



CI GAMES CAPITAL GROUP

Management Report of the activities of CI Games Capital Group

for the period from 1 January to 30 June 2021

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I. The profile of activity of CI Games Capital Group

1. Description of the Capital Group

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, 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 with the status of 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. - may develop projects and publish games on the basis of its own vision and the best strategy adapted to specific products. The Capital Group includes in the first place the Parent Company seated in Warsaw and the key subsidiaries: CI Games Mediterranean Projects S.L. with the seat in Barcelona and CI Games USA Inc. seated in New York. CI Games S.A. focuses on publishing and production activity, CI Games Mediterranean Projects S.L. produces games, while Games USA Inc. engages in publishing activity on the markets of 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 on the basis of cooperation with independent game producers.

In response to the dynamically changing market conditions, CI Games Group implements a business model based on 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.

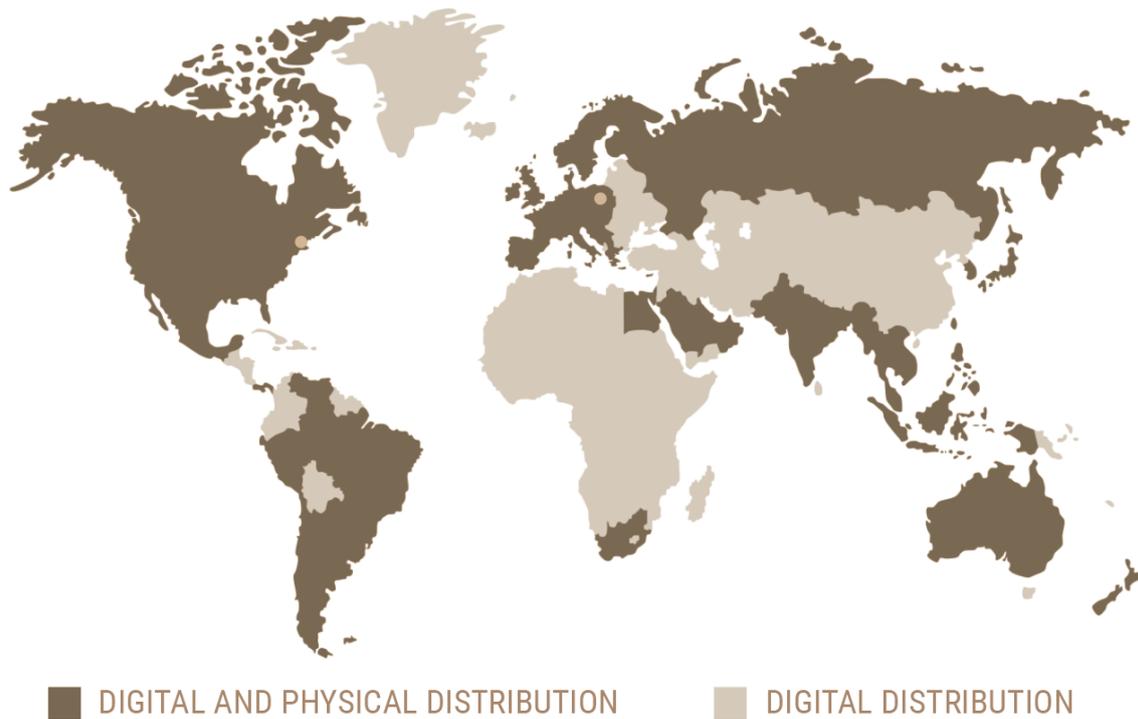
The Group has competences in all business areas of the market of video games. In activity on the video game market, the Capital Group or its individual companies operate as:

- A.** A producer with their own production studios to develop new titles with support of external Partners. The CI Games development studio in Warsaw specializes in production of FPS video games; Hexworks studio works on the production of “Lords of the Fallen 2” (further “LotF 2”).
- B.** A publisher of own games and licensed titles, for which it develops a marketing strategy and places them on the market through the agency of local distributors. CI Games S.A. has entered into contracts for production and independent publishing of games with owners of the most popular consoles, that is, Sony and Microsoft. The Company develops games for all of the key platforms: PlayStation, Xbox and PCs. United Label S.A. publishes games produced by independent developers in indie premium segments including also Nintendo Switch;
- C.** A distributor, selling products directly to retail chains and in digital distribution. One of the Group’s subsidiaries - CI Games USA Inc. - coordinates sales directly, among others, on the American market.

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

The Group develops high-grade, innovative products on the basis of own or external IPs. The key brands of CI Games Group include: “Lords of the Fallen” (hereinafter also: “LotF”) and “Sniper Ghost Warrior” (hereinafter also: “SGW”). LotF has reached more than 10 million players around the world since its release while the number of products sold in the SGW series has substantially exceeded 12.5 million.

Map 1. Distribution of products of CI Games studio



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 S.A. 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 from 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, activity of the Group includes cooperation with the biggest Web-based platforms, allowing games in this version to reach a great number of players around the world, who are thus able to purchase games, paying for them in their local currencies.

The Group is organized into departments, which correspond to development of key products "SGW" and "LotF 2" supported by Quality Assurance. Other departments include Sales & Marketing and Finance & Administration. The breakdown of headcount by departments is presented below.

	as of 30.06.2021	as of 30.06.2020
	Total Headcount	Total Headcount
Development "SGW"	43	40
Development "LotF 2"	61	15
Quality Assurance	16	9
Sales & Marketing	15	9
Finance & Administration	15	10
Total	150	83

2. Information on seasonal or cyclical nature of business activity of the Issuer in the presented period

Due to diversified sources of revenues and the specific nature of the market of video games, CI Games Capital Group 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 game release.

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

3. Key events in the Group in the first half of 2021 and until the report publication date – a description of significant achievements or failures with a list of the key associated events

- The key event in the first half of 2021 was the release of “Sniper Ghost Warrior Contracts 2” on 04.06.2021 on PlayStation 4, Xbox Series X/S, Xbox One and PC. The release of this game on PS5 was on 24.08.2021. The Group expects that sales on PS5 would account for a significant part of the revenues in the lifecycle of “SGWC 2”.
- “Sniper Ghost Warrior Contracts 2” achieved a 170% uplift in digital sales during its first ten days of sale, in comparison to its predecessor, “Sniper Ghost Warrior Contracts”. Furthermore, it is the highest metacritic scoring entry to the franchise yet, and has also achieved a highest user rating on Steam since launch - a first for the series.
- Consolidated net revenues from sale of „Sniper Ghost Warrior Contracts 2” from the release date (i.e. 04.06.2021) up to 31.07.2021 exceeded its production and publishing costs including capex, marketing, COGS, license fees related to engine. Consequently, the game “SGWC 2” achieved its return on investment in the second month from the release date. The Group estimates that, „SGWC 2” was sold at 560 thousand of units.
- The sale of “Sniper Ghost Warrior Contracts” from the release date (i.e. 22.11.2019) up to 30.06.2021 achieved over 1.3m sold units (excluding bundles) and the entire “Sniper Ghost Warrior” series has now sold a total of more than 12.5 million copies.
- On 29.07.2021, the pixel art boss-rush title, “Eldest Souls” (a game from United Label S.A. portfolio) was released on PS5, PS4, Xbox Series X/S, Xbox One, Nintendo Switch and PC. The title was very positively received by players (as of the report publishing date user score on Steam was 83%) and media scoring 8s and 9s with many leading outlets including IGN, Screen Rant and Tom's Guide, and became an instant hit among leading global influencers. The title achieved return on investments in the first 20 days recouping marketing and production costs. The number of sold copies from the release (i.e. 29.07.2021) day up to 18.08.2021 exceeded 44 thousand and the net revenues exceeded PLN 1.5m.
- CI Games Group has significantly increased its headcount in the first half of 2021. As of 30.06.2021, the Group employed 150 people, 120 of which work in game production: 61 persons work in the production of “Lords of the Fallen 2”, 43 persons are involved in the production of the “Sniper Ghost Warrior” series, and 16 persons make up the QA team.
- United Label S.A. signed a new contract with a developer Odd Bug Studio on 27.07.2021. The developer’s team from Manchester is responsible for the production of the largest title from United Label’s S.A. portfolio – “Tails of Iron”, whose multi-platform release is planned on 17.09.2021.

4. Description of factors of events, with particular emphasis on extraordinary events, that influenced the financial results achieved

- Between January 1st and June 30th, 2021, no extraordinary events took place, which would exert impact on the financial results achieved. The key event having impact on the Group's financial result was the release of the „Sniper Ghost Warrior Contracts 2” game – described in the point above.
- The Management Board of the Company is of opinion that the announced state of COVID-19 epidemic does not constitute an event, which would enforce adjustments to the consolidated financial statements for the first half of 2021. The Management Board is monitoring the situation on an ongoing basis and will take all possible steps to mitigate any negative consequences for the Group related to the ongoing epidemic.

II. Financial results

1. The selected financial data

Consolidated profit and loss account

	for the period from 1.01 to 30.06.2021	for the period from 1.01 to 30.06.2020
	PLN'000	PLN'000
Net revenue from sales	49,224	27,037
Production costs	(20,368)	(15,241)
Profit on sales	28,856	11,796
Selling costs	(9,063)	(3,373)
Management and administration costs	(3,318)	(2,882)
Other operating costs and income	841	(367)
Operating profit	17,316	5,174
EBITDA	29,559	16,704
Finance income and costs	322	618
Profit before tax	17,638	5,792
Tax	(4,056)	(1,052)
Net income	13,582	4,740
Sales profitability	58.6%	43.6%
EBIT margin	35.2%	19.1%
EBITDA margin	60.0%	61.8%
Gross margin	35.8%	21.4%
Net margin	27.6%	17.5%

Consolidated revenues amounted to PLN 49.2m in the first half of 2021 and were higher by 82% compared to revenues achieved in the respective period of 2020. This growth is attributable to the new game release "SGWC 2" on 04.06.2021.

Production costs consisted mainly of amortization and depreciation of development work on "Sniper Ghost Warrior Contracts" and "Sniper Ghost Warrior Contracts 2", in addition to the cost of producing physical media as well as costs of production that were not included under development costs. In the first half of 2021, the revenue from the sale of physical products represented 33% of total revenue. The Group expects to increase share of digital sales in total revenues in the second half of 2021 and therefore, the share of manufacturing of physical products, in total production costs, will decline.

In the first half of 2021, operating profit totaled PLN 17.3m (margin 35.2%), while EBITDA was PLN 29.6m (margin 60.0%).

The selling costs in the first half of 2021 amounted to PLN 9.1m and were higher by PLN 5.7m comparing to the respective period of 2020, as the Group incurred marketing expenses due to "SGWC 2" release in 2Q2021 and employment increase. The selling costs in the first half of 2021 included substantial part of marketing campaign of "SGWC 2".

General and administration costs totaled to PLN 3.1m in the first half of 2021, which indicates a growth at 15% compared to the first half of 2020. This is connected with the overall growth in employment in the Group and related costs.

The finance costs included mainly bank commissions, negative foreign exchange difference, while the finance income include positive foreign exchange difference and valuation of forward contracts.

The Group posted a net profit of PLN 13.6m (27.6% net margin) in the first six months of 2021, arising mainly from the "SGWC 2" release.

Consolidated balance sheet

Consolidated Balance sheet	as of 30.06.2021	as of 31.12.2020
	PLN'000	PLN'000
Non-current assets	71,093	69,137
Current assets	58,048	41,150
Total assets	129,141	110,287
Equity	110,079	96,544
Initial capital	1,829	1,829
Liabilities	19,062	13,743
Non-current liabilities	8,878	8,173
Current liabilities	10,184	5,570
Total equity and liabilities	129,141	110,287

The balance sheet total of CI Games Group as of 30.06.2021, amounted to PLN 129.1m (growth by 17.1%) compared to the balance sheet total at 31.12.2020. The main items behind this change were the increase of trade receivables resulting from the game release in June 2021. The increase in Liabilities & equity value resulted from growth in own equity and trade liabilities.

Assets

Assets structure

Specification		as of 31.12.2021	as of 31.12.2020
Intangible assets / Assets	%	45.8%	50.5%
Property, plant and equipment/ Assets	%	0.9%	0.4%
Trade receivables / Assets	%	22.5%	6.2%
Inventories/ Assets	%	1.8%	1.4%
Cash and cash equivalents / Assets	%	15.6%	25.6%
Deferred income tax assets/ Assets	%	0.9%	2.9%
Other assets / Assets	%	3.4%	3.3%

The largest items in terms of assets were intangibles amounting to PLN 59.1m (45.8% of the total assets as of 30.06.2021), which increased from PLN 55.7m as of 31.12.2020. The main items in intangibles were development works. In the period from 31.12.2020 to 30.06.2021 the balance of development works rose by PLN 3.7m as a result of expenditures on "Lords of the Fallen 2" and "Sniper Ghost Warrior 2."

As of 30.06.2021, the balance of deferred tax assets declined from PLN 3.2m (31.12.2020) comparing to balance of PLN 1.2m as of 31.12.2020 mainly as a result of utilization of historical tax losses.

Current assets totaled PLN 58.0m as of 30.06.2021 and noted an increase by 41.1% compared to balance as of end of 2020. This is attributable mainly to growth in trade receivables (by PLN 22.3m), which conversation into cash will occur in the following months from the game release.

Equity and liabilities

Structure of equity and liabilities

Specification		as of 31.12.2021	as of 31.12.2020
Own equity	%	85.2%	87.5%
Long term liabilities	%	6.9%	7.4%
Short term liabilities	%	7.9%	5.1%

CI Games Group own equity as of 30.06.2021 totaled PLN 110.1m (85.2% of the consolidated balance sheet total) and have increased over the course of the half year mainly thanks to retained earnings.

Long term liabilities of the Group increased by 8.6% as of 30.06.2021 compared to balance as of 31.12.2020 as the result of growth in provision for deferred tax liability.

Short-term Group liabilities totaled PLN 10.2m as of 30.06.2021 registering a growth by 82.2% (compared to balance as of 31.12.2020) as a result of mainly increase in trade payables (trade liabilities related to a game production on physical media and marketing services) and also a growth in short term provision, which includes an employee bonus connected with a game release.

Consolidated cash flow

Consolidated Statement of cash flow	for the period from 1.01 to 30.06.2021	for the period from 1.01 to 30.06.2020
	PLN'000	PLN'000
Net cash flows from operating activities	10,849	24,881
Net cash flows from investing activities	(18,488)	(9,392)
Net cash flows from financing activities	(338)	(9,380)
Net cash flows	(7,977)	6,109

In the first six months of 2021 operating cash flow totaled PLN 10.8m and was due mainly to the sale of back catalogue and advances paid from distributors for "SGWC 2" production on the physical media.

Net cash flow from investing activities was negative and totaled PLN 18.5m of which PLN 15.1m was related almost exclusively to development expenses of "Sniper Ghost Warrior Contracts 2" and "Lords of the Fallen 2" as well as advances (PLN 1.5m) for game' development at a subsidiary United Label S.A.

2. Assessment of ability to achieve the investment goals

The CI Games Capital Group is capable of financing investment projects. Production of the "SGWC 3" and the "LotF 2" games is to be financed from own funds.

3. Information on financial projections

In the first half of 2021, the Management Board of the Company did not publish any forecasts concerning the consolidated results of the CI Games Capital Group or individual results of the Issuer.

In the first half of 2021 and until the date of publication of this report, there were no significant transactions for purchase and sale of tangible assets.

4. Information on significant transactions related to purchase and disposal of tangible assets

In the first half of 2021 and until the date of publication of this report, there were no significant transactions for purchase and sale of tangible assets.

5. Information on significant liabilities due to purchase of tangible assets

In the first half of 2021 and until the date of publication of this report, there were no significant liabilities related to purchase of tangible assets.

6. Information on loan and credit agreements, including their maturity periods and surety and guarantee agreements of the CI Games Capital Group

As of 30.06.2021, the Group and the Company was not the party to any loan agreements.

Parent Entity granted loans to its subsidiaries – it was described in the Chapter IV, point 17.

As of 30.06.2021, the Group had no other conditional liabilities.

7. Information on loans granted by the CI Games Capital Group

In the first half of 2021, neither the Company nor the CI Games Capital Group, including all subsidiaries of the Group, granted any loans to employees, partners or contract parties of substantial unit value.

8. Information on sureties and guarantees granted and received in the first half of 2021 by the CI Games Capital Group

In the first half of 2021, neither the Company, nor the Capital Group, nor any of the Group subsidiaries granted or received any guarantees or sureties.

9. Indication of adjustments of errors for previous periods

In the reporting period, no adjustments of significant errors were made with regard to financial statements from previous periods.

III. Management of business risk of the Group

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 or the Group to continue or operation in the foreseeable future.

Described below are the key risk factors from the perspective of CI Games Group. 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 Group is not aware of. Materialization of risk factors described below and unidentified ones may exert negative impact on operating activity of the Group and its financial results or hinder implementation of the Group's strategy, thus influencing its situation.

1. Risk factors related to business environment of the Group

Risks associated with the economic situation

A vast majority of sales of the Group'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 Group. Impact on the level of sales achieved is exerted by GDP growth rate, the level of disposable income and expenditures of households, salaries, the state fiscal and monetary policy, as well as the level of investment expenditures of enterprises. Worsening of the economic condition of the global market may imply a reduction of consumer spending of households, decreased demand for entertainment products and services. A potential slowdown on the global market may, on the other hand, exert next negative impact on profitability expected by the group, as well as the planned development dynamics. Analogical factors impact the level of sales on the Polish market. In 2020, the SARS-CoV-2 virus pandemic has emerged (the virus causes an illness known as COVID-19; described below), which lasted for the whole 2020 year until the release of this report, having a negative impact 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 Group. Negative trends and events related to the economic situation is beyond control of the Group. The potential negative phenomena emerging on selected markets may translate to the Group's results despite the geographic diversification of its sales structure. However, it should be underlined that the market of video games, in which the Group operates, while characterized by high competitiveness and dynamics, is visibly less resilient to potential crisis than other trades. This has been confirmed by research conducted in the recent years. To reduce the risk associated with the macroeconomic conditions, the Group has been developing its activity on a global scale.

Risks related to the SARS-CoV-2 coronavirus/ COVID-19

Spreading of the SARS-CoV-2 coronavirus has had negative effects on the entire global economy, implying a 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 - a visible decrease in sales of physical products has been recorded, accompanied by simultaneous increase in sales through digital channels.

The CI Games Group makes its best to ensure safety of its employees and contractors by introducing the remote work mode. This requires organization of proper equipment and infrastructure. As of the date of publication of this report, the Group has not recorded significant number of persons infected with COVID-19 among its employees and contractors; however, it is not possible to exclude the emergence of such situation in the future. This, on the other hand, may disrupt continuity of works, especially if such situation concerns key employees or subcontractors. Disruptions in the mode of work may also result in delays in production of games or their publishing process, particularly in United Label S.A., where small teams work on individual games. The Management Board of the Company is engaged in constant monitoring of the situation on the domestic and global markets, using the available sources of information. If the situation associated with the coronavirus / COVID-19 exerts impact on operations of the Group, its financial results or perspectives, the Management Board of the Issuer will immediately publish the appropriate information in this regard and engage in action to limit its negative impact on operations of the Group.

Risk associated with the condition of the gaming industry

The market of video games, on which CI Games Capital Group operates, is characterized by high competitiveness and dynamics, in particular, quick technological changes, as well as changes in interests and behaviors of consumers. Individual companies in CI Games Group, as well as the Group itself, engaging in business activity, are 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 relatively resilient to potential crises. In order to reduce the risk being discussed, the Group develops its activity on a global scale, engaging on its own in publishing activity on all of the key markets in the world. In the 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. Due to 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 the Group, and as such, it does not weaken competitiveness of the Company.

Competition risk

The market of video games is characterized by a high level of competitiveness. Due to the diversified business model, encompassing development, publishing and distribution of games, the Group is exposed to competition in each of these fields. As for its publishing activity, the Group competes with other entities, both on the global and the domestic market, to be able 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 Group 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 entities, which are the Group's competitors, may result in strengthening of their market position, and thus weakening of position of the Group on the domestic and international markets. Bigger entities usually have at their disposal higher publishing or marketing budgets, which may be of great importance for success of the game.

The Group 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 action and effective management. Since mid-2016, the Group has developed games exclusively for new-generation platforms (Sony PlayStation4®, Microsoft XboxOne®) and for PCs, which are characterized by a high trade potential.

Risk associated with the game distribution channels

The Group'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 Group 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 Group 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 Group's products without its consent and knowledge. Illegal acquisition of Group's products by consumers may exert negative impact on the sales levels and financial results of the Group. There is also a risk of exclusion from a given digital platform in association with a failure to comply with all of the regulatory conditions of its use.

Use of such platforms by the Group is associated with a legal risk due to the necessity to accept their regulations, which are usually subject to third country legislation (foreign legal systems). Therefore, the Group carefully selects its suppliers of digital platforms used for sales of games, favoring those entities, which have a history of long-term cooperation with the Group. 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 Group, allowing the Group to respond early to any potential changes in the rules of cooperation (e.g. changes in regulations, tax legislation etc.)

Risk of changing trends

The CI Games Capital Group 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 Group 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 Group 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 abuse. Therefore, there is a risk of amendment of legal provisions in any of the countries, in which the Capital Group offers its products, which might exert negative influence on results of activity of the Group.

Materialization of this risk is beyond control of the Group 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 Group 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 Group. 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 Group, which may lead, among other things, to arrears with revenue offices.

As many contracts concluded by the Group are based on 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 Group and the tax authorities. In the case of occurrence of such situation, the proper tax authority may impose upon the Group or any of its companies 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 Group. Moreover, the tax authorities may verify correctness of tax statements submitted by the Group, 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 Group, this situation may have a significant negative impact on the financial standing of the Group.

Products of the Group 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 Group's perspective.

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

Labor law risk

Activity of the Group 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 Group. In addition, activity of the Group may be significantly influenced by raises of minimum wages required by legislators in individual countries, as well as 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 Group.

The currency risk

Due to the fact that the Group bears a part of the costs of operation in currencies other than PLN, mainly USD and EUR (PLN constitutes the Issuer's functional and presentation currency), the risk factor faced by the Group 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 partially in PLN, may also exert negative impact on financial results of the Group.

The Parent Entity secures itself against the foreign currency risk by incurring liabilities in these currencies. In 1Q2021, the Company entered into five forward contracts for USD sale to be executed in the period August- December 2021.

On 11.08.2021 and 19.08.2021, the Company entered into four forward contracts for sale of USD to be executed in January – February 2022.

2. Risk factors related to activity of the Group

Risk associated with loss of key employees

Success of activity of the Group 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 its key asset. On the market, it is difficult to acquire qualified specialists from the development (game production) industry. Moreover, recruitment of new employees and co-workers is associated with a period of learning of their new duties, resulting in a temporarily lower effectiveness of work.

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 Group is a creditor. In order to minimize the risk 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 categories associated with suppliers is placement of titles on specific console platforms and cooperation with their owners in the process of certification of new titles. A failure to obtain the certification and the possibility of giving a notice of termination of publishing contracts for consoles are the main two risk components, which really exist and may influence the financial results of the Capital Group. It should be underlined, however, that the Group makes particular effort in order to ensure thorough fulfillment of all its obligations based on contracts concluded between these entities and the Group companies. Payments related to publishing of games for consoles constitute the main amount of trade receivables of the Group 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 Group 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 Group'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 Group's revenues and cash flows in the Group, but is not a threat to stability of the Group and its ability to generate revenues as such.

The risk of copyright claims

Within the framework of production and publishing activity, the Group 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 Group 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 Group 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 Group concerning creation of graphics (assets), maps, models, scenarios, music works and similar and purchase of licenses (e.g. for software), the Group 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, basic 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 Group effectively while copying solutions already available on the market and transferring them as “their own”. Most contracts concluded by entities of the Group 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 Group or its companies with regard to copyrights.

In order to mitigate this risk, the Group 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 Group operates both in the publishing and in the production segment. In the case of publishing activity, the cost of effecting distribution of a game is relatively lower in comparison with its production from the scratch. However, in both cases, profitability of a given game and the associated possibility of covering expenses incurred in association with its 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 Group 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. This, on the other hand, will have a negative impact on revenues from sale and financial results of the Group.

The Company assesses consumer tastes on the basis of knowledge of 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 and can be published for many platforms. The Group 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 the planned product premiere date, it is not possible to eliminate entirely the risk of wrong estimation of the number of copies and future sales.

Risk of new game titles

Activity of the Group 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 Group 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 premieres of computer games are a normal phenomenon on the market of computer games. Production of computer games is a complex and costly process, based largely on creative and artistic work, which results in the risk of wrong estimation of the schedule of works 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 level of financing.

The market of video games is driven by expectations associated with debuts 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 date of premiere of the new game are related to defining of 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 Group's high-quality standards, could exert negative impact 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 premiere 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 schedule of works 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 Group. Although the Group conducts its publishing activity in cooperation with carefully selected development studios, it should be kept in mind that the Group 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 Group will generate revenues with a delay in relation to the plan established by the Group 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 premiere.

The liquidity risk

The Group may be exposed to a situation, in which it is not able to settle its financial liabilities. Moreover, the Group is exposed to the risk of failure of its key business partners to meet their contractual obligations to the Group, in particular, with regard to timely settlement of their liabilities by distributors of games published by the Group. This phenomenon may exert negative impact on financial liquidity of the Group, 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 Group conducts systematic analysis of its financing structure, caring to maintain the proper level of cash necessary for timely settlement of its current liabilities.

IV. Information on Corporate Governance

1. Composition of governing bodies of the Issuer

Management Board of the Parent Entity:

Marek Tymiński	President of the Management Board.
Monika Rumianek	Member of the Management Board

Composition of the Supervisory Board of the Company in the first half of 2021 was as follows:

Ryszard Bartkowiak	Chairman of the Supervisory Board
Rafał Berliński	Member of the Supervisory Board
Marcin Garliński	Member of the Supervisory Board
Grzegorz Leszczyński	Member of the Supervisory Board
Krzysztof Kaczmarczyk	Member of the Supervisory Board

2. The shareholding structure

According to the best knowledge of the Company's Management Board of the Issuer, as of the date of publication of this report, that is, 01.09.2021, the shareholding structure of CI Games S.A., including shareholders owning directly or through their subsidiaries at least 5% of the total votes during the general meeting, was as follows:

Share capital– structure	Number of shares and number of votes	% of votes in the share capital of the Company and in the total number of votes
Marek Tymiński	53,083,570	29.02%
Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A.	15,718,357	8.59%
Other shareholders	114,141,088	62.39%
Total	182,943,015	100.00%

3. A breakdown of ownership of shares of CI Games S.A. or rights to these shares by persons managing and supervising the Issuer

A breakdown of ownership of shares of CI Games S.A. by managing and supervising persons as of the date of publication of this report:

Person	Function	State as of 31.12.2020	State as of 01.09.2021
Marek Tymiński	President of the Management Board of CI Games S.A.	53,083,570	53,083,570
Monika Rumianek	Member of the Management Board of CI Games S.A.	150,000	150,000
Marcin Garliński	Member of the Supervisory Board	40,000	40,000
Krzysztof Kaczmarczyk	Member of the Supervisory Board	15,000	15,000

Mr. Marek Tymiński, the President of the Management Board of CI Games S.A., holds 53,083,570 shares of the Issuer, constituting 29.02% of the share capital of the Issuer and 29.02% of the total number of votes during the general meeting of the Company.

Ms. Monika Rumianek, a member of the Management Board of CI Games S.A., holds 150,000 shares of the Issuer, constituting 0.08% of the share capital of the Issuer and 0.08% of the total number of votes during the general meeting of the Company.

Mr. Marcin Garliński, a member of the Board of Supervisors of CI Games S.A. holds 40,000 shares of the Issuer, constituting 0.02% of the share capital of the Issuer and 0.02% of the total number of votes during the general meeting of the Company.

Mr. Krzysztof Kaczmarczyk, a member of the Board of Supervisors of the Company, holds 15,000 shares of the Issuer, constituting 0.008% of the total number of votes during the general meeting of the Company.

According to the best knowledge of the Company, the remaining members of the Board of Supervisors hold no shares of the Company.

4. Information on contracts with the entity authorized to audit financial statements

On 13.07.2021, CI Games S.A. entered into a contract with UHY ECA Audyt Sp. z o.o. Sp. k. with a registered office in Warsaw for a semi-annual review and audit of the individual and consolidated financial statements for years 2021-23. This entity was selected by the Supervisory Board of CI Games S.A. on the basis of recommendations of the Audit Committee of the Supervisory Board of the Company, 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.

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

In the point below, there is a description of the motivational program based on shares series J executed as series C subscription warrants. As the result of the implementation of this program, the proportion of the shareholding structure owned by current shareholders may change.

6. Information on employee share plan control system

On 22.06.2021, Ordinary General Meeting of the Company adopted resolution no. 19/1/2021 on the establishment of an incentive program addressed to key employees and contractors of CI Games Group, including Members of the Managing Board of CI Games S.A.

Pursuant to this resolution the Company and CI Games Group have adopted a new incentive program based on series J shares. Execution of this program is dependent on CI Games Group financial results, i.e. achievement by the Company and by CI Games Group of one of the following two specific targets, depending on whichever is reached first:

- i) combined net profit of CI Games Group in the fiscal years 2021-2022 totaling PLN 40,000,000 (forty million zloty)
- ii) combined net profit of CI Games Group in fiscal years 2021-2023 totaling PLN 65,000,000 (sixty five million zloty).

In the event one of these targets is achieved, entitled persons will be granted a total of no more than 13,720,726 (thirteen million seven hundred and twenty thousand seven hundred and twenty six) series C subscription warrants with the right to take up 13,720,726 (thirteen million seven hundred and twenty thousand seven hundred and twenty six) ordinary series J bearer shares. However, in the event where one of these targets is exceeded by every additional and consecutive PLN 5,000,000 (five million zloty), the number of warrants granted in connection with the execution of the related goal of the program will be increased by 0.5 percentage points, with the provision that such number may not exceed 7.5% of the total number of Company's shares upon the date of adoption of its incentive program, i.e. 22.06.2021. As a result of the execution of this incentive program, entitled persons serving as the Company's Management Board Members may be granted no more than 50% of the warrants, of which a maximum of 30% of all warrants may be granted to the Company's Chief Executive Officer.

The Company's Managing Board will designate persons, who will participate in the incentive program and with respect to Members of the Issuer's Managing Board, such persons will be designated by the Company's Supervisory Board. Shares issued as part of the incentive program will be taken up by entitled program participants upon execution of rights arising from subscription warrants series C. Subscription warrants will be taken up free of charge while J series shares will be taken up at an issuing price of PLN 1.26 per share. The issuing price has been set up as weighted average of the shares' price on the regulated market, on which the shares of the Company has been quoted in the first quarter of 2021 decreased by 10% i.e. PLN 1.26. Regulations of this incentive program were adopted by the Company's Ordinary General Meeting with the resolution no. 19/1/2021 dated 22.06.2021.

Pursuant to resolution no. 20/1/2021 of the Ordinary General Meeting of the Company dated 22.06.2021, the Company will issue series C subscription warrants which will entitle their holders to take up series J shares (at a rate of one warrant per one share), excluding in their entirety subscription rights of the Company's shareholders. Furthermore, pursuant to that resolution, it was adopted to conditionally raise the Company's initial capital for the purpose of the above incentive program. The Company's conditional initial capital totals PLN 137,207.26 (one hundred thirty seven thousand two hundred and seven zloty and twenty six grosze). Upon issuance and after being taken up by entitled persons, series J shares will be admitted into trading on a regulated market managed by the Warsaw Stock Exchange.

According to regulations of the incentive program, series J shares will be subject to a partial lockup so that (i) within 30 (thirty) days of taking up series J shares, each participant of the program will be able to dispose of no more than $\frac{1}{3}$ of the shares taken up; (ii) over the next 30 (thirty) days from the end of the period referred to in letter i) above, each program participant will be able to dispose of the remaining shares, however, such number will not exceed $\frac{1}{3}$ of the shares taken up by such person; (iii) over the next 30 (thirty) day period from the end of the period referred to in letter ii) above, program participant will be able to dispose of the remaining shares if part of the shares were already disposed of by the deadlines referred to above, or dispose of all shares taken up by such person unless part of the shares was disposed of within the deadlines indicated above.

The Company's Supervisory Board will develop financial support principles for entitled participants of the incentive program in order to facilitate their taking up shares as part of the program.

The incentive program referred to above was adopted for the years 2021–2024.

On 22.06.2021, the Company's Ordinary General Meeting, based on resolution no. 21/1/2021 on repealing the resolution no. 17/2015 of the Ordinary General Shareholders' Meeting of CI Games Spółka Akcyjna with the registered office in Warsaw, made on 28.04.2015 on the incentive plan, issue of subscription warrants, conditional increase of initial equity and the exclusion of pre-emptive rights of existing shareholders with respect to subscription warrants and

shares issued as part of conditional increase of initial equity, as well as application for admission of shares issued as part of conditional increase of initial equity for trading on the regulated market and their dematerialisation and amendment of the Company's Articles of Association, following resolution no. 20/1/2021 of the Company's Ordinary General Meeting dated 22.06.2021, repealed in its entirety the above resolution no. 17/2015 of the Company's Ordinary General Meeting dated 28.04.2015. On that basis, the process of issuing ordinary series F shares as part of the Company's incentive plan adopted by the Company's General Meeting on 28.04.2015, has formally ended.

On 09.08.2021, the registry court of the Company recorded in the Register of Entrepreneurs of the National Court Register the changes to the Articles of Association of the Company in the scope adopted by resolution of the Ordinary General Meeting of the Company of 22th June 2021 as regards §10b of the Articles of Association relating to the conditional capital of the Company.

7. Loan liabilities

As of 30.06.2021 neither the Company nor, the Capital Group had no loans liabilities.

8. 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 the first half of 2021, 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.

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

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

Transactions for the period from 01.01. to 30.06.2021 and and balances as of 30.06.2021				
Entity	COSTS PLN'000	REVENUES PLN'000	RECEIVABLES PLN'000	LIABILITIES PLN'000
CI Games USA Inc.	-	5,578	15,699	-
Business Area Sp. z o.o.	-	1	-	-
Business Area Sp. z o.o. Sp.J.	-	5	-	679
CI Games S.A. Sp. J.	(1)	1	-	191
United Label S.A.	656	48	3,586	148
CI Games UK Limited	661	-	1,199	-
CI Games Bucharest Studio SRL	-	19	1,676	-
CI Games Mediterranean Projects	-	103	9,416	-
TOTAL	1,316	5,755	31,576	1,018

*including capitalised costs

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

Transactions for the period from 01.01. to 30.06.2021 and
and balances as of 30.06.2021

Entity	COSTS	REVENUES	RECEIVABLES	LIABILITIES
	PLN'000	PLN'000	PLN'000	PLN'000
Onimedia Sp. z o.o.	-	-	-	-
Premium Restaurants Sp. z o.o.	-	-	-	9
Premium Food Restaurants S.A.	-	-	84	-
Fine Dining Sp. z o.o.	-	-	174	-
TOTAL	-	-	258	9

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

Transactions for the period from 01.01. to 30.06.2021 and
and balances as of 30.06.2021

Entity	COSTS	REVENUES	RECEIVABLES	LIABILITIES
	PLN'000	PLN'000	PLN'000	PLN'000
Marek Tymiński	30	-	-	-
GWW Grynhoff i Partnerzy Radcowie Prawni i Doradcy Podatkowi Spółka Partnerska	5	-	-	-
TOTAL	35	-	-	-

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

As of 30.06.2021, the CI Games Capital Group consisted of the following entities:

CI Games S.A. with a registered office in Warsaw. The share capital is PLN 1,829,430.15. A Parent Entity, engaged in publishing and production activity, managing the CI Games production studio in Warsaw.

United Label S.A. with a registered office in Warsaw. Share capital: PLN 127,500, 78.43% shares held by CI Games S.A. The company is conducting publishing activity.

CI Games USA Inc. 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. CI Games USA Inc. is one of the key subsidiaries in the Group, engaged in distribution and marketing activity on the markets of North and South America.

Business Area sp. z o.o. with a registered office in Warsaw. The company has been 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. with a registered office in Warsaw. The company has been 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. with a registered office in Warsaw. 99.99% shares in this company are held by Business Area sp. z o.o.; the remaining 0.01% shares are held by CI Games S.A.

CI Games UK Limited with a registered Office in London, Great Britain. The share capital is GBP 100. 100% shares held by CI Games S.A.

CI Games Mediterrean Projects, S.L. with a registered office in Barcelona, Spain. The share capital is EUR 3,000. 75% shares in this company are held by CI Games S.A. The company is involved in the production of "Lords of the Fallen 2" game.

CI Games Bucharest Studio S.R.L with the seat in Bucharest, Romania. The share capital is LEI 200. 100% shares owned by CI Games S.A. The company is involved in the production of *Lords of the Fallen 2* game.

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

On 29.06.2021, Mr. Tomasz Litwiniuk, submitted his resignation from the function of the President of the Management Board of the subsidiary United Label S.A. with the date of appointment of a new Board Member of the company. United Label S.A. informed about it in the EBI current report no 9/2021 dated 29.06.2021. On 30.06.2020, Supervisory Board appointed Mr. Darren Newnham as a new Board Member and President of the Board of United Label S.A. The EBI report no 10.2021 informing about it was issued on 30.06.2021.

On 29.04.2021 Ms. Monika Rumianek became the Director of CI Games UK Ltd. replacing Mr. Marek Tymiński who served in this role.

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

As of the date of publication of this report, the Management Board of the Issuer has no information on any pending proceedings involving the Parent Entity or its subsidiaries, the value of which would (jointly or individually) represent at least 10% of equity of the Parent Entity.

In the Annual Report published on March 27, 2020, the Company has disclosed the initiation of court proceedings on October 17, 2019 against EP Retail sp. z o.o., EP Office 2 sp. z o.o., EP Office 1 sp. z o.o. and EP Apartments sp. z o.o. CI Games S.A. filed a suit at the District Court in Warsaw against these entities due to the unlawful drawing of funds from a bank guarantee, overpaid operating costs and overpaid rent. The total value of the object of litigation is PLN 862 thousand (EUR 180,000 and PLN 48,000). As of the report publication date, the case remains pending

13. Information on significant settlements due to court cases

In the first quarter of 2021, there were no significant settlements due to court cases.

14. Information on the failure to repay credits or loans or breaches of significant terms and conditions of any loan or credit agreements with regard to which no remedial action had been taken until the end of the reporting period

The Group did not have any bank loans in the first half of 2021.

15. Information on changes in the classification of financial assets as a result of a change of the purpose or use of these assets

In the first half of 2021, no changes took place in classification of financial assets due to a change in the purpose or use of these assets

16. Information on changes in conditional liabilities or conditional assets that took place since the end of the financial year

As of 30.06.2021 r. Dominant entity had the following contingent liabilities:

On 20.03.2021, the Company purchased five forward contracts for sales of USD 1.5 million at an exchange rate of PLN/USD 3.9400 with an execution period August-December 2021.

In the first half of 2021, the Management Board of CI Games S.A. signed:

- a declaration of submission to enforcement pursuant to Art. 777 § 1 point 5 of the Polish Code of Civil Procedure of 9th March, 2021, pursuant to the contract for the coverage of costs and expenses related to the so-called relocation of the Company's office, concluded with Ghelamco GP 11 spółka z ograniczoną odpowiedzialnością THE HUB spółka komandytowo-akcyjna with its registered office in Warsaw, concluded on December 21, 2020.
- a declaration of submission to enforcement pursuant to Art. 777 § 1 point 4 of the Polish Code of Civil Procedure of 23th March, 2021, pursuant to the short-term rental agreement of an office space concluded with Spektrum Tower spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, concluded on 17th March, 2021.

On 11.08.2021, the Company purchased two forward contracts for sales of USD 300,000 at an exchange rate of PLN/USD 3.8910 with an execution period January - February 2022.

On 19.08.2021, the Company purchased two forward contracts for sales of USD 300,000 at an exchange rate of PLN/USD 3.9025 with an execution period January - February 2022.

As of the date of this report, the Group did not have any other contingent liabilities.

17. Information on credit or loan sureties or warranties made by the Issuer or by any of its subsidiaries – in total, to a single entity or a subsidiary of this entity, if the total value of the existing sureties or warranties represents the equivalent of at least 10% of Company's equity

On 12.12.2018, CI Games S.A. concluded a loan agreement with its subsidiary United Label S.A. for the amount of PLN 2 million. The loan funds are made available in tranches. The deadline for full repayment of the loan is December 12.12.2023. The loan interest rate is equal to WIBOR 3M base rate plus margin. Annex no. 2 to this loan agreement was signed on 02.04.2020, increasing the loan limit to PLN 5.5 million. The loan balance as of 30.06.2021 amounted to PLN 3,565 thousand.

On 15.12.2020, CI Games S.A. concluded a loan agreement with its subsidiary CI Games Mediterranean Projects S.L. for the amount of EUR 950 thousand. The term of the loan is no longer than 5 years. The loan interest rate is equal to 4%. Annex to this loan agreement was signed on 17.03.2021, increasing the loan limit to EUR 1,650 thousand. Second Annex (dated 24.05.2021) increased the loan limit to EUR 3 million. As of 30.06.2021, the loan balance amounted to PLN 9,292 thousand.

On 29.09.2020, CI Games S.A. concluded a loan agreement with its subsidiary CI Games Bucharest Studio S.R.L. for the amount of EUR 170 thousand. The deadline for full repayment of the loan is 30.04.2021. The loan interest rate is equal to EURIBOR 3M base rate increased by a margin. Annex to this loan agreement was signed on 22.03.2021, increasing the loan limit to EUR 400 thousand and extending the repayment date until 31.12.2021. As of 30.06.2021, the loan balance amounted to PLN 1,656 thousand.

In the period between January 1, 2021 and June 30, 2021, neither the Company nor any of its subsidiaries granted any loans or credit sureties (apart from drawdowns of additional loan instalments described above) or warranties for the amount equivalent to at least 10% of the Company's equity.

18. Information on issue, redemption and repayment of non-equity and equity securities

In the 1st half of year 2021, as well as until the date of publication of this report, no issue, redemption or repayment of non-equity and equity securities took place.

19. Information on one or many transactions entered into by the Issuer or any of their subsidiaries with related entities, if these are significant individually or jointly and were concluded on non-market conditions, indicating their value

In the reporting period, neither the Parent Entity nor any of its subsidiaries entered into transactions on non-market or unusual terms and conditions or on conditions that would go beyond the ordinary course of operations of the enterprise with its related entities, which would be of significance jointly or individually.

Significant transactions with related entities have been described in the Note 27 of the Consolidated Financial Statements Report ended 31.12.2020 prepared in accordance with IFRS. In the first half of the 2021, transactions were executed with related entities on the basis of market conditions, and in the opinion of the Management Board of the Company, they were typical and routine-based transactions.

20. Information on paid (or declared) dividends, in total and per share, divided by ordinary and preferred shares

In the first half of 2021, the Parent Entity neither paid nor declared dividend payment.

The Ordinary General Meeting of Shareholders dated 22.06.2021 passed a resolution to allocate profit earned in 2020 in the amount of PLN 6,069,537.74 in the following way: amount of PLN 1,636,627.42 towards the loss in the previous years and remaining amount to be allocated to supplementary capital.

21. Other information, which, in the opinion of the Management Board of the Company, is material for the assessment of its employment, assets, financial situation, financial result and any changes to the above and information which is significant for the assessment of the Company's to fulfil its obligations in the reporting period

In the first half of year 2021, no events occurred, which would exert a negative impact on assessment of capability of the Parent Entity and the Capital Group to settle their liabilities.

22. Events and factors which could impact the future financial results in the following or subsequent quarters

- The release of "Sniper Ghost Warrior Contracts 2", which took place on 04.06.2021 on PlayStation 4, Xbox Series X/S, Xbox One platforms and PC and on 24.08.2021 on PlayStation 5 - the sale of this game will have a key impact on the Group's financial results in the following months. The Group expects PS5 to become important in the lifecycle of "SGWC 2" in the long run.

- In the first half of 2021, the revenue from the sale of physical products represented 33% of total revenue. The Group expects to increase share of digital sales and therefore, the share of manufacturing cost of physical products in total production costs, will decline.
- The selling costs in the first half of 2021 included substantial part of marketing expenses of “SGWC 2”. The Group does not expect any significant marketing expenses related to “SGWC 2” in the second half of 2021.
- The “Eldest Souls” game had its release on 29.07.2021 and the release of “Tails of Iron” is planned on 17.09.2021. Both games are from United Label’s portfolio and they would generate revenues from their sale in next quarters of 2021.
- The Group makes most of its revenue from sales in foreign currencies (mainly EUR and USD), and therefore currency exchange rates will impact the financial results of the Group in the future.

Approval of the Management report for the period from 1 January to 30 June
2021

Management Board of CI Games S.A.

Marek Tymiński
President of the Board

Monika Rumianek
Board member

Warsaw, September 1st, 2021

