

Management Board REPORT on the CI GAMES S.A. Capital Group activities

2018



WARSAW, 3/28/2019

Dear Shareholders!

Since the beginning of 2018, the whole CI Games Group has been undergoing significant changes that are the result of adoption and implementation of a strategy announced in June 2017, updated in December 2018, within which:

- We significantly decreased the internal production studio of CI Games. The team previously composed of 100 persons now comprises of 30 experts. In majority, these are employees with many years of experience concerning production of shooter type games.
- We established a strong 7-person team managing the Group, responsible for the implementation of the new strategy. The team is in majority composed of managers experienced in the field of video games.
- Our internal studio is currently working on the next game of the SGW series – “Sniper Ghost Warrior Contracts” – this is being done with a significant support of external production studios contributing in the area of design, graphics and code. The game will be made available for consoles and PC in 2019. The Company has signed first distribution agreements for key territories such as Great Britain, France, Australia and Scandinavia, under which the distribution of “Sniper Ghost Warrior Contracts” will be carried out.
- The result of careful selection of Partners is the cooperation started in June 2018 with high-end developer studio from New York, Defiant Studios, which is responsible for the production of “Lords of the Fallen 2” for consoles and PCs. Current works on “Lords of the Fallen 2” are progressing in line with the objectives set by the parties.
- To develop its publishing activity in CI Games Group, in July 2018 we established subsidiary United Label S.A., which in Q4 of 2018 concluded publishing agreements with four developer studios on the publication of four indie games.

In 2018, no release took place, thus the generated sales revenues amounting to PLN 22.0 million were generated on sale of games from “Sniper” and “Lords of the Fallen” series. In 2018, we have decided to write off development works by PLN 12.2 million concerning “Sniper Ghost Warrior 3” and mobile version of “Lords of the Fallen” (PLN 2.8 million). These write-offs present an accounting operation that increased the net loss by PLN 15.0 million, however, it did not have impact on the cash flows. The Group noted positive cash flows from operating activity in the amount of PLN 8.8 million and invested in development works more than PLN 24 million.

I consider 2018 to be a very good year. We made significant changes and as of today we can boast about stronger foundations and real potential, for our financial results in the upcoming years to be better than our historical bests. The video games industry is dynamically changing and we want to benefit from this industry as well. I believe that being consistent in the implementation of our strategy, combined with experience and competences of the team in the field of releasing video games will become a source of successes in the upcoming year and in the years to come.

On behalf of the CI Games Group I would like to thank you for your trust and I present you our financial statements.

Marek Tymiński
President of the Management Board

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>1 mln

SPRZEDANYCH KOPII
SNIPER GHOST WARRIOR 3



>7 mln

SPRZEDANYCH KOPII
SERII
SNIPER GHOST WARRIOR



>2 mln

INSTALACJI
SNIPER GHOST WARRIOR
NA URZĄDZENIACH
MOBILNYCH



>9 mln

GRACZY
LORDS OF THE FALLEN

PIERWSZY NOTOWANY OD 2007 ROKU PRODUCENT I WYDAWCA NA GPW

CI Games S.A. Management Board Statement

Pursuant to provisions para. § 70 section 1 item 6 of the Ordinance of the Minister of Finance of 3/29/2018 (Journal of Laws of 2018, item 757) on the ongoing and periodic information submitted by the securities issuers and the requirements of considering the information required under the law of the non-member state as equivalent, the Management Board of CI Games S.A. states that according to their best knowledge the annual financial statement and comparable data were prepared in compliance with the applicable accounting principles and reflect the material and financial standing of CI Games S.A., and its financial result, truly, accurately and clearly and that the yearly report on the Group operations includes a true picture of the development, achievements and standings of CI Games S.A., including the list of basic threats and risks.

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

CI Games S.A. Management Board

Marek Tymiński

Management Board President

Monika Rumianek

Member of the Management Board

Warsaw, March 28, 2019

1. General description of operations and resources of Capital Group

1.1 Profile of operations and resources of CI Games Capital Group

CI Games Capital Group (hereinafter: “Group”, “Capital Group”, “CI Games Group”) operates in the global video game development and publishing market **for over 20 years**. Parent company CI Games S.A. (hereinafter: “CI Games S.A.”, “Issuer”, “Company”, “Parent company”, “Parent entity”) is the first publicly traded company in this sector in Central and Eastern Europe and the first in the region to emerge as an international player.

The CI Games Group comprising among others an independent developer and publisher – CI Games S.A. – can develop its projects and publish games in line with its own vision and the best strategy for a given product. The Capital Group covers, first of all, the Parent company with its seat in Warsaw and a key subsidiary CI Games USA Inc. with its registered office in New York. CI Games S.A. focuses on publishing and manufacturing activity, while CI Games USA Inc. deals in publishing in the markets of North and South America.

In 2018, CI Games S.A. appointed an affiliated company United Label S.A. the objective of which is to develop the publishing activity of the Group based on the cooperation with independent game producers.

As a response to dynamically changing market conditions, CI Games Group based its business model on the knowledge and cooperation with carefully selected Partners. The Group’s strategy ensures optimal effectiveness and constant control over the titles issued by the Group.

The Group is competent in all business areas of video games market. Within the activity carried out on the video games market, the Capital Group or the companies being a part of it act as:

- A. Producer** having its own production studio, where it develops new titles in cooperation with external Partners. The developer studio of CI Games in Warsaw specializes in production of FPS video games;
- B. Publisher** of own games and licensed products, being responsible for marketing strategy and product roll outs using local distributors. CI Games S.A. as one of few entities in Poland has concluded manufacturing and self-publishing agreements with the owners of the most popular consoles, that is with Sony and Microsoft. The Company issues games for all key platforms: PlayStation, Xbox and PCs.
- C. Distributor**, selling products directly to retail chains and online. The Group has one subsidiary – CI Games USA Inc. – dedicated to service the needs of direct sale, among others on the US market.

The combination of the three mentioned above areas of activity, the Group **can effectively control the production and distribution process of the games it creates, as well as of licensed titles of other manufacturers.**

The Group creates high-quality innovative products on the basis of own and external IP. The key brands of CI Games Group include “Lords of the Fallen” (hereinafter also: “LotF”) and “Sniper Ghost Warrior” (hereinafter also: “SGW”). From the moment LotF was issued, the game reached more than 9 million players world-wide, while titles of the SGW series were purchased in the amount exceeding 7 million copies. In the past year, 97% of Group’s revenue came from export.

Map 1. Distribution of CI Games studio games



Sale of games by CI Games Group is carried out within three main business models: sale of physical carriers of products to selected distribution partners, sale of digital codes that make it possible to install the game and sale of rights to game distribution in a given territory (in box or in a digital version).

In order to maximize sales performance and marketing potential, CI Games collaborates with international distributors who operate on specific regional markets and are responsible for implementing promotional and marketing plans.

Games of CI Games Group are available in the biggest channels of global digital distribution – Steam, PlayStation Store, Xbox Games Store, App Store and Google Store. In case of games in digital versions for PC, the Group's activity is extended by direct cooperation with the greatest Internet platforms, thus reaching various players world-wide and making the purchase of games in local currencies available.

1.2 Products of CI Games Capital Group

Since 2002, Capital Group issued more than 100 titles and is the owner of globally-recognized brands, among others “Sniper Ghost Warrior” and “Lords of the Fallen” series.



SNIPER GHOST WARRIOR 2 | MARZEC 2013



SNIPER GHOST WARRIOR 3 | KWIECIEŃ 2017

2010

2013

2014

2017

2019

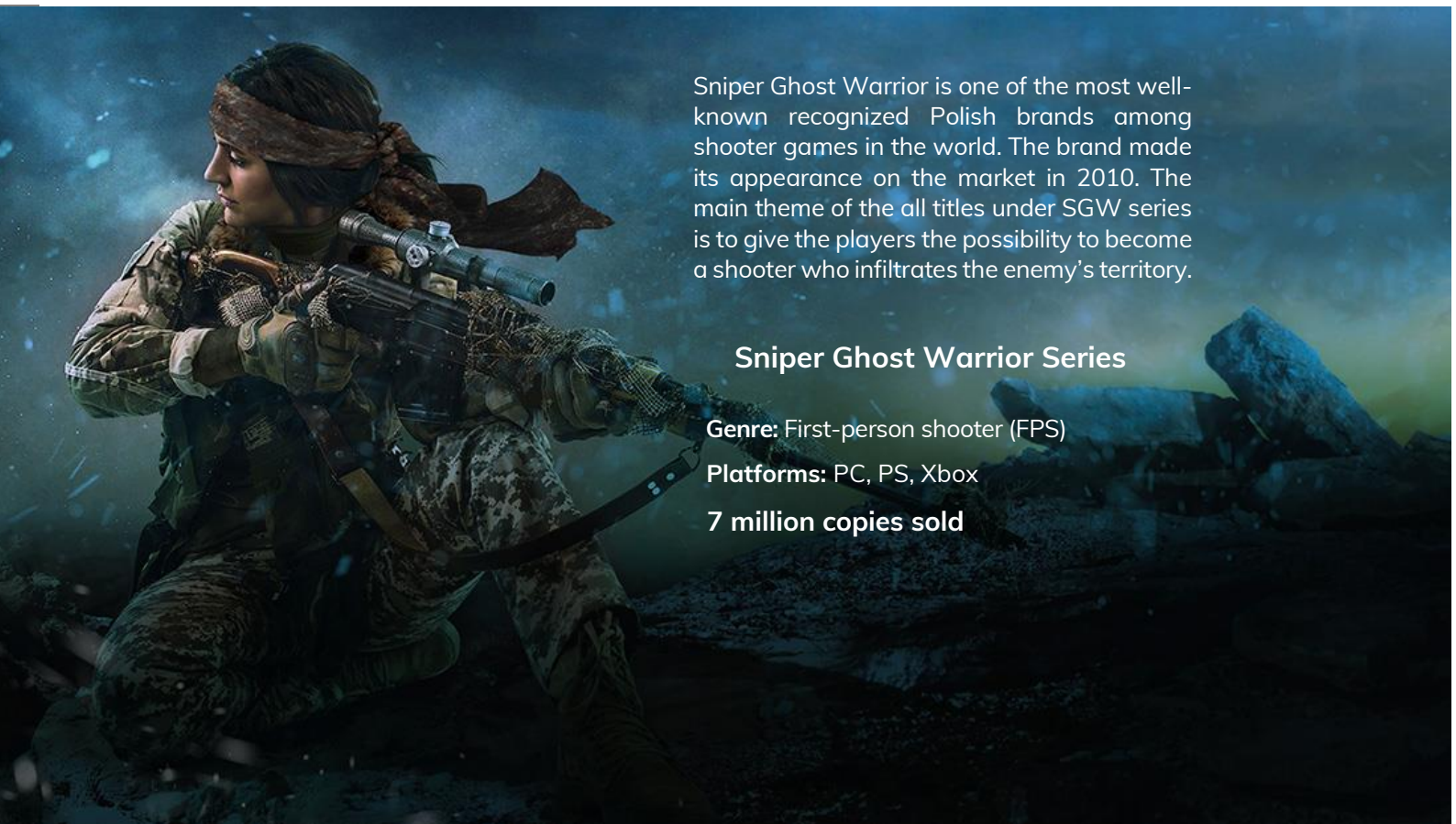
SNIPER GHOST WARRIOR | CZERWIEC 2010



ENEMY FRONT | CZERWIEC 2014
LORDS OF THE FALLEN | PAŹDZIERNIK 2014



SNIPER GHOST WARRIOR CONTRACTS



Sniper Ghost Warrior is one of the most well-known recognized Polish brands among shooter games in the world. The brand made its appearance on the market in 2010. The main theme of the all titles under SGW series is to give the players the possibility to become a shooter who infiltrates the enemy's territory.

Sniper Ghost Warrior Series

Genre: First-person shooter (FPS)

Platforms: PC, PS, Xbox

7 million copies sold



SNIPER

GHOST WARRIOR

Sniper Ghost Warrior

Genre: First-person shooter (FPS)

Release date: June 2010

Platforms: PC, PS3, Xbox 360

4 million copies sold



SNIPER 2

GHOST WARRIOR

Sniper Ghost Warrior 2

Genre: First-person shooter (FPS)

Release date: March 2013

Platforms: PC, PS3, Xbox 360

2 million copies sold



SNIPER 3

GHOST WARRIOR

Sniper Ghost Warrior 3

Genre: First-person shooter (FPS)

Release date: April 2017

Platforms: PC, PS4, Xbox One

Over 1 million copies sold

In 2014, CI Games introduced the game "Lords of the Fallen", available on PS4, Xbox One and PC. LoTF is characterized by engrossing game mechanics, advanced combat system and variability of weapons, which allows the players to customize their combat style. The game takes place in a fantasy world.

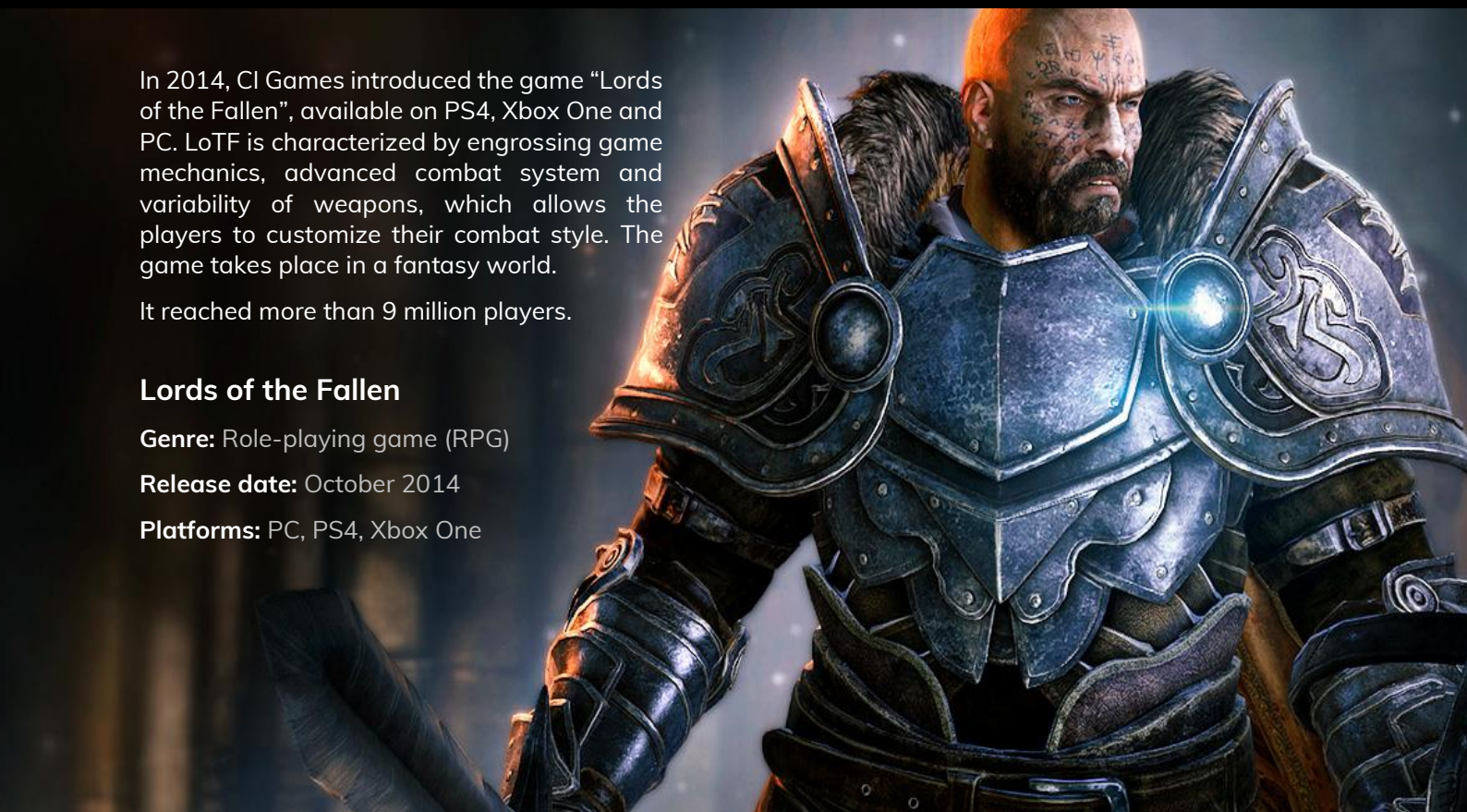
It reached more than 9 million players.

Lords of the Fallen

Genre: Role-playing game (RPG)

Release date: October 2014

Platforms: PC, PS4, Xbox One



1.3 Description of products, services, sales markets, suppliers and recipients

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

The structure of revenue from sale, obtained by the Group in 2017–2018, by the type of product offered, was as follows in terms of value:

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

Revenue	2018	% share	2017	% share	2018/2017
Own products	3 555	0%	70 581	68%	-95%
Licenses	0	0%	815	1%	-100%
Online sales	18 429	0%	31 476	31%	-41%
Other Sales	0	0%	157	0%	-100%
Total	21 985		103 029		-79%

The decrease of sale noted in 2018 results from the seasonal activity of the Group. The highest sales are noted after the release of the game. Since in 2018 no game was released, the sales went significantly down as compared with 2017.

In 2018, the digital sale share increased. It is the most profitable sales channel as it does not require financial expenditures for the production of physical copies.

Structure of revenue from sale in volume terms

Units	2018	Udział %	2017	Udział %	2018/2017
Physical sales	145 929	8%	870 240	49%	-83%
Licenses	0	0%	26 500	1%	-100%
Digital sales	1 582 275	92%	869 407	49%	82%
Other Sales	0	0%	3 072	0%	-100%
Total	1 728 204	100%	1 769 219	100%	-2%

The change in the volume structure results also from the fact that during the release and months after the release the highest sale of physical copies can be observed. The share of these copies in sales decreases in line with the game life cycle.

Territorial division or sales revenues of CI Games Group in the years 2017-2018 in volume terms

Revenue	2018	2017
Abroad	22 363	99 953
Share	102%	97%
Country	-378	3 076
Share	-2%	3%
Total	21 985	103 029

The Group sells its titles on five continents (more than 160 countries). The products of CI Games are available in all countries of the world via the digital distribution platforms.

The clients, whose share in the Group sale exceeded 5% in 2018, include: Microsoft Corporation, Valve Corporation, Sony Interactive Entertainment America, Sony Interactive Entertainment Europe, Humble Bundle Inc. The other vendors did not exceed the selected materiality level.

The biggest external partner (supplier) who exceeded 10% of value of total purchases of the Group in 2018 is Defiant Studios LLC.

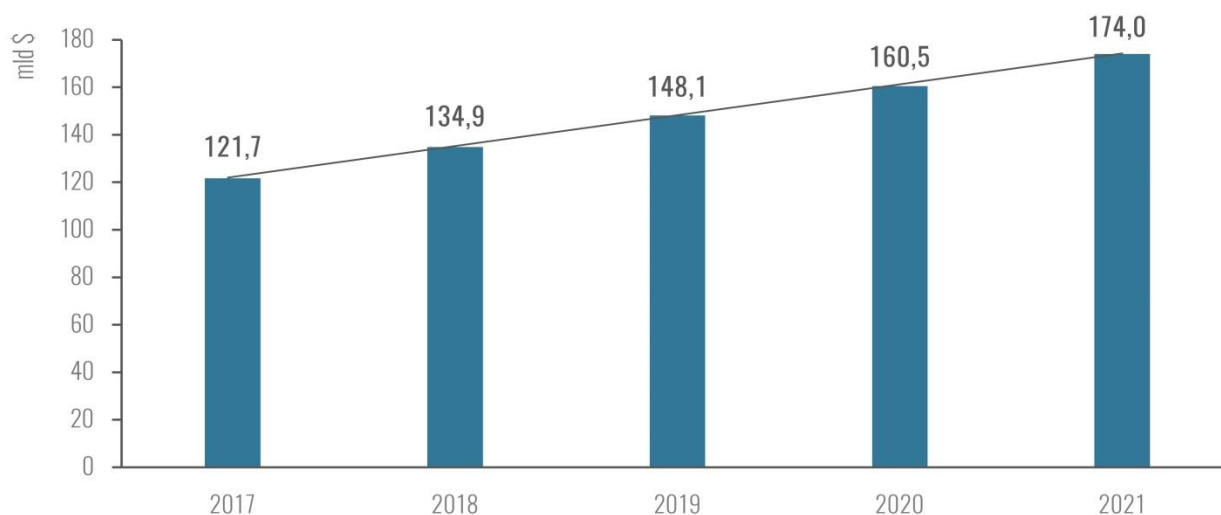
The other suppliers did not exceed the selected materiality level.

1.4 Description of the market the Group operates on

In 2018, the video games industry noted another increase and dynamic development, which was proven by record results. The highest increase of revenues can be noted on the mobile and console market.

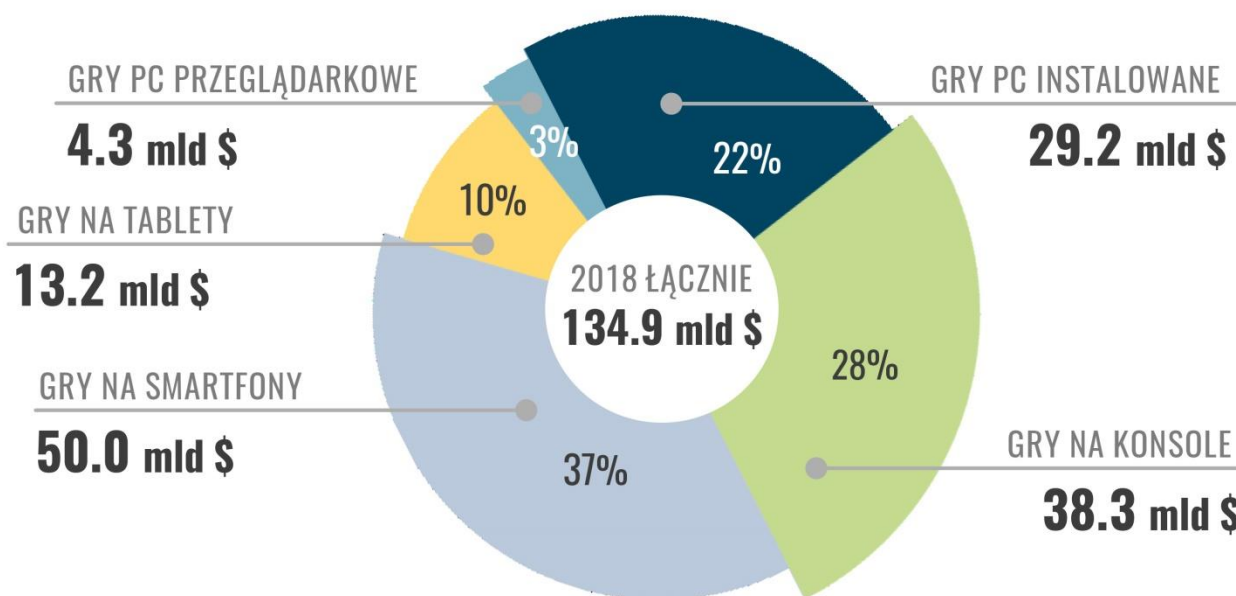
The analytical company Newzoo estimated that the value of the global video games market in 2018 amounted to USD 134.9 billion, that is it was 10.8% higher than last year. Compound Annual Growth Rate is estimated at the level of 9.4% (CAGR) with the estimated value of USD 174.0 billion in 2021.

Graph 1. Global value of games market (USD billion)



Source:
2018 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

Graph 2. Value of video games market in 2018



Source: 2018 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

According to the report prepared by Newzoo, the games market is dominated by PC and console games, which accounted for 53% of market in 2018. The mobile games segment accounted for 47% of value of video games market in 2018.

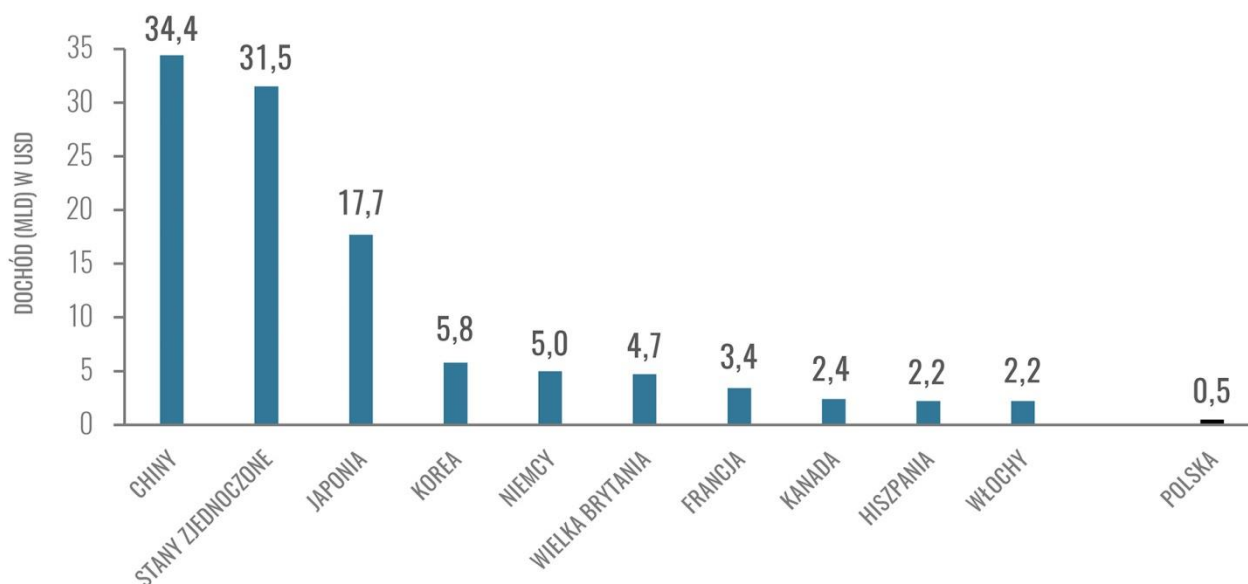
The revenue structure per regions indicated that Asia and Pacific region account for the largest share in the global video games market reaching ca. 49%. The second place is occupied by North America – 25%. Slightly lower share at the level of 22% in the global games market has the Europe, Africa and Near East. South America and Latin America constitute unchangeably 4% of share in the global games market.

Map 2. Market of video games in 2018



Source: 2018 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

Graph 3. The biggest video games markets in the world in 2018 (in USD billion)



Source:
Top 100 Countries by Game Revenues, Newzoo: <https://newzoo.com/key-numbers>

The biggest local markets of video games in 2018 include China, United States and Japan of the respective values: USD 34.4 billion, USD 31.5 billion and USD 17.7 billion. Korea ranked as the fourth place with a result of USD 5.8 billion and Germany – USD 5.0 billion. Leaders were able to maintain their position from the last year, while Korea surpassed Great Britain and Germany reaching value 38% greater than in 2017.

1.5 The key events in the Group in 2018 and up to the report date

Games production area

- The decrease of the internal production studio of CI Games that amounted to more than 100 people to a team comprising 30 experienced developers. Creation of 7-person team of specialists managing the Group, responsible for the implementation of the Group's strategy.

- Signing an agreement with Defiant Studios LLC developer studio from New York for the production of a new game from the “Lords of the Fallen” series. It will be a role-playing game for XboxOne, PlayStation4 and for PCs. The works began in the second half of 2018.
- The continuation of works over the production of “Sniper Ghost Warrior Contracts” based on own production team and partner studios. The game release is planned for 2019.
- Continuation of the sale of “Sniper Ghost Warrior 3” game (hereinafter also: “SGW 3”) that took place in April 2017.
- The Group has signed agreements with four independent games producers in the indie segment and will be a global publisher of these games.
- At the end of 2018, the sale of “Sniper Ghost Warrior 3” exceeded 1.3 million copies. This number covers both the physical carriers and digital distribution.

Other events

- On 1/9/2018, CI Games S.A. signed two important credit facility agreements:
 - agreement for revolving credit facility in the amount of PLN 30 million for the financing of the production of new titles of computer games being issued by the Company;
 - overdraft facility agreement in the amount of PLN 5 million for the financing of the current activity of the Company. The detailed description of these agreements can be found in item 3.4 of this report.
- On 1/25/2018, CI Games S.A. carried out another subscription for series F shares due to the Incentive Program for the key employees and associates of the Company, including the Management Board Members issued within the conditional increase of the initial capital of the Company. As a result of the subscription, 40 thousand ordinary bearer series F shares were acquired of nominal value PLN 0.01 each. The issue price of the series F shares acquisition is PLN 0.70 each.
- On 5/28/2018, the Company changed the address of the Company's headquarters. The new address: ul. Zajęcza 2B, 00-351 Warszawa.
- On 12/13/2018, the Company informed about the adoption of an updated strategy of the CI Games Capital Group development for the years 2017-2019. The details of this strategy can be found in item 1.10 “Perspectives” of this report.

In 2019, the Group 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; Five Star Games Pty. Ltd. from Australia, covering the area of Australia and New Zealand and with PAN Vision AB from Sweden, covering the area of Norway, Sweden, Iceland, Denmark, Finland, Lithuania, Latvia and Estonia.

1.6 Information concerning the seasonal or cyclical nature of the business in the presented period

A typical phenomenon of video games industry is the fact that significantly greater revenues are recorded at the time of new titles release and that in subsequent months one can observe their natural decrease, which proves the seasonal and cyclical character of this industry. 2018 was the year when no new games were published and thus the revenue from sale was on a lower level than in the years when the studio released its titles.

In 2019, a release of “Sniper Ghost Warrior Contracts” is planned as well as 2 releases from the indie segment within the publishing activity carried out by the subsidiary United Label S.A. More on this in item 1.10 “Perspectives”.

1.7 Characteristic of internal and external factors important for the Group development

The group functions on an international market and is, therefore, largely dependent on the international economics. Nevertheless, the industry itself is more resistant to economic crises than other branches of the economy.

The most important external factors that influence the development of the Capital Group include the regulatory factor, that is the one associated with the current state of legal, also tax, regulations. What is also important is the greater role of virtual media in the promotion of titles and the growing share of distribution channels at the cost of traditional distribution channels. Moreover, the market of game producers is more and more competitive, which directly translates into the level of remuneration in the industry and the process of search for and maintenance of highly-qualified staff, contractors and sub-contractors.

The company focuses its activity on projects that are attractive for prospective consumers of sufficiently large scale. Such projects include “Sniper Ghost Warrior Contracts”, the budget of which is comparable with “Sniper Ghost Warrior 2”, and “Lords of the Fallen 2” – the biggest project of the Company so far, the budget of which significantly exceed the budget of the “Lords of the Fallen 1”. For the whole year 2018, the Company has been focusing on the search for cooperation partners and on establishing such relations that can guarantee high-quality products irrespective of their price range, products that are interesting and that allow to create a diversified Company’s portfolio that responds to the expectations of various groups of players.

Simultaneous implementation of several project will allow to diversify the revenues, to stabilize the results between the releases of own titles and for the effective use of the held resources. In this context, it is necessary to secure financing to develop the business activity of the parent company and CI Games Group. The parent company has concluded two credit facility agreements for a total amount of PLN 35 million. Thanks to them the simultaneous implementation of projects with the support of high-class specialist will be possible.

The Group intends to take on new challenges based on own resources and wide network of partners. Such a model of functioning will allow for more flexibility in decision-making and in implementation of new projects.

The detailed description of factors that can have a significant influence on the Group’s activity can be found in item 2.1 “Important Group risk factors and hazards” of this report.

1.8 Research and development works

The group did not carry out research and development activities in the period covered by the financial statements.

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

1. Agreements significant for the business activity:

- a) Credit agreement concluded by CI Games S.A. with mBank S.A. on 1/9/2018. More on these agreements in point 3.4 of this report;
- b) Cooperation agreement concluded by CI Games S.A. on 6/1/2018 with Defiant Studios LLC with its registered with registered office in New York, under which Defiant Studios LLC will produce a game based on its own creative vision that will be the next game in the "Lords of the Fallen" series. The provisions of the aforementioned agreement do not differ from those commonly applied to those kinds of agreements;
- c) License agreements concluded by United Label S.A. with independent publishers: Polygon Treehouse Ltd, Lunarix Iris, Odd Bug Strios Limited, Fallen Flag Studio Ltd for the distribution of their games around the world.
- d) First distribution agreements for the distribution of "Sniper Ghost Warrior Contracts" between CI Games S.A. and: PAN Vision AB from Sweden, covering the area of Norway, Sweden, Iceland, Denmark, Finland, Lithuania, Latvia and Estonia; Maximum Games Ltd. from England, covering the area of Great Britain and Ireland; Five Star Games Pty. Ltd. from Australia, covering the area of Australia and New Zealand and Just For Games SAS from France, covering the area of France. These agreements were signed in 2019.

2. Insurance agreements

In the reporting period, CI Games S.A. had the following insurance agreements:

Insurer's name	Subject and scope of insurance	Insurance period	Insurance sum
Allianz D&O Protect	Third party liability insurance of the Company's authorities	01.12.2017 - 30.11.2018	PLN 60,000
Allianz D&O Protect	Third party liability insurance of the Company's authorities	01.12.2018 - 30.11.2019	PLN 60,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	08.07.2017 - 07.07.2018	USD 3,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	08.07.2018 - 07.07.2019	USD 3,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	08.07.2017 - 07.07.2018	USD 2,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	08.07.2018 - 07.07.2019	USD 2,000,000
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	15.09.2017 - 14.09.2018	PLN 2,218,996.14
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	17.09.2018 - 16.09.2019	4,093,597.13
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2017 - 29.11.2018	PLN 200,000.00
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2017 - 29.11.2018	PLN 200,000.00
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2017 - 29.11.2018	PLN 200,000.00
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2018 - 29.11.2019	PLN 200,000.00
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2018 - 29.11.2019	PLN 200,000.00
Allianz Skarbowy	Insurance for the Member of the Company's Management Board	30.11.2018 - 29.11.2019	PLN 200,000.00
Scotsdale Insurance Company	Third party liability insurance of the Company's Management Board	09.02.2017 - 09.02.2018	USD 2,000,000
Scotsdale Insurance Company	Third party liability insurance of the Company's Management Board	16.02.2018 - 16-02-2019	USD 2,000,000
CFC Underwriting Limited	Third party liability insurance for the business activity and property held	16.07.2017 - 16.07.2018	USD 2,000,000

CFC Underwriting Limited

Third party liability insurance for the business activity and property held

16.07.2018 - 16.07.2019

USD 2,000,000

Moreover, the Group had third-party liability and Auto-Casco insurance policies for four passenger cars owned.

3. Agreements executed by and between shareholders

The Management Board of CI Games S.A. is not aware of any agreements between the shareholders of CI Games S.A. in 2018.

1.10 Perspectives

Update of the strategy announced in 2018 is about additional diversification of the publishing activity profile and investment in games in indie segment in cooperation with independent developer studios. In this model of activity, the subsidiary United Label S.A. is a publisher of independent indie type games. The Group will generate additional revenues from license fees for the distribution of these games worldwide.

The Company focuses on investment in carefully chosen projects created by highly-specialized teams.

The Group believes that the current strategy will allow the CI Games Capital Group to achieve financial success. The Company's Management Board believes that the Group has the necessary competences and technical capabilities to develop, release and distribute high quality games of own production as well as produced by independent producers.

The sale of the games of the "Sniper Ghost Warrior" series exceeded 7 million copies. After the release of SGW 3, the Company has been continuing the works on the next sniper game "Sniper Ghost Warrior Contracts". The release date of this game is planned for 2019.

The success of "Lords of the Fallen" that so far reached more than 9 million players allows to assume that the planned production of the second installment will turn out to be a success. As at the date of the financial statement, works over the "Lords of the Fallen 2" are advanced.

The Group maintains a high cost discipline and constantly improves the effectiveness of game production process, selecting the competences of particular teams, among other by not limiting itself to game production only in Poland.

Risk management of Capital Group activities

2. Risk management of Group activities

2.1 Important Group risk factors and hazards

According to the Management Board of CI Games S.A., there are no significant circumstances pointing to the inability or serious threat to the ability to continue operations by the Company in the foreseeable future.

Below the most important, according to the CI Games Group, risk factors are described. Apart from the risk factors presented below, other factors not defined below may emerge, that have not been identified or of which the Group is not aware. Occurrence of risk factors, both the ones identified below and unidentified, may influence negatively the Group's operating activities, financial results and difficulties in implementing the strategy, and thus influence the Group's situation.

Competition risk

The Capital Group operates on the market where the major position is held by entities with strong, established reputation. The Group is using its most important advantages effectively: the experienced team, global distribution network, cost advantage connected with lower profitability threshold when compared to other, much bigger producers. Flat organizational structure, on the other hand, provides an advantage of flexibility and quick operations as well as of management efficiency. Since mid-2016, the Group has been developing games solely for the new generation of platforms (Sony PlayStation4®, XboxOne®) and PCs, offering high trading potential.

Trend change risk

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

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

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

Risk of amended legal and tax regulations

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

The Group has been carrying out actions to eliminate this risk by cooperating with specialized legal offices worldwide and by way of product third party liability insurance for the entire publication catalog.

FX risk

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

The risks factors related directly to the Group activity include:

Risk related to losing key employees

The Group's success largely depends on the knowledge and expertise of the employees and contractors. It is characteristic feature for video games industry where the so-called intellectual values are a key asset. It is difficult to hire qualified specialists in the development sector (games production). The recruitment of new employees and contractors entails their on-boarding which causes lower efficiency of work for some time.

Risk related to losing key customers

The commercial activity is based on the developed retail chain channels in Poland and close cooperation with foreign distributors headquartered worldwide. There is a risk that the distribution agreements can be dissolved or bankruptcy declared for companies being formal buyers of goods and for whom the Group is a creditor. To minimize the possibility of losses, the Parent company has subsidiaries, the tasks of which are to expand distribution opportunities and closely cooperate with distributors. Currently, a key role in this scope is played by a subsidiary of the Group with its registered place of business in New York – CI Games USA Inc.

Supplier-related risk

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

Risk related to the development plan implementation

The growing costs of game production can cause increased demand for external financing. The Parent company is able to obtain capital from the financial sector, should it become necessary to finance other projects.

Risk related to the offered products

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

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

An external factor likely to affect the decision to postpone the release date is the market situation, as it is an important aspect of the decision-making process to issue the game in an optimal time taking into account the publishing calendar of other global publishers. Another important risk factor is the suppliers or subcontractors' delay to prepare the ordered game components on time.

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

Another aspect is the risk of making a claim concerning copyright to the games, their components, logos or registered names for particular products against any company belonging to the Capital Group. The activity of the Group in the U.S. is particularly exposed to such a risk due to the stricter legislation in this scope. To avoid losses on these grounds, the Capital Group uses the support of legal offices specializing in the intellectual property protection and registers the trademarks for its products. By making an application to

protect the trademarks in the entire European Union and other countries worldwide, it is necessary to verify its presence on particular markets and assess the risk of violating third party copyright.

Liquidity risk

The Capital Group is exposed to liquidity risk. To protect against the buyers' insolvency risk, their financial standing is analyzed and the receivables inflow is constantly monitored.

Risk related to credit agreements

The Capital Group is exposed to the risk of loss of bank financing that is inherent to every bank credit agreement. The parent company has concluded two agreements with mBank S.A. for the financing of development works and financing of current activity of total value of PLN 35 million. As at 12/31/2018 it has used PLN 16.2 million.

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

The Group, with due diligence and on the basis of many years of experience, estimates the sales potential of new titles. Due to numerous variables that need to be estimated before a release date, it is not possible to completely eliminate the risk of wrong estimation of the number of copies and future sale.

Risk of delays in game production

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

Risk related to producing games for consoles, smartphones and tablets

Production of games for consoles and iOS devices requires the certification process to be completed with a given platform owner. There is a risk that cooperation with the platform owner can be terminated, the delays happen or that the produced game does not obtain the certificate which is likely to postpone the release.

Interest rate risk

The Group is exposed to risk of change of interest rates by the change of values of interests calculated on the loans granted by the financial institutions on the basis of variable interest rate. The Company can conclude futures contracts on interest rate.

Risk related to the macro-economic situation

The computer gaming market where CI Games Capital Group operates is characterized by high competitiveness and dynamics, especially by rapid technological changes and changing consumer interests. Both companies of CI Games Group, as well as the Group itself, by carrying out their business activities are to some extent dependent on the macro-economic factors and the general macro-economic situation. However, according to the Company's Management Board based on the research carried in the previous years, the gaming industry is resistant to potential crises. To reduce the described risk, the Group develops its operations globally, carrying out its independent publishing activities on all important global markets. In recent years, the entertainment sector has been developing dynamically and it is estimated that the video gaming market value has exceeded the one of the film sector. What is more, current research indicated that even in the period of global recession (years 2007-2011), the demand for video games increased on a year to year basis. Due to the above, according to the CI Games S.A. Management Board the risk related to the macro-economic situation, even though it was identified by the Company, is a risk of lower importance for

the Company and Group's activity and as such it does not weaken significantly the competitiveness of the Company.

Financial results

3. Financial results

Overview of basic economic and financial amounts

3.1 Description and assessment of factors and extraordinary events that affect the financial result

In 2018, the Group was focused on the production continuation of the “Sniper Ghost Warrior Contracts” game and on the start of production of a game from “Lords of the Fallen” series.

In 2018, CI Games S.A. decided to write-off development works concerning “Sniper Ghost Warrior 3” in the amount of PLN 12.2 million and the mobile version of “Lords of the Fallen” in the amount of PLN 2.8 million. These write-offs did not influence the cash flows and balance of cash neither in the Company nor in the Group, but they increased the net loss of the Group for 2018.

3.2 Financial highlights

Consolidated P&L	2018 r.		2017 r.	
	thousand PLN	thousand EUR	thousand PLN	thousand EUR
Net revenue from sales	21 985	5 152	103 029	24 272
Profit (loss) from operating activities	(22 378)	(5 245)	12 713	2 995
Gross profit (loss)	(21 947)	(5 144)	11 124	2 621
Net profit (loss)	(22 693)	(5 318)	5 454	1 285
Number of shares (in thousands)	151 110	151 110	151 070	151 070
Profit (loss) per ordinary share (PLN/share)	-0,15	-0,04	0,04	0,01

Net revenue from sales of the Group amounted to PLN 22.0 million in the current year and were significantly lower than the revenues from 2017, due to the cyclical nature of the business activity associated with the release of new games. The most important influence on the revenues in 2018 had mostly the sale of games from “LotF” and “Sniper Ghost Warrior” series.

The gross and net loss amounted respectively to PLN 21.9 million and PLN 22.7 million and it was partially due to the write-off of the total value of PLN 15.0 million for the development works of “SGW 3” and the mobile version of “LotF” (more on this in Note 2 of the consolidated financial statement of the Group).

The factors affecting profitability of the Group operating activities were described in section 2 of this report.

Consolidated balance sheet
31.12.2018 r.
31.12.2017 r.

	thousand PLN	thousand EUR	thousand PLN	thousand EUR
Non-current assets	72 755	16 920	79 089	18 962
Current assets	19 433	4 519	28 043	6 723
Total assets	92 188	21 439	107 132	25 686
Equity	66 814	15 538	89 427	21 441
Initial capital	1 511	351	1 511	362
Liabilities	25 374	5 901	17 705	4 245
Non-current liabilities	17 209	4 002	9 569	2 294
Current liabilities	8 165	1 899	8 136	1 951
Total equity and liabilities	92 188	21 439	107 132	25 686

The balance sheet total of CI Games Capital Group as at 12/31/2018 was PLN 92.2 million that is 16% less than the balance as of 12/31/2017.

The fixed assets in the balance sheet as at 12/31/2018 amounted to PLN 72.8 million that is 9% less than the balance as of 12/31/2017.

The Group current assets reached PLN 19.4 million as at 12/31/2018 and decreased by 44% when compared to the situation as at the end of 2017, which resulted primarily from the decrease of balances of inventory, trade and other assets.

The equity of CI Games Group as at 12/31/2018 totaled to PLN 66.8 million (72.4% of balance sheet total), which indicates a percentage decrease as compared with the balance as at 12/31/2017.

The CI Games Group liabilities as at the balance sheet date reached PLN 25.4 million and increased by PLN 7.7 million when compared to the end of 2017, which is due mostly to the use of credit for the financing of development works.

Consolidated statement of cash flows
2018 r.
2017 r.

	thousand PLN	thousand EUR	thousand PLN	thousand EUR
Net cash flows from operating activities	8 795	2 061	33 592	7 914
Net cash flows from investing activities	(25 406)	(5 954)	(21 738)	(5 121)
Net cash flows from financing activities	15 739	3 689	(23 794)	(5 606)
Net cash flows	(872)	(204)	(11 940)	(2 813)

As at 1/1/2018, the cash in the Group amounted to PLN 13.5 million, while at the end of 2018 it was at PLN 12.6 million.

In 2018, the Group generated positive net cash flows from operating activities, amounting to PLN 8.8 million.

Net cash flow on investment activity was negative and reached PLN 25.4 million. They comprised mostly expenditures for development works on the "Sniper Ghost Warrior Contracts" and "Lords of the Fallen" games.

Net cash flows on financial activities were positive. They reached PLN 15.7 million and resulted primarily from use of credit for development works.

Net profit margin

Item	unit	2018	2017
Return on sales	%	22,1	48,7
EBITDA profitability	%	13,8	27,4
Return on EBIT operating activity	%	-100,8	12,3
Gross return	%	-99,8	10,8
Net return	%	-103,2	5,3
Return on assets (ROA)	%	-24,6	5,1
Return on equity (ROE)	%	-34,0	6,1

Return on sales in 2018 amounted to 22.1%, which is a decrease, as compared with 2017, which is due to the cyclical nature of sales. The year when the release of a new game takes place is characterized by grater revenues from sales and higher margin as new games have higher prices. In the subsequent years, the prices of “old” titles drop which influences the profitability.

In 2018, the Group noted a one-time event that negatively influenced the financial result, that is the write-off for the non-depreciated part of development works on “SGW 3” and mobile version of “Lords of the Fallen” in the amounts respectively PLN 12.2 million and PLN 2.8 million. These write-offs did not influence the state of cash in the Group, but they decreased the value of development works and were recognized as other operating expenses.

Asset structure

Item	unit	2018	2017
Intangible assets / Assets	%	56,7	49,3
Tangible fixed assets / Assets	%	1,2	0,9
Net trade receivables / Assets	%	3,4	5,5
Inventory / Assets	%	2,9	4,6
Short-term investments / Assets	%	0,0	0,0
Cash and cash equivalents / Assets	%	13,7	12,6
Deferred income tax assets / Assets	%	21,1	23,5
Other assets / Assets	%	1,1	3,6

The structure of assets as at the end of 2018 (similar to previous years) is predominated by intangible assets comprising primarily expenditure for development works related to new games creation. As at December 31, 2018, this item is 56.7% of the CI Games Capital Group assets.

The second important component is the deferred tax assets (21% of the balance sheet total).

Turnover ratio

Item	jm.	2018	2017
Asset turnover ratio	Turnover	0,2	1,0
Inventory turnover ratio	number	8,2	20,9
Debtors ratio	Number	52	21
Payback period	of days	56	8

Indicator calculation rules

Asset turnover ratio = revenue from sale/assets

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

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

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

As at 12/31/2018, the inventory turnover ratio (calculated as a number of rotations per year) dropped to 8.2 as a result of the significant decrease of total sales with the simultaneous decrease of inventory balance. The Group maintains certain level of inventory due to the regionalization (for example Europe means 12 regions with different language versions) and a minimum level of orders for production.

The turnover ratio of commercial liabilities increased to 56 days at the end of 2018 due to the cyclical nature of sales (lower sales) combined with the increase of advancement of games production works.

Debt ratios

Item	2018	2107
General debt ratio	0,28	0,17
Debt to equity ratio	0,38	0,20
Equity to assets ratio	1,15	1,25
Short-term debt ratio	0,09	0,08
Long-term debt ratio	0,19	0,09

Indicator calculation rules

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

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

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

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

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

The debt ratios are higher than in the previous year. It results from the signature of the new credit agreement, which allows for the production of two games at the same time.

Liquidity ratios

Item	2018	2017
Current ratio	2,38	3,45
Quick ratio	2,05	2,84
Acid ratio	1,54	1,66

Indicator calculation rules

Current ratio = current assets / short-term liabilities

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

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

Liquidity ratios decreased due to the overdraft liabilities

Financing structure

Item	2018	2017
Equity	72,5	83,5
Long-term liabilities	18,7	8,9
Short-term liabilities	8,9	7,6

Capital Group finances its activities based on own capital and bank credits. The increase of long-term liabilities results from the partial use of bank credit for the financing of expenditures for games production.

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

3.3 Evaluation of the investment project feasibility

CI Games Capital Group is able to finance investment projects. In financial year 2018, the Group intends to maintain the existing investment level. To fund the investment projects, the Group will use own funds and debt financing.

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

1. Loan and credit agreements

On 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.

The hedge of the abovementioned credit agreements is the registered pledge on the Parent company's shares in the amount of 15,000,000, held by Marek Tymiński; blank promissory note issued by the Company together with promissory note declaration; global transfer of receivables to the Bank resulting from the agreements with selected Company's partners. Collateral for the overdraft agreement consists of loan repayment guarantee granted within the portfolio guarantee line *de minimis* in the amount of PLN 3 million.

2. Financial lease agreements

As at 12/31/2018 the Parent company was a party to three financial lease agreements for company cars and the respective liability balance amounted to PLN 527 thousand.

3. Guarantee and surety agreements

As at December 31, 2018, the Parent held the following contingent liabilities:

- bank guarantee issued by mBank S.A. on 7/27/2018 up to the amount of EUR 113,762.62 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.
- Hedging of the credit agreement – described above in point 2.
- 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.

As at 12/31/2018, the Group did not have any other contingent liabilities.

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

In 2018, neither the Company nor the CI Games Group granted loans to employees, associates or contractors of significant unit value.

3.6 Information on sureties and guarantees granted and received by CI Games S.A. in a given financial year

Registered lien on the Company's shares totaling 15,000,000, held by Marek Tymiński, Company shareholder and President of the Management Board constitutes one of the collaterals of the revolving credit facility agreement and overdraft agreement concluded with mBank S.A. on 1/9/2018.

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

In the reporting period, 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 that was allocated to the supplementary capital of the Company (PLN 27,600) and initial capital of the Company (PLN 400). The issue costs reached PLN 7,500.

3.8 The assessment concerning financial resources management

In view of the Management Board of the parent company, the Group for the whole year 2018 had full capacity to settle its liabilities within their payment terms.

3.9 Information of financial forecasts

The Management Board of the Company did not publish neither forecasts concerning consolidated results of Capital Group of CI Games nor separate results of CI Games S.A. presented in the financial statements for 2018.

On 11/26/2018 by way of current report no. 27/2018 the Company's Management Board provided estimate for cash flow in the CI Games Capital Group from Q4 2018 to Q3 2019.

Forecast for Q4 2018 indicated revenues from digital distribution at the level of PLN 3.3 million while the revenues in this period amounted to PLN 3.9 million; costs of sale and overheads in Q4 amounted to PLN 1.3 million and PLN 0.9 million respectively as compared with the forecast amounting to PLN 1.5 million and PLN 1.4 million in the same period.

The investment activities financed by way of own funds amounted to PLN 1.9 million (as compared with forecast PLN 1.8 million) while investment activities financed by way of credit amounted to PLN 6.3 million (as compared with forecast PLN 6.9 million).

The Group closed 2018 with a balance of own cash higher by PLN 2.6 million. It resulted from an increased use of credit.

As at 12/31/2018, the available funds of the Group (own cash and available funds via credits) amounted to PLN 31.4 million (as compared with forecast PLN 30.9 million) and were composed as follows:

- Own cash PLN 12.6 million (as compared with forecast PLN 10.0 million),
- Availability of funds within overdraft PLN 1.5 million (as compared with forecast PLN 4.2 million),
- Availability of funds within revolving facility PLN 17.3 million (as compared with forecast PLN 16.7 million).

Additional information

4. Additional information

4.1 Information on agreements signed with the entity authorized to audit financial statements

The date the agreement for the audit of individual and consolidated financial statement for 2018 was concluded – 7/1/2016 as amended on 8/24/2017.

The agreement concerns the audit of the financial statement of the CI Games Capital Group for 2018 (semi-annual and annual audit).

The total value of remuneration due for the review and audit of the financial statement of the entity and the Group in 2018 – PLN 36,500 net.

The financial statement of the Company and the CI Games Capital Group for 2018 was audited (half-yearly review and yearly audit) by Misters Audytor Adviser Spółka z o.o. The total value of remuneration due for the review and audit of the financial statement of the Company and the CI Games Capital Group in 2018 was PLN 39,600 net.

4.2 Initial capital

As at 12/31/2018, the initial capital of CI Games S.A. is PLN 1,511,099.90 and is divided into 151,109,990 shares with the nominal value of PLN 0.01 each:

- 100,000,000 ordinary bearer shares series A,
- 400,000 ordinary bearer shares series B,
- 25,000,000 ordinary bearer shares series C,
- 1,100,000 ordinary bearer shares series D,
- 12,649,990 ordinary bearer shares series E,
- 960,000 ordinary bearer shares series F,
- 11,000,000 ordinary bearer shares series G.

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

B series shares were issued within an incentive program and acquired by employees and co-workers of CI Games S.A. Registry court of CI Games S.A. registered the increase of initial capital by way of issue of series B shares on 8/10/2007; the shares were introduced to trading in the primary parallel market in ordinary procedure.

C series shares were a subject of a public subscription in November 2007. All offered shares were acquired and paid. On 12/17/2007, the Registration Court for the Company registered increase in the initial capital of the Company as a result of C series shares issue.

D series shares were issued within an incentive program and acquired by employees and associates of CI Games S.A. Registry court of the Company registered the increase of initial capital by way of issue of series B shares on 10/9/2009; the shares were introduced to trading in the primary parallel market in ordinary procedure.

E series shares were a subject of a private subscription in December 2015. All offered shares were acquired and paid. On 2/6/2016, the shares were introduced to trading in the primary parallel market in ordinary procedure.

F Series shares are issued within the conditional increase of initial capital of CI Games S.A. adopted by the Ordinary General Meeting of Shareholders of CI Games S.A. in April 2015. The shares were introduced to trading in the primary parallel market in ordinary procedure.

G series shares were a subject of private subscription in November 2016 in connection with the CI Games S.A. initial capital increase within the target capital. All offered G series shares were acquired and paid. The shares were introduced to trading in the primary parallel market in ordinary procedure.

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

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

Parent's shareholding structure as at 12/31/2018:

Initial capital – structure	Number of shares	% of votes
Marek Tymiński	59,663,570	39.48%
Other shareholders	91,446,420	60.52%
All shareholders in aggregate	151,109,990	100.00%

The total number of votes at the CI Games S.A. General Shareholders Meeting, amounted to 151,109,990 votes as at 12/31/2018. As at the date of these statements, the general number of votes at the General Meeting of the Company amounts to 151,109,990. As at the date of these statements, the general number of shares amounts to 151,109,990. Shareholder – Marek Tymiński – as at 3/26/2019, holds 59,663,570 shares, which amount to 39.48% in the initial capital of CI Games S.A. and 39.48% in the general number of votes at CI Games S.A.

4.4 Own shares

In the reporting period and as at this report's preparation and publication, the parent company did not purchase and did not held own shares.

4.5 Bodies of the Parent Company

CI Games S.A. Management Board		
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

CI Games S.A. Supervisory Board

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 Friday, October 5, 2018

4.6 Information on Company's shares held by 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 Tymiański	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

4.7 Information on agreements known to the issuer as a result of which changes in the proportions of the shares held by current shareholders and bondholders may take place in the future

No such agreements are known to the Issuer.

4.8 Information on the control system for the employee share programs

On 4/28/2015, the Ordinary General Meeting of Shareholders of CI Games S.A. adopted a resolution on the conditional increase in the Company's initial capital by no more than PLN 50,000.

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

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

The allotment of B series warrants and series F shares within the abovementioned Incentive Program will take place, as a rule, in three stages, each of them linked with the marketing of the new game published by the Company starting from 2017. Pursuant to the authorization by the Ordinary General Meeting of the Shareholders of the Parent company, the detailed terms and conditions of the Incentive Program and the

group of its participants for each of the three stages is determined by the Company's Supervisory Board by way of the appropriate resolution(s).

Starting from 5/25/2016, acting pursuant to the authorization of the Ordinary General Meeting of the Shareholders of the Parent company of 4/28/2015, the Supervisory Board of the Company adopts resolutions on the basis of which the Rules of the Incentive Program were adopted (and makes appropriate changes hereto) and on the basis of which next persons allowed to participate in the First Stage of the Incentive Program are indicated. As at 12/31/2018, 960,000 F series shares were issued, acquired and introduced to public trading within the abovementioned Incentive Program. In 2019, up to the day of publication of these statements, no shares within the abovementioned Incentive Program were issued, acquired or introduced to trade.

Loan liabilities

On 1/9/2018 CI Games S.A. concluded with mBank S.A. Two credit agreements: Revolving credit facility agreement in Polish zloty and overdraft agreement of total value PLN 35 million. Revolving credit facility agreement has been concluded for a definite period till June 30, 2020. The overdraft agreement has been concluded for a definite period till January 29, 2020.

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

In 2018, the Issuer did not conclude with management agreements providing for compensation if they resign or are dismissed from their position, or in case of dismissal for any reason.

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

CI Games S.A. Management Board	Position
Marek Tymiąski	President of the Management Board
Monika Rumianek	Member of the Management Board
Maciej Nowotny	Member of the Management Board (to October 17, 2018)

CI Games S.A. Supervisory Board	Position
Ryszard Bartkowiak	Supervisory Board Chair
Grzegorz Leszczyński	Member of the Supervisory Board
Tomasz Litwiniuk	Member of the Supervisory Board
Norbert Biedrzycki	Member of the Supervisory Board
Mariusz Sawoniewski	Supervisory Board Member to October 5, 2018
Marcin Garliński	Supervisory Board Member since September 28, 2018

The value of remuneration (gross) for the parent company's management or supervisory board members paid in 2018 (data in PLN):

CI Games S.A. Management Board	Value of remuneration
Marek Tymiąński	1,018,700
Maciej Nowotny	379,000
Monika Rumianek	65,000

CI Games S.A. Supervisory Board	Value of remuneration
Bartkowiak Ryszard – Chairman of the Supervisory Board	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

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

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

Transactions of the Parent company with the entities related personally with Marek Tyimiński, major shareholder of the CI Games S.A. who controls, directly or indirectly, the following entities:

Transactions with related parties	Costs thousand PLN	Revenues thousand PLN	Receivables thousand PLN	Liabilities 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

Issuer's transactions with the entities related personally with the Supervisory Board and Management Board members of the parent company

	Costs thousand PLN	Revenues thousand PLN	Receivables thousand PLN	Liabilities thousand PLN
Marek Tyimiński	60	8	8	72
Total	60	8	8	72

4.12 Information on organizational or capital ties of the Issuer with other entities and determination of main national and international investments

Composition of the CI Games Capital Group as at 12/31/2018:

CI Games S.A. (formerly City Interactive S.A.) – a Warsaw-based company. Initial capital: PLN 1,511,099.90. Parent company carrying out publishing and production activities; managing production studio in Warsaw. 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. (formerly City Interactive USA Inc.) – a company having its registered office in Delaware, USA. Initial capital: USD 50,000. 100% of shares held by CI Games S.A. Company subject to consolidation from Q2 2008. CI Games USA Inc. is a key subsidiary in the Group, carrying out publishing, distribution and marketing activities in the markets of North and South America.

Business Area sp. z o.o. – a company having its registered office in Warsaw, subject to consolidation from Q3 of 2010. initial capital of PLN 5,000. 100% of shares held by CI Games S.A.

Business Area sp. z o.o. sp.j. (transformed from Business Area sp. z o.o. S.K.A. as at 9/26/2015) – company with registered office in Warsaw. A company subject to consolidation from Q1 2015.; 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.

4.13 Changes in the basic rules of management of Issuer's enterprise and Capital Group

In 2018, no changes in the basic rules of management of Issuer's enterprise and Capital Group took place.

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

Information on important proceedings in progress before a court with participation of CI Games and Group's companies can be found in Note 33 to the Annual consolidated financial statement for 2018.

Corporate governance

5. Corporate governance

The Corporate Governance rules applied by the Issuer in 2018 are described in a separate document: "STATEMENT OF FOLLOWING CORPORATE GOVERNANCE RULES IN 2018".

Marek Tymiński

President of the Management Board

Monika Rumianek

Member of the Management Board

Warsaw, March 28, 2019

