



CI GAMES GROUP

MANAGEMENT REPORT ON
GROUP OPERATIONS
FOR THE FIRST HALF OF 2014



WARSAW, August 29, 2014

CI Games S.A. Management Board Declaration

Pursuant to the Ordinance of the Minister of Finance of 19 February 2009 (Polish Journal of Laws no. 33, item 259, as amended) *on current and periodic information disclosed by issuers of securities and on the terms for recognizing information required by the provisions of law of a non-member state as equivalent*, the Management Board of CI Games S.A. declares, that to the best of its knowledge, the condensed consolidated interim financial statements and comparative data have been drawn up in accordance with binding accounting principles and correctly, reliably and clearly reflect CI Games Group's financial and asset position, together with its financial performance, and that the interim management report on Group operations contains a true depiction of the development, achievements and situation of the Group, including a description of principal hazards and risks.

The Management Board of CI Games S.A. declares that the entity authorized to audit financial statements performing audit of the Group's condensed consolidated interim financial statements was selected in accordance with the provisions of law and that such entity and the statutory auditors conducting the audit fulfilled the conditions for issue of an impartial and independent report on audit of the financial statements in accordance with binding regulations and professional standards.

Marek Tymiński

President of the Management Board

Adam Pieniacki

Member of the Management Board

Warsaw, August 29, 2014

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1. Selected financial data

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	H1 2014		H1 2013	
	PLN 000s	EUR 000s	PLN 000s	EUR 000s
Net revenue from sales	25 812	6 178	92 348	21 915
Profit (loss) from operating activities	-13 266	-3 175	32 386	7 685
Gross profit (loss)	-13 496	-3 230	31 438	7 460
Net profit (loss)	-13 387	-3 204	44 660	10 598
Number of shares (in 000s)	13 914	13 914	12 650	12 650
Profit (loss) per ordinary share	-0.96	-0.23	3.53	0.84

CONSOLIDATED STATEMENT OF PROFIT AND LOSS	Q2 2014		Q2 2013	
	PLN 000s	EUR 000s	PLN 000s	EUR 000s
Net revenue from sales	19 138	4 592	12 953	3 045
Profit (loss) from operating activities	-11 807	-2 833	1 490	350
Gross profit (loss)	-11 958	-2 869	1 006	236
Net profit (loss)	-11 933	-2 863	20 460	4 809
Number of shares (in 000s)	13 914	13 914	12 650	12 650
Profit (loss) per ordinary share	-0.86	-0.21	1.62	0.38

CONSOLIDATED STATEMENT OF CASH FLOWS	H1 2014		H1 2013	
	PLN 000s	EUR 000s	PLN 000s	EUR 000s
Net cash flows from operating activities	3 021	723	24 966	5 925
Net cash flows from investing activities	-15 326	-3 668	-13 397	-3 179
Net cash flows from financing activities	8 093	1 937	-19 677	-4 669
Net cash flows	-4 212	-1 008	-8 108	-1 924

CONSOLIDATED BALANCE SHEET	Jun 30, 2014		Jun 30, 2013		Dec 31, 2013	
	PLN 000s	EUR 000s	PLN 000s	EUR 000s	PLN 000s	EUR 000s
Non-current assets	66 608	16 008	66 396	15 337	68 237	16 454
Current assets	26 160	6 287	34 044	7 864	29 760	7 176
Total assets	92 768	22 295	100 440	23 201	97 997	23 630
Equity	67 334	16 183	83 532	19 295	80 547	19 422
Share capital	1 391	334	1 265	292	1 391	336
Liabilities	25 434	6 113	16 908	3 906	17 450	4 208
Non-current liabilities	2 647	636	1 631	377	1 122	271
Current liabilities	22 787	5 476	15 277	3 529	16 328	3 937
Total equity and liabilities	92 768	22 295	100 440	23 201	97 997	23 630

2. Organizational structure of CI Games Group, including consolidated entities

CI Games Group operates in the global video game development and publishing market. The parent company, CI Games S.A., is the first publicly traded company in this sector in Central and Eastern Europe and the first to emerge as an international player and generate outstanding market and financial performance. The Group's strategic goal is to build a portfolio of recognizable brands in the most popular video-game genres, using its advanced know-how and experienced team.

In the gaming market, the Group operates as:

- Developer, with in-house production studios,
- Publisher of own games and licensed products, being responsible for marketing strategy and product roll outs using local distributors,
- Distributor, selling products directly to retail chains and online.

The Group is investing in expanding its management and creative talent through hiring developers with years of experience in managing projects at well-respected studios throughout the world. The Group also works with leading technology providers and makes use of the latest equipment and software. The Issuer has executed agreements on game development and independent distribution with owners of the most popular gaming consoles, i.e. Sony and Microsoft. The Group produces games for current-generation platforms (PlayStation®3 and Xbox360®), next-gen (Xbox One® and PlayStation®4), as well as for PCs. In order to maximize sales performance and marketing potential, CI Games collaborates with international distributors who operate in specific regional markets and are responsible for implementing promotional plans.

Through combining the above three functions, the Group is able to effectively control the game development and distribution process.

Composition of CI Games Group at June 30, 2014:

- **CI Games S.A.** (formerly City Interactive S.A.) – a Warsaw-based company. Share capital of PLN 1 391 449.90. Group parent.
- **CI Games USA Inc.** (formerly City Interactive USA Inc.) – a company having its registered office in Delaware, USA. Share capital USD 50 000. 100% of shares held by CI Games S.A. Company subject to consolidation from Q2 2008.
- **CI Games Germany GmbH** (formerly City Interactive Germany GmbH) – a company having its registered office in Frankfurt am Main, Germany. Share capital of EUR 25 000. 100% of shares held by CI Games S.A. Company subject to consolidation from Q2 2008.
- **City Interactive S.R.L.** – a company having its registered office in Bucharest, Romania. 100% of shares held by CI Games S.A. Subject to consolidation from Q4 2011. On November 7, 2013, the company filed for bankruptcy at the VII Civil Division, Court in Bucharest.
- **Business Area Sp. z o.o.** – a company having its registered office in Warsaw, subject to consolidation from Q3 2010. Share capital PLN 5 000. 100% of shares held by CI Games S.A.
- **Business Area Sp. z o.o. Spółka Jawna** (transformed from Business Area Sp. z o.o. S.K.A.) – a Warsaw-based company. Share capital of PLN 1 050 000. Subject to consolidation from Q1 2013. On September 26, 2013, Business Area Spółka z ograniczoną odpowiedzialnością S.K.A. was transformed into Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna.
- **CI Games Spółka Akcyjna Spółka Jawna** (transformed from CI Games IP Sp. z o.o.) – a Warsaw-based company. Share capital of PLN 114 092 350. On May 13, 2013, pursuant to an agreement between CI Games Cyprus Ltd. and Business Area Spółka z ograniczoną odpowiedzialnością S.K.A., a 99.99% stake held by CI Games Cyprus Ltd. was transferred to Business Area Spółka z ograniczoną odpowiedzialnością S.K.A.; a 0.01% stake is held by the Group's parent. Subject to consolidation from Q1 2013. On September 19, 2013, CI Games IP Sp. z o.o. was transformed into CI Games Spółka Akcyjna Spółka Jawna.
- **CI Games Cyprus Ltd.** – a company headquartered in Nicosia, Cyprus. Share capital of EUR 1 200. 100% of shares held by CI Games S.A. Company subject to consolidation from Q1 2013.
- **City Interactive Canada Inc.** – a company based in Ontario, Canada, established in October 2010. Share capital CAD 10.00. 100% of shares held by CI Games S.A. The company is not subject to consolidation with regard to the fact that its financial results are immaterial for assessment of the Issuer's situation.

On February 6, 2013 the Issuer sold a 100% stake in City Interactive Spain S.L., a company based in Madrid, Spain.

Furthermore, throughout 2008 CI Games S.A. acquired shares in the following entities operating in South America and subsequently in 2009 opted out of their further development. Currently these entities are not subject to consolidation, as their operations have been discontinued and the Parent has recognized appropriate provisions:

- **City Interactive Peru SAC** (formerly UCRONICS SAC) – a company having its registered office in Lima, Peru. 99% share. Share capital SOL 2 436 650. The company was subject to consolidation from the date of acquisition of a controlling block of shares to the end of 2008.

- City Interactive Jogos Electronicos LTDA – a company having its registered office in Sao Paulo, Brazil. Founding capital of BRL 100 000. 90% share, remaining 10% held by CI Games USA, Inc.
- City Interactive Mexico S.A. de C.V. – company having its registered office in Mexico City, Mexico. Founding capital of MEX 50 000. 95% share, remaining 5% held by CI Games USA, Inc.

3. Effects of changes in the entity's organizational structure

From January 1, 2014 to the date this report was published, the Issuer did not make changes to its organizational structure.

4. Management's position concerning the possibility to meet previously published earnings forecasts

The Management Board of CI Games S.A. did not publish financial guidance for the Company or the Group for the first half of 2014.

5. Indication of shareholders directly or indirectly, through subsidiaries, holding at least 5% of total votes at the Issuer's general meeting

The total number of votes at the general meeting of the parent, CI Games S.A., is 13 914 999.

CI Games S.A. shareholding structure at publication of this report:

Item	Number of shares	% in share capital	Number of votes at GM	% of votes at GM
Marek Tymiński	6 356 357	45.68%	6 356 357	45.68%
Quercus TFI S.A.	846 962	6.09%	846 962	6.09%
Other shareholders	6 711 680	48.23%	6 711 680	48.23%

From January 1, 2014 to the date on which this report was published, there were no changes to the ownership structure of major share interests in the Issuer.

6. Shares or rights to shares in CI Games S.A. held by management or supervisory personnel

Person	Position	As at January 1, 2014 (end of the reporting period)	Increase in shareholding during the period from January 1, 2014 to June 30, 2014	Decrease in shareholding during the period from January 1, 2014 to June 30, 2014	As at August 29, 2014 (report publication date)
Marek Tymiński	President of the Management Board	6 356 357	-	-	6 356 357
Lech Tymiński	Member of the supervisory board	9 565	-	-	9 565

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

As at the date this report was published, the Issuer's management was not aware of any substantial on-going proceedings (valued at more than 10% of the Issuer's equity) involving the Parent or its subsidiaries.

8. Information on significant transactions executed by the Issuer or its subsidiaries with related parties

During the reporting period, the Company did not execute material transactions with related parties, and those that were executed were on market terms.

9. Disclosure of credit or loan sureties and guarantees issued by the entity and its subsidiaries

Borrower	Total contractual amount	Repayment date	Loan and interest amount in foreign currency	Loan and interest amount in PLN
CI Games Germany GmbH	EUR 80 000	January 9, 2015	EUR 81 255	336 982

10. Other information that the Issuer believes is essential for assessment of its HR, asset or financial situation, financial result and change thereto, as well as information essential for assessing the Issuer's ability to satisfy its liabilities

The Group's revenue structure by product was as follows:

Sales structure	H1 2014	Q2 2014	H1 2013	Q2 2013
PS3	51%	52%	46%	48%
XBOX	35%	35%	40%	33%
Wii	1%	0%	1%	2%
Total consoles	86%	87%	87%	83%
PC	14%	13%	13%	17%

The Group posted PLN 25.8 million in first-half net revenue from sales, denoting a PLN 66.5 million decrease from H1 2013. The main factor explaining the difference in the two periods being compared was excellent sales performance of Sniper: Ghost Warrior 2 during H1 2013.

On June 13, 2014 Enemy Front was released for PlayStation® 3, Xbox360® and PC. In the first run, the Company sold well over 300 000 copies to distributors in the U.S. and Europe.

First-half revenue from sales was decreased by rebates and discounts connected with Enemy Front sales, amounting to approx. PLN 6 million. Despite the net loss, first-half EBITDA was positive at PLN 4.8 million.

During H1 2014, the Group's net loss reached PLN 13.4 million.

CI Games Group's balance sheet total at June 30, 2014 was PLN 92.8 million, a 7.6% decrease in comparison with June 30, 2013.

As at June 30, 2014, non-current assets recorded on the balance sheet amounted to PLN 66.6 million and practically did not change from June 30, 2013.

The Group's current assets at June 30, 2014 were PLN 26.1 million, down 23% from the same period last year, resulting mainly from a PLN 5.7 million decline in receivables. Cash at the end of June was PLN 7 million, down by PLN 1.3 million, i.e. 16%, compared with the end of June 2013.

Group equity at June 30, 2014 was PLN 67.3 million (72% of the balance sheet total), meaning a PLN 16 million (19%) decrease from June 30, 2013. The decrease in equity mainly results from the PLN 13.3 million loss generated in H1 2014.

The Group's liabilities, amounting to PLN 25.4 million, grew by PLN 8.5 million, compared with the end of June 2013. This was chiefly the result of bond issues and a new credit facility.

Trade payables declined by PLN 3.3 million in relation to the end of June 2013.

In connection with completing the work on Enemy Front, certain decisions were made regarding optimization of the Company's organizational structure and liquidation of branches, which should positively affect cash flows.

Net cash flows from operating activities amounted to PLN 3 million.

Net cash flows from investing activities were negative, at PLN -15.3 million. The largest impact on cash flows from investing activities came from expenditures connected with financing Enemy Front and Lords of the Fallen development works.

Net cash flows from financing activities were positive (PLN 8 million), resulting from application of reverse factoring of PLN 4.4 million and use of a credit facility.

Cash and cash equivalents at the end of the reporting period amounted to PLN 7 million.

At June 30, 2014, the Group did not have any open hedging transactions.

11. Factors that the Issuer believes will have an impact on its future results

The main external factors, according to the Issuer, are as follows:

Macroeconomic risk

The video game market, which is where CI Games Group operates, is highly competitive, and technology and consumer interests change rapidly. A significant factor that exerts a negative impact on operational efficiency are the macroeconomic fluctuations in specific markets. In order to minimize risk, the Group develops its operations on a global scale, independently releasing products in all of the most significant markets around the world. In recent years the entertainment industry has been developing dynamically, and it is estimated that the value of the video gaming market has already exceeded that of the film industry.

Competition risk

The Group operates in a market where the leading position is held by companies with strong, established positions. The Group efficiently utilizes its key assets: experienced team, worldwide distribution network and cost advantage linked with lower profitability thresholds in relation to other, much larger developers. A flat organizational structure enables flexibility and short reaction time. The Group is currently developing games for new-gen consoles (Sony PlayStation4®, XboxOne®) and PCs that have high commercial potential and are competitive against other offerings on the market.

Risk of change in trends

The Group operates in the new technology and virtual entertainment fields, where product life cycles are relatively short. What cannot be counted out is the risk of new solutions appearing, meaning that the products offered by the Group cease to be attractive and do not ensure the desired revenue. In order to minimize this risk a strategy has been adopted to follow trends and offer a range on the market which is proven and enjoys success amongst customers, rather than setting trends, a strategy which is a lot more expensive and risky.

CI Games Group's principal activities in this field are based on continuous monitoring of the market with regard to the development of new technologies (e.g. 3D) and managing new segments created by new consoles, mobile devices and online.

The current project pipeline ensures diversification of CI Games' product range and mitigates market risk.

Risk of changes in legal and regulations

Frequent changes in legal and tax regulations in Poland and other markets constitute a threat to the Issuer's operations. This concerns the regulation and interpretation of regulations connected with intellectual property, capital market, labor law and social security, tax law and regulations concerning commercial law. In some countries the issue of banning video games containing elements of violence is frequently raised. There is thus a risk of changes in regulations in a country where the Group sells its products which could have a negative impact on the Group's financial performance.

At the same time the Group undertakes activities aimed at eliminating risk through cooperating with specialist law firms around the world as well as insuring its entire catalog against product liability.

Currency risk

Most of the Group's revenue in H1 2014 was generated in two currencies: EUR and USD. The Parent hedges currency risk through incurring liabilities in these currencies.

The risk factors directly connected with the Group's operations include:

Risk associated with loss of key employees

The Group's success is to a large extent dependent on the knowledge and experience of employees. This is a characteristic feature of video game developers in a business where the key assets are intangible. In this market it is difficult to seek out qualified industry specialists. The recruitment of new employees is furthermore combined with the period of their introduction to work, resulting in a temporary decrease in productivity.

Risk associated with loss of key customers

Sales operations are conducted on the basis of a developed retail network in Poland and on close cooperation with international distributors from around the world. This is a risk associated with the termination of distribution agreements or the bankruptcy of entities engaged in distribution which are formal purchasers of goods and for which the Group is a creditor. In order to minimize the

possibility of incurring losses, the Parent has subsidiaries in the most operationally significant markets such as the U.S., the U.K. and Germany, whose task is to constantly expand distribution opportunities and to work closely with distributors.

Supplier risk

One risk area related to suppliers is the introduction of titles on specific consoles and cooperation with their owners during the certification process. Non-acquisition of certification and the potential for termination of release agreements for consoles are two main elements of risk which exist in reality and may have an impact on the Group's financial results. It should however be emphasized that the Group makes specific efforts to meticulously fulfill and perform all obligations under agreements entered into between such entities and the Issuer or its subsidiaries. Payments connected with the release of games for consoles formed the main part of the Group's commercial liabilities during the reporting period and are always paid on time.

Corporate growth risk

The rising costs of game development may lead to an increase in the need for external financing. Should the need to finance additional projects arise, the Parent, CI Games S.A., has the capability to raise capital from the financial markets.

Product portfolio risk

The video game market is driven by expectations connected with the release of new products. There is a risk that some products are finished later than planned, which as a consequence has a negative impact on cash flows generated and the financial result in specific periods.

Internal factors which can cause the delay of a release include difficulties in specifying the time needed to finish production and inspect the quality of a game in order for it to fulfill all expectations relating to quality. The release of a game that does not fulfill the high standards adopted by the Group could have a negative impact not just on the anticipated revenues from sale of this specific product but could also weaken the Company's image.

An external factor capable of resulting in the decision to postpone a release is the market situation, since an important element of the decision-making process is release of a game when competition from other products is at its lowest. Amongst other external factors a significant element is supplier delays in timely preparation of ordered game components.

In many instances rescheduling of a release is connected with an element of marketing known as the "long-awaited game," which is beneficial in creating a product image.

An additional aspect is the risk of companies or external persons threatening Group companies with legal action concerning copyrights to games, their elements, trademarks or reserved names for specific products. Operations in the United States are particularly exposed to this risk since this jurisdiction is characterized by strict legislation. In order to avoid losses here, the Group hires law firms specializing in intellectual property law and registers the trademarks of its products. In submitting such an application to protect trademarks in the European Union and in other countries around the world, availability in specific markets is verified and the risk of violating third party trademarks is estimated.

Liquidity risk

The Group is exposed to liquidity risk. Protection against the risk of customer default is ensured through analyzing their financial condition and monitoring payment of receivables on an on-going basis. The Parent is also able to raise capital through bank debt and bond issues.

Main market opportunities and perspectives:

Market changes

In the fall of 2013, PlayStation®4 and XboxOne® hit the market. It is estimated that about 15 million of the new consoles have been sold so far, which accounts for 70% of the value of total games sales. There are about 150 million previous-generation consoles in the market (PS®3 and Xbox360®), however games for these and for PCs account for approx. 30% of total games sales. The shift in games sales to new consoles in developed markets came sooner than expected, which is the result of the "new effect" and more attractive pricing of the new consoles.

Lords of the Fallen release

Work is continuing on the Lords of the Fallen, an RPG being produced for new-gen consoles: PlayStation®4 and XboxOne®. The U.S. release is scheduled for October 28, 2014 and the Europe release for October 31, 2014.

Marek Tymiński

President of the Management Board

Adam Pieniacki

Member of the Management Board

Warsaw, August 29, 2014

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