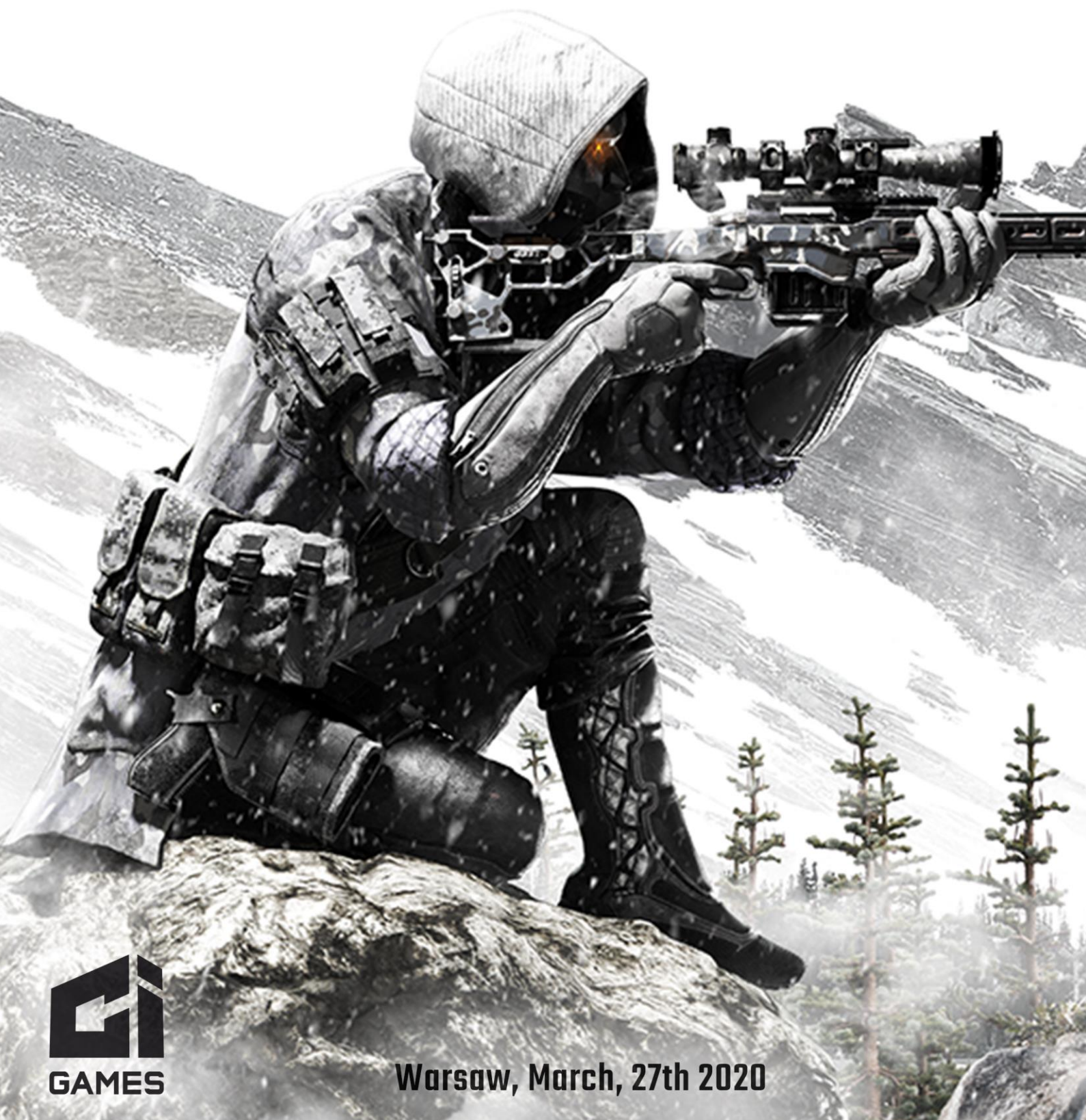


ACTIVITY REPORT

of CI Games S.A. for year 2019



Disclaimer

This English language translation has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain discrepancies, omissions or approximations may exist. In case of any differences between the Polish and the English versions, the Polish version shall prevail. CI Games, its representatives and employees decline all responsibility in this regard.

Dear Stockholders,

In the previous year, CI Games consistently implemented its overall business strategy. The highest investment expenditures were associated with production of the latest sniper game, *Sniper Ghost Warrior Contracts*. Some of the funds were spent on production of *Lords of the Fallen 2* and, through our subsidiary United Label, for indie games of independent producers. In 2019, CI Games sold over 1.7 million PC and console games, achieving PLN 47.5 million of revenues from sales for the entire previous year and a gross profit of PLN 0.2 million.

In the second quarter of 2019, we decided to terminate the development partnership of *Lords of the Fallen 2* with Defiant Studios, located in New York. We analyzed various opportunities and chose to move ongoing production of this game to our internal team and complement with select developer subcontractors as needed. The plan is to significantly increase staffing for the internal production studios in three locations. Currently, the *Lords of the Fallen 2* project is overseen by two very experienced producers, with whom we have developed a more modern product vision and direction for this franchise. At the same time, we want to utilize the work that has already been completed wherever possible.

In November 2019, we released the *Sniper Ghost Warrior Contracts*, the fourth game in the SGW sniper series. It was well received by players and media all over the world, which translated to strong sales volume. Revenues from the latest Sniper have been the key factor in our financial results for last year. The positive results from this title are very important for the Company, as they allow us to plan long-term development of games for this successful brand. We would like to shorten the window between releases of subsequent titles in this series, and I believe that the current formula of the game makes that highly achievable. With this in mind, I do not rule out the possibility of releasing *Sniper Ghost Warrior Contracts 2* before the end of this year.

The fourth quarter of year 2019 brought us PLN 37.5 million in revenues and a gross profit of PLN 9.5 million. These results show that CI Games has a great chance of becoming a fast growing, as well as a cyclically profitable company. I believe this will allow us to release big titles more frequently, while at the same time assuring their high level of quality. This is made possible mainly by the fact that we are not attempting to compete with big AAA games, and we currently employ a highly skilled and experienced production leadership team. As a result, we are able to manage projects efficiently in terms of their costs, deadlines and quality.

On behalf of the entire CI Games Group, I would like to thank you for your trust and encourage you to read the report.

Marek Tymiński
President of the
Management Board.

Table of Contents

1. Activity and resources of CI Games	8
1.1 CI Games - Overview	8
1.2 CI Games Company - Products	10
1.3 Products, services, sales markets, suppliers and purchasers	12
1.4 Description of the Company's market of operation	14
1.5 Key events in 2019 through the report publication date	16
1.6 Seasonal or cyclical nature of business	17
1.7 Discussion of external and internal factors	18
1.8 Research and development projects	18
1.9 Noteworthy business contracts - CI Games Capital Group	18
1.10 Perspectives	19
2. Management of business risk	21
2.1 Risk factors related to business environment	21
2.2 Risk factors related to the Company	24
3. Financial results	29
3.1 Description and assessment of factors and unusual events that influence the financial result	29
3.2 The selected financial data	29
3.3. Achieving investment goals	34
3.4 Information on loan and credit agreements, including their maturity periods and surety and guarantee agreements of Parent Company CI Games S.A	34
3.5 Information on loans granted by CI Games S.A	35
3.6 Information on sureties and guarantees granted	35
3.7 In the case of issue of securities in the reporting period	36
– a description of the mode of use of proceeds from the issue	36
3.8 Assessment of management of financial resources	36
3.9 Information on financial projections	36
4. Supplementary information	38
4.1 Information on contracts with the entity authorized to audit financial statements	38
4.2 The share capital	38
4.3 Shareholding structure of the Parent Company as of the date	39
4.4 Treasury shares	39
4.5 Composition of governing bodies of the Parent Entity	40
4.7 Information on contracts known to the issuer, which may result in future changes in proportions of shares held by the existing stockholders and bondholders	40

4.8	Information on the system of control of employee shares schemes.....	41
4.9	Contracts concluded between the Issuer and managing persons, providing for a compensation in the case of their resignation or dismissal without a material reason or if their withdrawal or dismissal results from merger of the Issuer by acquisition	41
	Value of remuneration, rewards, benefits paid, payable or potentially payable to managing and supervising persons of the Parent Company.....	42
4.10	CI Games S.A.	42
4.13	Changes in the basic principles of management of enterprise of the Issuer and the Capital Group	44
4.14	Specification of material proceedings before courts, competent authorities for arbitration proceedings or public administration bodies	44
5.	Corporate governance.....	46

Statement of the Management Board of CI Games S.A.

Accordingly with provisions of art. 70 section 1 clause 6 of the Regulation of the Minister of Finance of 29.03.2018 (Journal of Laws of 2018 item 757) on current and periodic information provided by issuers of securities and the prerequisites for recognition of information required by the law of a corresponding non-Member State, the Management Board of CI Games S.A. hereby states that according to its best knowledge, the annual financial statement and comparative data have been prepared in accordance with the applicable accounting principles and they reflect truly, reliably and clearly the results and financial position of CI Games S.A., as well as its financial result, and that the annual report on the activities of CI Games S.A. contains a true reflection of its development and achievements, as well as the situation of CI Games S.A., including a description of the basic threats and risk.

The Management Board of CI Games S.A. hereby states that the entity authorized to audit financial statements, conducting the audit of the annual financial statement of the Company, has been selected in accordance with the applicable provisions of ordinary law, and that this entity and statutory auditors conducting the audit meet the conditions for issue of an impartial and independent report on the audit of the financial statement in accordance with the existing laws and standards of the profession.

The Management Board of CI Games S.A.

Marek Tymiński

President of the Management Board

Monika Rumianek

Member of the Management Board

Warsaw, March 27th, 2020

Activity and resources of CI Games

1. Activity and resources of CI Games

1.1 CI Games - Overview

CI Games Capital Group (hereinafter: “the Group”, “the Capital Group”, “CI Games Group”) engages in production and publishing activity on the global market of video games. The parent company of CI Games S.A. (hereinafter: „CI Games S.A.”, “the Issuer”, „the Company”, „the Parent Company”, „the Parent Entity”) is the first company in this sector in Central and Eastern Europe to successfully list as a public company and the first in the region to have become a global player.

CI Games Group, which includes, among others, the independent developer and publisher - CI Games S.A. - develops and publishes games on the basis of its own vision and the best strategy adapted for specific products. The Capital Group includes in the first place the Parent Company located in Warsaw and the key subsidiary - CI Games USA Inc. located in New York. While CI Games S.A. focuses on publishing and production activity, CI Games USA Inc. engages in publishing activity in North and South America.

In 2018, CI Games S.A. established a subsidiary, United Label S.A., which is aimed at developing the publishing activity of the Group leveraging its relationships and collaboration with independent game producers.

In response to the dynamically changing market conditions, CI Games Group's business model leverages knowledge and cooperation with carefully selected Partners. The Group's strategy ensures its optimum effectiveness, as well as constant control of titles sold under its brand.

The Group has competences in all business areas of the video game market. Within the market, the Capital Group or its individual companies operate as:

- A producer with their own production studios to develop new titles with the support of external partners as needed. The CI Games development studio in Warsaw specializes in production of FPS video games;
- A publisher of its own games and licensed titles, for which it develops all marketing strategy and markets them through local distributors. CI Games S.A., as one of the few entities in Poland, has entered into contracts for production and independent publishing of games with third-party owners of the most popular consoles, Sony and Microsoft. The Company develops games for all key PlayStation, Xbox platforms and PCs.
- A distributor, selling products directly to retail chains and in digital distribution channels. One of the Group's subsidiaries - CI Games USA Inc. - is dedicated to handle direct sales, among others, for the American market.

Thanks to such complementary combination of these three areas, the Group is able to exert effective control over production and distribution of games developed, as well as over the titles licensed from other producers.

The Group develops high-quality, innovative products using own and external IP. The key brands of CI Games Group include “Lords of the Fallen” (hereinafter also as “LotF”) and “Sniper Ghost Warrior” (hereinafter also as “SGW”). LotF has reached more than 9 million players around the world since its premiere.

Map 1. CI Games studio distribution of products



Games are sold by CI Games Group in accordance with the three basic business models: sales of physical boxed copies to selected distribution partners, sales of digital codes authorizing the user to install the game and sales of rights to distribution of games in a specific territory (in boxed or digital form).

In order to maximize the efficiency of sales, as well as its marketing potential, CI Games cooperates with international distributors, operating in individual regional markets, who are also responsible for implementation of promotion and marketing plans.

Products of CI Games Group are available in the biggest digital distribution channels - Steam, PlayStation Store, Xbox Games Store, App Store and Google Store. In the case of digital versions of PC games the Group partners with the biggest Web-based platforms, allowing it to reach a large number of players around the world, who are able to purchase games in their local currencies.

1.2 CI Games Company - Products

Since year 2002, the Capital Group has published more than 100 titles and become the owner of globally known brands, including such series as "Sniper Ghost Warrior", "Lords of the Fallen" and "Sniper Ghost Warrior Contracts".

Currently, work is in progress on Sniper Ghost Warrior Contracts 2. It will be a new story, taking place in a different region of the world. An experienced team has been engaged in this production to develop many improvements in relation to the previous title in the series. Moreover, the game will have a significant new feature (long-range shooting capabilities), which should compel both fans of the series and new players to purchase the game. The game will be available for consoles and PCs, and the production budget will be lower compared to the previous title.

The second big project being developed by CI Games is Lords of the Fallen 2. The Company has developed a modernized vision of the game and plans to make maximum use of the resources already produced in cooperation with Defiant Studios. The internal development team will work on this project in cooperation with subcontractors. The Company is conducting the recruitment process simultaneously in three locations. The latest part of the Lords of the Fallen series is being prepared mainly with new generation of consoles and a PC platform in mind.



SNIPER: GHOST WARRIOR 2 | MARCH 2013



SNIPER: GHOST WARRIOR 3 | APRIL 2017

2010

2013

2014

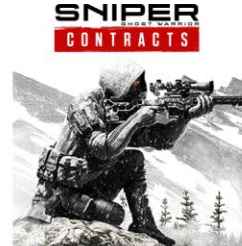
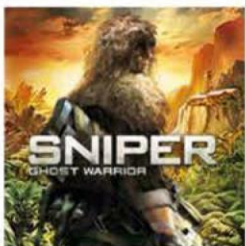
2017

2019

SNIPER: GHOST WARRIOR | JUNE 2010

LORDS OF THE FALLEN | OCTOBER 2014

SNIPER GHOST WARRIOR CONTRACTS | NOVEMBER 2019



Sniper Ghost Warrior is one of the most recognizable Polish brands among shooter games around the world. The brand was introduced on the market in year 2010. The theme of all SGW titles is to allow players to act as snipers, infiltrating the enemy territory.

Sniper Ghost Warrior

Genre: First-person shooter (FPS)

Platforms: PC, PS, Xbox



SNIPER

GHOST WARRIOR

Sniper Ghost Warrior

Genre: First-person shooter (FPS)

Premiere: June 2010

Platforms: PC, PS3, Xbox 360

4 million copies sold



SNIPER 2

GHOST WARRIOR

Sniper Ghost Warrior 2

Genre: First-person shooter (FPS)

Premiere: March 2013

Platforms: PC, PS3, Xbox 360

2 million copies sold



SNIPER 3

GHOST WARRIOR

Sniper Ghost Warrior 3

Genre: First-person shooter (FPS)

Premiere: April 2017

Platforms: PC, PS4, Xbox One

More than 1 million copies sold



SNIPER

GHOST WARRIOR

CONTRACTS

Sniper Ghost Warrior Contracts

Genre: First-person shooter (FPS)

Premiere: November 2020

PC METACRITIC SCORE

71

STEAM USER REVIEWS

76

In 2014, CI Games introduced the game "Lords of the Fallen", which was available for PS4, Xbox One and PC. LoTF features appealing mechanics, an advanced fighting system and a great diversity of weapons, making it possible to shape one's individual fighting style. The game is set in a fantasy world. It has reached more than 9 million players.

Lords of the Fallen Genre:
Action role-playing game (RPG)

Premiere: October 2014

Platforms: PC, PS4, Xbox One

The next premiere of CI Games S.A. Group, planned for the coming months, will be the first product in the series of United Label, entitled Röki. It is a promising story-driven game, which has already been included on the lists of the most awaited indie games of year 2020, compiled, among others, by [Eurogamer.de](#), [Gamesource.it](#), [Polygon](#), [Gamesradar](#), [Gamereactor.se](#), [Laurakbuzz](#), [Indie Game Website](#), [Telerama](#), [Newsdio](#), [RegionPS](#), [Game-Palace](#), [Best Indie Games-Clemmy Games](#), [Goombastomp](#), [Us Speaking Blog](#), [Mojo Verse Games](#), [Vandal](#), [The Games Lashers](#), [Welcome to Last Week](#), [Level80](#).

Another upcoming premiere in the United Label portfolio is Eldest Souls, which is far along in production. The premiere is planned for the fourth quarter of year 2020 at latest. Both titles have received global marketing support from Nintendo - the maker of the Switch console.

1.3 Products, services, sales markets, suppliers and purchasers

CI Games produces and publishes games for the global video game market. The Company primarily handles distribution for its own titles, however, in some cases, it sells licenses for software distribution in select territories as appropriate

The structure of revenue from sales achieved by the Group in years 2018-2019 according to the type of product offered follows:

Structure of sales revenue in terms of value (in PLN thousand)

Revenues	2019	Share	2018	Share	2019/2018
Sales of physical products	25,270	55	2,592	12	975
Digital sales	21,159	45	18,410	88	115
Other sales	616	-	-	-	-
Total	47,045	100%	21,003	100%	224%

Increase in the sales in year 2019 was due to the premiere of the game "Sniper Ghost Warrior Contracts", which took

place on 22.11.2019. Multiple increase in sales of physical products and increase in total sales is due to the fact that most physical copies are sold in the first few months after the premiere of a game. The Company has signed a number of contracts with game distributors, who purchased the game before its premiere.

There was also an increase in digital sales due to the premiere, and sales of the new game represent sales in the period of approximately 5 weeks in year 2019.

Structure of revenues from sale by quantity (pieces)

Revenues	2019	Share	2018	Share	2019/2018
Sales of physical products	465,266	22	145,929	8	319
Digital sales	1,640,601	78	1,582,275	92	104
Other sales	-	-	-	-	-
Total	2,105,867	100%	1,728,204	100%	122%

The changes in share are also due to the fact that during the premiere and in the following months, the sales of physical copies are the highest, and their share in total sales decreases further in the life cycle of the game.

Geographic distribution of sales revenue of CI Games Group in years 2019-2018 (in terms of value)

Revenues	2019	2018
Export	45,311	21,332
share (%)	96	102
Domestic	1,735	(329)
share (%)	4	-2
Total	47,045	21,003

The Company now sells its titles in five continents (more than 160 countries). Products of CI Games are available in all countries through digital distribution platforms. The following clients each comprised more than a 10% share in sales of the Group in year 2019:

- Koch Media GmbH (20% of sales value) - an entity unrelated to the Group, conducting distribution of physical products in selected markets of Europe;
- Valve Corporation (17% of sales value) - an entity unrelated to the Group, via the Steam platform for digital sales of games;

Other business partners did not exceed the established significance level of 10%.

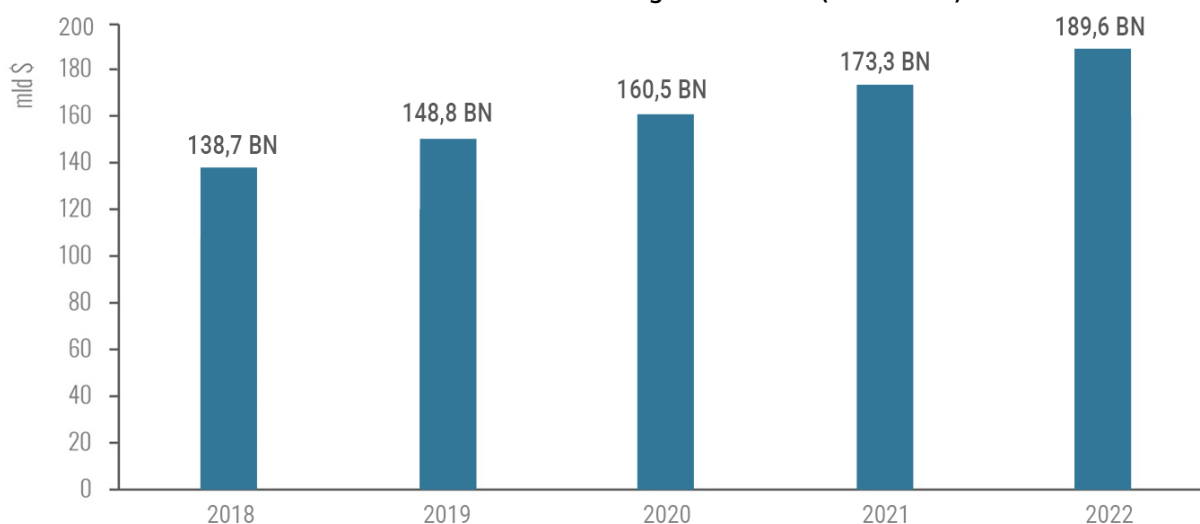
The Company has a dispersed base of suppliers, none of which exceeded the threshold of 10% in value of purchases in year 2019. Key suppliers of the Group include subcontractors delivering game production components, companies that render services in physical game production, suppliers of marketing services.

1.4 Description of the Company's market of operation

In the last decade, the video games market has become very popular and its growth has been obvious year over year. It is estimated that in year 2017, it already outperformed the film industry. The number of players is also growing constantly and exceeded 2.4 billion people in year 2019.

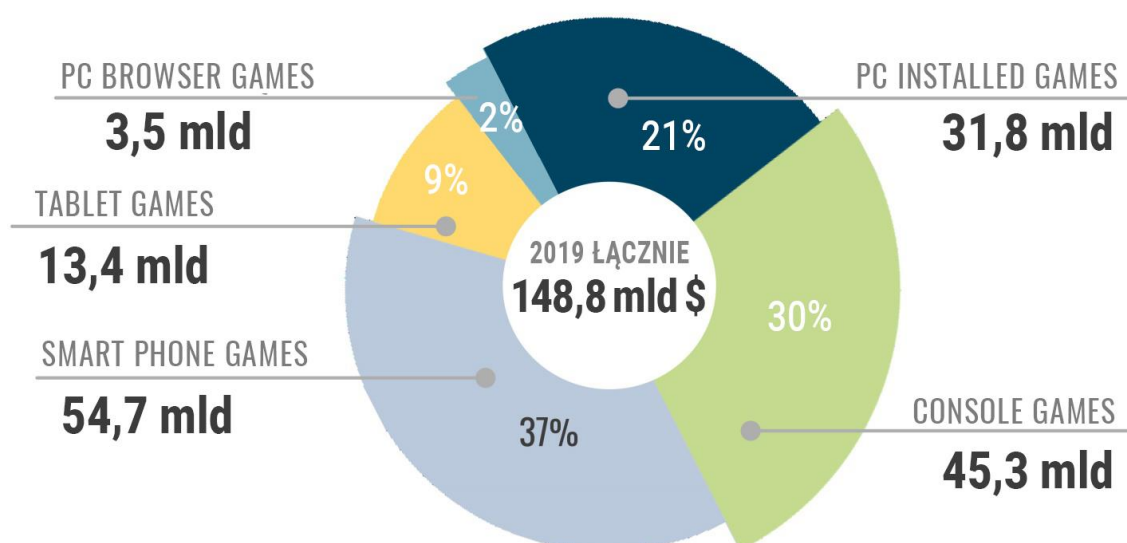
According to estimates by Newzoo analytics and research company, made in November 2019, value of the global market of games in 2018 amounted to USD 148.8 billion, and until year 2022, the value of this market will increase to USD 189.6 billion. However, it should be kept in mind that these estimates were prepared prior to development of the global coronavirus epidemic, and thus the forecasts may be subject to verification.

Chart 1. Global value of the games market (USD billion)



Source: 2019 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

Chart 2. Value of the games market in 2019

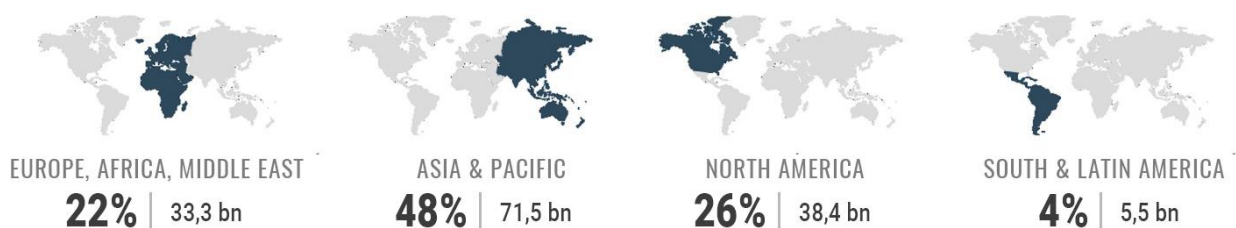


Source: 2019 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

Value of the market of mobile games in 2019 increased to USD 68.2 billion (total for tablets and smart phones), according to Newzoo. It is 46% of the global games market. Most revenues in the segment of mobile games will come from emerging markets, characterized by easy access to cheap smart phones and mobile Internet. Value of the market of console games, on the other hand, has reached the level of USD 45.3 billion and constitutes 30% of the market. The last place was occupied by PC games of value of USD 35.5 billion, which constitutes 23% of the global games market.

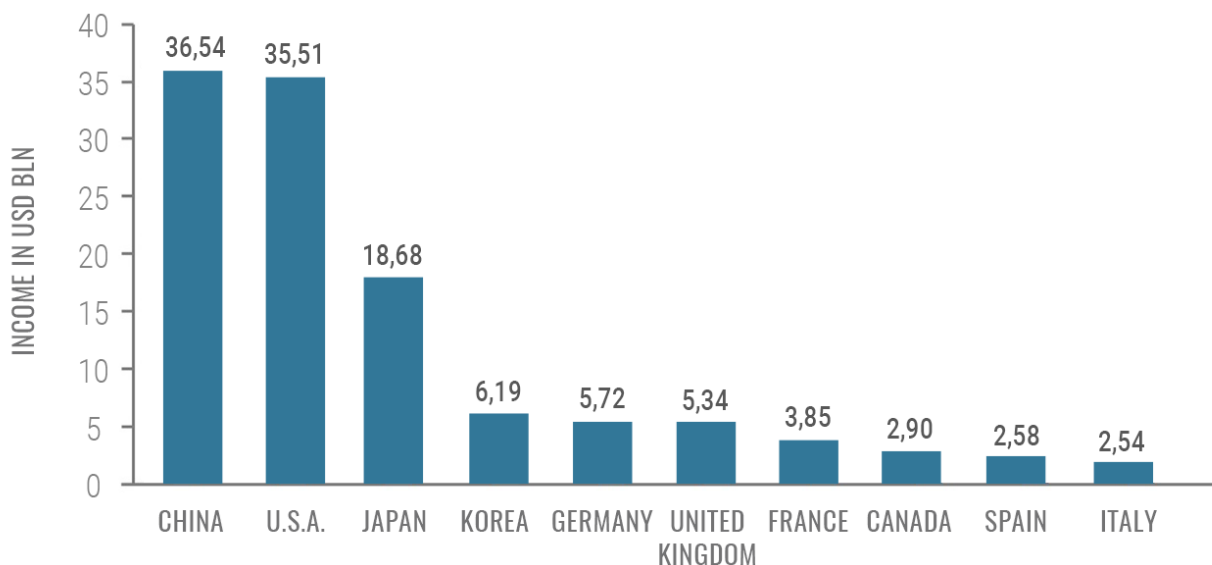
Analyzing the structure of revenues according to region, it can be observed that in 2019 - like in 2018 - the highest share was represented by the region of Asia and Pacific, that is, about 48% of the global games market, with second place occupied by North America with 26%. A similar share in the global games market, amounting to 22%, is represented by the region consisting of Europe, Africa and the Middle East. South and Latin America have since 2017 represented 4% of the share in the global games market.

Map 2. The market of video games in year 2019



Source: 2019 Global Games Market, Newzoo: <https://newzoo.com/key-numbers>

Chart 3. The biggest video games markets in the world in 2019 (in USD billion)



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

The two biggest local video games markets in 2019 are still China and the United States, at the value of: USD 36.54 billion and USD 35.51 billion, respectively. Third place was occupied by Japan (USD 18.68 billion), which also retained its position from the previous year. It is followed by Korea with the result of USD 6.19 billion and Germany - USD 5.72 billion. The last among the top ten local video games markets is Italy, with the result of USD 2.55 billion.

1.5 Key events in 2019 through the report publication date

Game production

- Premiere of the game “Sniper Ghost Warrior Contracts”, which took place on 22.11.2019. The game was published in digital and boxed versions for PlayStation4, Xbox One and PC computers in all key markets around the world. A multiplayer version became available in March 2020.
- The User Score on the Steam platform, which is the key global game user assessment tool, averaged 76% (for all reviews). It has been ranked the highest among the Sniper Ghost Warrior series.
- Sniper Ghost Warrior Contracts received much higher scores from the professional media in comparison with the previous games in the series. As of 28.11.2019, the Metacritic score (of the most frequently reviewed PC version, which is also the most significant one from the perspective of medium- and long-term revenues) averaged 71%.

The SGWC game was issued in the boxed version - global distribution on physical media encompassed approximately 380,000 copies. The majority of these are console games. In the biggest markets, the retail price is USD 39.00 and EUR 39.99, respectively. In the USA, trade activity is conducted through the subsidiary CI Games USA, Ltd., partially directly, and partially in cooperation with local distributors. The Management Board of the Company has observed a visible trend of declining sales of games through traditional channels, in particular in the USA, where the business model has changed substantially.
- Continuation of sales of the “Sniper Ghost Warrior 3” (hereinafter also as “SGW 3”), which had its premiere in April 2017. The game is sold in physical and digital versions. At the end of year 2019, sales of the “Sniper Ghost Warrior 3” game reached more than 1.6 million copies. These include both physical products and digital distribution.
- The Group has continued cooperation with four producers of indie games - two of its four projects: “RÖKI” and “Eldest Souls” have also been featured during the international E3 trade fair. Both attracted much interest from the media. The “Eldest Souls” received the “Best of E3” award from IBeatItFirst and was nominated for the “Best of E3 2019” award from TechRaptor.
- During the Gamescom trade fair in Cologne, “RÖKI” and “Eldest Souls” were presented during closed previews. “RÖKI” was awarded the nomination for the “Game of the Show Gamescom 2019” from Gamerspack. “Eldest Souls” received the award “Best indie game, Gamescom 2019” from EliteGamer’s.
- “RÖKI” reached the lists of the most awaited indie games of 2020 compiled, among others, by [Eurogamer.de](#), [Gamesource.it](#), [Polygon](#), [Gamesradar](#), [Gamereactor.se](#), [Laurakbuzz](#), [Indie Game Website](#), [Telerama](#), [Newsdio](#), [RegionPS](#), [Game-Palace](#), [Best Indie Games-Clemmy Games](#), [Goombastomp](#), [Us Speaking Blog](#), [Mojo Verse Games](#), [Vandal](#), [The Games Lashers](#), [Welcome to Last Week](#), [Level80](#).
- In the second quarter of 2019, the Company gave a notice of termination of the contract for production of the second part of LotF, parting with Defiant Studios LLC located in New York (“Defiant”) due to sub-standard work performance at a key project stage by Defiant. Stage was crucial in the light of the contract (Milestone11), the so-called Vertical Slice, and its standard of quality expected by the Company was specified precisely in the Contract.
- At present, the Group is developing Lords of the Fallen 2. The Company has developed a modernized vision of the game and plans to make maximum use of the resources already produced in cooperation with Defiant Studios. The internal development team will work on this project in cooperation with subcontractors. The Company is conducting the recruitment process simultaneously in three locations. The latest part of the Lords of the Fallen series is being prepared mainly with new- generation consoles and a PC platform in mind.
- At present, works are in progress on Sniper Ghost Warrior Contracts 2. It will be a new story, taking place in a different region of the world. An experienced team has been engaged in this production to introduce many improvements in relation to the previous title. Moreover, the game will have a big new feature, which should convince both fans of the series and new players to purchase the game. The game will be available for consoles and PCs, and the production budget will be lower in comparison with the previous title
- The Company has increased the internal production team (by new designers, 3D graphic designers, animators), which consisted of nearly 40 employees and 9 employees in the QA department at the end of 2019.
- Increase in sales in the first quarter of year 2020 through the Steam platform (mainly in January and February) had a positive impact on total sales of the Company in the first quarter of 2020.
- As a result of the developing epidemic of the coronavirus in Europe and the USA and the quarantine faced by inhabitants of these regions, the Company expects digital sales on these markets to be higher than previously estimated in the second quarter of year 2020.

- In the first quarter of year 2020, the Company considerably limited the operating costs of its subsidiary in the USA, which is responsible for physical distribution of games on the markets of North and South America. The scope of activity of the Subsidiary has remained unchanged.
- In January 2020, the Company commissioned significant development work to one of the partners for further development of the Sniper Ghost Warrior series beyond the Sniper Ghost Warrior Contracts 2.

Other events

- On 08.09.2019, the Articles of Association of CI Games SA containing information on raising of share capital in association with issue of Series H Shares. On 08.14.2019, the net amount of PLN 9.3 million was transferred to the account of the Company.
- On 10.21.2019, CI Games SA received the decision of the Head of the Mazowiecki Customs and Revenue Office based on the customs and taxation inspection conducted. The inspection under concern included a review of reliability of the declared taxation bases and correct calculation and payment of corporate income tax for year 2013. As a result of the inspection, the Company adjusted its income statement CIT-8 for year 2013. The adjustment for year 2013 did not result in emergence of a tax liability. As a result of this inspection, the Company intends to adjust its income statements CIT-8 for years 2014-2017. These adjustments will result in a tax liability for the principal amount of PLN 450 thousand, increased by interest.
- Based on the inspection results, the Company decreased the deferred income tax asset by the amount of PLN 12,494 thousand in the part pertaining to unsettled tax losses for years 2014-2017, emerging from trademark transactions. This adjustment was recognized as an error for the previous period. The details have been presented in the Consolidated Financial Statements (Chapter I clause 7).
- In January 2020, CI Games repaid its overdraft facility in the amount of PLN 5 million, designated for financing of current activity of the Company.
- A detailed description of the loan agreements, referred to above, can be found in clause 3.4 of this report.
- On 12.16.2019, the Company changed the address of its registered office to:
ul. Twarda 18, 00-105 Warsaw.

1.6 Seasonal or cyclical nature of business

Due to diversified sources of revenues and the specific nature of the market of video games, CI Games is characterized by variability of revenues from sales in the trading year, determined mainly by introduction of new products on the market.

A game production cycle at the Company is usually 12 to 36 months long. In the case of simultaneous production of two games, the premieres of these games feature significant asymmetric cyclicity. Thus, the publishing cycle of the Company, in which new game premiere dates are determined, is characterized by irregularity. The Issuer establishes the dates of premiere sales of the games to select the most favorable competitive environment, including in the context of known publishing plans of competitive entities, to achieve the maximum financial benefits associated with the premiere.

As a result, it is a typical phenomenon in the entire video games sector that producers record significantly higher revenues in the period directly following the launch of a new game, and a rather natural decrease in revenues in the following months. It is obviously a result of high seasonality and cyclicity of activity, experienced by the video game sector around the world.

The premiere of "SGWC" was on 11.22.2019, so the biggest part of sales was recorded in the 4th quarter of this year.

1.7 Discussion of external and internal factors impacting the Company's growth

The Company operates on the international market and is thus to a certain extent dependent on international economy, although the sector itself is more resilient to economic crises than other branches of economy.

The most significant external factors that exert impact on development of the Company include the regulatory factor, which is associated with the current state of legal - including tax - regulations. A substantial role is also played by virtual media in promotion of individual titles, as well as the increasing share of digital channels at the expense of the traditional distribution channels. Moreover, video game market producers are becoming increasingly competitive, which exerts direct impact on salary levels in the sector and recruitment and maintaining of highly qualified staff, contractors and subcontractors.

The Company focuses on franchise projects, which attract potential customers at a sufficient scale. Such projects include the "Sniper Ghost Warrior Contracts 2" series and "Lords of the Fallen 2".

Simultaneous implementation of several projects allows for diversification of revenues, stabilization of results in between the premieres of own titles, as well as effective use of resources. In this context, it is significant to secure the financing in order to grow the business of the Parent Entity and CI Games Group.

The Company intends to stand up to new challenges leveraging its own resources and a developed network of partners. This model will allow for much greater flexibility in decision-making and implementation of new projects.

A detailed description of factors, which may influence activity of the Company, can be found in clause 2 "Significant risk factors and threats faced by the Company" of this report.

1.8 Research and development projects

The Company conducted no research and development projects in the period analyzed in the financial statement.

1.9 Noteworthy business contracts - CI Games Capital Group

1. Noteworthy business contracts-details

- Loan agreements concluded by CI Games S.A. with mBank S.A. on 09.01.2018 More information on these agreements can be found in clause 3.4 of this report;
- Contracts for distribution of „Sniper Ghost Warrior Contracts" concluded between CI Games S.A. and: Koch Media in Germany, Austria, Switzerland, Belgium, the Netherlands, Spain, Portugal, United Kingdom and Ireland; PAN Vision AB from Sweden for Norway, Sweden, Iceland, Denmark, Finland, Lithuania, Latvia, Estonia; Maximum Games Ltd. from England for United Kingdom and Ireland; Five Star Games Pty.

Ltd. from Australia for Australia and New Zealand and Just For Games SAS from France for France; H2 Interactive Co. Ltd in Japan and South Korea; Game King LLC for Middle East markets. These contracts were signed in 2019.

2. Insurance agreements

CI Games had the following insurance policies in the reporting period:

Insurer name	Subject and scope of insurance	Insurance period	Insurance amount
Allianz D&O Protect	Civil liability insurance for members of governing bodies of the Company	01.12.2018 - 30.11.2019	PLN 60,000,000
Allianz D&O Protect	Civil liability insurance for members of governing bodies of the Company	01.12.2019 - 30.11.2020	PLN 60,000,000
AIG Europe Limited	Professional liability and possession insurance	08.07.2018 - 07.07.2019	USD 3,000,000
ERGO Hestia S.A.	Professional liability and possession insurance	22.07.2019 - 21.07.2020	USD 3,000,000
AIG Europe Limited	Professional liability and possession insurance	08.07.2018 - 07.07.2019	USD 2,000,000
ERGO Hestia S.A.	Professional liability and possession insurance	22.07.2019 - 21.07.2020	USD 2,000,000
ERGO Hestia S.A.	Insurance for equipment and devices, current assets and investment expenditures	17.09.2018 - 16.09.2019	PLN 4,093,597
ERGO Hestia S.A.	Insurance for equipment and devices, current assets and investment expenditures	17.09.2019 - 16.09.2019	PLN 1,712,223
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2018 - 29.11.2019	PLN 200,000
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2018 - 29.11.2019	PLN 200,000
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2018 - 29.11.2019	PLN 200,000
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2019 - 29.11.2020	PLN 200,000
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2019 - 29.11.2020	PLN 200,000
Allianz Skarbowy	Insurance for Members of the Management Board of the Company	30.11.2019 - 29.11.2020	PLN 200,000

Moreover, the Company had civil liability insurance and collision and theft insurance policies for its three passenger cars.

3. Contracts concluded between stockholders

The Management Board of CI Games S.A. is not aware of any contracts concluded between the stockholders of CI Games S.A. in year 2019.

1.10 Perspectives

CI Games is currently working on games "Sniper Ghost Warrior Contracts 2" and "Lords of the Fallen 2". Both games are made by internal production teams in cooperation with subcontractors. Success of the game "Lords of the Fallen", which has reached 9 million players so far, supports the likelihood that the planned production of the second part (continuation) of the game will bring commercial success.

In the opinion of the Management Board, the Company has the necessary skills and technical capabilities to develop, publish and distribute its own games and those of independent producers.

Management of business risk

2 Management of business risk

In the opinion of the Management Board of CI Games S.A., no serious circumstances exist, which would suggest inability or existence of serious threats to capability of the Company to continue operation in the foreseeable future.

Described below are the key risk factors from the perspective of CI Games. Apart from the risk factors presented below, there is a possibility of emergence of other factors, not described below, which have not been identified or which the Company is not aware of. Materialization of risk factors described below and unidentified ones may exert negative impact on operating activity of the Company and its financial results or hinder implementation of the Company's strategy, thus influencing its situation.

2.1 Risk factors related to business environment

Risks associated with the economic situation

A vast majority of sales of the Company's products is generated on foreign markets - mainly in the territory of North and South America, as well as the key markets of Europe, Asia and Africa.

The global economic situation is of limited significance for activity and results generated by the Company. Impact on the level of sales achieved is exerted by GDP growth rate, the level of disposable income and expenditures of households, salaries, the fiscal and monetary policy, as well as the level of investment expenditures of enterprises. Worsening of the economic condition of the global market may result in reduction of consumer spending of households, decreased demand for entertainment products and services. A potential slowdown on the global market may exert negative impact on profitability expected by the Company, as well as the planned development dynamics. Analogical factors are applicable to sales on the Polish market. The recent months have been dominated by a pandemic of the coronavirus COVID-19 (described below), which will exert negative influence on Polish and global economy.

Emergence of circumstances described above may have negative effect on the perspectives for development, results achieved and financial situation of the Company. Negative trends and events associated with the economic condition is beyond the Company's control, and the possible emergence of unfavorable phenomena on selected markets may translate to the Company's results despite the geographic diversification of its sales structure. However, it should be noted that the video games market, in which the Company operates, while characterized by highly competitive dynamics, is visibly less resilient to potential crisis than other trades. This has been confirmed by research conducted in recent years. To reduce the risk associated with the macroeconomic conditions, the Company has been developing its activity on a global scale.

Risk associated with the coronavirus causing COVID-19

Spreading of the coronavirus has had negative effects on the entire global economy and may lead to a global crisis, which, at the same time may result in decreased demand for entertainment in general. Consumers may start to focus on basic commodities. On the other hand, quarantines around the world impact the sales structure - sales of physical products can decrease, which could be accompanied by simultaneous increase in sales through digital channels. It has been noticed that the mandatory quarantine period imposed upon a great number of inhabitants of China has resulted in the number of players from China being greater for the first time in comparison with the United States. There was a record-breaking number of simultaneously logged in users, registered by Steam, including those using streaming channels.

The Company has done its best to ensure the safety of its employees by introducing remote work mode. This requires organization of proper equipment and infrastructure. As of the date of this report, the Company has not recorded any employees infected with COVID-19; however, it is not possible to rule out the emergence of a future situation. This may result in disruption of continuity of work, especially if the situation involves key employees or subcontractors.

It's currently difficult to estimate the future development of the pandemic and its impact on the future financial results

of the Company. The Management Board of the Company is carefully monitoring the situation on the domestic and global markets. If the situation associated with COVID-19 exerts impact on operations of the Company, its financial results or perspectives, the Management Board of the Issuer will immediately publish the appropriate confidential information and engage in immediate action to minimize the risks that exert impact on operations.

Risk associated with the state of the gaming industry

The market of video games, on which CI Games operates, is characterized by high competitiveness and dynamics, in particular, quick technological changes, as well as changes in interests and behaviors of consumers. Engaging in business activity, CI Games, is to a certain extent, dependent on macroeconomic factors and the general macroeconomic situation. In the opinion of the Management Board of the Company, the sector of video games is resilient to potential crises. In order to reduce the risk being discussed, the Company develops its activity on a global scale, engaging on its own in publishing activity in all of the key markets in the world. In recent years, the entertainment sector has developed dynamically, and it is being estimated that the value of the market of video games has become higher than that of the film industry. Moreover, research conducted so far shows that even in the period of the global economic slowdown (years 2017-2011), demand for video games grew year after year. As a result of the above, in the opinion of the Management Board of CI Games S.A., the risk associated with the macroeconomic situation, although recognized (identified) by the Company is of lesser significance for operations of the Company, and as such, it does not visibly weaken competitiveness of the Company.

Competition risk

The video games market is highly competitive. Due to the diversified business model, encompassing development, publishing and distribution of games, the Company is exposed to competition in each of these fields. As for its publishing activity, the Company competes with other entities, both in the global and the domestic market, to sign licenses for attractive titles.

In the case of a final product such as a video game, the competition is also global, but focused on acquiring - and sometimes also maintaining - the end client being the recipient (addressee) of video games, that is, the consumer. At present, consumers are offered numerous new products, often featuring similar themes, which results in the risk of reduced interest in individual games of the Company to the advantage of its competitors. A competitive market thus requires constant efforts to improve the quality of products and to search for new market niches and game themes, which could attract a wider audience. Moreover, consolidation processes among competitive entities may result in strengthening of their market position, and thus weakening of position of the Company on the domestic and international markets. Bigger entities usually have higher publishing or marketing budgets at their disposal, which may be of great importance for success of the game.

The Company makes effective use of its key advantages: an experienced team, a global distribution network, a cost advantage, which is associated with a lower profitability threshold in comparison with other - much bigger - producers. The flat organizational structure, on the other hand, provides the advantage of flexibility, fast decisions and effective management. Since mid-2016, the Company has developed games exclusively for new-generation platforms (Sony PlayStation4®, XboxOne®) and for PCs, which are characterized by a high trade potential.

Risk associated with the game distribution channels

The Company's products are distributed using traditional channels (sales of boxed products) and digital channels. In the recent years, significance of digital channels has increased over the world (in particular, Web-based platforms and platforms dedicated to selected consoles), which is associated with specific risk factors. There is a risk of limited access to some platforms, operating on the basis of exclusivity models. In such cases, the group of potential customers may be limited, which, on the other hand, may influence the level of revenues of the Company from distribution of games through such platforms. Moreover, there is a small risk of a change in the mode of distribution of games for individual platforms, in particular in the case of console games, such as switching from distribution using traditional channels to a subscription-based model, in which a player is provided access to a range of games in exchange for a fixed subscription fee. This may influence the level of revenues generated for the Company by a given title, in particular, in the period of adaptation after the distribution mode has been changed. Increase in significance of digital game distribution channels creates favorable conditions for illegal distribution of the Company's products without its consent and knowledge. Illegal acquisition of Company's products by consumers may exert negative impact on the sales levels and financial results of the Company. There is also a risk of exclusion from a given digital platform in association with a failure to comply with its regulations.

Use of such platforms by the Company is associated with a legal risk due to the necessity to accept their regulations, which are usually subject to legislation of foreign countries. Therefore, the Company carefully selects its supplies of digital platforms used for sales of games, favoring those entities, which have a history of long-term cooperation with the Company. This allows for substantial mitigation of the risk of sudden changes in the rules of cooperation with suppliers of such digital platforms, which would be unfavorable for the Company, allowing the Company to respond early to any potential changes in the rules of cooperation (e.g. changes in regulations, tax legislation etc.).

Risk of changing trends

CI Games operates in the area of new technologies and virtual entertainment, in which the product life cycle is relatively short. It is impossible to rule out the risk of new solutions emerging in the market, which would make the products offer less attractive, hindering generating the appropriate level of proceeds. In order to limit this risk, we have applied the strategy of following the trends and offering products that have been tested and appreciated by consumers. A trend-setting strategy would be more costly and risky.

The main activity of the Company in this regard consists of constant monitoring of the market in terms of development of new technologies (e.g. 3D) and management of segments created by newly developed consoles, mobile devices and the Internet.

Risk of legislative changes

Activity of the Company may be subject to the threat of very frequent changes in legislation in Poland and around the world. This applies, in particular, to legal regulations and interpretations in the field of protection of intellectual property, capital market, labor law and social insurance, taxation law, as well as company law. In some countries, there is a recurring topic of prohibition imposed on video games containing components of violence. Therefore, there is a risk of amendment of legal provisions in any of the countries, in which the Company offers its products, which might exert negative influence on results of activity of the Company.

Materialization of this risk is beyond control of the Company and may exert negative influence on its results, although the Issuer monitors on ongoing basis the compliance of regulations applied by the Company and the current legislation. In addition, the Company engages in activity aimed at elimination of this risk through cooperation with specialized law firms around the world and through product civil liability insurance, applicable to its entire catalog of products published.

Risk of changes in tax legislation

Changes in both domestic and foreign taxation law are of significance for the Company. Practices of revenue authorities and judicial decisions in the field of taxation law are not uniform. This gives rise to the risk of adoption by tax authorities of an interpretation of legal provisions different from that applied by the Company, which may lead, among other things, to arrears with revenue offices.

As many contracts concluded by the Company are subject to legislation other than Polish law, there is a tax risk resulting from being subject to foreign tax jurisdictions in relation to direct sales to consumers, the risk of correct determination of the payment obligation of withheld tax, proper reporting of taxation plans etc.

The Polish taxation system is characterized by unclear provisions and frequent amendments over short periods of time. Oftentimes, these provisions lack a consistent interpretation, which may lead to the risk of differences in their interpretation between the Company and the tax authorities. In the case of occurrence of such situation, the proper tax authority may impose upon the Company an obligation to pay tax and interest on outstanding tax, and in specific situations, establish the so-called additional tax obligation, which may exert a significant negative impact on financial results of the Company. Moreover, the tax authorities may verify correctness of tax statements submitted by the Company, specifying the amount of the tax obligation, in principle, during a period of five years from the end of the year, in which the tax payment was due. In the case if tax authorities adopt an interpretation of tax regulations different from the interpretation, which served as a basis for calculation of the tax obligation by the Company, this situation may have a significant negative impact on the financial standing of the Company.

Products of the Company are subject to a VAT rate in the amount specified in legal provisions of the state, in which

they are sold. The risk related to taxation of products (games) may be due to changes in tax rates, which are significant from the Company's perspective.

An additional risk for the Company is associated with changes in indirect tax rates, which may negatively influence the financial condition of the Company. Potential changes in VAT rates may have a negative impact on profitability of products sold due to reduction of demand among the end users.

Labor law risk

Activity of the Company may be influenced by amendments to legal provisions on employment, including employment of foreigners, most of all with regard to requirements concerning social benefits for employees, provided by the employer. Amendments in this regard may exert impact on the level of costs incurred by the Company. In addition, activity of the Company may be significantly influenced by raises of minimum wages and amendments to labor law and social welfare law, resulting in restrictions imposed upon hiring of employees on the basis of civil law contracts and the obligation to pay social insurance premiums on civil law contracts that may increase the labor costs of the Company.

Risk of changing interest rates

The Company is exposed to the risk of changing interest rates through a change in the value of interest charged on credits granted by financial institutions on the basis of variable interest rates. Interest rates are dependent on WIBOR and LIBOR interbank rates, and thus on the risk of interest rates of the entire economic systems. The Company applies no hedging instruments with regard to this type of risk.

The Company is able to enter into forward contracts for interest rates.

The currency risk

Due to the fact that the Company bears a significant part of the costs of operation in currencies other than PLN, mainly USD and EUR, while PLN constitutes the Issuer's functional and presentation currency, the risk factor faced by the Company is the risk of unfavorable changes in exchange rates. This risk is applicable, in particular, to PLN exchange rates to USD and EUR, as revenues from sales of products are settled in these currencies. Appreciation of the zloty in relation to USD and EUR may exert negative impact on selected items of the financial statement, including, in particular, revenues of sales, which - as the operating costs are incurred in a large part in PLN, may also exert negative impact on financial results of the Company.

The Company secures itself against the foreign currency risk by incurring liabilities in these currencies.

2.2 Risk factors related to the Company

Risk associated with loss of key employees

The Company's success depends largely on knowledge and experience of its employees and co-workers. This is typical for the video game industry, as the so-called intellectual copyrights are the key asset. In the market, it is difficult to recruit qualified specialists from the development (game production) industry. Moreover, recruitment and hiring of new employees and co-workers comes with a learning period of their new job responsibilities, resulting in a temporary lower productivity.

Risk associated with loss of key clients

Trade activity is conducted on the basis of well-developed retail network channels in Poland and strict cooperation

with foreign distributors, having their registered offices around the world. There is a risk of termination of distribution contracts or bankruptcy of companies being the formal purchasers of goods, for which the Company is a creditor. In order to minimize the possibility of incurring losses, the Parent Entity has subsidiaries, which are responsible for constant development of distribution opportunities and strict cooperation with distributors. At present, the key role in this regard in the Group is played by a subsidiary seated in New York - CI Games USA Inc.

Risks associated with suppliers

One of the risk factors associated with suppliers is publishing titles on specific console platforms and working with console partners to pass the certification process required for new titles on each of these platforms. A failure to obtain the certification and the possibility of notice of termination of publishing contracts for consoles are the main two risk components that may influence the financial results of the Company. It should be noted that the Company makes all efforts to ensure the fulfillment of all its contractual obligations with these entities. Payments related to publishing of games for consoles constitute the main amount of trade receivables of the Company in the reporting period and are implemented in accordance with all applicable time limits.

Risk associated with completion of development plans

The growing costs of game production may result in increased demand for external financing. The parent entity is able to obtain financing from the sector of finances - if a need arises to finance additional projects.

The strategy of the Company also includes development of publishing operations concerning games created by external development studios on the basis of their creative concepts (the indie segment). A subsidiary of the Issuer is responsible for implementation of the Company's strategy in this regard - United Label S.A, which has signed publishing contracts (agreements for exclusive licenses for the territory of the entire world) with four development studios, located in the United Kingdom and in France. Each of these production studios is at least partially involved in financing of their productions (one of them finances it entirely).

A failure to implement the Group's strategy in whole or in part may influence the Company's revenues and cash flows, but is not a threat to stability of the Company and its ability to generate revenues as such.

The risk of copyright claims

Within the framework of production and publishing activity, the Company establishes cooperation with individual external entities rendering services on the basis of various legal relationships (contracts for cooperation - B2B, contracts for specific tasks, other similar contracts). Contracts concluded by the Company vary not only in terms of their type or legal nature, but also in terms of the law and jurisdiction applicable to these contracts or the potential associated litigations, security measures used etc. Contracts concluded by the Company usually contain provisions on use or acquisition by the Company of copyrights to results of these contracts, constituting works as defined by proper legal regulations, provisions on prohibition of competition, confidentiality obligations with regard to specific categories of information etc. In relation to contracts concluded by the Company concerning creation of graphics (assets), maps, models, scenarios, music works and similar and purchase of licenses (e.g. for software), the Company recognizes the risk of a situation, in which transfer of copyrights would have legal defects, be ineffective or fail to provide for the possibility of further resale. Moreover, in accordance with the Polish law, effective transfer of copyright requires precise indication of all fields of use, to which such transfer pertains, and it is not effective if made on the basis of a general clause referring to "all known fields of use". Therefore, there is a risk that in the case of a failure to recognize a potential field of use, a given work will be used illegally. There is also the risk of third parties transferring their copyrights to works to the Company effectively while copying solutions already available on the market and transferring them as "their own". Most contracts concluded by the Company pertain to acquisition of copyrights; therefore, it is not possible to exclude the possibility of effective acquisition of these rights being questioned by third persons, and thus claims made by such persons against the Company with regard to copyrights.

In order to mitigate this risk, CI Games uses services of law firms specializing in protection of intellectual property and registers the trademarks of its products. Submitting an application for protection of trademarks in the territory of the European Union and other countries around the world, we check its availability on individual markets and estimate the risk of violation of third party copyrights.

The risk of wrong estimation of expenditures and future sales

The Company operates both in the publishing and in the production segment. In publishing, the cost of distribution of a game is relatively lower in comparison with its production from scratch; however, in both cases, profitability of a given game and the associated possibility of covering expenses incurred with publishing or in the production process is related directly to market success, which can be measured by the size of demand, the number of products sold and revenues from sales. There is a risk that the Company will wrongly assess the commercial potential of a new title, for instance, a game is not accepted by one of the certification systems, the age category imposed is different than expected or its promotion is ineffective and the title fails to achieve a market success, which will have a negative impact on revenues from sale and financial results of the Company.

The Company assesses consumer tastes based on market trends, historic data and experience of the Management Board and the staff to match the games with the publishing catalog and engage in production of titles characterized by a high commercial potential that can be published for many platforms. The Company estimates the potential for sales of new titles with due diligence on the basis of many years of experience.

Due to the high number of variables that must be estimated prior to the planned product launch date, it is not possible to eliminate risk entirely in the estimation of the number of day one copies and future sales.

Risk of new game titles

Activity of the Company is focused on production of video games. Activity of this kind requires substantial expenditures for costs of development works and marketing, which limits the Group's ability to diversify the risk and distribute it among different products (titles). As a result, there is risk concentration in the relatively few game titles that are awaiting its debut at a given time. As a result of this risk concentration, if the sales level is lower than expected, the company is exposed to the risk of decrease in the level of revenues from sales, and the resulting lower net results and liquidity problems.

Risk of game production delay

Shifts and delays in the launch of games software are a normal phenomenon in the video games market. Production of games software is a complex and costly process, based largely on creative and artistic processes, which results in the risk of underestimating a production schedule on a given title, the risk of technical problems related to programming (e.g. failure of the game to meet the quality requirements or problems with its proper functioning) or lack or insufficient financing.

The video games market is driven by expectations associated with debut of new products. There is a risk that some products will be finished later than planned. This may result in negative impact on the cash flows generated and the financial result in individual periods.

Internal factors that may result in shifting of the launch date of the new game are related to defining the time necessary to complete the game production process so that it meets the quality requirements. Publishing of a game, which fails to meet the Company's high-quality standards, could result negatively on revenues from sale of a given product, at the same time damaging its image.

An external factor, which may influence the decision on shifting of the premiere date, is the market situation, as the optimum time of publishing of a game - taking into account the publishing schedules of other publishers around the world - is a significant component of the decision-making process. Another significant risk factor are delays of suppliers or subcontractors in preparation of the ordered game components.

A shift in the launch date is often related to the marketing component of a "long-awaited game", which exerts positive influence on the process of building of image of the product.

Both in the case of the publishing and production activity of the Company, changes to the original production schedule may delay the premiere of a given game, which may, in turn, shift the time of sales of the finished product or - in an extreme case - result in withdrawal from such sales. This, on the other hand, may result in reduction of revenue from

sales and exert negative impact on financial condition of the Company. Although the Company conducts its publishing activity in cooperation with carefully selected development studios, it should be kept in mind that the Company exerts no constant direct control over the production process, which limits its impact on the associated risk. It is also impossible to rule out the possibility that one or more games developed by external studios and published by the Company will generate revenues with a delay in relation to the plan established by the Company or will not be distributed at all.

Risk associated with production of console, smart phone and tablet games

Production of games for consoles and devices with iOS systems requires undergoing a certification system with the platform owner. There is a risk of termination of cooperation with the platform owner, a delay or a failure to obtain certification for the game produced, which may delay the launch.

The liquidity risk

The Company may be exposed to a situation, in which it is not able to settle its financial liabilities. Moreover, the Company is exposed to the risk of failure of its key business partners to meet their contractual obligations to the Company, in particular, with regard to timely settlement of their liabilities by distributors of games published by the Issuer. This phenomenon may exert negative impact on financial liquidity of the Company, resulting e.g. in the necessity to make impairment allowances for receivables. In order to minimize the risk of undermining or losing financial liquidity, the Company conducts systematic analysis of its financing structure, caring to maintain the proper level of cash necessary for timely settlement of its current liabilities.

Loan agreement risk

The Company is exposed to the risk of loss of bank financing associated with every bank loan agreement. The Company has entered into two contracts with mBank S.A. for financing of development works and current activity of the total value of PLN 35 million. As of 31.12.2019, CI Games has used PLN 19 million of the Open-End Credit and PLN 5 million of the Overdraft Facility (the entire balance of this credit has been repaid as of the date of this report).

On June 28th, 2019, the Company entered into an Annex to the Open-End Credit Agreement with mBank S.A., in which it undertakes to withdraw as of 26.06.2019 from further drawdowns of the credit granted on the basis of the Agreement. The Company is in the course of negotiations with the Bank on extending of financing of the open-end credit in accordance with its purpose.

Financial results

3 Financial results

Discussion of the basic economic and financial variables

3.1 Description and assessment of factors and unusual events that influence the financial result

Unusual events in year 2019 included:

- A notice of termination of the contract with Defiant Studios LLC on 15.05.2019 due to sub-standard work performance at a key project stage by Defiant. Stage was crucial in the light of the contract (Milestone11), the so-called Vertical Slice, and its standard of quality expected by the Company was specified precisely in the Contract. Defiant was notified three times to improve the quality of this stage of the project.
- Conclusion of an annex to the open-end credit agreement with mBank S.A. ("the Annex") on 28.06.2019. On the basis of the Annex, the Company has undertaken to withdraw as of 26.06.2019 from further drawdowns of the credit granted on the basis of the Credit Agreement. The reason for conclusion of the Annex is the notice of termination given by the Company for the contract with Defiant Studios LLC, as one of the main purposes of the Credit Agreement was financing of cooperation of the Company with Defiant studio LLC.
- A customs and tax inspection, as a result of which the Company submitted an adjustment of the income statement CIT-8 for year 2013, adjusting the items of revenues and expenses related to settlement of trademark transactions (details have been described in the Individual Financial Statement for year 2019 in Chapter I, clause 9 and Chapter IV, Note 6). As a result of this decision, the Company adjusted the value of tax losses for years 2013-2017, which resulted in reduction of the value of the deferred tax asset by the amount of PLN 12,494 thousand. This adjustment was recognized as an error for the previous period. In December 2019, the Company paid tax in the amount of PLN 450 thousand with interest (PLN 133 thousand) as a result of the adjusted income statement CIT-8 submitted for years 2013-2017.

3.2 The selected financial data

Individual profit and loss account

1.01.2019 - 31.12.2019

1.01.2019 an adjustme

	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net revenues from sales	47,045	10,936	21,003	4,922
Operating profit (loss)	5,643	1,312	(21,018)	(4,926)
Gross profit (loss)	4,631	1,077	(20,563)	(4,819)
Net profit (loss)	2,007	467	(21,508)	(5,041)
Number of shares (in thousands)*	155,414	155,414	151,110	151,110
Profit (loss) per ordinary share (in PLN/share)	0.01	0.00	(0.14)	(0.03)

**average weighted number of shares in a given year

Net revenues from sales of the Issuer amounted to PLN 47.0 million in 2019 and were almost two times higher than revenues achieved in 2018 due to cyclicity of operations of the Group, related to premieres of new games. The premiere of SGWC took place in November 2019, and thus results for year 2019 contain revenues from sales of the new game generated in the period of about 5 weeks, while the vast majority of selling costs (in particular, marketing expenses) were incurred over the entire year 2019.

Costs of manufacturing of products sold amounted to PLN 29.1 million in year 2019 (PLN 17.2 million in 2018), with the largest part representing amortization of SGWC and SGW 3 games, amortization of the lease contract and some of the production costs not capitalized on development works.

The selling costs increased from PLN 2.6 million in 2018 to PLN 9.0 million in 2019 as a result of marketing activity associated with premiere of the game, including participation in the international E3 trade fair in the United States, GDC in Germany, production of SGWC trailers and a marketing campaign preceding the premiere.

The overhead costs increased from 4.6 million in 2018 to 5.4 million, mainly due to application of IFRS 16, where a part of amortization of the rental contracts is allocated to management costs (PLN 0.7 million).

The financial costs pertain mainly to costs of interest on loans, negative exchange rate differences and bank commissions and charges.

The difference of PLN 2.6 million between gross and net profit is mainly due to the balance-sheet change in the balance of deferred tax, which does not represent tax paid or cash inflows.

A description of factors influencing profitability of operations of the Group has been provided in clause 2 of this report.

individual balance sheet	state as of 31.12.2019 state as of 31.12.2018*			
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Fixed assets	67,713	15,901	64,663	15,038
Current assets	34,031	7,991	17,283	4,020
Assets total	101,744	23,892	81,946	19,058
Equity	66,758	15,676	55,472	12,900
The share capital	1,619	380	1,511	351
Liabilities	34,986	8,216	26,474	6,157
Long-term liabilities	6,474	1,520	17,209	4,002
Short-term liabilities	28,512	6,695	9,265	2,155
Total liabilities	101,744	23,892	81,946	19,058

*Changed data

The balance sheet total for CI Games as of 31.12.2019 amounted to PLN 101.7 million, which represents a 24% increase in comparison with the balance of 31.12.2018.

Fixed assets in the balance sheet of 31.12.2019 amounted to PLN 67.7 million and increased by 5% in comparison with the balance of 31.12.2018, mainly due to recognition of the right to use assets (implementation of IFRS 16) in the amount of PLN 1.1 million and Long-term investments (increase by PLN 2.5 million), representing a loan granted to subsidiary United Label S.A. Development works remained almost unchanged, as the increase in the balance of development works was balanced by their amortization.

Current assets of CI Games as of 31.12.2019 amounted to PLN 34.0 million and increased almost twice in comparison with the balance at the end of year 2018, mainly due to a 2.4 increase in trade receivables and other settlements.

Equity of the Issuer as of 31.12.2019 amounted to PLN 66.8 million (65.6% of the balance sheet total), which represents an increase by 20% in comparison with the balance of 31.12.2018, which was reduced by PLN 12.5 million as a result of adjustment of an error from previous periods. The error was related to recognition of tax losses for year 2013-2017 (resulting from trademark transactions) for calculation of the deferred tax asset. In 2019, CI Games issued series H shares, which increased the Company equity by PLN 9.3 million.

The balance of long-term liabilities decreased from PLN 17.2 million (as of 31.12.2018) to PLN 6.5 million, mainly due to reclassification of credit from the long-term part (PLN 12.8 million) to the balance of short-term liabilities. As of 31.12.2019, the item consisted mainly of deferred tax provisions (PLN 6.2 million), while the remaining amount (PLN 0.3 million) represents the long-term part of financial lease.

Short-term liabilities as of the balance sheet date amounted to PLN 28.5 million, which is an increase by PLN 19.3 million in comparison with the balance of liabilities at the end of year 2018, mainly due to increasing of the bank loan (by PLN 4.4 million) and presentation of its entire balance as a short-term liability.

Individual cash flow statement

Individual cash flow statement	for period from 1.01 to 31.12.2018		for period from 1.01 to 31.12.2018	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net cash flows from operations	4,384	1,019	6,828	1,600
Net cash flows from investments	(20,924)	(4,864)		
Net cash flows from financial operations	15,855	3,686	15,739	3,689
Net cash flows	(685)	(159)	(2,978)	(698)

As of 01.01.2019, the balance of cash of the Issuer was PLN 4.3 million and at the end of year 2018 it was PLN 5.0 million.

In 2018, the Company recorded positive net cash flows from operations in the amount of PLN 4.4 million.

Net cash flows from investments were negative and amounted to PLN 20.9 million. They accounted mainly for expenditures for development works associated with "Sniper Ghost Warrior Contracts" and "Lords of the Fallen" (PLN 18.3 million in total) and the loan granted to United Label (PLN 2.4 million).

Net cash flows from financial activity were positive and amounted to PLN 15.9 million mainly due to proceeds from issue of series H shares (PLN 9.3 million) and use of the credit for development works (PLN 9.4 million).

Profitability ratios

Specification	m.u.	2019	2018*
Return on sales	%	38.2	18.0
EBITDA margin	%	53.4	-45.3
EBIT margin	%	12.0	-100.1
Gross profitability	%	9.8	-97.9
Net profitability	%	4.3	-102.4
Return on assets (ROA)	%	2.0	-26.2
Return on equity (ROE)	%	3.0	-38.8

* Changed data

Return on sales in 2019 amounted to 38.2%, which represents an increase by 20.2 p.p. in comparison with year 2018 - it is due to the premiere of a new game, which records the highest profitability in the first few months. In the subsequent years, the prices of "old" titles drop gradually, which reduces profitability.

In 2018, profitability ratios were additionally lowered by non-recurring events, which exerted negative impact on the financial results, that is, allowances for the unamortized part of development works related to "SGW 3" and the mobile version of "Lords of the Fallen", amounting to PLN 12.2 million and PLN 2.8 million, respectively. These allowances were recognized as other operating costs.

In 2019, EBITDA margin amounted to 53.4%, and EBIT margin was at the level of 12%. The significant difference between the two margins is due to amortization costs, which amounted to PLN 19.5 million.

The Company recorded gross profitability in the amount of PLN 4.6 million (9.8%), and the change in the balance of deferred tax (non-cash item) in the amount of PLN 2.6 million generated a net result of PLN 2.0 million. The change in the balance of deferred tax was due to increase in the provisions for deferred tax in the amount of PLN 2.0 million and reduction of the deferred tax asset in the amount of PLN 0.4 million.

Asset structure

Specification	m.u.	2019	2018*
Intangible assets / Assets	%	52.0	63.7
Property, plant and equipment/ Assets	%	0.4	1.3
Trade receivables / Assets	%	21.5	10.7
Inventories/ Assets	%	3.1	3.3
Cash and cash equivalents / Assets	%	4.2	6.1
Deferred income tax assets/ Assets	%	0.0	0.0
Other assets / Assets	%	4.6	1.0

* Changed data

The asset structure at the end of year 2019 (like in the previous years) was dominated by intangible assets (52% of the balance sheet total), consisting mainly of expenditures for development works associated with development of new games. The value of development works remained almost unchanged as we compare the balances for the end of year 2019 (PLN 52.9 million) and 2018 (PLN 52.2 million), while their percentage share has decreased as the balance sheet total increased by PLN 20.0 million in this period.

The second significant component in the structure of assets were trade receivables (21.5% of the balance sheet total) due to the fact that the new game was sold in the last weeks of year 2019, and thus receivables at the end of the year were mainly related to December sales through the digital channel and partially sales of physical copies.

Turnover ratios

Specification	m.u.	2019	2018*
Asset turnover ratio		0.5	0.3
Inventory turnover ratio	Number of turnovers	15.1	7.8
Turnover of receivables		170	152
Turnover of liabilities	Number of days	26	75

* Changed data

The ratio calculation rules

Asset turnover ratio = revenues from sales / assets

Inventory turnover ratio = revenues from sales / closing balance of inventories

Turnover of receivables = (trade and other receivables/ revenues from sales) * number of days in the period

Turnover of liabilities = (trade liabilities / revenues from sales)* number of days in the period

As of 31.12.2019, the inventory turnover ratio (calculated as the number of turnovers during the year) increased to 15.1 as a result of total sales being almost doubled while the inventory balance increased insignificantly (by 16%).

The receivables turnover ratio (calculated in the number of days, the balance of receivables determined at the end of the year) was 170 days as of 31.12.2019 and resulted from higher sales levels at the end of the year.

The trade liabilities turnover ratio dropped to 26 days at the end of year 2019, because the balance of trade liabilities increased slightly at the end of year 2019 (most liabilities related to production of physical copies were settled), while the sales level was more than doubled.

Debt ratios

Specification	2019	2018*
Debt ratio	0.34	0.32
Debt to equity ratio	0.52	0.48
Fixed capital to fixed assets ratio	1.08	1.12
Short-term debt ratio	0.28	0.11
Long-term debt ratio	0.06	0.21

* Changed data

The ratio calculation rules

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

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

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

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

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

The debt ratio and the debt to equity ratio increased in 2019 in comparison with 2018, because the Company increased its bank debt and recognized the financial lease liability balances due to the rental contract (PLN 603 thousand as of 31.12.2019).

Changes in the short- and long-term liability ratios at the end of year 2019 vs. 2018 are due to classification of the entire credit balance as a short-term liability and incurring of new tranches of the open-end credit in 2019.

Liquidity ratios

Specification	2019	2018*
Current liquidity ratio	1.2	1.9
Quick liquidity ratio	1.1	1.6
Acid test ratio	0.2	0.5

The ratio calculation rules

Current liquidity ratio = current assets/ short-term liabilities

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

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

Liquidity ratios have worsened due to the fact that all liabilities are short-term liabilities.

Financing structure

Specification	m.u.	2019	2018*
Equity	%	65.6	67.7
Long-term liabilities	%	6.4	21.0
Short-term liabilities		28.0	11.3

* Changed data

The Company finances its operations by equity and bank credits. A decrease in equity, despite its increase by 20% between the closing balance of 2018 and 2019 in the total balance sheet total is due to the increased balance sheet total (by 24%).

A significant decrease in the amount of long-term liabilities accompanied by a decrease in short-term liabilities in the total balance results from reclassification of the long-term balance in whole as a short-term liability.

3.3 Achieving investment goals

The Company plans to produce games on the basis of current proceeds from operations and from a credit.

The Management Board of the Company is in negotiation with mBank to extend credit financing of three projects, two of which are still in progress.

3.4 Information on loan and credit agreements, including their maturity periods and surety and guarantee agreements of Parent Company CI Games S.A

1. Credit and loan agreements

On 09.01.2018, CI Games S.A. concluded two credit agreements with mBank S.A.: an open-end credit agreement in the Polish currency and an overdraft agreement for the total value of PLN 35 million. The overdraft agreement has been concluded for a limited period of time, until 29.01.2020. As of the report date, the Company has repaid the overdraft facility.

On 28.06.2019, the Company concluded an annex to the open-end credit agreement ("the Open-End Credit Agreement") with mBank S.A. ("the Annex"), of which the Company informed in its current report no. 21/2019 of 28.06.2019. According to the Annex, the Company undertook as of 26.06.2019 not to make further drawdowns of the credit granted on the basis of the Open-End Credit Agreement. The reason for conclusion of the Annex is the notice of termination given by the Company for the contract with Defiant, as one of the main purposes of the Open-End Credit Agreement was financing of cooperation of the Company with Defiant. As of 21.12.2019, the open-end credit balance amounted to PLN 19,077 thousand. The Open-End Credit Agreement has been concluded for a limited period of time until 30.06.2020. Due to the fact that the main purpose of the credit was financing of production of the "Lords of the Fallen 2" game and the fact that originally the Company had planned to repay the credit after the premiere of this game, the Company is now in the course of negotiations with the Bank, concerning a substantial extension of financing of the Company by the Bank with regard to two out of three projects, for which the financing was originally designated.

The credit agreements referred to above are secured by registered pledge on shares of the Company in the total amount of 15,000,000 shares, owned by Mr. Marek Tyminiński, a blank promissory note issued by the Company with a blank promissory note agreement, and by global assignment on behalf of the Bank of receivables based on contracts with selected business partners of the Company. The overdraft agreement is also secured by a credit repayment guarantee granted within the framework of the de minimis portfolio guarantee line in the amount of PLN 3 million.

2. Lease agreements

As of 31.12.2019, the Company was a party to three financial lease agreements for company cars, and the balance of these was PLN 300 thousand.

3. Guarantee and surety agreements

As of 31.12.2019, the Company had the following conditional liabilities:

- a blank promissory note with a blank promissory note agreement, issued on 09.01.2018 to secure receivables of mBank S.A. due to loan agreements (overdraft and open-end credit in the total amount of PLN 35 million);
- a bank guarantee issued by mBank S.A. on 23.10.2019 up to the amount of EUR 58 thousand on behalf of 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. due to lease of office space at ul. Zajęcza 2B. The guarantee is valid until 14.10.2020;
- a blank promissory note issued by the Company with a blank promissory note agreement of 15.10.2018 to secure receivables of mBank S.A. due to execution of the bank guarantee referred to above;
- a Framework Agreement for financial market transactions entered into with mBank on 09.08.2018;
- a blank promissory note issued by the Company with a blank promissory note agreement of 09.08.2018 to secure receivables of mBank S.A. due to securing of the Framework Agreement for financial market transactions, referred to above.
- on 26.06.2019, mBank received a request for payment on the basis of the bank guarantee issued by mBank S.A. up to the amount of EUR 113,762.72 on behalf of EP Office 1 Sp. z o.o., EP Office 2 Sp. z o.o., EP Apartments Sp. z o.o. and EP Retail sp. z o.o., securing repayment of receivables based on the lease contract for real estate property at ul. Zajęcza 2B. The Company has questioned the payment made by mBank S.A. and has taken legal steps aimed, among other things, at reimbursement of funds unduly paid from the bank guarantee, referred to above.
- on 01.08.2019, mBank S.A. issued a bank guarantee up to the amount of EUR 58,023.48 on behalf of 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. due to lease of office space at ul. Zajęcza 2B in Warsaw. On 02.09.2019, a demand for payment on the basis of this guarantee was received by mBank S.A., and on 08.09.2019, the Bank paid the amount based on the guarantee. The Company has questioned the payment made by mBank S.A. and has taken legal steps aimed, among other things, at reimbursement of funds unduly paid from the bank guarantee, referred to above.

As of 31.12.2019, the Company had no other conditional liabilities.

3.5 Information on loans granted by CI Games S.A

In 2019, CI Games granted no loans of significant unit value to employees, collaborators or business partners.

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

The registered pledge on shares of the Company in the total amount of 15,000,000 shares, owned by Mr. Marek Tymiński - stockholder of the Company and President of the Management Board of the Company, constitutes one of the security measures applied to the overdraft agreement and the open-end credit agreement concluded with mBank S.A. on 09.01.2018.

On 12.12.2018, CI Games SA concluded a loan agreement with its subsidiary United Label S.A. for the amount of PLN 2 million. The loan funds will be made available in tranches on request of the subsidiary. The deadline for full repayment of the loan is December 12th, 2023; the interest rate is equal to WIBOR 3M base rate increased by margin. The loan balance as of 31.12.2019 amounted to PLN 2,559 thousand.

On 27.09.2019, an annex to this loan was signed, increasing the loan limit amount to PLN 4 million.

3.7 In the case of issue of securities in the reporting period – a description of the mode of use of proceeds from the issue

In the reporting period, CI Games S.A. issued 10,833,025 ordinary bearer shares of series H. Proceeds from this issue in the net amount of PLN 9.3 million were received by the Company on 14.08.2019. As of 26.03.2019, which is the date of this report, the Group has used PLN 6,960 thousand for achievement of purposes of the issue:

- publishing activity in the amount of PLN 1,980 thousand;
- a marketing campaign related to the premiere of SGWC in the amount of PLN 4,338 thousand;
- expansion of the development team in the amount of PLN 642 thousand.

3.8 Assessment of management of financial resources

In the opinion of the Management Board, throughout the entire year 2019, the Company was fully capable of timely settlement of its liabilities.

Management of financial resources of the Group in 2018, in association with ongoing works on completion of the Sniper Ghost Warrior Contracts game, was focused mainly on planning of cash flows. The Management Board conducts ongoing analysis of the existing financing structure and plans the future optimum structure for the purpose of achievement of the expected financial ratios and results while ensuring financial security and liquidity of the Group.

3.9 Information on financial projections

The Management Board of the Company has not published forecasts concerning the consolidated results of CI Games Capital Group or individual results of CI Games S.A. presented in the financial statements for year 2019.

Supplementary Information

4 Supplementary information

4.1 Information on contracts with the entity authorized to audit financial statements

On 10.06.2019, CI Games entered into a contract with UHY ECA Audyt Sp. z o.o. Sp. k. for a semi-annual review and audit of the individual and consolidated financial statements for years 2019 and 2020. This entity was selected by the Board of Supervisors of CI Games S.A. on the basis of recommendations of the Audit Committee of the Board of Supervisors of the Company, by a resolution of the Board of Supervisors in accordance with the audit firm selection policy and procedure adopted by the Company.

The selected entity has been entered on the list of entities authorized to audit financial statements of the National Chamber of Statutory Auditors under no. 3115.

The remuneration based on the contract with the entity authorized to audit the individual financial statement for year 2019 and to conduct the semi-annual review for the first half of year 2019 amounted to net PLN 30,500 and net PLN 21,500, respectively.

4.2 The share capital

The share capital of CI Games S.A. as of 31.12.2019 amounted to PLN 1,619 thousand and consisted of 161,943,015 shares of nominal value of PLN 0.01 each:

- 100,000,000 ordinary bearer shares of series A,
- 400,000 ordinary bearer shares of series B,
- 25,000,000 ordinary bearer shares of series C,
- 1,100,000 ordinary bearer shares of series D,
- 12,649,990 ordinary bearer shares of series E,
- 960,000 ordinary bearer shares of series F,
- 11,000,000 ordinary bearer shares of series G,
- 10,833,025 ordinary bearer shares of series H.

Series A shares were acquired by the former partners of City Interactive sp. z o.o. on the date of conversion of the Company into a joint-stock company.

Series B shares were issued within the framework of the incentive scheme and acquired by employees and collaborators of CI Games S.A. The registration court of CI Games S.A. registered an increase in the share capital as a result of issue of series B shares on 10.08.2007. The shares were admitted to stock exchange trading on the second-tier market by way of an ordinary procedure.

Series C shares were subject to a public offering in November 2007. All of the shares offered were acquired and paid. On 17.12.2007, the registration court of the Company registered an increase in the share capital of the Company due to issue of series C shares.

Series C shares were issued within the framework of the incentive scheme and acquired by employees and collaborators of CI Games S.A. The registration court of Company deed accomplish registered an increase in the share capital as a result of issue of series C shares on 09.10.2009. The shares were admitted to stock exchange trading on the second-tier market by way of an ordinary procedure.

Series C shares were subject to a private subscription in December 2015. All of the series E shares offered were acquired and paid. On 06.02.2016, the shares were admitted to stock exchange trading on the second-tier market by way of an ordinary procedure.

Series F shares were issued on the basis of conditional increase in the share capital of CI Games S.A. approved by the Ordinary General Meeting of Stockholders of CI Games S.A. in April 2015. The shares are admitted to stock exchange trading on the second-tier market by way of an ordinary procedure.

Series G shares were subject to private subscription in November 2016 in association with raising of share capital of CI Games S.A. within the limits of authorized capital. All of the offered series G shares were acquired and paid. The shares were admitted to stock exchange trading on the second-tier market by way of an ordinary procedure.

Series H shares were subject to public offering in June 2019 in association with raising of share capital of CI Games S.A. within the limits of authorized capital. All of the offered series H shares were acquired and paid. On 09.08.2019, the registration court of the Company registered an increase in the share capital of the Company due to issue of series H shares.

There are no securities that would serve as a basis for special control rights in relation to the Company, as according to the articles of association of CI Games S.A., all of the issued shares are ordinary bearer shares of the same nominal value and are associated with equal rights and obligations of all stockholders, without share-based or personal privileges.

4.3 Shareholding structure of the Parent Company as of the date of submission of this report

Shareholding structure of the Parent Company as of December 31st, 2019:

Share capital– structure	Number of shares	% of votes
Marek Tymiński	52,663,570	32.52%
Other shareholders	109,279,445	67.48%
All shareholders in total	161,943,015	100%

The total number of votes during the General Meeting of CI Games S.A. as of 31.12.2019 amounted to 161,943,015. As of the date of submission of this report, the total number of votes in the General Meeting of the Company is 161,943,015.

As of the date of submission of this report, the total number of shares of the Company is 161,943,015. As of 27.03.2020, shareholder r Marek Tymiński holds 52,663,570 shares, which represent 32.52% of the share capital of CI Games S.A. and 32.52% of the total number of votes in CI Games S.A.

4.4 Treasury shares

In the reporting period and until the date of preparation or publication of this report, the Parent Company did not acquire or hold own shares.

4.5 Composition of governing bodies of the Parent Entity

The Management Board of CI Games S.A.

Marek Tymiński	President of the Management Board.	throughout the entire year 2019
Monika Rumianek	Member of the Management Board	throughout the entire year 2019

The Supervisory Board of CI Games S.A.

Ryszard Bartkowiak	Chairman of the Supervisory Board	throughout the entire year 2019
Grzegorz Leszczyński	Member of the Supervisory Board	throughout the entire year 2019
Tomasz Litwiniuk	Member of the Supervisory Board	throughout the entire year 2019
Norbert Biedrzycki	Member of the Supervisory Board	throughout the entire year 2019
Marcin Garliński	Member of the Supervisory Board	throughout the entire year 2019

4.6 Information on shares of the company held by managing and supervising persons

Person	Function	State as of 31.12.2019	Increase in the number of shares held from 01.01.2019 to 31.12.2019	Decrease in the number of shares held from 01.01.2019 to 31.12.2019	As of 27.03.2020 (report publication date)
Marek Tymiński	President of the Management Board of CI Games S.A.	59,663,570	-	7,000,000	52,663,570
Monika Rumianek	Member of the Management Board of CI Games S.A.	150,000	-	-	150,000

As of the date of submission of this report, shareholder Marek Tymiński holds 52,663,570 shares, which represent 32.52% of the share capital of CI Games S.A. and 32.52% of the total number of votes in CI Games S.A.

4.7 Information on contracts known to the issuer, which may result in future changes in proportions of shares held by the existing stockholders and bondholders

No such contracts are known to the Issuer.

4.8 Information on the system of control of employee shares schemes

On 28.04.2015, the Ordinary General Meeting of Partners of CI Games S.A. passed a resolution on conditional raising of share capital of the Company by the amount not higher than PLN 50,000.

At present, conditional raising of share capital of the Company takes place through issue of no more than 5,000,000 subscription warrants of series B, giving entitlement to acquire no more than 5,000,000 of series F shares of nominal price of PLN 0.01 each and issue price of PLN 0.70 each. One warrant corresponds with the right to acquire one series F share. Issue of all warrants took place simultaneously. Series B subscription warrants were issued free of charge; they are in dematerialized form.

The conditional raising of share capital of the Parent Company was related to the Incentive Scheme addressed to key employees and collaborators, including members of the Management Board of CI Games S.A. Increase in the share capital was accompanied by full exclusion of the rights issue for the new issue of shares for the existing stockholders of the Parent Company.

Allocation of series B warrants and series B shares within the framework of the Incentive Scheme referred to above takes place, in principle, in three stages, each of them related to the premiere of a new game released by the Company, starting from year 2017. On the basis of authorization of the Ordinary General Meeting of Stockholders of the Parent Entity, the detailed conditions of the Incentive Scheme and participants of the Incentive Scheme for each of the three stages are decided upon each time by the Board of Supervisors of the Company through an appropriate resolution(s).

Starting from 25.05.2016, on the basis of authorization of the Ordinary General Meeting of Stockholders of the Parent Company of 28.04.2015, the Board of Supervisors of the Company passes resolutions serving as a basis for adapting of the Incentive Scheme Regulations (and for proper amendments to these Regulations) and indicating subsequent persons authorized to participate in the First Stage of the Incentive Scheme. Until 31.12.2018, 960,000 series F shares were issued, acquired and admitted to stock exchange trading within the framework of this Incentive Scheme. In year 2019, until the date of publication of this report, no shares were issued, acquired or admitted to stock exchange trading within the framework of the Incentive Scheme referred to above.

On 04.11.2019, the Extraordinary General Meeting of the Company made amendments to Resolution 17/2015 of the Ordinary General Meeting of Stockholders of CI Games Spółka Akcyjna with a registered office in Warsaw of 28.04.2015⁴ concerning the incentive scheme, issue of subscription warrants, conditional raising of share capital and exclusion of the rights issue of the existing stockholders with regard to subscription warrants and shares issued within the framework of conditional raising of share capital, as well as applying for admission of shares issued within the framework of conditional raising of share capital for trading on the regulated market and their dematerialization and amendments to the Articles of Association, later amended by Resolution 5/2017 of the Extraordinary General Meeting of Company CI Games Spółka Akcyjna with a registered office in Warsaw of 31.01.2017 (hereinafter: "the Resolution"): 1) § 2 item 14 of the Resolution now states as follows: „14. The right to acquire Shares in exercise of rights from Subscription Warrants may be exercised only until the date specified in detail in the Regulations for the Incentive Scheme or the Implementing Resolution of the Board of Supervisors for each of the three stages, referred to in § 2 item 12 sentence 1 in principio above, no later than 31.12.2024.”

4.9 Contracts concluded between the Issuer and managing persons, providing for a compensation in the case of their resignation or dismissal without a material reason or if their withdrawal or dismissal results from merger of the Issuer by acquisition

In 2019, the Issuer concluded no contracts with managing persons, providing for a compensation for such persons in the case of their resignation or dismissal due to any reason.

4.10 Value of remuneration, rewards, benefits paid, payable or potentially payable to managing and supervising persons of the Parent Company **CI Games S.A.**

The Management Board of CI Games S.A.	Function
Marek Tymiński	President of the Management Board.
Monika Rumianek	Member of the Management Board

The Supervisory Board of f CI Games S.A.	Function
Ryszard Bartkowiak	Chairman of the Supervisory Board
Grzegorz Leszczyński	Member of the Supervisory Board
Tomasz Litwiniuk	Member of the Supervisory Board
Norbert Biedrzycki	Member of the Supervisory Board
Marcin Garliński	Member of the Supervisory Board

Value of (gross) remuneration of persons managing and supervising the Parent Company paid in 2019 (in PLN):

The Management Board of CI Games S.A.	Value of the remuneration
Marek Tymiński	1,002
Monika Rumianek	163
Value of the remuneration	
The Supervisory Board of CI Games S.A.	
Bartkowiak Ryszard - Chairman of the Supervisory Board	8,000
Grzegorz Leszczyński - Member of the Supervisory Board	6,000
Tomasz Litwiniuk - Member of the Supervisory Board	6,000
Norbert Biedrzycki - Member of the Supervisory Board	6,000
Marcin Garliński - Member of the Supervisory Board	6,000

4.11 Information on significant transactions entered into by the Issuer or their subsidiary with related entities

All of the transactions listed below were executed on market conditions. Transactions of the Parent Company with companies belonging to the Capital Group:

Transactions of the Parent Company with entities related personally to Mr. Marek Tymiński - the major shareholder of CI Games S.A., who exerts direct or indirect control over the following entities:

Entity	COSTS PLN thousand	REVENUES PLN thousand	RECEIVABLES PLN thousand	LIABILITIES PLN thousa nd
Onimedia Sp. z o.o.	-	2	-	-
Premium Restaurants Sp. z o.o.	-	1	-	9
Premium Food Restaurants S.A.	1	24	85	-
Fine Dining Sp. z o.o.	5	15	171	-
Total	6	42	256	9

Transactions of the Issuer with entities related personally to Members of the Supervisory Board and Members of the Management Board of the Parent Company

	COSTS PLN thousan d	REVENUES PLN thousand	RECEIVABL ES PLN thousand	LIABILITIES PLN thousand
Marek Tymiński	60	5		15
BWHS Bartkowiak Wojciechowski Hałupczak Springer SPÓŁKA JAWNA	115	-		17
Total	175	5	-	32

4.12 Information on organizational or capital ties between the Issuer and other entities and specification of key domestic and foreign investments

As of 31.12.2019, CI Games Capital Group consisted of the following entities:

CI Games S.A. (formerly City Interactive S.A.) with a registered office in Warsaw. Share capital: PLN 1,619,430.15
Parent entity engaged in publishing and production activity, managing a production studio in Warsaw.

United Label S.A. with a registered office in Warsaw. Share capital: PLN 100,000 100% shares held by:
CI Games S.A.

CI Games USA Inc. (formerly City Interactive USA Inc.) – a company with a registered office in the state of Delaware, the United States. Share capital: USD 50,000 100% shares held by CI Games S.A. The Company has been subject to consolidation since the second quarter of year 2008. CI Games USA Inc. is the key subsidiary in the Group, engaged in publishing, distribution and marketing activity on the markets of North and South America.

Business Area Sp. z o.o. - a company with a registered office in Warsaw, included in consolidation from the third quarter of year 2010: Share capital: PLN 5,000 100% shares held by CI Games S.A.

Business Area sp. z o.o. sp.j. (converted from Business Area Sp. z o.o. S.K.A. as of 26.09.2015 r.) – a company with a registered office in Warsaw. The Company is subject to consolidation starting from the first quarter of year 2015. 99.99% of the shares in the Company are held by CI Games S.A.; the remaining 0.01% are held by Business Area Sp. z o.o.

CI Games S.A. sp.j. (converted from CI Games IP sp. z o.o. on 19.09.2015 r.) – a company with a registered office in Warsaw. 99.99% shares held by Business Area sp. z o.o.; the remaining 0.01% shares are held by CI Games S.A.

CI Games UK Ltd. - a company with a registered office in Uxbridge. 100% shares in this company are held by CI Games S.A.. Share capital: GBP 100.

4.13 Changes in the basic principles of management of enterprise of the Issuer and the Capital Group

In 2019, there were no changes in the basic principles of management of enterprise of the Issuer and the Capital Group.

4.14 Specification of material proceedings before courts, competent authorities for arbitration proceedings or public administration bodies

Information on material proceedings before courts involving CI Games and Group companies can be found in Note 34 to the Annual consolidated financial statements for year 2019.

Corporate governance

5. Corporate governance

The corporate governance principles applied by the Issuer in 2019 have been described in a separate document: "STATEMENT ON COMPLIANCE WITH PRINCIPLES OF CORPORATE GOVERNANCE IN 2019".

Marek Tymiński

President of the Management Board

Monika Rumianek

Member of the Management Board

Warsaw, March 27th, 2020

