



CI GAMES CAPITAL GROUP

REPORT
OF THE CAPITAL GROUP OPERATIONS
FOR YEAR 2015



Dear Shareholders, Associates and Partners,

We are submitting a report summarizing the achievements and financial results of CI Games in 2015. It was a period when we focused primarily on the works related to a game entitled "Sniper Ghost Warrior 3".

The third part of "Sniper" series is the largest and most important project in the history of our company. For the first time we presented it during E3 Fair in Los Angeles in June this year. Our presentation had never been received so well before, both by our trade partners and sector-specific media. I am convinced "Sniper 3" can be considered one of the greatest positive surprises of this event.

In August we presented "Sniper" again, this time during Gamescom Fair in Cologne. This was the first time the game reached not only the media representatives, but also ordinary players. They appreciated what we presented which is best proved by long queues in front of our stand. Our ambition was to create a game that would meet players' expectations and reach both the lovers of sniper games and a wider group of audience.

The reactions of players, journalists and our partners reassure us that this objective can be reached and "Sniper Ghost Warrior 3" has a huge business potential. At present, we have been improving and finishing the game, and preparing a marketing plan to use the potential in the best way possible.

On the key market of North America we will be responsible for "Sniper Ghost Warrior 3" distribution. Our long experience in this area, familiarity with the American market, the fact that we focus on achieving the best result and also strengthened staff should guarantee this is a good decision. Thanks to it, we will be able to monitor the appropriate distribution of our flagship title and will not have to share the margin with others.

Our key partner in Europe shall be Koch Media. The agreement executed with them in September is the first so extensive one in our history. Thanks to it, we will be able to carry out integrated marketing actions which should make them more effective.

Last year, was also a period devoted to our team's creation and maturing. With the release of "Lords of the Fallen" in late 2014 we proved we were able to produce games which are bound to become both a commercial and creative success and which received recognition of reviewers and players. We also gained invaluable experience working with external partners and that could be used when working on "Sniper". We have never had an equally strong team in our history.

CI Games controls all key components of its games and is fully responsible for their artistic vision. Still, we outsource many works related e.g. to the graphic design. This business model enables us to manage resources and time of key people more effectively.

Contrary to the previous year, we did not have any new release affecting our financial result. Consequently, we close the year with a loss. This is not uncommon in our sector, dependent on the publishing cycle. I would like to turn your attention to the good financial standing offering us comfort to work on "Sniper" and marketing opportunities which will assist us in promoting this title.

Many thanks to all Employees, Partners and Shareholders. We have an exceptional year ahead, of utmost importance for CI Games. I trust we will achieve success becoming a foundation for even larger achievements in the years to come.

Best regards,
Marek Tymiński
President of the Management Board
CI Games S.A.

CI GAMES S.A. Management Board Statement

Pursuant to the Regulation of the Minister of Finance of 19 February 2009 (Journal of Laws no. 33, item 259 as amended) *on the ongoing and periodic information submitted by the securities issuers and the requirements of considering the information required under the law of the non-member state as equivalent*, the Management Board of CI Games S.A. represents that according to their best knowledge the yearly consolidated financial statement and comparable data were prepared in compliance with the applicable accounting principles and reflect the material and financial standing of CI Games Capital Group, and its financial result, truly, accurately and clearly and that the yearly report on the Group operations includes a true picture of the development, achievements and standings of CI Games Capital Group, including the list of basic threats and risks.

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

CI Games S.A. Management Board

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Management Board Member

Łukasz Misiurski

Management Board Member

Warsaw, 26 February 2016

1. GENERAL DESCRIPTION OF OPERATIONS AND RESOURCES OF CI GAMES CAPITAL GROUP

1.1. Mission of CI Games Capital Group

We focus on creating high value and innovative products, thanks to which we have been strengthening our position in the video game sector.

Acting based on a carefully considered vision of our operations, we consistently strive to offer more and more advanced games which will bring commercial and financial success to us.

In response to dynamically changing market conditions, we rest our business model on the expertise and cooperation with carefully selected entities believing this strategy can ensure optimum efficiency and control of the titles published under our logo.

1.2. General description of operations and resources of CI Games Capital Group

The CI Games Capital 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 Capital 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 team 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 previous generation platforms (PlayStation®3 and Xbox360®), new generation (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 may effectively control the process of game development and distribution.

1.3. Products of CI Games Capital Group

CI Games is a globally recognizable game producer. The most important products of the Company include games in the Sniper Ghost Warrior and Lords of the Fallen series.



Characteristics of the most important bestsellers of the Company:



- ✓ **3.6 million copies sold**
- ✓ First-person shooter (FPS)
- ✓ Released in June 2010
- ✓ Compatible with PC, PS® 3 and Xbox 360®
- ✓ Score awarded by the editors of gry-online.pl: 7.5/10



- ✓ **Over 2 million copies sold**
- ✓ First-person shooter (FPS)
- ✓ Released in March 2014
- ✓ Compatible with PC, PS®3 and Xbox 360®



- ✓ Action-RPG game addressed to adult players
- ✓ Game co-produced with German studio Deck 13
- ✓ Game for new generation of consoles PS®4 and Xbox One®
- ✓ Released on 24 October 2015



1.4. Description of the game production process

Production of games for consoles and PCs is composed of the following stages:

1st stage — concept design (about 6 months)

Game creation starts from an idea and initial concept. Based on:

- analysis of trends on the gaming market and broadly-taken entertainment market,
- analysis of selling results for particular titles,
- determination of success factors for particular titles,

a decision is made on the game type and its concept design. The idea is often a modification of a game released before.

2nd stage — pre-production (about 6 months)

Pre-production is an early stage in which the creators focus on designing the intrigue components and document creation. One of the major objectives at this stage is creation of clear and understandable documents, containing all project guidelines and work schedule.

At the pre-production stage, prototypes are created which can be used as the so-called concepts.

3rd stage — production (about 12 months)

Production is the main game creation stage when a source code, graphic design and sounds are created. This process is supported by a team of several dozen to several hundred people. Computer game testing starts when the first source code is completed and lasts until the DVD is handed over for pressing/selling.

At early production stage, the game enters alpha phase. It is when all the major intrigue components have been implemented.

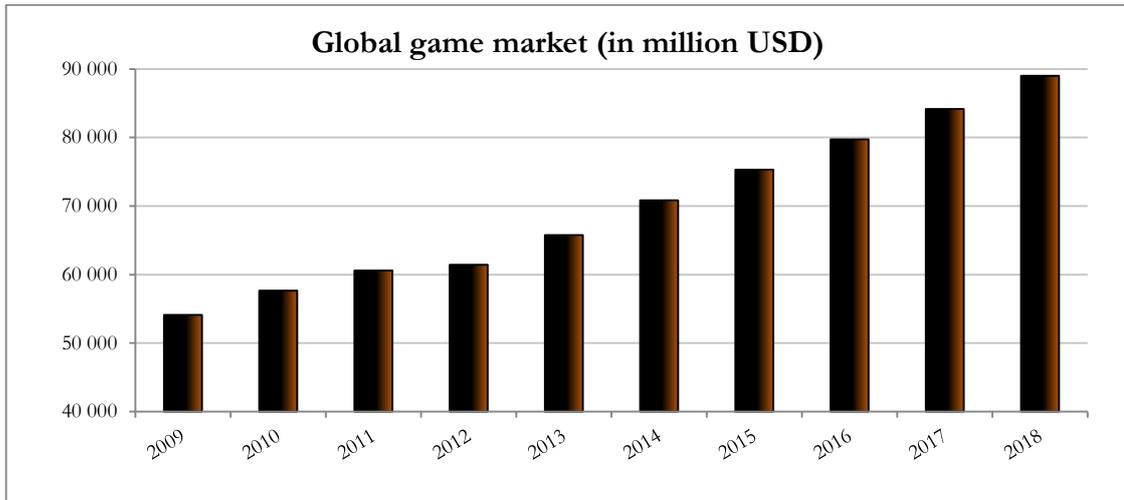
In the beta version all functions have been implemented and the creators focus on debugging. Beta version tests take place two to three months before the release. When the game is sent to the pressing facility for mass production, it is marked as 'golden' version. The golden version is sent in an electronic format to Sony and Microsoft to have the console games certified. After the certificate is obtained, the games are sent for pressing on DVDs.

4th stage — DVD pressing (about 3 weeks)

After the certificate is obtained, the games are sent for pressing on DVDs and then distributed to stores worldwide. On the release date, the customer can buy games on a DVD right in the store or online. The customer can download games from websites e.g. Steam.com or PSN.

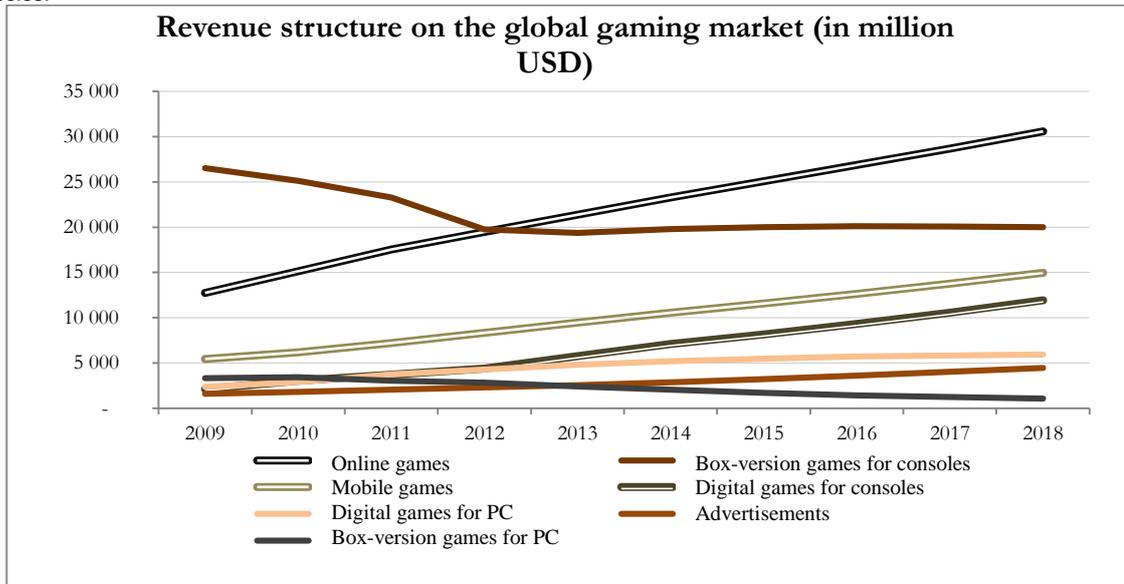
1.5. Description of the market the Capital Group operates on

Video gaming market is the largest and most dynamic segment of a broader entertainment market (film, music, games). Budgets of certain AAA games exceed the budgets of the largest Hollywood productions (see Destiny game by Bungie released in 2015 with the budget estimated to reach 500 million USD), and companies producing mass game titles reach very high values (Mojang, creator of Minecraft, was sold to Microsoft with the valuation of 2.5 billion USD, i.e. 8 x revenues).



source: PwC 'Global entertainment and media outlook: 2014-2018'

The growth dynamics for gaming market revenues will be stimulated primarily by online and mobile games and digital games for consoles.



source: PwC 'Global entertainment and media outlook: 2014-2018'

1.6. Composition of CI Games Capital Group

Composition of the CI Games Capital Group as on 31 December 2015:

- **CI Games S.A.** (formerly City Interactive S.A.) – a Warsaw-based company. Share capital: 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: EUR 25,000. 100% of shares held by CI Games S.A. The Company is subject to consolidation starting from Q2 of 2008. On 24 July 2015, due to the absence of any material transactions and operations in the Company, the Issuer started the process of its liquidation.
- **City Interactive Studio S.R.L.** – a company headquartered in Bucharest, Romania. 100% of shares held by CI Games S.A. This company is subject to consolidation from Q4 2011. On November 7, 2014, 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 of 2010. Share capital of PLN 5,000. 100% of shares held by CI Games S.A.
- **Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna** (transformed from Business Area Spółka z ograniczoną odpowiedzialnością S.K.A.) – company headquartered in Warsaw. The company is subject to consolidation from Q1 2014. On September 26, 2014, 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.) – company headquartered in Warsaw. 99.99% shares held by Business Area Spółka z o.o. Spółka Jawna. 0.01% held by the Group parent company. The company is subject to consolidation from Q1 2014. On September 19, 2014, CI Games IP Sp. z o.o. was transformed into CI Games Spółka Akcyjna Spółka Jawna.
- **CI Games Cyprus Ltd.** – company headquartered in Nicosia, Cyprus. Share capital: EUR 1,200. 100% of shares held by CI Games S.A. The company is subject to consolidation from Q1 2014.
- **City Interactive Canada Inc.** – company headquartered in Ontario, Canada, founded in October 2010. Share capital of CAD 10. 100% of shares held by CI Games S.A. The Company is not subject to consolidation as its financial results are not important to assess the Issuer's standing.

In 2008, CI Games S.A. acquired shares in the following companies operating in Latin America, and then in 2009, ceased 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% of shares held by CI Games S.A. 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. Initial capital: BRL 100,000. 90% shares held by CI Games S.A., remaining 10% held by CI Games USA Inc.
- City Interactive Mexico S.A. de C.V. – a company having its registered office in Mexico City, Mexico. Initial capital: MXN 50,000 95% share held by CI Games S.A., remaining 5% held by CI Games USA Inc.

1.7. Share capital

The share capital of CI Games S.A. is PLN 1,391,499.90 and is divided into 13,914,999 shares with the nominal value of PLN 0.10 each:

- 10,000,000 A series shares
- 40,000 B series shares
- 2,500,000 C series shares
- 110,000 D series shares
- 1,264,999 E series shares.

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

B series shares were issued within an incentive programme and acquired by employees and associates of the parent Company. The District Court registered the increase in the share capital resulting from issuing B series shares on 10 August 2007.

C series shares were included in the public offering in November 2007 which was successful. All offered shares were acquired and paid. On 17 December 2007, the District Court in Warsaw registered increase in the share capital of the parent Company as a result of C series shares issue.

D series shares were issued within an incentive programme and acquired by employees and associates of the parent Company. The District Court registered increase in the share capital resulting from issuing D series shares on 9 October 2009.

E series shares were a subject of a private subscription in December 2014. All offered shares were acquired and paid. On 6 February 2015, the shares were introduced to trading in the primary parallel market in ordinary procedure.

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

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

SHARE CAPITAL - STRUCTURE	Number of shares	% of votes
Marek Tymiński	6,366,357	45.75%
Other shareholders	6,775,754	48.69%
Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna	772,888	5.55%
All shareholders in aggregate	13,914,999	100.00%

1.9. Own shares

In the reporting period and as at the year end the Company did not acquire and hold its own shares.

1.10. Entity's resources

The Company's operations are largely based on creative conceptual and intellectual work. The resources required for game production are widely available (computers, servers, Internet connections, specialist software). The Company uses human resources in a flexible way and commissions works from specialists and artists regardless of their nationality or place of abode as required. Many works are carried out on assignment, depending on the project needs and implementation stage. Consequently, the employment structure changes dynamically which is a result and consequence of the strategy adopted.

1.11. Bodies of the Parent Company

CI Games S.A. Management Board

Marek Tymiński	President	
Adam Pieniacki	Member	
Łukasz Misiurski	Member	from 24 June 2015
Monika Rumianek	Member	from 24 June 2015

CI Games S.A. Supervisory Board

Krzysztof Sroczyński	Chairman	to 6 September 2015
Lech Tymiński	Member	to 6 September 2015
Marek Dworak	Member	to 6 September 2015
Grzegorz Leszczyński	Member	
Tomasz Litwiniuk	Member	
Dasza Gadomska	Chairwoman	from 7 September 2015
Norbert Biedrzycki	Member	from 7 September 2015
Mariusz Sawoniewski	Member	from 7 September 2015

1.12. Information on Company's shares held by management and supervisory board members

Person	Position	As at 31 December 2014	Increase in shareholding during the period from 31.12.2014 to 26.02.2016	Decrease in shareholding during the period from 31.12.2014 to 26.02.2016	As at 26 February 2016
Marek Tymiński	President of the Management Board	6,356,357	10,000	-	6,366,357
Lech Tymiński	Member of the Supervisory Board	9,565	-	9,565	0

1.13. Information on the control system for the employee share programmes

All shareholders, whose share in the Issuer's share capital exceeded 2% as at the date when the prospectus was approved of, obliged to the parent company, CI Games S.A. that during twelve months after the date of the first listing of the Issuer's shares at GPW they shall not encumber, pledge, except for any pledge for the bank to secure a loan, shall not sell or transfer the ownership title otherwise, and shall not oblige to carry out such activities with respect to all shares or a fraction thereof, in any way, to any person, without a consent for such an activity granted by the parent Company's Supervisory Board. The obligation was to become invalid if the CI Games S.A. share price (closing price at GPW) exceeds the issue price by at least 20%.

The said obligation referred to the total number of 8,987,265 A series shares held by the shareholders named above which constituted 90% of the shares held by them as at the prospectus approval. All shares subject to any agreements limiting their transferability, were deposited at brokerage accounts kept by Dom Maklerski IDMSA.

In July 2007, the parent Company issued 40,000 B series shares with the issue price of PLN 1, as a part of the incentive programme for its employees and important associates. Those taking the B series shares executed "lock-up" agreements with the parent Company, limiting the transferability of the shares for two or three years. In this way the Issuer's employees or associates, holding 40,000 B series shares of CI Games S.A. altogether, i.e. 100% B series shares of the Issuer, executed agreements with the parent Company, pursuant to which they obliged to exclude transferability of 100% B series shares held by them for 1 year and:

- 70% of B series shares held for one more year for 20,150 shares altogether;
- 90% of B series shares held for two more years for 19,850 shares altogether.

Moreover, some of the incentive programme participants acquired also A series shares bought for PLN 1. The Issuer's employees and associates, holding 35,659 A series shares of CI Games S.A. altogether, made an official statement to exclude transferability of 100% of shares held by them for 1 year and 90% of shares for another two years.

All shares subject to any agreements limiting their transferability, were deposited at brokerage accounts kept by Dom Maklerski IDMSA.

If the employment or cooperation with the shareholder holding the said shares acquired during the incentive programme was terminated, the shares were or are transferred to another person named by the parent Company's Management Board.

On 30 June 2009, 110,000 ordinary D series shares of the parent Company were issued. The shares were acquired by the CI Games S.A. employees for the issue price of PLN 1 per share.

There are no limitations concerning exercise of the voting right resulting from the Issuer's shares acquired within the said incentive programme.

On 28 April 2015 the Ordinary General Meeting of Shareholders adopted a resolution on the conditional increase in the Company initial capital by no more than PLN 50,000.00.

The conditional increase in the initial capital of the Company will take place by issuing no more than 500,000 subscription warrants B series entitling to acquire no more than 500,000 F series shares for the nominal price of PLN 0.10 each and the issue price of PLN 7.02 each. One warrant entitles to acquire one F series share. All warrants were issued at the same time. B series subscription warrants were emitted free of charge; they are dematerialized.

The conditional increase in the Company initial capital was connected with the Incentive Programme for the key employees and associates of the Company, including the Management Board Members. The initial capital increase was accompanied by excluding the right to acquire newly issued shares for the existing shareholders of the Company in whole.

The allotment of B series warrants and F series shares within the Incentive Programme will take place in three stages, each of them connected with the marketing of the new games published by the Company starting from 2016. Pursuant to the authorization by the Ordinary General Meeting of Shareholders, the detailed terms and conditions of the Incentive Programme and the group of its participants for each of the three stages shall be determined by the Company Supervisory Board by way of an appropriate resolution.

On 25 May 2015, pursuant to the authorization of the Ordinary General Meeting of Shareholders on 28 April 2015, the Company Supervisory Board adopted a resolution imposing the Incentive Programme Rules and appointed people eligible to participate in the First Stage of the Incentive Programme, attended by the key employees and associates of the Company, excluding Management Board Members according to the composition as at the date when the said resolution was adopted by the Company Supervisory Board. Within the first stage of the Incentive Programme 115,000 subscription warrants will be issued, allowing in the future for the acquisition of 115,000 series F shares.

LOAN LIABILITIES

On 27 May 2015 CI Games S.A. executed two loan agreements with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna: overdraft facility and open-end current loan agreements with the total value of PLN 15,000,000.00 (say: fifteen million PLN). Both agreements have been concluded for the period of two years.

Earlier, on 27 February 2015 the reverse factoring agreement in Alior Bank S.A. expired, while on 31 March 2015 the loan agreement with Bank Spółdzielczy in Ostrów Mazowiecka expired.

MANAGEMENT BOARD EXTENSION

On 24 June 2015 the Company Management Board appointed Mr Łukasz Misiurski and Ms Monika Rumianek to be Company Management Board Members.

1.14. Research and development works

In the game production process it is necessary to implement many unusual and unique solutions concerning intrigue components, artificial intelligence, simulator work, character models, creation of broadly-taken virtual world components.

The Company has implemented a prototype of innovative technology related to antagonists' behaviour and creation of a world for computer games from the first-person perspective ('FPS'), with open world components ('sandbox').

In the future, having obtained subsidies from EU funds, the Company intends to expand works on new R&D projects.

2. GROUP OBJECTIVES AND RISK

The objective of the Group operations is to offer high quality entertainment products for consoles, PCs and mobile devices to players worldwide. The operations cover production, publishing and distribution of video games. The company has extensive competence in all above fields thanks to which it can be successful reaching the above objective.

From the perspective of the Group value increase, the Management Board wishes to increase the operations related to the games created both with respect to the projects and marketing activities. The Group achieves its goals also through continuous improvement of particular projects' profitability.

2.1. Important Group risk factors and hazards

In the reporting period the bodies authorised to control and supervise the operations did not detect any violation of legal regulations of significant importance for its situation.

The Issuer's Management Board did not publish any other estimates or forecasts concerning the Group's results other than those presented in this report.

According to the Management Board, there are no significant circumstances pointing to the inability or serious threat to the ability to continue operations by the entity in the foreseeable future.

The Management Board believes there are no serious threats to the continued operations.

The most important external risk factors from the Group's perspective are as follows:

Risk related to the macroeconomic situation

The computer gaming market where CI Games Capital Group operates is characterized by high competitiveness, rapid technological changes and changing consumer interests. An important factor affecting the activity negatively is the macroeconomic fluctuations in particular markets. To reduce the risk, the Group develops its operations globally, carrying out its independent publishing activities on all important global markets. In recent years, the entertainment sector has developed dynamically and it is estimated that the video gaming market value has exceeded the one of the film sector.

Competition risk

The Capital Group operates on the market where the major position is held by companies with strong, established reputation. The Group is using its most important advantages effectively: the experienced team, global distribution network, cost advantage connected with lower profitability threshold when compared to other, much bigger producers. Flat organizational structure, on the other hand, provides an advantage of flexibility and quick operations. Since mid-2015, the Group has developed games solely for the new generation of platforms (Sony PlayStation4®, XboxOne®) and PCs, offering high trading potential.

Trend change risk

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

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

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

Risk of amended legal and tax regulations

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

The Group has carried out action to eliminate the risk by cooperating with specialized legal offices worldwide and product third party liability insurance for the entire publication catalogue.

FX risk

In 2015, most revenues of the Capital Group were generated in two currencies: EUR and USD. The parent company protects itself from the FX risk by contracting liabilities in those currencies.

The risks factors related directly to the Group activity include:

Risk related to losing key employees

The Group success largely depends on the knowledge and expertise of the employees. This is characteristic of video game producers, for whom the intellectual values are of key importance. It is difficult to hire qualified specialists in this sector. The recruitment of new workers entails their onboarding which causes lower efficiency of work for some time.

Risk related to losing key customers

The commercial activity is based on the developed retail chain channels in Poland and close cooperation with foreign distributors headquartered worldwide. There is a risk that the distribution agreement can be dissolved or bankruptcy declared for companies being formal buyers of goods and for whom the Group is a creditor. To minimize the possibility of losses, the Parent Company has subsidiaries on all the most important markets, such as e.g. U.S., the tasks of which are to expand the distribution opportunities and cooperate with the distributors closely.

Supplier-related risk

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

Risk related to the development plan implementation

The growing costs of game production can cause increased demand for external financing. CI Games S.A. parent company is able to obtain financing from the financial sector - if it becomes necessary to finance other projects.

Risk related to the offered products

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

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

An external factor likely to affect the decision to postpone the release is the market situation as it is an important aspect of the decision-making process to issue the game when the competition of other products is the lowest. Another important factor is the suppliers' delay to prepare the ordered game components in time.

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

Another aspect is the risk of making a claim concerning copyright to the games, their components, logos or registered names for particular products vis-a-vis some company belonging to the Capital Group. Especially the activity in the U.S. is exposed to such a risk due to the stricter legislation. To avoid losses on these grounds, the Capital Group uses the support of legal offices specializing in the intellectual property protection and registers the trademarks for its products. Making such an application to protect the trademarks in the entire European Union and other countries worldwide, it is necessary to verify its presence on particular markets and assess the risk of violating third party copyright.

Liquidity risk

The Capital Group is exposed to high liquidity risk. To protect against the buyers' insolvency risk, their financial standing is analyzed and the receivables inflow is constantly monitored. The parent company is able to obtain financial resources in the form of a bank debt or issuance of bonds.

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

Production, publication and distribution of products requires estimation of the future value of selling own or licensed products before the market release date. In practice, there are significant differences between specific products with respect to the number of pieces sold and their ability to generate revenue. Based on its long experience, the Group estimates the commercial potential of every new title but is not able to eliminate the risk of mistaken estimation of the number of copies and future sales.

Risk of delays in game production

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

Risk related to producing games for consoles, smartphones and tablets

Production of games for consoles and iOS devices requires the certification process to be completed with the platform owner. There is a risk that cooperation with the platform owner can be terminated, the delays happen or that the produced game does not obtain the certificate which is likely to postpone the release. The Group starts operations in the mobile game sector and risks related to the new market are minimised by selecting partners experienced in this market sector.

2.2. Evaluation of the investment project feasibility.

CI Games Capital Group is able to finance investment projects. In financial year 2016, the Group intends to maintain the existing investment level. To finance investment projects, it shall use its own resources and the ones obtained from the banking or financial sector.

3. OPERATION RESULTS AND FINANCIAL STANDING

3.1. Description of material achievements or failures of the Group in 2015, as well as events affecting financial results

- **Credit agreement execution**

On 27 May 2015 CI Games S.A. executed two loan agreements with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna: overdraft facility and open-end current loan agreements with the total value of PLN 15,000,000.00 (say: fifteen million PLN). Both agreements have been concluded for the period of two years.

- **MANAGEMENT BOARD EXTENSION**

On 24 June 2015 the Company Management Board appointed Mr Łukasz Misiurski and Ms Monika Rumianek to be Company Management Board Members.

- **General Meeting of Shareholders of CI Games S.A.**

On 28 April 2015, an Ordinary General Meeting of Shareholders of CI Games S.A. was held, when the following resolutions were adopted:

- No. 1/2016 concerning election of the Chairman of the Ordinary General Meeting of Shareholders
- No. 2/2016 concerning abandonment of appointing the Tellers
- No. 3/2016 on approval of the meeting agenda
- No. 4/2016 on approving of the Management Board's report on CI Games S.A. operations for financial year 2014
- No. 5/2016 on approving of the financial statement of CI Games S.A. for financial year 2014
- No. 6/2015 on approving of the Parent Company's Management Board report on the operations of CI Games Capital Group for 2014
- No. 7/2015 on approving of the consolidated financial statement of CI Games Capital Group for 2014
- No. 8/2015 on approving of the Supervisory Board's report on operations for 2014
- No. 9/2015 on the distribution of Company's profits earned in 2014
- No. 10/2015 on granting discharge to the Management Board President for performance of his obligations in 2014 (M. Tymiński)
- No. 11/2015 on granting discharge to the Management Board Member for performance of his obligations in 2014 (A. Pieniacki)
- No. 12/2015 on granting discharge to the Supervisory Board Chairman for performance of his obligations in 2014 (K. Sroczyński)
- No. 13/2015 on granting discharge to the Supervisory Board Member for performance of his obligations in 2014 (M. Dworak)
- No. 14/2015 on granting discharge to the Supervisory Board Member for performance of his obligations in 2014 (L. Tymiński)
- No. 15/2015 on granting discharge to the Supervisory Board Member for performance of his obligations in 2014 (T. Litwiniuk)
- No. 16/2015 on granting discharge to the Supervisory Board Member for performance of his obligations in 2014 (G. Leszczyński)
- No. 17/2015 on the incentive programme, issue of subscription warrants, conditional increase in the share capital and excluding the right of the existing shareholders to acquire subscription warrants and shares issued within the conditional increase in the share capital, and also to apply for permitting the shares issued within the conditional increase in the share capital for trading on the regulated market and their dematerialization and amendment to the Articles of Association.

3.2. FX rates

Balance sheet data were translated using the average exchange rate published by the National Bank of Poland as at the end of the reporting period:

- as at 31 Dec. 2014 - PLN/EUR 4.2623,
- as at 31 Dec. 2015 - PLN/EUR 4.2615.,

Items in the statement of profit and loss and statement of cash flows were translated 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.

- for 2014 - PLN/EUR 4.1893,
- for 2015 - PLN/EUR 4.1848.

3.3. Financial highlights

STATEMENT OF PROFIT AND LOSS	2015		2014	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net revenue from sales	25,019	5,979	109,021	26,024
Profit / (Loss) from operating activities	-9,001	-2,151	2,411	576
Gross profit / (loss)	-8,065	-1,927	2,314	552
Net profit / (loss)	-7,860	-1,878	2,084	497
Profit (loss) per ordinary share (PLN/share)	-0.56	-0.13	0.15	0.04

Net trading receivables of the Group reached PLN 25 million that is were 84 million lower than in 2014. The major factor affecting the sales results in the period was the absence of new releases.

The selling profit was PLN 6.5 million whereas the operating activities resulted in a loss of PLN 9 million. The factors affecting profitability of the Group operating activities were described in section 3.4 of this report.

In 2015, the net loss of the Group was PLN 7.86 million which results from the absence of newly released games in 2015.

BALANCE SHEET	31.12.2015		31.12.2014	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Non-current assets	71,396	16,754	56,997	13,372
Current assets	19,282	4,525	42,261	9,915
Total assets	90,678	21,278	99,258	23,287
Equity	75,227	17,653	83,041	19,483
<i>Share capital</i>	1,391	326	1,391	326
Liabilities	15,451	3,626	16,217	3,805
Non-current liabilities	2,748	645	4,468	1,048
Short-term liabilities	12,703	2,981	11,749	2,756
Total equity and liabilities	90,678	21,278	99,258	23,287

The balance sheet total of CI Games Capital Group as at 31 December 2015 was PLN 91 million that is 9% less than on 31 December 2014.

The fixed assets in the balance sheet as at 31 December 2015 were PLN 71 million that is 25% less than on 31 December 2014.

The increase in fixed assets results primarily from the investment outlays for SNIPER GHOST WARRIOR 3 game.

The Group current assets reached PLN 19 million as at 31 December 2015 and decreased by 54% when compared to the situation as at the end of December 2014 which resulted primarily from the receivables paid by the distributors.

The Group equity as at 31 December 2015 was PLN 75.2 million (83% of the balance sheet total) which means 9% decrease when compared to 31 December 2014. The equity decrease results from the loss in 2015.

The Group liabilities as at the balance sheet date reached PLN 15.5 million and fell PLN 0.8 million when compared to the end of 2014 which resulted from the decrease in the trade payables and deferred income tax provision.

STATEMENT OF CASH FLOWS	2015		2014	
	PLN thousand	EUR thousand	PLN thousand	EUR thousand
Net cash flows from operating activities	18,296	4,372	31,891	7,613
Net cash flows from investing activities	-26,257	-6,274	-27,410	-6,543

Net cash flows from financing activities	5,635	1,347	-6,180	-1,475
Net cash flows	-2,326	-555	-1,699	-405

The Group started 2015 with cash amounting to PLN 9.5 million.

Net cash flow on operating activity was negative and reached PLN 18 million. The cash flow was most affected by the receivables paid by the distributors.

Net cash flow on investment activity was negative and reached PLN 26 million. They were related primarily to expenditure connected with financing works on SNIPER GHOST WARRIOR 3 game.

Net cash flows on financial activities were positive. They reached PLN 5.6 million and resulted primarily from the bank loan.

Cash as at the end of the reporting period reached PLN 8.5 million.

3.4. Net profit margin

Item	unit	2015	2014
Return on sales	%	26.1%	19.0%
EBITDA profitability	%	7.1%	44.4%
Return on EBIT operating activity	%	-36.0%	1.2%
Gross return	%	-32.2%	1.1%
Net return	%	-31.4%	1.0%
Return on assets (ROA)	%	-8.7%	1.0%
Return on equity (ROE)	%	-10.4%	1.3%

In 2015, the return on sales reached 26.1%, i.e. grew by 7 percentage points when compared to the previous year which results from significant share of digital sales in the sale structure.

3.5. Asset structure

Item	unit	2015	2014
Intangible assets / Assets	%	50.7%	29.8%
Tangible fixed assets / Assets	%	1.1%	1.3%
Net trade receivables / Assets	%	6.2%	24.6%
Inventory / Assets	%	4.8%	3.0%
Short-term investments / Assets	%	0.0%	0.2%
Cash and cash equivalents / Assets	%	7.9%	8.7%
Deferred income tax assets / Assets	%	27.0%	25.9%
Other assets / Assets	%	2.3%	6.4%

The structure of assets as at the end of 2015 (similar to previous years) is predominated by intangible assets comprising primarily expenditure for R&D works related to new game creation. As at 31 December 2015, this item is 50.7% of the Capital Group assets. The second important component is the deferred tax assets (27% of the balance sheet total).

3.6. Turnover ratio

Item	unit	2015	2014
Asset turnover ratio	Turnover number	0.3	1.0
Inventory turnover ratio		5.8	33.0
Debtors ratio	Number of days	83	91
Payback period		67	47

Indicator calculation rules

Asset turnover ratio = revenue from sale/assets

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

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

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

In 2015, the inventory turnover ratio fell by 5.8 days which results from the absence of new releases in 2015 and low inventory. The debtors ratio of 83 days results from the sale structure (high share of digital sale) and the model employed by Valve, Sony and Microsoft to settle the sale. The absence of new releases affected also the payback period, reaching 67 days.

3.7. Debt ratios

Item	2015	2014
General debt ratio	0.17	0.19
Debt to equity ratio	0.21	0.23
Equity to assets ratio	1.09	1.39
Short-term debt ratio	0.14	0.14
Long-term debt ratio	0.03	0.045

Indicator calculation rules

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

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

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

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

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

The debt ratios are lower than in the previous year. This results from the conscious financial policy aimed at optimising working capital.

3.8. Liquidity ratios

Item	2015	2014
Current ratio	1.52	2.72
Quick ratio	1.18	2.51
Acid ratio	0.57	0.62

Indicator calculation rules

Current ratio = current assets / short-term liabilities

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

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

As there were no new releases in 2015 (lower sale) and it was necessary to finance SNIPER GHOST WARRIOR 3 game, the quick ratio and current ratio decreased when compared to 2014, but they remain on a safe level (>1).

3.9. Financing structure

Item	unit	2015	2014
Equity	%	83.0%	81.4%
Long-term liabilities	%	3.0%	4.5%
Short-term liabilities	%	14.0%	14.1%

The Capital Group, just like in previous years, finances its operations based on its equity, being 83% of the total liabilities in its financial structure.

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

3.10. Information on product sale

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

The structure of revenue from sale, obtained by the Group in 201- 2015, by the type of product offered, was as followed in terms of value:

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

Revenue	2015	% share	2014	% share	2015/2014
Own products	8,080	32%	80,911	74%	10%
Licenses	108	0%	1,948	2%	6%
Online (digital) sales	16,463	66%	26,136	24%	63%
Other sales	368	1%	26	0%	1435%
Total	25,019	100%	109,020	100%	23%

In 2015, the highest sale growth dynamics was recorded in the digital sale sector which results from the absence of any new release in 2015. Online/digital sale (game upload from the distributor's website) is the most profitable sale channel for the Group and the Company and does not require any financial outlays for the physical production of media.

Structure of revenue from sale in quantitative terms

Revenue	2015	% share	2014	% share	2015/2014
Own products	269,101	31%	843,347	46%	32%
Licenses	160,014	18%	323,154	18%	50%
Online (digital) sales	442,453	51%	648,709	36%	68%
Other sales	330	0%	6,598	0%	5%
Total	871,898	100%	1,821,808	100%	48%

3.11. Information about markets, indicating dependence on customers and suppliers

In 2015, the share of foreign sale in total revenues of the Group consolidated and reached 99%. The largest market for the Group is U.S. and the Company's products are distributed in 72 countries worldwide.

Share of import in the revenues from sale in 2015–2014

data in thousand PLN

Sale	2015	2014
Abroad	24,797	105,624
<i>Share</i>	99%	97%
Country	222	3,397
<i>Share</i>	1%	3%
Total	25,019	109,020

Quantitatively, the share of export was 99.96% and grew by 1 percentage point when compared to 2014.

Sale	2015	2014
Abroad	871,568	1,750,869
<i>Share</i>	99.96%	96%
Country	330	70,939
<i>Share</i>	0.04%	4%
Total	871,898	1,821,808

The customers whose share in the Group sale exceeded 5% in 2015, include Valve Corporation, Sony and Microsoft. The other vendors did not exceed the selected materiality level.

The list below presents suppliers whose share in the Group purchase exceeded 10% in 2015: Microsoft Ireland Operations Ltd, Sony DADC USA INC, Sony DADC Austria AG CZECHY, Sony DADC Austria AG. The other suppliers did not exceed the selected materiality level.

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

1. Agreements significant for the business activity:

On 11 September 2015, the Management Board of CI Games S.A. informed it received a signed distribution agreement, executed with Koch Media GmbH, the subject of which was the distribution of 'Sniper Ghost Warrior 3' in the following countries: Germany, France, Spain, Great Britain, Ireland, Italy, Sweden, Norway, Iceland, Finland, Denmark, the Netherlands, Belgium, Luxembourg, Austria and Portugal.

On September 15, 2015 the Management Board of CI Games S.A. informed that the Company entered into a distribution agreement with the QV Software with its registered office in Australia. The subject of the agreement is the distribution of the game 'Sniper Ghost Warrior3' in the territory of Australia and New Zealand.

2. Insurance agreements

In the reporting period, CI Games Capital Group had the following insurance agreements:

Insurer's name	Subject and scope of insurance	Insurance period	Insurance sum
AIG Europe Limited	Third party liability insurance of the Company's Management Board	07.11.2014 - 06.11.2015	PLN 60,000,000
AIG Europe Limited	Third party liability insurance of the Company's Management Board	07.01.2015 - 06.11.2016	PLN 60,000,000
AIG Europe Limited	Third party liability insurance - related to product liability	05.05.2014 - 04.05.2015	USD 3,000,000
AIG Europe Limited	Third party liability insurance for the business activity and property held	05.05.2015 - 04.05.2016	USD 3,000,000
AIG Europe Limited	Third party liability insurance - related to product liability	10.06.2014 - 09.06.2015	USD 2,000,000
AIG Europe Limited	Third party liability insurance - related to product liability	10.06.2015 - 09.06.2016	USD 2,000,000
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	15.09.2014 - 14.09.2015	PLN 5,436,092
ERGO Hestia S.A.	Insurance related to equipment and devices, current assets and investment outlays	15.09.2015 - 14.09.2016	PLN 1,846,844
ERGO Hestia S.A.	Third party liability insurance related to business activity or property use	12.03.2014 - 11.03.2015	EUR 100,000
Scottsdale Insurance Company	Third party liability insurance of the Company's Management Board	26.01.2014 - 26.01.2015	USD 2,000,000
Swett & Crawford	Third party liability insurance of the Company's Management Board	26.01.2015 - 26.01.2016	60 000 000 zł

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

3. Agreements executed by and between shareholders

The Management Board of CI Games S.A. is not aware of any agreements between the shareholders of the parent Company in 2015.

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

No such agreements were executed.

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

1. Loan and credit agreements

On 27 May 2015, CI Games S.A. executed an overdraft facility agreement for the amount of PLN 5 million and the open-end current loan agreement for the amount of PLN 10 million with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

2. Financial lease agreements

As at 31 December 2015, the parent company CI Games S.A. did not have any financial lease agreements.

3. Guarantee and surety agreements

The parent company has a bank guarantee issued by Alior Bank S.A. on 18 March 2015 up to the amount of PLN 433,082 for Bertie Investment Sp. z o.o. concerning the lease of the office space at ul. Puławska 182. The guarantee is valid until 30 April 2016.

As at 31 December 2015, the Group did not have any contingent liabilities.

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

In the reporting period the Group did not issue any securities.

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

In 2015, the Group did not grant any loans to employees or suppliers.

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

The value of remuneration (gross) for the management or supervisory board members paid in 2015 (data in PLN):

CI Games S.A. Management Board

Marek Tymiński - President	1,002,000
Adam Pieniacki - Member	396,450
Monika Rumianek - Member	106,592
Łukasz Misiurski - Member	115,853

CI Games S.A. Supervisory Board

Krzysztof Sroczyński - Chairman	32,136
Marek Dworak - Member	22,955
Grzegorz Leszczyński - Member	28,955
Lech Tymiński - Member	22,955
Tomasz Litwiniuk - Member	28,955
Dasza Gadomska - Chairwoman	8,000
Norbert Biedrzycki - Member	6,000
Mariusz Sawoniewski - Member	6,000

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

All below-mentioned transactions were executed pursuant to market terms and conditions. Transactions of the parent company with the companies belonging to the Capital Group (data in thousand PLN):

Entity	Costs	Revenue	Receivables	Payables
CI Games Germany GmbH	-	-	16	-
CI Games USA Inc.	-	803	172	1,656
City Interactive Peru	-	-	-	-
City Interactive Studio S.R.L.	-	-	-	-
CI Games Cyprus Ltd.	-	-	136	2,116
Business Area Sp. z o.o.	-	7	9	-
Business Area Sp. z o.o. S.J.	-	320	-	1,418
CI Games S.A. Sp. J.	190	7	2	24
TOTAL	190	-469	335	5,214

Transactions of the parent company with the entities related personally with Marek Tymiński, major shareholder of the CI Games S.A. who controls, directly or indirectly, the following entities (data in thousand PLN):

Entity	Costs	Revenue	Receivables	Payables
Onimedia Sp. z o.o.	-	5	3	-
Premium Restaurants Sp. z o.o.	3	1	-	1
Premium Food Restaurants S.A.	7	64	72	3
Tech Marek Tymiński	-	-	18	-
MT Golf Sp. z o.o.	-	9	28	-
TOTAL	10	79	121	4

Issuer's transactions with the entities related personally with the Supervisory Board and Management Board members of the parent company (data in thousand PLN):

	Costs	Revenue	Receivables	Payables
Adam Pieniacki	141	-	-	-
TOTAL	141	-	-	-

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

Information on pending court proceedings is included in Note 35 to the Annual consolidated financial statement.

3.20. Information on agreements signed with the entity authorised to audit financial statements

- Company name Misters Audytor Adviser Spółka z o.o.
- The Agreement to audit an individual and consolidated financial statement for 2015 - 29 June 2015. The agreement refers to the audit of the financial statement of the Company and the Capital Group for 2015 (half-yearly review and yearly audit).
- The total value of remuneration due for the review and audit of the financial statement of the entity and the Group in 2015 - PLN 39,500 net.
- The financial statement of the Company and the Capital Group for 2014 was audited (half-yearly review and yearly audit) by Misters Audytor Adviser Spółka z o.o. The total value of remuneration due for the review and audit of the financial statement of the Company and the Capital Group in 2014 was PLN 38,000 net.

4. PERSPECTIVES

The CI Games Capital Group consistently implements its growth strategy aimed at regular releasing high quality video games. The quality is the decisive factor impacting product planning and development activities in the production, promotion and sales process. The Group produces games for new generation PCs and consoles, which began selling in Q4 2013.

The success of the game Lords of the Fallen meant that in 2016 the Group plans to release this title on tablets and mobile phones.

In 2015, the Group has commenced works on Sniper Ghost Warrior III – the most popular game genre on PC and consoles in 2015 – First Person Shooter. The Sniper Ghost Warrior brand is, next to the Lords of the Fallen, the most recognizable brand of the Group, and to date it has sold in a total of more than 5.6 M copies. The game is produced for new consoles PS4 and XboxOne and PCs, and its premiere is planned for 2016.

The Group carries out works on the new edition of a game in the Company's portfolio.

The Issuer believes that the current strategy will allow the CI Games Capital Group to achieve financial success and strengthen its position in global markets. The Parent's Management Board believes that the Group has the necessary competences and technical capabilities to develop, release and distribute high quality games.

5. CORPORATE GOVERNANCE

The Corporate Governance rules are described in a separate document: 'STATEMENT OF FOLLOWING CORPORATE GOVERNANCE RULES IN 2015'.

Marek Tymiński

Management Board President

Adam Pieniacki

Management Board Member

Monika Rumianek

Management Board Member

Łukasz Misiurski

Management Board Member

Warsaw, 26 February 2016