | **21 003** | **93 741** |

| Units | 2018 | 2017 |
|---|---|---|
| Abroad | 1 709 217 | 1 607 984 |
| Share | 99% | 91% |
| Country | 18 987 | 161 235 |
| Share | 1% | 9% |
| **Total** | **1 728 204** | **1 769 219** |

## Note 23 Costs by type

| Costs by type | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| Depreciation | 11 506 | 25 196 |
| Consumption of materials and energy | 401 | 549 |
| Third-party services | 5 626 | 14 116 |
| Taxes and charges | 27 | 100 |
| Employee benefits | 2 430 | 2 344 |
| Other expenses | 1 063 | 17 270 |
| **Costs by type** | **21 053** | **59 576** |
| Selling cost | (2 610) | (18 646) |
| Overheads | (4 633) | (5 306) |
| Value of products sold | 3 407 | 17 186 |
| **Cost of products sold** | **17 217** | **52 810** |

## Note 24 Employee benefits

| Costs by type | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| Remuneration | 1 868 | 1 591 |
| Social insurance | 290 | 87 |
| Other employee benefits | 272 | 666 |
| **Total employee benefits** | **2 430** | **2 344** |

## Note 25 Other operating revenues

| Other operating revenues | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| Release of receivables valuation allowance | 7 | 77 |
| Release of impairment loss on inventory | - | 2 |
| Damages received | 6 | 402 |
| Profit on selling non-financial fixed assets | 39 | - |
| Writted off liabilities | 7 | 160 |
| Re-invoices | 296 | - |
| Rental | - | 1 |
| Stock-taking discrepancies | 65 | - |
| Other | - | 7 |
| **Total other operating revenues** | **420** | **649** |

## Note 26 Other operating expenses

| Other operating expenses | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| Valuation allowances for receivables | 283 | 2 447 |
| Impairment loss on inventory | 123 | - |
| Inventory and fixed assets liquidation | 33 | 46 |
| Intangible assets write-off | 15 044 | - |
| Reinvoices | 21 | 1 |
| Written off receivables | 308 | - |
| Legal expenses | 24 | 2 927 |
| Whitholding tax as cost | 792 | - |
| Other | 1 353 | 2 |
| **Total other operting costs** | **17 981** | **5 423** |

Intangible assets write-off concerns a write-off of part of the development works concerning “SGW 3” in the amount of PLN 12,226 thousand and the mobile version of “Lords of the Fallen” in the amount of PLN 2,818 thousand.

## Note 27 Financial revenues and costs

| Financial revenues and costs | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| Interest received | 4 | 31 |
| Positive net exchange differences | 824 | - |
| Dividend received | - | 1 866 |
| Other | 16 | - |
| **Total financial revenues** | **844** | **1 897** |
| Interest accrued | 42 | 338 |
| Negative net exchange differences | - | 1 403 |
| Valuation allowances for financial assets | 292 | 16 |
| Other | 55 | 309 |
| **Total financial costs** | **389** | **2 066** |

## Note 28 Income tax

| Income tax | 2018<br>thousand PLN | 2017<br>thousand PLN |
|---|---|---|
| **Current income tax** | - | 1 081 |
| Deferred tax | 945 | 4 339 |
| **Total income tax** | **945** | **5 421** |

## Note 29 Effective tax rate

| **Effective tax rate** | **2018**<br>**thousand PLN** | **2017**<br>**thousand PLN** |
|---|---|---|
| Profit/loss before tax | (20 563) | 11 898 |
| Tax based on 19% tax rate | - | 2 261 |
| Non-taxable revenues, tax value | (1 998) | (421) |
| Revenues/costs of registered partnerships where CI GAMES S.A. / Business Area Sp. z o.o. is | (278) | (4 444) |
| Non-deductible expenses, tax value | 5 368 | 5 656 |
| Write off the previous-year losses | - | 1 288 |
| Witholding tax | - | 1 081 |
| Income tax | 3 092 | 5 421 |
| **Effective tax rate** | **-15%** | **46%** |

## Note 30 Activity segments

The basic segments of the Company's activity are production and sale of own games as well as publishing activity that was isolated in 2018. Since in 2018 there were no sales in this segment and only costs took place (mainly external services and travel costs) the form of which was intangible, the Company does not present these results as divided into these segments.

The distribution of sale as divided into distribution on carriers and digital sale and geographical distribution is presented in Note 22.

## Note 31 Profit/loss per 1 share

The net loss per 1 outstanding share is PLN 0.14 as at December 31, 2018.

## Note 32 Coverage of loss for 2018 and settlement of profit for 2017

As at 5/23/2018, the Extraordinary General Shareholders Meeting, acting pursuant to resolution 8/1/2018 of the Extraordinary General Meeting of CI Games S.A. decided to allocate the profit of the Company of 2017 in the amount of PLN 6,477,000 to cover the loss of the Company of 2016.

Recommendation on coverage of loss from 2018

The Management Board of the Issuer recommends covering the loss incurred in 2018 with the profits made in the future.

**Note 33 Contingent liabilities and receivables**

As at 12/31/2018, the Company held the following contingent liabilities:

- Hedging of the credit agreement – described above in Note 16;
- blank promissory note issued by the Company together with promissory note declaration on 1/9/2018 as means of securing the receivables of mBank S.A. to secure repayment of the overdraft facility and revolving facility amounting in total to PLN 35 M;
- bank guarantee issued by mBank S.A. on 7/27/2018 up to the amount of EUR 114 thousand for EP Office 1 Sp. z o.o., EP Office 2 sp. z o.o., EP Apartments Sp. z o.o., EP Retail Sp. z o.o. for the rent of office space at ul. Zajęcza 2B. The guarantee is valid until 7/16/2023;
- blank promissory note together with promissory note declaration issued by the Company on 7/27/2018, for collateral of receivables of mBank S.A. due to implementation of bank guarantee, referred to above;
- Framework Agreement for the financial market transaction concluded with mBank S.A. on 8/9/2018;
- blank promissory note together with promissory note declaration issued by the Company on 8/9/2018, for collateral of receivables of mBank S.A. to secure the Framework Agreement for the financial market transaction, referred to above.

The regulations concerning the goods and services tax, corporate income tax, personal income tax or social security contributions undergo frequent changes and consequently there is often no reference to the established regulations or legal precedents. The applicable regulations are unclear at times, resulting in differing opinions concerning legal interpretation of tax regulations both between the public bodies, and between the public bodies and companies. The tax and other settlements (including customs or foreign currency) can be checked by bodies authorised to impose significant penalties and the additional payables determined during the inspection must be paid together with the applicable interest. For this reason, the tax-related risk is higher in Poland than in the countries with more developed tax system.

The tax settlements can be checked for five years. Consequently, the sums named in the financial statement can be changed on a later date, after the tax authorities determine their ultimate value. The Company believes that appropriate provisions were created for the probable and quantifiable risks.

**Note 34 Pending court proceedings**

As at the statement's date, there are no disputes with the total value amounting at least to 10% of the Issuer's own capitals.

**Note 35 Transactions with related parties**

All transactions were executed pursuant to market terms and conditions.

| Transactions with related parties | Costs thousand PLN | Revenues thousand PLN | Receivables thousand PLN | Liabilites thousand PLN |
|---|---|---|---|---|
| CI Games USA Inc. | - | 196 | 5 895 | - |
| Business Area Sp. z o.o. | - | 4 | 1 | - |
| Business Area Sp. z o.o. Sp. j. | 437 | 20 | - | 939 |
| CI Games S.A. Sp. j. | 98 | 4 | - | 27 |
| United Label S.A. | - | 230 | 402 | - |
| **Total** | **535** | **454** | **6 298** | **966** |

Transactions with companies related personally with Marek Tymiński, major shareholder of the Company, who controls the following entities directly or indirectly:

| Transactions with related parties | Costs thousand PLN | Revenues thousand PLN | Receivables thousand PLN | Liabilites thousand PLN |
|---|---|---|---|---|
| Onimedia Sp. z o.o. | - | 2 | - | - |
| Premium Restaurants Sp. z o.o. | - | 1 | - | 9 |
| Premium Food Restaurants S.A. | 1 | 24 | 85 | - |
| Fine Dining | 5 | 15 | 171 | - |
| **Total** | **6** | **42** | **256** | **9** |

Transactions with the Supervisory Board and Management Board members, including with the companies having personal ties with them:

| | Costs thousand PLN | Revenues thousand PLN | Receivables thousand PLN | Liabilites thousand PLN |
|---|---|---|---|---|
| Marek Tymiński | 60 | 8 | 8 | 72 |
| **Total** | **60** | **8** | **8** | **72** |

## Note 36 Cash structure

| Cash structure | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Cash in hand | 14 | 20 |
| Cash in bank | 4 977 | 7 949 |
| **Total** | **4 991** | **7 969** |
| **Total cash for the purpose of the cash flow statement** | **4 991** | **7 969** |

## Note 37 Information on employment

| Employment structure | as at 31.12.2018 | as at 31.12.2017 |
|---|---|---|
| Production employees | 37* | 79 |
| Administration and sales | 14 | 12 |
| Total employment | 51 | 91 |

* The figures cover permanent associates of the Company who directly and personally contribute to its functioning irrespective of the legal form of employment (employment contract, contract for specific work, commission contract, services agreement, other legal relations of similar nature) and the length of the planned cooperation period (indefinite time, definite time, trial period).

## Note 38 Remuneration of the Management and Supervisory Board Members

**Value of remuneration paid to the Management Board Members in 2018:**

| | |
|---|---|
| Marek Tymiński - President | 1,018,700 |
| Maciej Nowotny - Member of the Management Board | 379,000 |
| Monika Rumianek - Member of the Management Board | 65,000 |
| **Total:** | **1,462 700** |

**Value of remuneration paid to the Supervisory Board Members in 2018:**

| | |
|---|---|
| Ryszard Bartkowiak - Supervisory Board Chair | 24,000 |
| Grzegorz Leszczyński – Member | 15,000 |
| Tomasz Litwiniuk – Member | 18,000 |
| Norbert Biedrzycki – Member | 18,000 |
| Mariusz Sawoniewski – Member | 15,000 |
| Marcin Garliński – Member of the Supervisory Board | 3,000 |
| **Total:** | **93,000** |

## Note 39 Number of shares held by the Management and Supervisory Board Members

| Person | Position | As at 12/31/2017 | Increase in shareholding during the period from 1/1/2018 to 12/31/2018 | Decrease in shareholding during the period from 1/1/2018 to 12/31/2018 | As at 3/28/2019 (report publication date) |
|---|---|---|---|---|---|
| Marek Tymiński | CI Games S.A. Management Board President | 59,663,570 | - | - | 59,663,570 |
| Monika Rumianek | CI GAMES S.A. Management Board Member | 150,000 | - | - | 150,000 |

As at 12/31/2018, the Supervisory Board Members did not hold any shares in the Company.

## Note 39 Financial instruments

| Financial instruments - classification | as at 31.12.2018 thousand PLN | as at 31.12.2017 thousand PLN |
|---|---|---|
| Credits and loans | 121 | 162 |
| Receivables | 8 772 | 7 700 |
| Payables related to debt securities | - | - |
| Financial payables for the hedging instrument valuation | - | - |
| Bank loans | 16 212 | - |
| Cash and cash equivalents | 4 991 | 7 696 |

Fair value of all financial instruments does not differ significantly from their balance-sheet value as at the balance sheet date.

**Risks the financial instruments are exposed to. Protection against risk**

**Loan risk, cash flow risk**

The Company does not have any trade receivables insurance. The protection against the risk related to the lost value of those financial instruments takes the form of cooperation with vendors having stable financial situation and its ongoing monitoring. In the financial period, there was no significant decrease in payable value. There are no significant delays in paying the Company's receivables.

**FX risk**

The payables and receivables resulting from current operations were created mostly in foreign currencies which is a functional and presentation currency. The Issuer uses the payables in the non-functional currencies to control the FX risk related to currency receivables.

In 2018, most revenues of the Company were generated in two currencies: EUR and USD. The Company protects itself from the FX risk by contracting liabilities in those currencies.

**Sensitivity analysis**

The table below presents the influence of 10% of exchange rate of EUR and USD change to the balance of working capital and balance of cash as at 12/31/2018.

| Financial instruments - sensitivity | as at 31.12.2018 | +/- 10% PLN/EUR | +/- 10% PLN/USD |
|---|---|---|---|
| Receivables | 8 772 | 226 | 1 969 |
| Liabilities | 4 340 | 242 | 464 |
| Cash | 4 991 | 597 | 633 |

**Interest rate risk**

The interest rate value was conditional on the interbank rates LIBOR and WIBOR, and consequently on the interest rate risk of the whole economic systems.

The Company does not have any instruments to control this risk type.

**Price risk**

The Company secures itself against the possible decrease in financial interest value and the risk of reduced cash flows related thereto, by selling in many countries and economic systems. This offers protection against fluctuations on a single market. The Company introduces new, improved products and new consoles into its offer, expanding the offer and strengthening its competitive advantage. Careful selection of distributors and evaluation of their financial standing also offer greater reduction of price risk.

**Risk of new game titles**

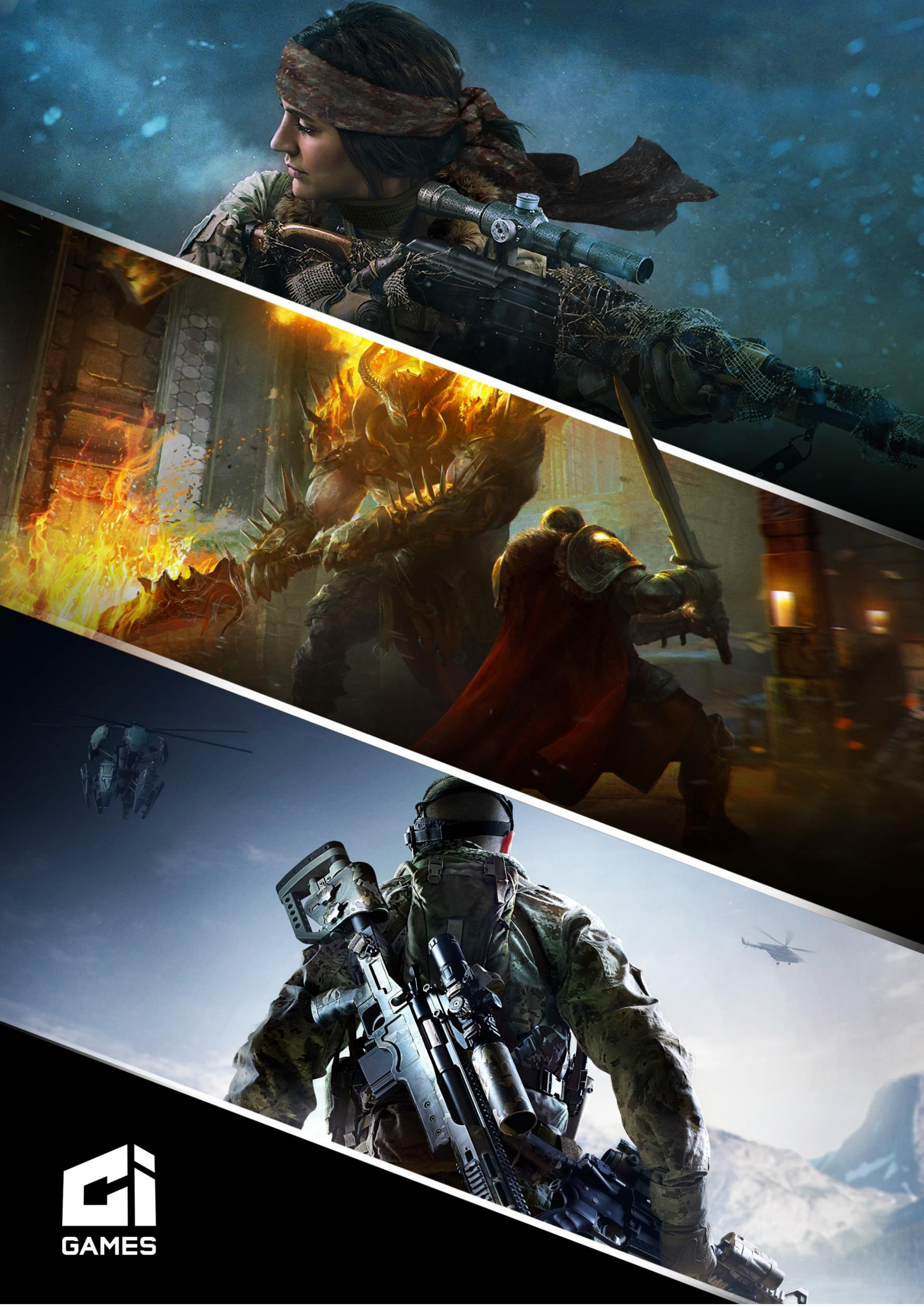
The Company's operations are focused on computer game production. Computer game production requires significant outlays for R&D works and for marketing which reduces the abilities to diversify risk and distribute it among different products (titles). Consequently, the risk is focused on relatively few game titles which are awaiting marketing. Such risk accumulation means that in case of any failure in game selling, the Company is exposed to significant decrease in profits on sales, net results and liquidity issues.

**Note 40 Events after the balance sheet date**

In the Q1 2019, the Company signed the first distribution agreements for "Sniper Ghost Warrior Contracts" with Maximum Games Ltd. from England, covering the area of Great Britain and Ireland, Just For Games SAS for France covering the area of France, PAN Vision AB from Sweden, covering the area of Norway, Sweden, Iceland, Denmark, Finland, Lithuania, Latvia and Estonia; and Five Star Games Pty. Ltd. from Australia covering the area of Australia and New Zealand.

| | |
|---|---|
| **Marek Tymiński** | **Monika Rumianek** |
| Management Board President | Member of the Management Board |

**Warsaw, March 28, 2019**



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