

CITY INTERACTIVE GROUP

2012 MANAGEMENT REPORT



Warsaw, March 7, 2013

Dear Shareholders, Associates and Partners!

2012 has been the most difficult of the last three years. Despite having no major new releases, the Group was able to generate satisfactory results thanks to our bestselling title *Sniper: Ghost Warrior*. The game's sales passed the three-million mark this year, which has led us to set even more ambitious goals for future releases.

Over the past year we have invested heavily in the latest technology and in expanding the Group's structure by bringing in experienced managers and experts. We have solidified our market position as a global video game company through signing contracts with some of the world's largest distributors and retailers. These initiatives will yield measurable results this year and in the future.

The long-awaited release of *Sniper: Ghost Warrior 2*, set for mid-March, is a major milestone for the City Interactive Group. The sequel is attracting considerable attention in the global market and will be released in record volumes for our Group. We are proud to be bringing to the market a game of such a high quality, developed with such attention to detail. Compared with its predecessor, the sequel is significantly expanded and more technologically advanced, and downloadable content will be available soon after the release.

2013 will see yet another CI Games release – *Alien Fear*, which will initially be available for PCs. Two other games which we are currently developing – *Enemy Front* and *Lords of the Fallen* – are set to hit the shelves in 2014.

I would like to express my gratitude to our shareholders, employees, customers and partners for their continued support and trust even in such a difficult period. I am convinced that 2013 and subsequent years will see the Group succeed on an unprecedented scale, which will directly translate into higher market capitalization for our company and will serve as a key foundation for future growth.

Sincerely,
Marek Tymiński
CEO
City Interactive S.A.

City Interactive 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 provided by the issuers of securities and the conditions for recognizing information required by the provisions of law of a non-member state as equivalent*, the Management Board of City Interactive S.A. declares that to the best of its knowledge the annual consolidated financial statements and comparative data have been drawn up in accordance with binding accounting principles and correctly, reliably and clearly reflect the Group's financial and asset situation together with its financial result, and that the annual report on the Company's operations contains a true depiction of the development, achievements and situation of the Group, including a description of principal hazards and risk.

The Management Board of City Interactive S.A. declares that the entity authorized to audit financial statements performing audit of the Group's annual 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 the binding regulations and professional standards.

Management Board of City Interactive S.A.

Marek Tymiński

President of the Management Board

Andreas Jaeger

Member of the Management Board

Warsaw, March 7, 2013

I. General description of the City Interactive Group's operations

The City Interactive Group operates in the global video game development and publishing market. Parent City Interactive 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 is focused on developing high quality products across a wide spectrum of game genres, thus strengthening its status in the industry.

In the gaming market, the Group operates as:

- Developer, with in-house game 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 online and to retail chains.

Through combining these three functions, the Group can effectively control the process of creating and distributing games without needing to involve a large number of third parties in the process of introducing its products to the market.

The City Interactive Group effectively uses of its main assets: an experienced team, global distribution network, cost advantage and higher margins compared to other developers. The Group has executed agreements on game development and independent distribution with owners of the most popular gaming consoles, i.e. Sony and Microsoft. The games developed for PlayStation®3, Xbox360® and PC have high commercial potential and are competitive in relation to others present in the market. The Group is also is also working intensively on supplementing the product range with games from new segments, including RPGs, iOS-based and online games.

II. Share capital

2.1. Share capital of the Parent – City Interactive S.A.

City Interactive S.A.'s share capital amounts to PLN 1 265 000 and is divided into 12 650 000 shares at a nominal value of PLN 0.10 each:

- 10 000 000 series A shares,
- 40 000 series B shares,
- 2 500 000 series C shares,
- 110 000 series D shares.

Series A shares were subscribed for by then-current shareholders in City Interactive Sp. z o.o. at the moment the company was transformed into a public limited company (*spółka akcyjna*).

Series B shares were issued under an incentive scheme and were subscribed for by the Parent's employees and partners. The District Court made registration of the increase in share capital as a result of issuing series B shares on 10 August 2007.

Series C shares were subject to a public offering in November 2007, which was a complete success. All shares on offer have been subscribed for and are paid up. On 17 December 2007 the District Court in Warsaw made registration of the increase in the Parent's share capital as a result of issuing series C shares.

Series D shares were issued under an incentive scheme and were subscribed for by the Parent's employees and partners. The District Court made registration of the increase in share capital as a result of issuing series D shares on 9 October 2009.

There are no securities carrying special control entitlements in relation to the Issuer, since in accordance with the Parent's articles of association all shares issued are ordinary bearer shares with equal nominal value carrying the same rights and obligations for each shareholder.

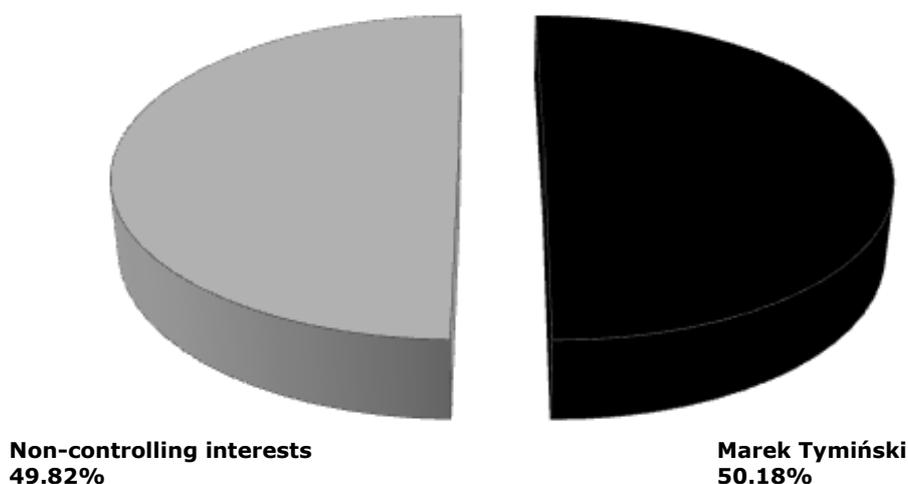
2.2 Indication of shareholders directly or indirectly through subsidiaries holding at least 5% of total votes at the Parent's general meeting as at the date of publishing the annual report, with indication of the number of shares held by such entities, their percentage in share capital, the number of votes carried thereby and their percentage share in the total number of votes at the General Meeting

The total number of votes at the General Meeting of Parent City Interactive S.A. is 12 650 000.

City Interactive S.A. shareholding structure as at the publication date of this report:

Item	Number of shares	% in share capital	Number of votes at GM	% of votes at GM
Marek Tymiński	6 347 285	50.18%	6 347 285	50.18%
Non-controlling interests		49.82%		49.82%

City Interactive S.A. shareholding structure



2.3. Volume and nominal value of the Issuer's shares held by management and supervisory personnel

Person	Position	As at Dec 31, 2012 (end of the reporting period)	Increase in shareholding during the period Dec 31, 2012 to Mar 7, 2013	Decrease in shareholding during the period Dec 31, 2012 to Mar 7, 2013	As at Mar 7, 2013 (2012 report publication date)
Marek Tymiński	President of the Management Board	6 347 285	-	-	6 347 285
Andreas Jaeger	Member of the Management Board	5 000	-	-	5 000
Lech Tymiński	Member of the Supervisory Board	9 565	-	-	9 565

2.4. Information on agreements known to the Issuer, pursuant to which there may be a change in the proportions of shares held by current shareholders. Indication of limitations concerning transfer of ownership to securities in the Parent

The Parent has no information concerning other agreements (including agreements entered into after the end of the reporting period) under which proportions of shares held by existing shareholders might change in the future. There are also no limitations on exercise of the right to vote carried by the Issuer's shares.

2.5. Information on employee share program control system

All shareholders whose stake in the Issuer's share capital as at the date of approving the prospectus exceeded 2% undertook towards the Parent that during the twelve-month period from the date of the first listing of rights to the Issuer's shares on the Warsaw Stock Exchange they would not encumber or pledge – with the exception of the possibility to establish a pledge for a bank in order to provide collateral for loans, nor dispose nor in any other manner transfer ownership, nor undertake to perform such action in relation to the entirety or part of shares, in any manner for the benefit of any person or entity unless consent for such action is expressed by the Parent's Supervisory Board. The obligation was intended to cease being binding in the event that City Interactive S.A.'s share price (closing rate on the WSE) exceeded the issue price by at least 20%.

The above obligation concerned a total of 8 987 265 series A shares held by the above-mentioned shareholders, which constituted 90% of shares held by them as at the date on which the prospectus was approved.

All shares which were subject to agreements on limitation of their assignability were deposited in brokerage accounts held by DM IDMSA.

In July 2007 the Parent issued 40 000 series B shares at an issue price of PLN 1 under a motivational program for its employees and significant associates. Persons subscribing for series B shares entered into a lock-up agreement with the Parent, limiting the assignability of shares for a period of either two or three years. In this manner the Issuer's employees and associates holding a total of 40 000 series B shares in City Interactive S.A., constituting in total 100% of series B shares in the Issuer, entered into an agreement with the Parent pursuant to which they undertook not to dispose of any of series B shares held for a period of one year and:

- 70% of series B shares held for a period of one subsequent year for a total of 20 150 shares,

- 90% of series B shares held for a period of one subsequent year for a total of 19 850 shares,

Furthermore some persons under the aforementioned motivational program also became the holders of series A shares at a price of PLN 1. Employees and associates holding a total of 35 650 series A shares in City Interactive S.A. submitted an official obligation not to dispose of any of the shares held for a period of 1 year and 90% of shares held for a period of two subsequent years.

All shares which were subject to agreements on limitation of their assignability were deposited in brokerage accounts held by DM IDMSA.

In the event of employment or cooperation being terminated with a shareholder holding shares covered by the motivational program, his/her shares were or are transferred to another person designated by the Company's Management Board.

110 000 ordinary series D shares in the Parent were issued on 30 June 2009. These shares were subscribed for by the Parent's employees at the issue price – PLN 1 per share.

There are no limitations on exercising voting rights carried by shares in the Issuer under the employee scheme.

III. Information on organizational or equity ties with other entities

Composition of the City Interactive Group as at December 31, 2012:

- City Interactive S.A., having its registered office in Warsaw. Share capital of PLN 1 265 000. Group parent.
- 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 City Interactive S.A. Company subject to consolidation as of the second quarter of 2008.
- City Interactive USA Inc. – a company having its registered office in Delaware, USA. Share capital USD 50 000. 100% of shares held by City Interactive S.A. Company subject to consolidation as of the second quarter of 2008.
- Business Area Spółka z o.o. – a company with registered office in Warsaw, subject to consolidation as of Q3 2010. Share capital of PLN 5 000. 100% interest held by City Interactive S.A.
- City Interactive Studio S.R.L. – a company having its registered office in Bucharest, Romania. 100% of shares held by City Interactive S.A. This company is subject to consolidation from Q4 2011.
- City Interactive Canada Inc. – a company based in Ontario, Canada, established in October 2010. Share capital of CAD 10.00. 100% of shares held by City Interactive S.A. The company is not subject to consolidation with regard to the fact that its financial results are not significant for assessment of the Issuer's situation.
- City Interactive UK Ltd. – a company based in Manchester, UK. Share capital of GBP 100. 100% of shares held by City Interactive S.A. The company is not subject to consolidation with regard to the fact that its financial results are not significant for assessment of the Issuer's situation.

- City Interactive Spain S.L. – company having its registered office in Madrid, Spain. Share capital of EUR 3 600. 100% of shares held by City Interactive S.A. The Issuer sold its interest in the company on February 6, 2013.

On August 21, 2012 the Issuer disposed of 100% of shares (share capital amounted to GBP 100) in subsidiary City Interactive Studio Ltd, headquartered in London, UK. The subsidiary was formed in December 2010.

On February 4, 2013 City Interactive S.A. (general partner) acquired shares in Business Area Sp. z o.o. S.K.A. in Warsaw. Its share capital is PLN 50 000 (nominal value per share is PLN 1). The sole general partner is a subsidiary of the Issuer - Business Area Sp. z o.o.

Furthermore, throughout 2008 the parent 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 created appropriate provisions.

- City Interactive Peru SAC (formerly UCRONICS SAC) – a company having its registered office in Lima, Peru. 99% interest. Share capital of 2 436 650 Sol. 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% interest, remaining 10% held by City Interactive USA, Inc.
- City Interactive Mexico S.A. de C.V. – company having its registered office in Mexico City, Mexico. Founding capital of MXN 50 000. 95% interest, remaining 5% held by City Interactive USA, Inc.

IV. Changes in the Group's and Issuer's corporate management principles

No changes in basic corporate management principles took place in 2012.

V. Changes in the composition of management and supervisory personnel in 2012

Management Board of City Interactive S.A.

Marek Tymiński	President throughout 2012
Michał Sokolski	Member until March 14, 2012
Andreas Jaeger	Member from March 14, 2012

Michał Sokolski resigned from the Management Board of City Interactive S.A. in 2012. The Supervisory Board of City Interactive S.A. simultaneously appointed Andreas Jaeger, finance and operations director, as member of the Parent's Management Board.

Supervisory Board of City Interactive S.A.

Krzysztof Sroczyński	Chairman throughout 2012
Marek Dworak	Member throughout 2012
Lech Tymiński	Member throughout 2012
Grzegorz Leszczyński	Member throughout 2012
Tomasz Litwiniuk	Member throughout 2012

VI. Description of the Group's significant achievements or set-backs in 2012 and events impacting its financial results

- **Development of the *Sniper: Ghost Warrior* iOS version**

On February 20, 2012 the Management Board of Business Area Sp. z o.o. withdrew from the production agreement with Vivid Games Sp. z o.o. The Issuer's Management decided that, through making use of the Group's production capacity, further work on the mobile version of *Sniper: Ghost Warrior* will be transferred to the Issuer's internal production studio in Katowice, Poland.

On February 13, 2013 the Issuer's Management Board announced that, following a detailed analysis of expenditures incurred to develop a mobile version of *Sniper: Ghost Warrior* for the iOS platform and assessment of the potential to use the developed elements to continue developing the game, the Management Board of Business Area Sp. z o.o. decided to create an impairment loss of PLN 0.7 million on the incurred costs.

- **Resolutions of the general meeting of City Interactive S.A.**

On June 28, 2012 the general meeting approved the separate and consolidated financial statements and management report for the 2011 financial year. It also approved the Supervisory Board report for the same period and adopted a decision on allocation of the Company's 2011 net profit to a dividend fund. The general meeting granted a vote of approval to members of the Management Board and Supervisory Board in respect of their duties in 2011.

- **Release of *Dogfight 1942***

On August 2, 2012 the Management Board of City Interactive S.A. announced that the Company received confirmation from Microsoft® on the successful completion of the Xbox 360® certification process for *Dogfight 1942*. The game features some of the most spectacular air battles of the Second World War. The Xbox 360® version of the game was released on September 5, 2012, while the PC version was launched on September 21. The game is in online distribution.

The PC version of *Dogfight 1942* hit stores on September 21, 2012, with the Playstation®3 version release following on October 17, 2012. The game is mainly sold online.

On February 13, 2013 the Issuer's Management Board announced that, following an impairment test of development work performed on *Dogfight 1942* and based on estimated future cash flows from the game, it decided to update this value by PLN 5.2 million.

- **Series C and D bond issues**

The issue of City Interactive S.A. series C bonds took place on September 28, 2012. The issue objective was to use the capital raised to finance expenditures connected with the release of *Sniper: Ghost Warrior 2*. In addition, the Issuer intends to use the bond issue proceeds to finance further development work and marketing and advertising expenses connected with new games. The Company issued 15 500 bearer shares (dematerialized, unsecured, zero-coupon) with a total par value of PLN 15.5 million. The issue price per bond was PLN 935.50. The bonds will be redeemed at par value on May 28, 2013.

Furthermore, on October 30, 2012 City Interactive S.A. issued series D bonds as follow-on to the series C issue of September 28, 2012, with the same issue objectives. The issue covered 6000 ordinary bearer bonds (zero-coupon, dematerialized, non-interest bearing) with a total par value of PLN 6 million. The issue price per bond was PLN 935.50. The bonds will be redeemed at par value on June 26, 2013.

On February 21, 2012, after receiving consent from all bondholders, parent City Interactive S.A.'s Management Board adopted a resolution on amendment to the Issuer's series C bonds issued on September 28, 2012, consisting of a bonus for bondholders amounting to 0.5% of par value per bond, payable on maturity, and amendment to one covenant entitling bondholders to request early redemption, i.e. change of the final deadline for releasing *Sniper: Ghost Warrior 2* to March 12, 2013.

As at December 31, 2012 the debt to equity ratio, defined as consolidated net financial debt over equity, was positive at 0.11. Net financial debt is understood as the Group's liabilities relating to credits, loans and other interest-bearing or discounted financial instruments, less any related derivative hedges, cash and cash equivalents, available-for-sale marketable securities and restricted cash, calculated using figures from the Group's consolidated financial statements.

- **Foreign exchange hedging transactions**

In connection with the decision to withdraw the Company's hedging policy, on October 18, 2012 all forward contracts were closed. The result was a positive PLN 31 000.

- **Release of *Sniper: Ghost Warrior 2***

On January 2, 2013 the Management Board of City Interactive S.A. announced that the release of *Sniper: Ghost Warrior 2* for PlayStation® 3, Xbox360® and PC will take place on March 13, 2013. The release was thus moved from the previous date of January 15, 2013 announced on July 25, 2012.

On January 18, 2013 Microsoft® certification for the Xbox360® version of *Sniper: Ghost Warrior 2* was received. Certification for the PlayStation®3 version of the game was received from Sony Computer Entertainment America LLC on January 30, 2013 and from Sony Computer Entertainment Europe Ltd. on February 13, 2013. Therefore the game was certified for Xbox360® and Sony PlayStation®3 including in North America, Europe and Australia.

- **Withdrawal from work on *World of Mercenaries***

On February 13, 2013 the Issuer's Management Board announced that, following an analysis of commercial potential of *World of Mercenaries*, it decided to discontinue work on developing the game. As a result a PLN 5.4 million impairment loss was recognized in the Group's consolidated financial statements on unfinished development of *World of Mercenaries*.

- **Approval of the extraordinary general meeting for the sale of an an organized part of City Interactive S.A.'s enterprise**

On March 6, 2013 the extraordinary general meeting of the Parent expressed consent to the sale of an organized part of City Interactive S.A.'s enterprise (City Interactive Spółka Akcyjna - branch in Warsaw) in the form of an organizationally carved-out set of tangible and intangible assets, through a non-cash contribution provided to a fully controlled subsidiary: a partnership limited by shares having its registered office in Warsaw, in exchange for shares in the increased share capital of said partnership. The organized part of City Interactive S.A.'s enterprise will be sold at a market valuation determined by the Management Board.

A description of events which could have a significant impact on the Issuer's financial result may be found in items XI and XIII of this report.

VII. Discussion of key economic and financial values disclosed in the annual financial statements

Balance sheet assets and liabilities according to the average exchange rate announced by the National Bank of Poland as at the end of the reporting period:

- as at December 31, 2011 EURPLN as at December 31, 2011 - 4.4168,
- as at December 31, 2012 EURPLN as at December 31, 2012 - 4.0882,

Items in the profit and loss statement and statement of cash flows according to the average exchange rate, calculated as the arithmetical average of exchange rates announced by the National Bank of Poland as at the last day of the month in a given period:

- EURPLN in 2011 - 4.1401,
- EURPLN in 2012 - 4.1736.

Selected financial data translated into EUR:

STATEMENT OF PROFIT AND LOSS	2012		2011	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Net revenue from sales	41 205	9 873	81 718	19 738
Profit (loss) from operating activities	-21 431	-5 135	21 120	5 101
Gross profit (loss)	-23 372	-5 600	22 308	5 388
Net profit (loss)	-19 794	-4 743	16 923	4 088
Number of shares (in thousands)	12 650	12 650	12 650	12 650
Profit (loss) per ordinary share	-1,56	-0,37	1,34	0,32

STATEMENT OF CASH FLOWS	2012		2011	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Net cash flows from operating activities	9 073	2 174	25 492	6 157
Net cash flows from investing activities	-28 963	-6 940	-19 064	-4 605
Net cash flows from financing activities	19 669	4 713	-5 248	-1 268
Net cash flows	-221	-53	1 179	285

BALANCE SHEET	31.12.2012		31.12.2011	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Non-current assets	44 883	10 979	28 779	6 516
Current assets	27 574	6 745	41 875	9 481
Total assets	72 457	17 723	70 654	15 997
Equity	39 657	9 700	57 772	13 080
Share capital	1 265	309	1 265	286
Liabilities	32 799	8 023	12 882	2 917
Non-current liabilities	114	28	342	77
Current liabilities	32 685	7 995	12 540	2 839
Total equity and liabilities	72 457	17 723	70 654	15 997

1. Balance sheet

City Interactive Group's carrying amount as at December 31, 2012 was PLN 72.5 million, a 3% increase in comparison with December 31, 2011.

Assets

Non-current assets recognized in the balance sheet as at December 31, 2012 amounted to PLN 44.9 million (accounting for 62% of the Group's total assets) and had increased by 56% in comparison with the situation as at December 31, 2011.

The growth in non-current assets results primarily from an increase in intangible assets as at the end of 2012 compared to the end of 2011 of PLN 13 million (an increase of 52%). This results from capital expenditures incurred in 2012 on new game development (development costs). Tangible assets also increased due to an increase in deferred tax assets as at the end of the reporting period (PLN 5.3 million compared to PLN 2.3 million at the end of 2011), resulting primarily from intangible asset impairment losses and tax loss generated in 2012.

The Group's current assets as at December 31, 2012 amounted to PLN 27.6 million, a 34% or PLN 14.3 million decrease from the end of 2011. Main current assets are cash (not changed significantly compared to December 31, 2011) and trade receivables, the decrease of which have had the most significant impact on the Group's current assets at year-end. A significant decline in the value of receivables in the comparable periods (by PLN 8.4 million or 58%) stems from lower revenue from sales in 2012 compared to 2011. At the same time, inventory was reduced at the end of 2012 compared to 2011 by PLN 2.6 million (52%), resulting from warehouse clearances prior to the release of *Sniper: Ghost Warrior 2*. Advances paid out also decreased, to PLN 0.1 million.

Equity and liabilities

As at December 31, 2012 the Group's equity amounted to PLN 39.7 million, denoting a 31% decrease in relation to December 31, 2011, resulting mainly from a PLN 19.8 million net loss generated in 2012. During the reporting period the Parent discontinued its hedging strategy, as a result of which the effect of measurement of the effective part of the hedge was recognized on December 31, 2011 in a revaluation reserve in the amount of PLN 2.1 million.

The Group's liabilities amounting to PLN 32.8 million constituted 45% of the carrying amount, a more than two-fold increase compared to the end of 2011. The increase resulted mainly from the Parent's series C and D bond issues with a total nominal amount of PLN 21.5 million. Details of the bond issues are presented in item VI of this report. At the date on which this report was drafted deferred revenue amounted to PLN 2.7 million and consisted of advance licensing payments received in 2012 for *Sniper: Ghost Warrior 2*. A minor reduction was reported in trade payables compared to 2011 (by PLN 0.3 million) and - due to discontinuing the hedging policy - forward contracts were not measured at the end of 2012, whereas at the end of 2011 they were recognized in financial liabilities in the amount of PLN 3 million.

2. Statement of profit and loss

Despite a lack of major releases, the Group generated PLN 41.2 million in net revenue from sales in 2012 (a decrease compared to 2011). The principal factor contributing to the results achieved during the period were the continued discounted sales of *Sniper: Ghost Warrior*.

The Group generated PLN 11.0 million in gross profit and a PLN 21.4 million operating loss. A description of factors resulting in the Group's negative result on operating activities is provided in item VIII of this report.

The Group also recorded a loss on financing activities of PLN 1.9 million, resulting mainly from costs connected with bond issues and negative exchange differences due to unfavorable currency movements during the reporting period.

The Group posted a PLN 19.8 million net loss in 2012.

3. Statement of cash flows

The Group began 2012 with PLN 16.7 million in cash and cash equivalents.

Net cash flows from operating activities amounted to PLN 9.1 million. The most significant impact on operating cash flows came from a decline in receivables in relation to the year prior.

Net cash flows from investing activities were negative at PLN -29.0 million. Expenditures connected with the financing of new game development in the amount of PLN 27.5 million constituted a significant item.

Net cash flows from financing activities were positive at PLN 19.7 million, resulting from the Parent's bond issues during the period with a total nominal value of PLN 21.5 million. The Group received the proceeds amounting to the issue price, i.e. PLN 20.1 million.

Cash and cash equivalents at the end of the reporting period amounted to PLN 16.5 million.

VIII. Assessment of and justification for financial management at the City Interactive Group, together with specification of potential risks and preventative measures which the Parent has taken or intends to take. Information on the current and anticipated financial standing

Profitability ratios

	Item	Unit of measure	2012	2011
1.	Sales margin	%	26.6%	47.1%
2.	EBITDA margin	%	-45.8%	33.4%
3.	EBIT operating margin	%	-52.0%	25.8%
4.	Gross margin	%	-56.7%	27.3%
5.	Net margin	%	-48.0%	20.7%
6.	Return on assets	%	-27.3%	24.0%
7.	Return on equity	%	-49.9%	29.3%

Ratio calculation methods

1. Sales margin	=	profit from sales / revenue from sales
2. EBITDA margin	=	EBITDA / revenue from sales
3. EBIT operating margin	=	operating profit / revenue from sales
4. Gross margin	=	profit before tax / revenue from sales
5. Net margin	=	net profit / revenue from sales
6. Return on assets	=	net profit / assets
7. Return on equity	=	net profit / equity

The Group's sales margin in 2012 was 26.6%, a 20.5pp decline compared to 2011. Several factors contributed to the decrease:

Firstly, within total game sales the share of console titles increased – these are more expensive to produce due to license fees paid to platform owners. Secondly, a successive reduction of *Sniper: Ghost Warrior* prices for all platforms, connected with the game's life cycle, was implemented, while during 2011 the game's PlayStation®3 version was sold at regular prices. Furthermore throughout 2012 the Group sold several other, older games from its inventory at significantly reduced prices.

Selling costs decreased by 8% in the comparable periods, while administrative expenses remained at a similar level.

During the reporting period the Group created impairment losses on intangible assets relating to three games, amounting to a total of PLN 13.5 million. The cost of developing *Dogfight 1942* was updated to equal the expected revenue from sales (PLN 7.2 million) and - after an analysis of the commercial potential of *World of Mercenaries* - a decision was made to discontinue further work on the game (PLN 5.4 million). In addition, an impairment loss of PLN 0.9 million was created in respect of games being developed for iOS systems, including *Sniper: Ghost Warrior*.

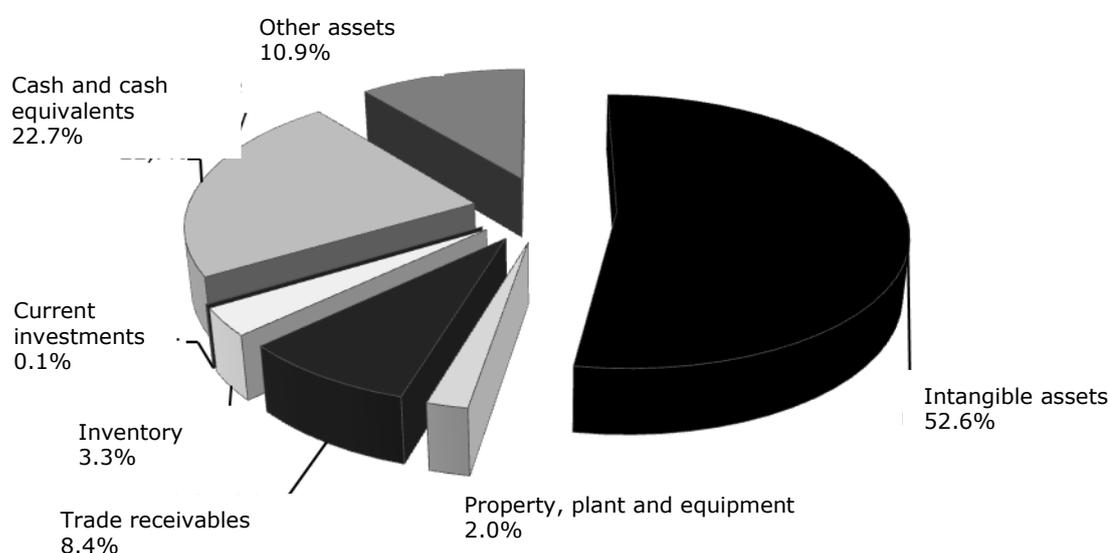
The Group also created an impairment loss of PLN 0.9 million on receivables as well as created a loss on and liquidated inventory valued at a total of PLN 1.5 million.

Given the factors above, gross margin was negative at -56.7%.

Asset structure

	Item	Unit of measure	2012	2011
1.	Intangible assets	%	52.6%	35.5%
2.	Property, plant and equipment	%	2.0%	2.0%
3.	Trade receivables	%	8.4%	20.5%
4.	Inventory	%	3.3%	7.0%
5.	Current investments	%	0.1%	0.6%
6.	Cash and cash equivalents	%	22.7%	23.6%
7.	Other assets	%	10.9%	10.7%

Asset structure in 2012



At the end of 2012 the asset structure was dominated by intangible assets, consisting primarily of game development costs. As at December 31, 2012 this item constituted 52.6% of the company's assets.

Other significant assets include trade receivables (8.4% of the total carrying amount) and cash and cash equivalents (22.7%).

As at December 31, 2012 the Group held PLN 16.5 million in bank accounts, an amount not significantly different from December 31, 2011. The Group raised PLN 20.1 million

through the Parent's series C and D bond issues and generated a 9.1 million cash surplus on operating activities. At the same time the Group incurred PLN 27.5 million in investment expenditures to finalize game development.

Turnover ratios

	Item	Unit of measure	2012	2011
1.	Asset turnover ratio	times	0.6	1.2
2.	Inventory turnover ratio	turned over	17.5	16.5
3.	Receivables collection period	number of	54.1	64.8
4.	Payables repayment period	days	71.1	37.2

Ratio calculation methods

1. Asset turnover ratio = revenue from sales / assets
2. Inventory turnover ratio = revenue from sales / inventory at the end of reporting period
3. Receivables collection period = (trade and other receivables / revenue from sales) * number of days in period
4. Payables payment period = (trade and other payables / revenue from sales) * number of days in period

The receivables collection period lengthened in 2012 to 54.1 days (compared to 64.8 the year prior), which results from a decrease in trade receivables as at 2012 year-end. In 2012, despite a decline in trade payables, the repayment period increased from 37.2 days to 71.1 days due to lower revenue during the reporting period.

Debt ratios

	Item	2012	2011
1.	Debt ratio	0.45	0.18
2.	Debt to equity	0.83	0.22
3.	Equity to assets	0.89	2.02
4.	Short-term debt ratio	0.45	0.18
5.	Long-term debt ratio	0.002	0.005

Ratio calculation methods

1. Debt ratio = (current liabilities + non-current liabilities) / total equity and liabilities
2. Debt to equity = (current liabilities + non-current liabilities) / equity
3. Equity to assets = (equity + non-current liabilities) / non-current assets
4. Current debt ratio = current liabilities / total equity and liabilities
5. Long-term debt ratio = non-current liabilities / total equity and liabilities

Debt ratios have deteriorated in relation to the previous year. This is due to a PLN 19.8 million net loss generated in 2012, which decreased the Group's equity, at the same time increasing external finance sources in the Group's asset financing. In addition, in 2012 the Parent issued series C and D bonds with a total nominal value of PLN 21.5 million.

Liquidity ratios

Item	2012	2011
1. Current ratio	0.84	3.34
2. Quick ratio	0.77	2.94
3. Cash ratio	0.50	1.33

Ratio calculation methods

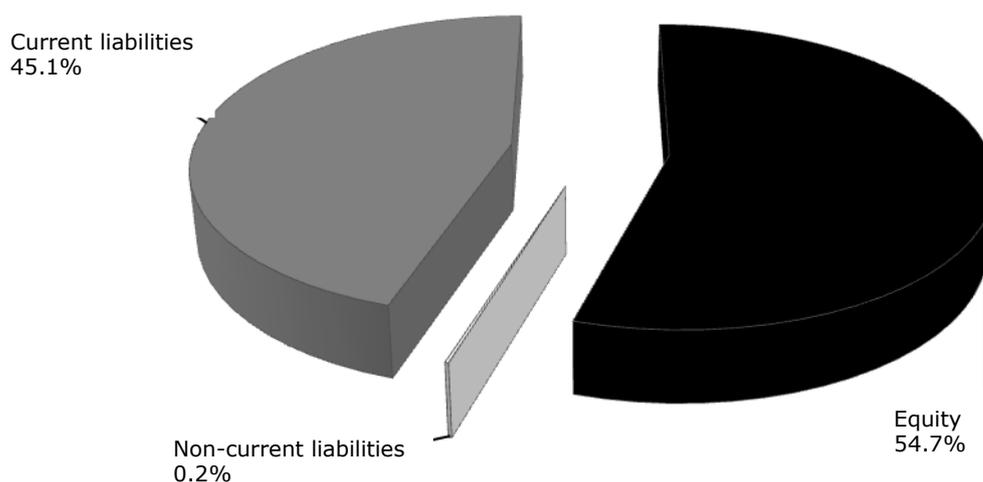
1. Current ratio = current assets / non-current liabilities
2. Quick ratio = (current assets - inventory) / current liabilities
3. Cash ratio = cash and cash equivalents / current liabilities

All of the Group's liquidity ratios deteriorated, which was caused by a decrease in asset values and a simultaneous increase in current liabilities in the comparable periods. As at December 31, 2012, cash and cash equivalents amounted to PLN 16.5 million, compared to PLN 16.7 million as at the end of the previous year.

Financing structure

Item	Unit of measure	2012	2011
1. Equity	%	54.7%	81.8%
2. Non-current liabilities	%	0.2%	0.5%
3. Current liabilities	%	45.1%	17.7%

Financing structure in 2012



Equity comprises the main component within the Group's financing structure (54.7% of equity and liabilities). The decrease in equity as at December 31, 2012 compared to the same period in 2011 resulted from a PLN 19.8 million loss generated in 2012.

All financial ratios, asset values and financial standing demonstrate the company's good financial position and constitute a stable basis for further development and implementation of the Group's strategic objectives. According to the Parent's management, despite a net loss of PLN 19.8 million and a PLN 5.1 million surplus of

current liabilities over current assets reported in 2012, no circumstances exist which could indicate a threat to the Group's continuing as a going concern or a threat of losing liquidity and thus not being able to service assets and meet liabilities in a normal course of doing business. In connection with the release of *Sniper: Ghost Warrior 2*, scheduled for March 12, 2013, the Group expects to post unprecedented financial results and a surplus allowing it to cover all of the Group's liabilities.

IX. Information on key products, goods for resale and services, their volume and value, together with Group sales by product group and changes in 2012

City Interactive Group operations consist of video game development and acquisition of other companies' titles and their sale throughout the world. The Group places emphasis on sales in the form of distributing finished media with computer programs (finished goods), however in some cases sells licenses for the distribution of games within a specific area and a specific time period.

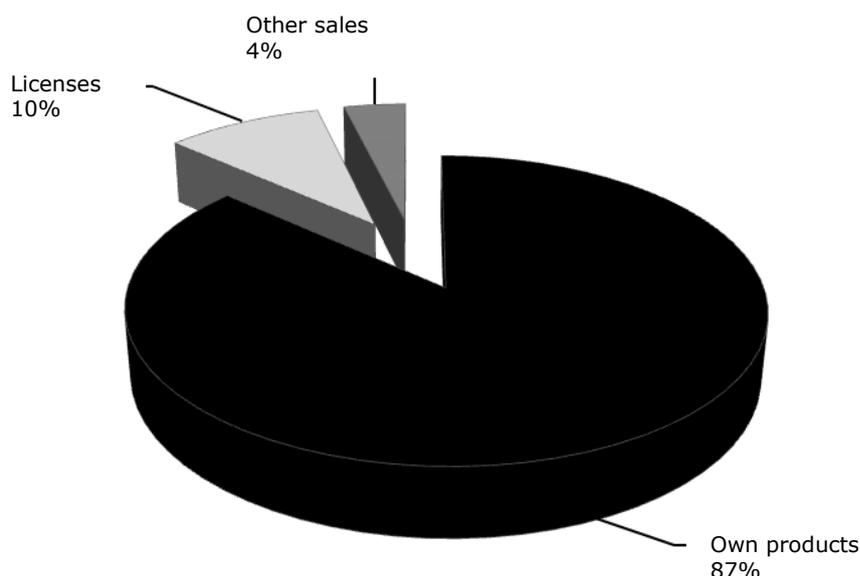
The structure of revenue from sales achieved by the Group over the period 2011 - 2012 with consideration to the type of product offered is as follows:

1. Revenue from sales by value

Data in PLN thousands

Revenue	2012	% share	2011	% share	2012/2011
Own products	35 699	87%	70 109	86%	-49%
Licenses	3 945	10%	7 329	9%	-46%
Other sales	1 561	4%	4 281	5%	-64%
Total	41 205	100%	81 718	100%	-50%

Revenue structure in 2012



2. Revenue from sales by volume

Revenue	2012	% share	2011	% share	2012/2011
Own products	1 194 011	75%	1 728 567	77%	-31%
Licenses	149	0%	277	0%	-46%
Other sales	396 370	25%	505 945	23%	-22%
Total	1 590 530	100%	2 234 789	100%	-29%

X. Information on sales markets, divided into domestic and international, together with sources of supply for production materials, goods and services, with specification of dependence on customers and suppliers

In 2012 foreign sales accounted for 95% of total Group sales and did not significantly change from 2011.

Data in PLN thousands

Sales	2012	2011
Foreign	39 296	78 422
<i>% share</i>	95%	96%
Country	1 910	3 296
<i>% share</i>	5%	4%
Total	41 205	81 718

Exports accounted for 66% of the sales volume. The difference between the percentage share of foreign sales in terms of value and volume results from the higher share of console sales in this market and higher unit prices in comparison with the Polish market.

Sales	2012	2011
Foreign	1 054 249	1 620 140
<i>% share</i>	66%	72%
Country	536 281	614 649
<i>% share</i>	34%	28%
Total	1 590 530	2 234 789

Customers whose share in the Group's sales in 2012 exceeded 10%:

Counterparty	% share
1. Cokem International Ltd	25.76%

Other counterparties did not exceed the 10% threshold.

The table below presents a list of suppliers whose share in the Group's purchases in 2012 exceeded 10%:

Counterparty	% share
1. Microsoft Corporation	27.94%
2. Sony DADC Austria AG	23.55%
3. Sony DADC USA Inc.	22.34%

Other suppliers did not exceed the 10% threshold.

XI. Information on agreements significant for the business activity of the City Interactive Group, including agreements entered into between shareholders and insurance, collaboration and cooperation agreements

1. Agreements significant to Group operations:

- **Execution of significant agreements concerning *Sniper: Ghost Warrior 2* sales**

On February 23, 2012 a licensing agreement was entered into with Cyberfront Corporation, based in Tokyo, Japan, concerning sale of *Sniper: Ghost Warrior 2* on Sony Playstation®3, Xbox®360 and PC and sale of *Dogfight 1942* on Sony Playstation®3, Xbox®360 and PC.

On February 28, 2012 the Parent executed a distribution agreement with Namco Bandai Partners S.A.S. concerning sales of *Sniper: Ghost Warrior 2* on Sony Playstation®3, Xbox360® and PC and sale of *Dogfight 1942* for Sony Playstation®3, Xbox360®, Nintendo Wii™ and PC in the UK, Italy, Spain and Greece.

On April 27, 2012 the Parent executed a distribution agreement with UBISOFT GmbH headquartered in Germany concerning sales of *Sniper: Ghost Warrior 2* for Sony Playstation®3, Xbox360®, Nintendo Wii™ and PC in Germany, Austria and Switzerland.

- **Agreement concerning treasury transactions**

On February 13, 2013 the Parent executed a framework agreement on cooperation in the area of forward and derivative transactions, together with an additional agreement on foreign exchange transactions, with Raiffeisen Bank Polska S.A. On the same day the Parent also received an executed framework agreement on treasury transactions from Alior Bank S.A. also covering forward transactions.

2. Insurance agreements

As at December 31, 2012 the City Interactive Group held insurance agreements with ERGO Hestia S.A., Chartis Europe S.A., Scottsdale Insurance Company and LLOYD'S:

Insurer	Subject and scope of insurance	Period	Value (in thousands)
Chartis Europe S.A.	Civil liability insurance for the Parent's Management Board	07.11.2011 - 06.11.2012	PLN 50 000
Chartis Europe S.A.	Civil liability insurance for the Parent's Management Board	07.11.2012 - 06.11.2013	PLN 50 000
Chartis Europe S.A.	Civil liability insurance concerning product liability	10.06.2011 - 09.06.2012	USD 2000
Chartis Europe S.A.	Civil liability insurance concerning product liability	10.06.2012 - 09.06.2013	USD 2000
Chartis Europe S.A.	Civil liability insurance concerning product liability	01.09.2011 - 31.08.2012	USD 2200
Chartis Europe S.A.	Civil liability insurance concerning product liability	01.01.2012 - 31.12.2012	USD 5000
Chartis Europe S.A.	Civil liability insurance concerning product liability	28.04.2011 - 27.04.2012	USD 2000
Chartis Europe S.A.	Civil liability insurance concerning product liability	05.05.2012 - 04.05.2013	USD 3000
ERGO Hestia S.A.	Insurance for electronic hardware	15.09.2011 - 14.09.2012	PLN 1891

ERGO Hestia S.A.	Insurance for electronic hardware	15.09.2012 - 14.09.2013	PLN 2178
ERGO Hestia S.A.	Property insurance	15.09.2011 - 14.09.2012	PLN 6307
ERGO Hestia S.A.	Property insurance	15.09.2012 - 14.09.2013	PLN 1307
ERGO Hestia S.A.	Property insurance	15.09.2012 - 30.04.2013	PLN 5000
Scottsdale Insurance Company	Civil liability insurance for the Parent's Management Board	26.01.2011 - 26.01.2012	USD 2000
Scottsdale Insurance Company	Civil liability insurance for the Parent's Management Board	26.01.2012 - 26.01.2013	USD 2000
LLOYD'S	Civil liability insurance concerning product liability	10.06.2011 - 10.06.2012	USD 2000
LLOYD'S	Civil liability insurance concerning product liability	10.06.2012 - 10.06.2013	USD 2000

In addition to the above, the Group held third party and fully comprehensive insurance policies for four passenger vehicles.

3. Agreements entered into between shareholders

The Management Board of City Interactive S.A. is not aware of any agreements entered into between City Interactive S.A. shareholders in 2012.

XII. Agreements entered into between the Issuer and management personnel providing for compensation in the event of their resignation or dismissal without valid cause or if their dismissal or redundancy occurs as a result of the Issuer's merger

No such agreements were executed.

XIII. Information on parent City Interactive S.A.'s loan agreements with consideration to their maturity dates and on guarantee and surety agreements

1. Agreements concerning borrowings

As at December 31, 2012 the Issuer did not have any borrowing liabilities.

- **Reverse factoring agreement**

On February 20, 2013 the Parent signed a reverse factoring agreement with Alior Bank S.A. in Warsaw. The Bank extended the Issuer a EUR 3.2 million limit available in EUR and USD for financing for goods / licenses / contract work. Final repayment deadline: July 31, 2013. Interest: EURIBOR 1M for EUR and LIBOR 1 M for USD plus the Bank's margin of 2.2% annualized; origination commission (calculated from unused amounts) - none. Collateral: Notarized assignment of City Interactive USA Inc.'s receivables; declaration on submission for enforcement proceedings; power of attorney for the Issuer's bank accounts at Alior Bank S.A. Other provisions in the agreement do not differ from conditions commonly applied to this type of agreements.

2. Lease agreements

As at December 31, 2012 the Parent had signed two operating lease agreements. The first agreement is with Raiffeisen Leasing Polska S.A., valued at PLN 98 400, with PLN 29 300 in principal remaining. The second agreement was executed with Getin Leasing S.A. in 2012 (initial value: PLN 76 800, principal remaining as at December 31, 2012: PLN 60 600).

3. Guarantee and surety agreements

The Parent has granted a surety (blank promissory note) as collateral for performance of the lease agreement with Raiffeisen Leasing Polska S.A.

XIV. Security issuance during the reporting period - description of the use of proceeds

During the reporting period the Parent conducted two bond issues - series C and D. The first issue, with a total nominal value of PLN 15.5 million, took place on September 28, 2012. The second issue, series D, took place on October 30, 2012 as an add-on to the series C issue. The series D issue covered 6000 bonds with a total nominal value of PLN 6 million. Redemption dates for the bonds issued in 2012 are May 28, 2013 and June 26, 2013, respectively. A detailed description of the above bond issues can be found in item VI of this report.

XV. Information on borrowings granted by City Interactive S.A.

Borrower	Total contractual amount	Repayment date	Loan and interest amount in foreign currency	Loan and interest amount in PLN
City Interactive Germany GmbH	EUR 130 000	28.03.2012	EUR 14	59
City Interactive Studio Ltd.	GBP 220 000	02.01.2013	GBP 6528	32 718
Business Area Sp. z o.o.	PLN 1 600 000	31.12.2013	PLN 1 673 372	1 673 372
Marcin Kwaśnica	PLN 300 000	31.12.2012	PLN 10 560	10 560

The Parent recognized an impairment loss on receivables under a loan granted to subsidiary City Interactive Spain S.L. in connection with the adoption by the Management Board on November 13, 2009 of a Resolution concerning abandonment of the operational development of City Interactive Spain S.L. A loss of EUR 62 400 is probable. The Parent created a PLN 258 600 impairment loss. For these same reasons an impairment loss of PLN 29 400 was created in connection with a loan granted to subsidiary City Interactive Mexico S.A. de C.V. The total value of impairment loss on this asset amounts to PLN 373 000.

A PLN 2.5 million loan granted to City Interactive Jogos Electronicos LTDA Peru, completely covered by a impairment charge, was transferred to the subsidiary's primary capital and as such is transferred to the item "Interests in subsidiaries, associates and jointly controlled entities" in non-current assets. The carrying amount of this item amounts to PLN 0.00.

On February 22, 2013 an extraordinary general meeting of subsidiary Business Area Sp. z o.o. adopted a resolution requiring one of the shareholders (City Interactive S.A.) to provide an additional PLN 2 000 000. This additional payment will be covered through the conversion of existing borrowings (including interest) in the amount of PLN 1 673 372 and PLN 326 628 in cash.

XVI. Level of salaries, awards, benefits paid out, due or potentially due to the Parent's management or supervisory personnel

Level of (gross) remuneration for the Parent's management and supervisory personnel paid out in 2012 (in PLN):

Management Board of City Interactive S.A.

Marek Tymiński - President	647 892
Andreas Jaeger - Member	101 531
Michał Sokolski - Member	3

Supervisory Board of City Interactive S.A.

Krzysztof Sroczyński - Chairman	42 000
Marek Dworak - Member	30 000
Grzegorz Leszczyński - Member	30 000
Lech Tymiński - Member	30 000
Tomasz Litwiniuk - Member	30 000

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

All transactions described below were executed on market terms.

Parent City Interactive S.A.'s transactions with Group companies:

Data in PLN thousands

	Costs	Revenues	Receivables	Payables
City Interactive Germany GmbH	553	6	-	41
City Interactive USA Inc.	8 386	8 931	5 563	-
City Interactive Studio Ltd.	4	20	33	-
City Interactive Studio S.R.L.	14	30	-	109
Business Area Sp. z o.o.	622	738	2 245	-
City Interactive Peru SAC	-	-	-	505
TOTAL	9 579	9 725	7 841	655

Parent City Interactive S.A.'s transactions with companies connected with Marek Tymiński – majority shareholder in the Parent, who directly or indirectly controls the following entities:

Data in PLN thousands

	Costs / purchases	Revenues	Receivables	Payables
ATS Sp. z o.o.	5 891	49	12	422
Premium Food Sp. z o.o.	-	-	-	-
Premium Food Restaurants S.A.	13	3	3	14
Klub Rybny Sp. z o.o.	-	-	-	-
Tech Marek Tymiński	82	82	-	-
MT Golf Sp. z o.o.	1	5	20	-

TOTAL	5 987	140	35	436
--------------	--------------	------------	-----------	------------

Issuer's transactions with companies connected with the Parent's Supervisory Board and Management Board members:

Data in PLN thousands

	Costs	Revenues	Receivables	Payables
KS Konsulting Krzysztof Sroczyński	5	-	-	-
Michał Sokolski 3AFX	169	-	-	-
Andreas Jaeger Consulting	443	-	-	-
TOTAL	617	-	-	-

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

As at the report publication date the Issuer's management has no information concerning any proceedings in progress against it or its subsidiaries.

XIX. Description of atypical factors and events impacting on the operating results in 2012

During the reporting period no atypical events occurred such as would have had a significant impact on the Group's financial performance.

XX. Explanation of variances between the financial results indicated in the annual report and previously published forecasts

On January 10, 2013 the Parent's Management Board announced preliminary estimates of the City Interactive Group's net consolidated revenue from sales during Q4 2012, which exceeded PLN 12.5 million.

The Issuer's Management Board did not publish any estimates or forecasts relating to the Group results presented in this report.

XXI. Significant risks and threats facing the Group

The most significant external risks from the Issuer's point of view are as follows:

Macroeconomic risk

The video game market in which the City Interactive Group operates is highly competitive, and technology and consumer interests change rapidly. A significant factor which 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. Over the previous years the entertainment industry has developed dynamically and it is estimated that the value of the video gaming market will exceed that of the film industry.

Competition risk

The Group conducts operations in a market where the leading position is held by companies with strong, established positions. The City Interactive Group successfully competes with them by using its key advantages: an experienced team, global distribution network and cost efficiency which results in a lower breakeven point compared to other, much larger developers. A horizontal organizational structure enables flexibility and short reaction time. Its products are included in all price ranges. Games created for Sony PlayStation®3, Xbox360®, NINTENDO Wii™ and PC have high commercial potential and are competitive against others present in the market. The Group has initiated intense activities to supplement its portfolio by entering a new gaming segment: iOS-platform and online games.

Risk of change in trends

The Group operates in the new technology and virtual entertainment fields where a product's life cycle is relatively short. What cannot be counted out is the risk of new solutions appearing which mean that the products offered by the Group cease to be attractive and do not ensure the desired inflows. 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.

The City Interactive Group's principal activities in this field are based on constant 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 the internet.

The number of projects implemented means diversification of the product range and limitation of market risk.

Risk of change in legal and tax regulations

Frequent changes in legal and tax regulations in Poland and other markets constitute a threat to the Group'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.

Foreign exchange risk

During 2012, 95% of the Group's revenues were generated in three currencies: EUR, USD and GBP. The Parent hedges against currency risk through incurring liabilities in these currencies. The currency with the highest level of exposure is EUR, with USD and GBP following.

Cash surpluses in specific currencies are hedged through forward FX contracts in the principal foreign currencies.

The risk factors directly connected with the City Interactive 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.

The Group places particular emphasis on the following:

- a motivational salary scheme which builds links between the organization and the employee, together with medical care and a social package,
- a working environment which encourages communication and sharing of experience,
- management training for key employees,
- an incentive scheme for executives which is conditional on the financial results achieved.

Risk associated with the loss of key customers

Commercial operations are conducted on the basis of a developed retail sales network in Poland and on close cooperation with international distributors headquartered 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 United States, the United Kingdom and Germany, whose task is to constantly expand distribution opportunities and to work closely with distributors.

During 2012:

- the largest customer accounted for 26% of the City Interactive Group's total sales,
- the three largest customers accounted for 45% of the Group's sales.

Supplier risk

One of the risk categories connected with 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.

Game development risk

The Parent, City Interactive S.A., has an excess of cash from operating activities, which is used to finance the Group's game releases. The Parent has the capability to seek bank and capital market financing in the event of this becoming necessary to finance additional projects.

Risk connected with the existing product portfolio

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 which 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.

The majority of the Group's products are finished on time and as planned, although the risk of delays cannot be ruled out.

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 City Interactive Group currently has a financial surplus and receivables fully cover its payables, which eliminates liquidity risk. Protection against the risk of purchaser insolvency is ensured through analyzing their financial condition and constantly monitoring payment of receivables. It should additionally be emphasized that the Parent is able to raise capital through bank debt or the issue of bonds on highly favorable terms.

XXII. Assessment of the potential to deliver investment objectives, including equity investments, with consideration to the amount of capital held and the capacity to change the financing structure for such operations

The Group has the capability to finance investment projects. During financial year 2013 the Group intends to maintain the current level of investment. Own funds as well as bank and capital market financing be used to finance investment projects.

XXIII. Indication of factors significant to the Groups development and description of growth perspectives

The City Interactive Group is unwavering in pursuing its development strategy aimed at consistently releasing high quality video games. Currently, the quality of the game development, marketing and sales process is the decisive factor impacting product planning and development activities. The Group produces games for existing consoles and is steadily expanding game development for next-generation consoles which should become available in 2013-2014 and will gradually replace the existing platforms. This is a clear move in the direction of the most important global market, where sales are based on console products, while at the same time following the latest gaming trends. The

management is expanding operations by venturing into new genres and gaming models (e.g. RPGs) and new distribution channels (games for iOS systems, i.e. iPad®, iPhone®), which constitutes a further step in the Group's development. The Issuer's management believes that this will yield a further improvement in the Issuer's financial performance in subsequent quarters and years.

For almost three years intensive work has been underway to produce the second game in the *Sniper: Ghost Warrior* franchise using the latest CryENGINE®3 technology, which has a good chance of becoming the Issuer's all-time largest production and distribution success and successfully competing with other global names in the FPS segment. The release of *Sniper: Ghost Warrior 2* takes place on March 12, 2013 in North America and March 15, 2013 in Europe. The game will undoubtedly be one of the most important factors impacting the Group's financial results in 2013. Additional content will be introduced following the game's release, including add-ons, which will further drive sales revenue for *Sniper: Ghost Warrior 2*.

2012 will also see the release of *Alien Fear*. The game is developed using the latest version of Unreal® Engine3 and will be sold online, initially in a for-PC format.

Another one of the Issuer's key projects in the production phase with high commercial potential is *Enemy Front*, a first person shooter set during the Second World War. The game's release for Xbox360®, Sony PlayStation®3 and PC is planned for 2014. City Interactive S.A.'s management is counting on an equally impressive reception for the game as was the case with *Sniper: Ghost Warrior*.

Work is currently underway on the development of *Lords of the Fallen*, primarily in Germany where an experienced team at Deck13 Interactive GmbH is working alongside the game's executive producer Tomasz Gop (one of the principal producers of *The Witcher® 2 Assassins of Kings*). Its release on Xbox360®, Sony Playstation®3 and PC is planned for 2014.

The Group is also working on a mobile version of *Sniper: Ghost Warrior* for iOS systems (iPad® and iPhone®), which will be based on Unreal® Engine3 from Epic Games Inc.

The Issuer's Management believes that the current strategy will allow City Interactive S.A. to achieve further financial success, strengthen its position in global markets and diversify Group revenues. The Management believes that the company has the necessary competences and technical capabilities to develop and release high quality games.

XXIV. Information on agreements with an entity authorized to audit financial statements

- a) Name of the entity: CSWP Audyt Spółka z o.o.
- b) Date of entering into the agreement on audit of the separate and consolidated financial statements for 2012 – May 28, 2012. The agreement concerns audit of the financial statements of the Parent and Group for 2012 (semi-annual review and annual audit).
- c) Total remuneration due for review and audit of the Parent's and Group's financial statements in 2012 – PLN 40 000 net.
- d) The entity auditing the 2011 financial statements of the Parent and Group (semi-annual review and annual audit) was CSWP Audyt Sp. z o.o. Total remuneration due for review and audit of the Parent's and Group's financial statements in 2011 was PLN 40 000 net.

Marek Tymiński

President of the Management Board

Andreas Jaeger

Member of the Management Board

Warsaw, March 7, 2013