

**REPORT
ON THE OPERATIONS
OF THE CITY INTERACTIVE
GROUP FOR 2011**



Warsaw, April 13, 2012

Dear Shareholders, Associates and Partners,

2011 was another successful year for the company – a year in which we strengthened our market position as Poland's first global company in the video gaming industry but mainly a year in which we expanded our development operations, which will generate notable earnings this year and in the future.

To date global sales of our best-selling title passed the 2.5 million mark. We generated impressive sales results in comparison with 2010 despite the fact that the company had not released any new titles. This was possible due to the huge commercial success of *Sniper: Ghost Warrior* on PlayStation®3, released in Q2, together with the limited release of *Sniper: GW Gold Edition* for the PC and Xbox360®. These achievements lead to increased aspirations with regard to the revenue targets for subsequent products.

We are using the spectacular success of *Sniper: Ghost Warrior* not just for further development of this brand but primarily to create successive ambitious titles, develop new genres and business models and expand distribution channels in line with the latest trends in the video gaming market. In connection with this, 2011 was a period of investment in modern technologies and continued development of company structures by bringing in experienced managers and functional experts. We opened a new production studio in Romania – our seventh – where a team of several dozen experienced specialists is currently working on our first free-to-play game *World of Mercenaries*, a modern multiplayer shooter due for release later this year. We are also developing a new project which is being managed by Tomasz Gop in cooperation with the acclaimed Deck13, working on our first role-playing game. In addition, last year saw the commencement of operating expansion in segments with exceptionally high sales potential – iOS platforms (iPad, iPhone, and iPod Touch) as well as online and social games. The first iOS-dedicated title will be our bestseller *Sniper: Ghost Warrior*.

We have a year of major releases ahead of us. Alongside the launch of *World of Mercenaries*, we are planning to release the sequel *Sniper: Ghost Warrior 2* and a new title with high potential – *Enemy Front*. These games are highly anticipated and they will have a significant impact on the record results planned by the board for 2012. Two other titles will also be released: *Combat Wings* and *Alien Fear*. After the release of *Sniper: Ghost Warrior 2* in 2012, the company plans to begin work on a subsequent installment of the bestselling game.

In summary, last year was a period of unprecedented growth for City Interactive S.A. We have become a multi-faceted developer of high quality games across varied genres, created on the basis of advanced technologies by top industry people and released for all platforms. As a global distributor we are currently active in all gaming markets. The adopted strategy for dynamic growth gives us realistic chances to maximize earnings in the future.

My thanks go to our shareholders, employees, customers and partners for another year together and for the support and trust you have shown City Interactive S.A. I am convinced that 2012 and beyond will emerge as the most important period of sales growth in the company's history, something which translates directly into further growth in market capitalization and shareholder value maximization.

With kind regards,

Marek Tymiński
President of the Management Board, 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 financial statements and comparative data have been drawn up in accordance with binding accounting principles and correctly, reliably and clearly reflect the Group' 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, April 13, 2012

I. General description of City Interactive S.A.'s operations

The City Interactive Group operates in the video game development and publishing market, both within Poland and abroad. It 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.

Within its business in the gaming market, the Group appears as:

- Developer – having its own development studio in which new projects are created,
- Publisher – acquiring licenses to games manufactured by external studios, being responsible for marketing and roll out strategies,
- Distributor – selling products directly to retail chains, distributor networks, internet portals and others.

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 makes good use of its main assets: an experienced team, worldwide distribution network and cost advantage linked with lower profitability thresholds in relation to other, much larger developers. The Issuer's product range covers all price segments. Games developed for Sony PlayStation®3, Xbox360® and PC have high commercial potential and are competitive in relation to others present in the market. The Group is also working intensively on supplementing the product range with games from new segments, including role-playing-games, titles for iOS platforms and online games.

II. Share capital

2.1. City Interactive S.A. share capital

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 spółka akcyjna (joint stock company).

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.



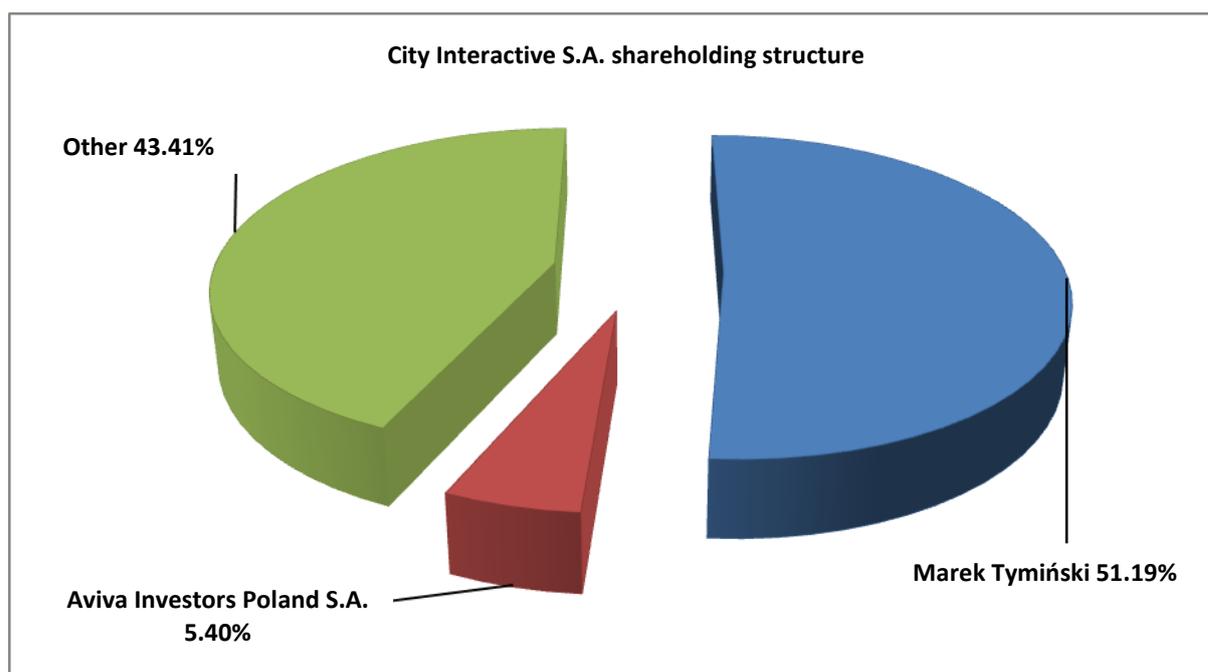
There are no securities carrying special control entitlements in relation to the Issuer, since in accordance with the Parent's articles of association all shares issued are ordinary bearer shares with equal nominal value carrying the same rights and obligations for each shareholder.

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 City Interactive S.A. is 12 650 000.

Parent shareholding structure as at the date of publishing this report

Shareholder	Number of shares	% in share capital	Number of votes at GM	% of votes at GM
Marek Tymiński	6 475 794	51.19%	6 475 794	51.19%
Aviva Investors Poland S.A.	683 104	5.4%	683 104	5.4%
Others		43.41%		43.41%



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

Person	Position	As at December 31, 2011 (end of the reporting period)	Increase in shareholding during the period from December 31, 2011 to April 13, 2012	Decrease in shareholding during the period from December 31, 2011 to April 13, 2012	As at April 13, 2011 (2011 report publication date)
Marek Tymiński	President of the Management Board	6 475 794	-	-	6 475 794
Michał	Member of the	322 000	no data	no data	no data

Sokolski*	Management Board				
Lech Tymiński	Member of the Supervisory Board	9 565	-	-	9 565

* Michał Sokolski has been a Member of the Management Board since March 14, 2012.

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 the system for controlling employee share programs

All shareholders whose stake in the Issuer's share capital as at the date of approving the issue 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.

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 1 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 Dom Maklerski 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 also no limitations on exercise of the right to vote carried by the Issuer's shares subscribed for under the employee scheme.

III. Information concerning organizational or equity links to other entities

Composition of the City Interactive Group as at December 31, 2011:

- 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. Subject to consolidation as of Q2 2008.
- City Interactive USA Inc. – a company having its registered office in Delaware, US. Share capital of USD 50 000. 100% of shares held by City Interactive S.A. Subject to consolidation as of Q2 2008.
- Business Area Spółka z o.o. – a company with registered office in Warsaw, subject to consolidation as of Q4 2010. Share capital 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. Share capital RON 200. Subject to consolidation as of Q4 2011.
- City Interactive Canada Inc. – a company based in Ontario, Canada, established in October 2010. Share capital CAD 10.00. 100% of shares held by City Interactive S.A. 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 Studio Ltd. – a company based in London, UK, established in December 2010. Share capital GBP 100.00. 100% interest held by City Interactive S.A. Subject to consolidation as of Q1 2011.
- City Interactive UK, Ltd. – a company having its registered office in Manchester, UK. Founding capital of GBP 100. 100% of shares held by City Interactive S.A. 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. Subject to consolidation from Q4 2008 and excluded from consolidation on January 1, 2010 following a receivables revaluation.

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. These entities are currently not subject to consolidation with regard to discontinuation of their operations and the creation of provisions at the parent level:

- City Interactive Peru SAC (formerly UCRONICS SAC) – a company having its registered office in Lima, Peru. 99% share. Share capital 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 – company having its registered office in Sao Paulo, Brazil. Founding capital of BRL 100 000. 90% share, 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% share, remaining 5% held by City Interactive USA, Inc.

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

There were no changes in 2011 in the organization or the basic principles of corporate management.

V. Changes in the composition of management and supervisory personnel in 2011

Management Board of City Interactive S.A.

Marek Tymiński	President throughout 2011
Artur Winiarski	Member from June 10, 2011
Wojciech Kutak	Member March 10 to May 17, 2011
Michał Sokolski	Member from August 22, 2011 to March 14, 2012
Andreas Jaeger	Member from March 14, 2012

Artur Winiarski and Wojciech Kutak resigned from the Management Board of City Interactive S.A. in 2011. On 14 March 2012 Michał Sokolski also resigned from the Management Board. The Supervisory Board of City Interactive S.A. simultaneously appointed Andreas Jaeger, finance and operations director, as Member of the Management Board.

Supervisory Board of City Interactive S.A.

Krzysztof Sroczyński	Chairman throughout 2011
Marek Dworak	Member throughout 2011
Lech Tymiński	Member throughout 2011
Grzegorz Leszczyński	Member throughout 2011
Tomasz Litwiniuk	Member throughout 2011

VI. Description of the Group's significant achievements or failures in 2011 and events impacting its financial results

- **Execution of an agreement with Sony Computer Entertainment Europe Limited and the release of *Sniper: Ghost Warrior* on Sony PlayStation®3**

On March 1, 2011 the Issuer's Management received a signed license agreement executed with Sony Computer Entertainment Europe Limited concerning release of the Issuer's games on the Sony PlayStation®3 in Europe, Australia, New Zealand and other territories using the PAL (Phase Alternating Line) system.

April 28, 2011 saw the release of *Sniper: Ghost Warrior* on the Sony PlayStation®3 throughout Europe (with the exception of Great Britain, where the release took place on May 5, 2011). In the first weeks after the release, the game became a hit in almost all European markets and did not leave the bestseller list despite the fact that its release coincided with the release of games by other competing producers, which is further proof of the global strength enjoyed by the *Sniper: Ghost Warrior*.

After its success in the European market, on June 28, 2011 *Sniper: Ghost Warrior* was released for Sony PlayStation®3 in the American market, followed on July 21, 2011 with a further successful debut in the Japanese market.

- **Opening of a new production studio in Romania. *World of Mercenaries* as the studio's first production**

On August 29, 2011 the Management Board of City Interactive S.A. announced the registration of company City Interactive Studio S.R.L., headquartered in Bucharest (Romania), in which the Issuer acquired 100% of shares. This production studio is responsible for the creation of video games including those from the online free-to-play FPS

(first person shooter) model segment. The establishment of subsidiary City Interactive Studio S.R.L. is part of the Issuer's strategy to expand its product catalogue in line with the latest trends in the video games market and constitutes another step in the process of developing the City Interactive Group. The board of the newly formed subsidiary includes Michał Sokolski (board member at City Interactive S.A. in 2011) and Bogdan Oprescu (Senior Producer at Ubisoft® Entertainment, with 8 years' experience in games production at Ubisoft®, including the last 3 years in the Online Games Department). Bogdan Oprescu has been appointed executive producer at the Romanian studio.

The Issuer's Romanian studio commenced operations at the end of 2011 and within several months a team of 40 experienced professionals had been put together, which is currently working intensively on *World of Mercenaries*, the Issuer's first free-to-play project. The modern online multiplayer shooter is planned for release in 2013.

- **Development of a new action RPG**

On September 8, 2011 the Issuer signed a letter of intent and subsequently, on November 28, 2011, an agreement with DECK13 Interactive GmbH, a renowned RPG developer. The object of the agreement concerns joint development of an RPG for Xbox®360, Sony Playstation®3 and PC. The Issuer's executive producer is Tomasz Gop (one of the principal producers of *The Witcher® 2 Assassins of Kings*).

At the current time the game is mainly being produced in Germany by the experienced team at DECK13 Interactive GmbH. Ultimately a team of around 60 people in Poland and Germany are to work permanently on production of the game. Completion of development is planned for 2013.

- **Business Area Sp. z o.o. is responsible for the development and release of games for iOS platforms. First production – *Sniper: Ghost Warrior* mobile version**

On September 1, 2011 City Interactive S.A. entered into an agreement with Vivid Games Sp. z o.o. concerning the production of *Sniper: Ghost Warrior* mobile version for iOS platforms, i.e. the iPad®, iPhone® and iPod Touch®. The mobile version of *Sniper: Ghost Warrior* will be developed based on Epic Games Inc.'s Unreal® Engine3 technology.

In connection with the commencement of production for a new type of game, the company's Management decided that the Issuer's existing subsidiary Business Area Sp. z o.o. will be responsible for the creation, release and distribution of games for smartphones and online and social games, and on October 20, 2011 assigned rights and obligations under the production agreement in question - entered into with Vivid Games Sp. z o.o. - to Business Area Sp. z o.o.

On February 20, 2012 the board of Business Area Sp. z o.o. withdrew from the production agreement with Vivid Games Sp. z o.o. The Issuer's board 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.

The mobile version of *Sniper: Ghost Warrior* on iOS platforms, i.e. the iPad®, iPhone® and iPod Touch®, will be produced based on Epic Games Inc.'s Unreal® Engine3 technology. Its release is planned for Q2-Q3 2012.

- **Termination of an agreement with The Farm 51 Sp. z o.o.**

On 24 February 2011 the company's management terminated the agreement concluded with The Farm 51 Sp. z o.o., having its registered office in Gliwice. The subject of the agreement was development of *Alien Fear* by the Contractor for the Issuer. The reason for termination was that the Contractor failed to adequately perform its obligations resulting from the agreement. The game is currently in development at the company's own studios (in Bydgoszcz and Warsaw).

- **Change in the release date for *Sniper: Ghost Warrior 2* on PlayStation®3, Xbox360® and PC**

On April 12, 2011 the Management of City Interactive S.A. decided to postpone the release of *Sniper: Ghost Warrior 2* by a few months from the Q3 2011 initial release date. On January 4, 2012 City Interactive S.A.'s Management announced that the release of *Sniper: Ghost Warrior 2* on PlayStation®3, Xbox360® and PC will take place in the second quarter of 2012. The release was rescheduled to ensure the highest levels of production quality and preparation of a global marketing campaign preceding its release.

Advertising campaign for *Sniper: Ghost Warrior 2* will be implemented in cooperation with US advertising agency The Ant Farm, LLC, a well-known player in the media and entertainment industry which promoted Call of Duty®: Modern Warfare® 3.

As at publication of this report, the Issuer's Management Board anticipates that the release of *Sniper: Ghost Warrior 2* will take place in Q2/Q3 2012.

- **Combat Wings release**

On September 20, 2011 the Management of City Interactive S.A. announced that the release of *Combat Wings* will take place in Q1 2012. As at publication of this report, the Issuer's board anticipates that the release to take place in Q2 2012.

VII. Discussion of primary 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:

- EURPLN as at December 31, 2010 - 3.9603,
- EURPLN as at December 31, 2011 - 4.4168,

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 2010 - 4.0044
- EURPLN in 2011 - 4.1401.

Selected financial data converted into EUR:

PROFIT AND LOSS STATEMENT	2011		2010	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Net revenue from sales	81 718	19 738	86 071	21 494
Profit (loss) from operating activities	21 120	5 101	34 188	8 538
Gross profit (loss)	22 308	5 388	32 543	8 127
Net profit (loss)	16 923	4 088	26 893	6 716
Number of shares (in thousands)	12 650	12 650	12 650	12 650
Profit (loss) per ordinary share	1.34	0.32	2.13	0.53

STATEMENT OF CASH FLOWS	2011		2010	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Net cash flows from operating activities	25 492	6 157	28 771	7 185
Net cash flows from investing activities	-19 064	-4 605	-11 493	-2 870
Net cash flows from financing activities	-5 248	-1 268	-2 888	-721
Net cash flows	1 179	285	14 390	3 594

BALANCE SHEET	31.12.2011		31.12.2010	
	PLN thousands	EUR thousands	PLN thousands	EUR thousands
Non-current assets	28 779	6 516	16 789	4 239
Current assets	41 875	9 481	42 828	10 814
Total assets	70 654	15 997	59 617	15 054
Equity	57 772	13 080	42 962	10 848
Share capital	1 265	286	1 265	319
Liabilities	12 882	2 917	16 656	4 206
Non-current liabilities	342	77	201	51
Current liabilities	12 540	2 839	16 454	4 155
Total equity and liabilities	70 654	15 997	59 617	15 054

1. Balance sheet

City Interactive Group's carrying amount as at December 31, 2011 closed at PLN 70.6 million, which constitutes a 19% increase in comparison with December 31, 2010.

Assets

Non-current assets recognized in the balance sheet as at December 31, 2011 amounted to PLN 27.7 million and had increased by 71% in comparison with the situation as at December 31, 2010, constituting 41% of the Group's total assets.

The growth in non-current assets results primarily from an increase in intangible assets. The difference between intangible assets as at the end of 2011 and as at the end of 2010 amounts to PLN 12.0 million (an increase of 91%). This results from capital expenditures incurred in 2011 on new game development (development costs).

The Group's current assets as at December 31, 2011 amounted to PLN 41.9 million and did not significantly change from the year prior.

Main current asset items are cash and trade receivables. Trade receivables amounted to PLN 14.5 million, showing a 15% decline in comparison with the previous year. Cash and cash equivalents amounted to PLN 16.7 million (an 8% increase).

Equity and liabilities

As at December 31, 2010 the Group's equity amounted to PLN 57.8 million, denoting a 34% increase in relation to December 31, 2010, resulting mainly from PLN 16.9 million in net profit generated in 2011. During the reporting period the Parent continued its hedging strategy, as a result of which the effect of measurement of the effective part of the hedge was recognized in a revaluation reserve in the amount of PLN 2.1 million.

The Group's liabilities amounting to PLN 12.9 million constituted 18% of the carrying amount and decreased by 23% in relation to the end of 2010. This decrease results mainly from a decrease in liabilities due to credits, loans and other debt instruments (bond redemption) in the amount of PLN 5 million.

2. Profit and loss statement

The company's net revenue from sales amounted to PLN 81.7 million, which constitutes a slight decrease in comparison with 2010 (a 5% decrease).

Operating profit amounted to PLN 21.2 million, while profit before tax was PLN 22.3 million. A description of the factors having an impact on the company's operating and gross margins is provided in point VIII of this report.

Profit on financing activities amounting to PLN 1.2 million, results primarily from positive exchange differences.

In 2011 the Group's net profit amounted to PLN 16.9 million, whereas net earnings per share reached PLN 1.34.

3. Statement of cash flows

The Group began 2011 with PLN 15.5 million in cash and cash equivalents.

Net cash flows from operating activities amounted to PLN 25.5 million. The most significant impact on positive operating cash flows came from gross profit in the amount of PLN 22.3 million and a decrease in receivables in relation to the year prior.

Net cash flows from investing activities were negative at PLN -19.1 million. Expenditures connected with the financing of new game development in the amount of PLN 17.2 million constituted a significant item.

Net cash flows from financing activities were negative at PLN -5.2 million, resulting from a PLN 5 million expenditure on redemption of bonds.

Cash and cash equivalents at the end of the reporting period amounted to PLN 16.7.

VIII. Assessment together with justification concerning management of City Interactive S.A. funds, together with specification of potential threats and actions which the company has taken or intends to take in order to combat such threats. Information on the current and anticipated financial situation

Profitability ratios

	Item	Unit of measure	2011	2010
1.	Sales margin	%	47.1%	58.3%
2.	EBITDA margin	%	33.4%	46.7%
3.	EBIT operating margin	%	25.8%	39.7%
4.	Gross margin	%	27.3%	37.8%
5.	Net margin	%	20.7%	31.2%
6.	Return on assets	%	24.0%	45.1%
7.	Return on equity	%	29.3%	62.6%

Ratio calculation methods

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

Sales margin in 2011 was 47.1%, constituting an 11.1% drop in comparison with 2010. Several factors contributed to this situation:

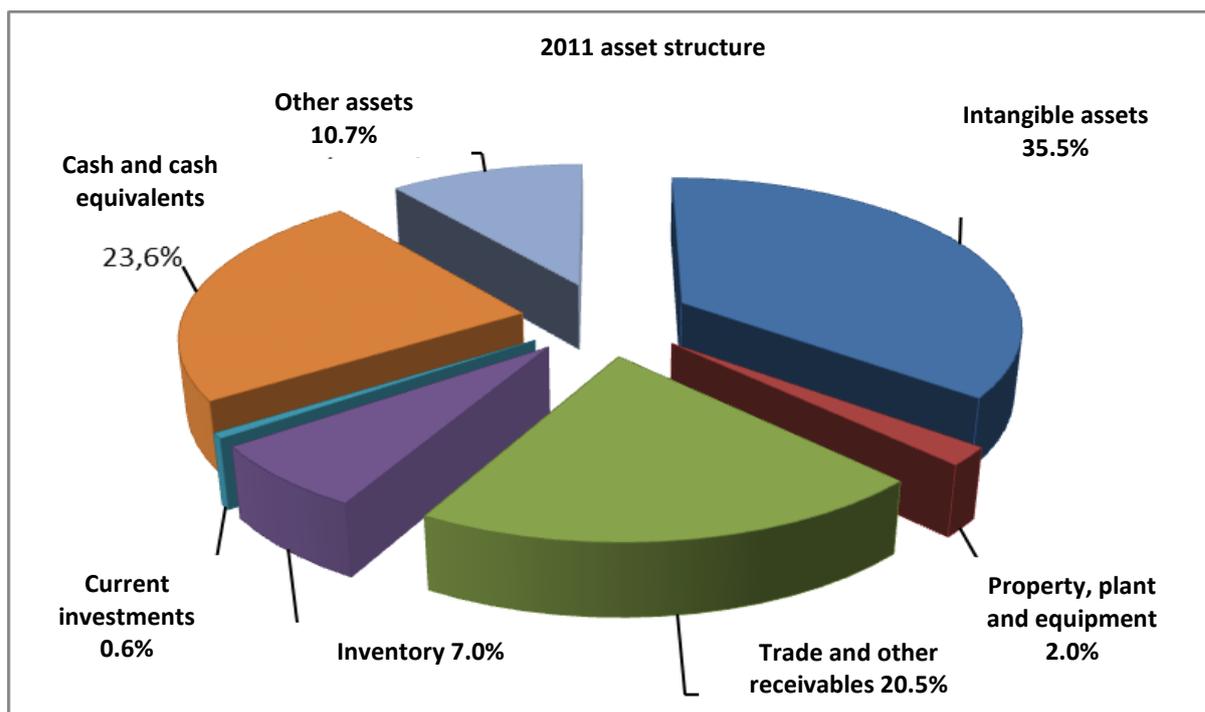
Firstly, within total game sales the share of console titles increased – these are more expensive to produce due to license fees paid to platform owners. Secondly, the price of *Sniper: Ghost Warrior* for the PC and Xbox360® was decreased in the majority of markets, whereas *Sniper* was released in 2010 at basic price in all markets. Furthermore limited versions of *Sniper: Ghost Warrior Gold Edition* for the PC and Xbox360®, the production of which was more expensive than standard versions.

Between the comparative annual periods, the level of administrative expenses and distribution costs increased by 44% and 19% respectively. This is an effect of the company's development after the success of *Sniper: Ghost Warrior*.

In connection with the above factors, gross margin decreased from 37.8% to 27.3%.

Asset structure

	Item	Unit of measure	2011	2010
1.	Intangible assets	%	35.5%	22.0%
2.	Property, plant and equipment	%	2.0%	0.7%
3.	Trade receivables	%	20.5%	28.8%
4.	Inventory	%	7.0%	8.8%
5.	Non-current investments	%	0.6%	1.5%
6.	Cash and cash equivalents	%	23.6%	26.0%
7.	Other assets	%	10.7%	12.1%



Within the asset structure as at the end of 2011 the dominating item was intangible assets, consisting primarily of game development costs. As at December 31, 2011 this item constituted 35.5% of the company's assets.

Other significant assets include trade receivables (20.5% of the total carrying amount) and cash and cash equivalents (23.6%).

As at December 31, 2011 the Group held PLN 16.7 million in bank accounts. A cash surplus generated in 2011 on operating activities in the amount of PLN 25.5 million enabled the financing of new game development to the tune of PLN 17.2 million and a PLN 5 million redemption of the Group's bonds.

Turnover ratios

	Item	Unit of measure	2011	2010
1.	Asset turnover ratio	times turned over	1.2	1.4
2.	Inventory turnover ratio		16.5	16.4
3.	Receivables collection period	number of days	64.8	72.8
4.	Payables repayment period		37.2	39.0

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 shortened in 2011 to 64.8 days (in relation to 72.8 days the year prior). In turn the repayment period for liabilities was not subject to significant change in comparison with 2010 and amounted to 37.2 days.

Debt ratios

Item	2011	2010
1. Debt ratio	0.18	0.28
2. Debt to equity	0.22	0.39
3. Equity to assets	2.02	2.57
4. Current debt ratio	0.18	0.28
5. Long-term debt ratio	0.005	0.003

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 decreased in relation to the previous year. This is due to the PLN 16.9 million in net profit generated in 2011, which increased the company's equity, at the same time decreasing external financing in the company's asset financing.

Liquidity ratios

Item	2011	2010
1. Current ratio	3.34	2.60
2. Quick ratio	2.94	2.28
3. Cash ratio	1.33	0.94

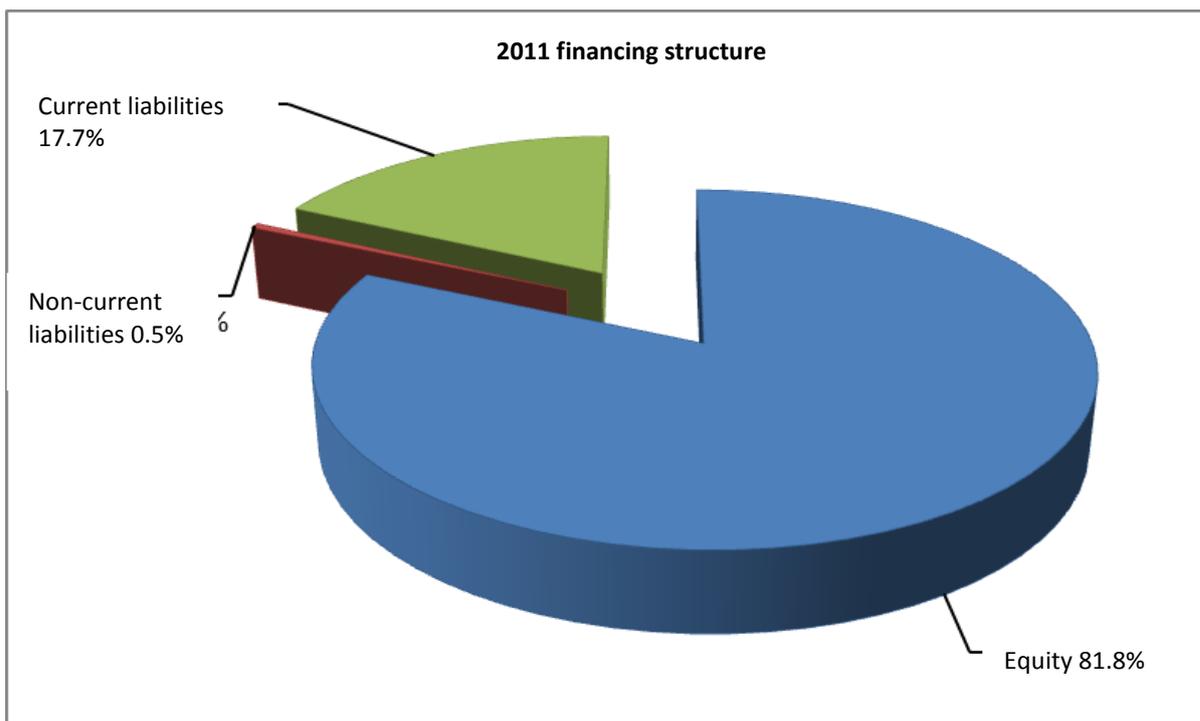
Ratio calculation methods

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 company's liquidity ratios were subject to improvement, which means the company's increased ability to service its liabilities. This results from a drop in current liabilities with a simultaneous lack of significant change in the value of current assets in comparable periods. As at December 31, 2011, cash and cash equivalents amounted to PLN 16.7 million, compared to PLN 15.5 million as at the end of the previous year.

Financing structure

Item	Unit of measure	2011	2010
1. Equity	%	81.8%	72.1%
2. Non-current liabilities	%	0.5%	0.3%
3. Current liabilities	%	17.7%	27.6%



Within the Group's financing structure, the dominating item is equity (82.4% of total equity and liabilities).

All financial ratios and the asset situation and financial standing demonstrate the company's good financial position and constitute a stable basis for further development and implementation of the company's key objectives and product strategy.

IX. Information on principal products, goods and services, their volume and value and the share of specific groups within total Group sales, together with changes in 2011

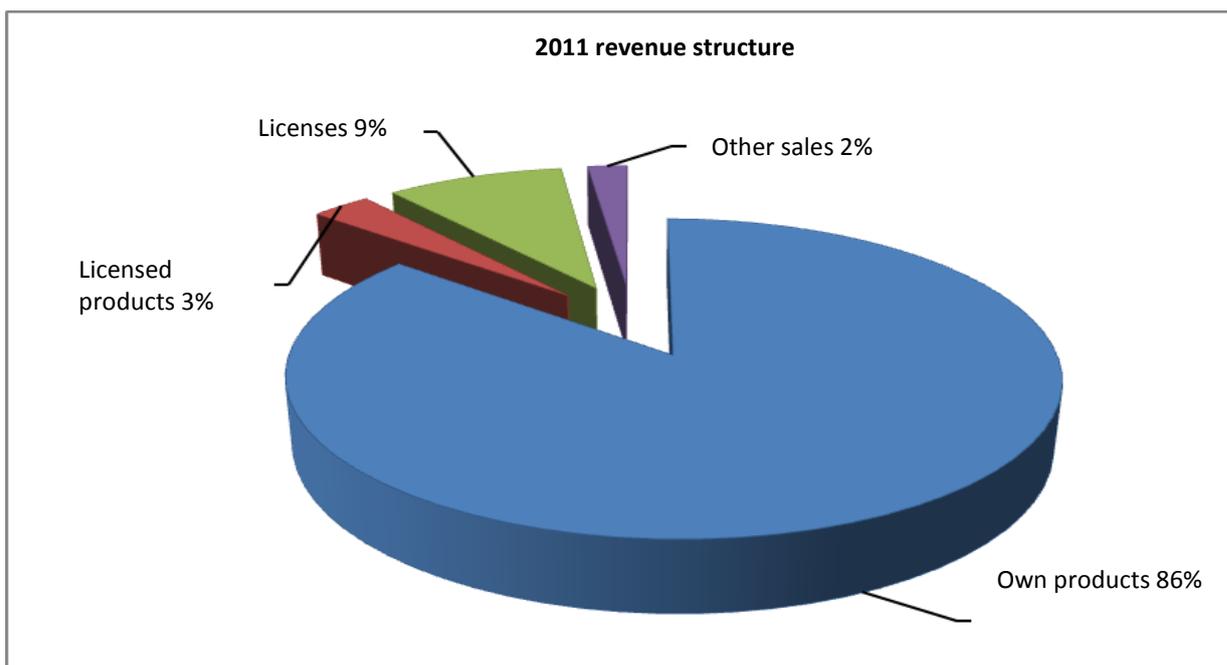
The City Interactive S.A. Group's operations consist of video game development and acquisition of other companies' titles and their sale throughout the world. The Group places emphasis on sales in the form of distributing finished media with computer programs (finished goods), however in some cases sells 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 2010 - 2011 with consideration to the type of product offered is as follows:

1. Revenue from sales by value

Data in PLN thousands

Revenues	2011	% share	2010	% share	2011/2010
Own products	70 109	86%	72 320	84%	-3%
Licensed products	7 329	9%	6 985	8%	5%
Licenses	2 335	3%	4 656	5%	-50%
Other sales	1 946	2%	2 109	2%	-8%
Total	81 718	100%	86 071	100%	-5%



2. Revenue from sales by volume

Revenues	2011	% share	2010	% share	2011/2010
Own products	1 728 567	77%	1 770 101	66%	-2%
Licensed products	277	0%	302	0%	-8%
Licenses	505 945	23%	921 270	34%	-45%
Total	2 234 789	100%	2 691 673	100%	-17%

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

The share of foreign sales in total Group revenue increased slightly in 2011 from 94% to 96%. This results from further development of the Group's international distribution network.

Data in PLN thousands

Sales	2011	2010
Foreign	78 422	80 569
<i>% share</i>	96%	94%
Country	3 296	5 502
<i>% share</i>	4%	6%
Total	81 718	86 071

In terms of volume, the share of exports amounted to 72%. 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	2011	2010
Foreign	1 620 140	2 077 842
<i>% share</i>	72%	77%

Country	614 649	613 831
% share	28%	23%
Total	2 234 789	2 691 673

Customers whose share in the Group's sales in 2011 exceeded 10%:

	Counterparty	% share
1.	Navarre	25.60%
2.	Mastertronic Group Corporation	15.98%

Other counterparties did not exceed the designated level.

In turn the table below presents a list of suppliers whose share in the Group's purchases in 2011 exceeded 10%:

	Counterparty	% share
1.	Sony DADC	43.06%
2.	Microsoft Corporation	23.03%
3.	Nintendo	16.55%

Other suppliers did not exceed the designated level.

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

1. Agreements significant to Group operations:

- **Execution of a significant agreement with Sony Computer Entertainment Europe Limited**

On March 1, 2011 the Issuer's Management Board received a signed license agreement executed with Sony Computer Entertainment Europe Limited concerning release of the Issuer's games on the Sony PlayStation®3 in Europe, Australia, New Zealand and other territories using the PAL (Phase Alternating Line) system.

This is a strategic agreement. Sony PlayStation®3 is one of the most popular gaming platforms in the world. At the same time thanks to the agreement executed with Sony Computer Entertainment Europe Ltd, the Issuer will be able to distribute its products through Sony PlayStation®Network.

- **Termination of a significant agreement**

On 24 February 2011 the company's management terminated the agreement concluded with The Farm 51 Sp. z o.o. on development of *Alien Fear*. The game is currently in development at the Issuer's own studio in Bydgoszcz.

- **Execution of a significant agreement concerning development of the *Sniper: Ghost Warrior* mobile version**

On September 1, 2011 City Interactive S.A. entered into an agreement with Vivid Games Sp. z o.o. concerning the production of *Sniper: Ghost Warrior* mobile version for iOS platforms, i.e. the iPad®, iPhone® and iPod Touch®. On October 20, 2011 as a result of a rights assignment agreement, the Issuer's subsidiary Business Area Sp. z o.o. assumed all rights and obligations under the agreement in question, subsequently terminating this agreement

on February 20, 2012. Currently the mobile version of *Sniper: Ghost Warrior* is being developed by the Issuer's studio in Katowice.

- **Execution of an agreement concerning development of a new action RPG**

On September 8, 2011 the Issuer signed a letter of intent and subsequently, on November 28, 2011, an agreement with DECK13 Interactive GmbH, a renowned RPG developer, concerning joint development of an RPG (role-playing game) for Xbox®360, Sony Playstation®3 and PC. Completion of development is planned for 2013. The Issuer's executive producer is Tomasz Gop (one of the principal producers of *The Witcher® 2 Assassins of Kings*). Deck13 Interactive GmbH has successfully developed numerous video games, including RPG titles.

- **Execution of forward currency contracts**

Parent City Interactive S.A. hedges currency risk for the Issuer's future currency surplus through executing forward currency contracts. The table below presents all open forward contracts as at the end of the reporting period

Currency	Open contracts in foreign currency	Forward initial recognition in PLN	Initial price	Contract settlement date
GBP	250 000	1 154 000	4.6160	April 13, 2012
USD	1 000 000	2 930 000	2.9300	April 13, 2012
EUR	200 000	811 300	4.0565	April 13, 2012
EUR	300 000	1 315 500	4.3850	May 31, 2012
EUR	2 245 000	9 771 812	4.3527	May 31, 2012
GBP	500 000	2 517 850	5.0357	May 31, 2012
USD	1 350 000	4 334 175	3.2105	June 22, 2012
USD	450 000	1 444 995	3.2111	June 22, 2012
GBP	750 000	3 785 625	5.0475	June 29, 2012
GBP	500 000	2 523 750	5.0475	June 29, 2012
EUR	1 000 000	4 385 000	4.3850	June 29, 2012
GBP	677 000	3 412 554	5.0407	June 29, 2012
USD	2 500 000	8 015 000	3.2060	June 29, 2012
		46 401 560		

During the reporting period the Parent implemented a hedging policy, due to which the effect of valuation of the principal constituting effective hedging was assigned to a revaluation provision (PLN 2.098 million – amount adjusted for deferred tax), while the interest (valued at PLN 363 000 and constituting the difference between forward and spot prices) was included in the costs of the reporting period. Liabilities resulting from valuation of hedging transactions were presented in the balance sheet under "other financial liabilities".

2. Insurance agreements

As at 31 December 2011 the Group held insurance policies with the following insurers:

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	07.11.2010 - 06.11.2011	PLN 25 000
Chartis Europe S.A.	Civil liability insurance concerning product liability	10.06.2010 - 09.06.2011	USD 2 000
Chartis Europe S.A.	Civil liability insurance concerning product liability	10.06.2011 - 09.06.2012	USD 2 000
Chartis Europe S.A.	Civil liability insurance concerning product liability	01.09.2010 - 31.08.2011	USD 2200
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	01.01.2011 - 31.12.2012	USD 5 000
Chartis Europe S.A.	Civil liability insurance concerning product liability	28.04.2011 - 27.04.2012	USD 2 000
ERGO Hestia S.A.	Insurance for electronic hardware	15.09.2010 - 14.09.2011	PLN 1 100
ERGO Hestia S.A.	Insurance for electronic hardware	15.09.2011 - 14.09.2012	PLN 1 891
ERGO Hestia S.A.	Property insurance	15.09.2010 - 14.09.2011	PLN 6 273
ERGO Hestia S.A.	Property insurance	15.09.2011 - 14.09.2012	PLN 6 307
Scottsdale Insurance Company	Civil liability insurance for the Parent's Management Board	26.01.2010 - 26.01.2011	USD 2 000
Scottsdale Insurance Company	Civil liability insurance for the Parent's Management Board	26.01.2011 - 26.01.2012	USD 2 000
LLOYD'S	Civil liability insurance concerning product liability	10.06.2010 - 10.06.2011	USD 2 000
LLOYD'S	Civil liability insurance concerning product liability	10.06.2011 - 10.06.2012	USD 2 000

Furthermore the Company 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 2011.

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

1. Agreements concerning loans and borrowings

As at December 31, 2011 the Issuer did not have any liabilities under loans and borrowings.

2. Lease agreements

As at December 31, 2011 the Parent had signed one operating lease with Raiffeisen Leasing Polska S.A., valued at PLN 98 400, with PLN 54 600 in remaining installments concerning repayment of principal.

3. Guarantee and surety agreements

The company granted a surety (blank promissory note) as collateral for performance of the above-mentioned lease agreement.

XIV. In the case of issuing securities in the period covered by the financial statements – description of the use of proceeds from issue

During the reporting period the Parent did not issue any securities.

On March 16, 2011 a full redemption of City Interactive S.A. series B bonds issued on September 16, 2010 in order to roll over series A bonds (issued in Q3 2009). The total redemption price was PLN 5.3 million.

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

Borrower	Amount in foreign currency granted as at December 31, 2011	Total contractual amount	Repayment date	Accrued interest due
City Interactive Germany GmbH	EUR 130 000	EUR 130 000	Mar 31, 2012	EUR 954
City Interactive Studio Ltd.	GBP 180 000	EUR 220 000	Jan 2, 2012	GBP 2 661
City Interactive Studio S.R.L.	EUR 449 500	EUR 500 000	Jul 31, 2012	EUR 1 417
Business Area Sp. z o.o.	PLN 140 000	PLN 800 000	Oct 31, 2012	PLN 1 706
Roy Campbell	PLN 85 000	PLN 90 000	Jun 30, 2012	-
Marcin Kwaśnica	PLN 300 000	PLN 300 000	Mar 31, 2012	PLN 18 337

The Parent recognized an impairment charge 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 61 800 is likely. The Company recognized an impairment charge amounting to PLN 258 558.79. For these same reasons an impairment charge of PLN 29 385.32 was created in connection with a loan granted to subsidiary City Interactive Mexico S.A. de C.V. The total value of impairment charges on this asset element amounts to PLN 288 000.

A PLN 2 million loan granted to City Interactive Jogos Eletronicos 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 and associates" in non-current

assets. The carrying amount of this item amounts to PLN 0.00.

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 2011 (in PLN):

Management Board of City Interactive S.A.

Marek Tymiński - President	300 000
Artur Winiarski - Member	9 000
Wojciech Kutak - Member	113 043
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. Description of 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	828	-	533	-
City Interactive USA Inc.	5 639	14 737	6 617	-
City Interactive Studio LTD	-	6	890	-
City Interactive Studio S.R.L.	1 227	13	2 065	1 227
Business Area Sp. z o.o.	408	408	1 048	-
TOTAL	8 102	15 164	11 154	1 227

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.	4 383	57	15	473
Premium Food Sp. z o.o.	-	-	-	-
Premium Food Restaurants S.A.	12	3	-	5
Klub Rybny Sp. z o.o.	-	-	-	-
Tech Marek Tymiński	-	17	15	-

MT Golf Sp. z o.o.	-	3	14	-
TOTAL	4 395	81	44	478

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	14	-	-	-
IDM S.A. (Grzegorz Leszczyński)	2	-	-	-
IDEA (Grzegorz Leszczyński)	106	-	-	-
STELING M. Dworak	24	-	-	-
Tomasz Litwiniuk Doradztwo Finansowe	-	11	14	-
3AFX Michał Sokolski	173	-	-	-
TOTAL	318	11	14	-

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 Board 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 2011

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

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

The Parent's Management did not publish any forecasts for 2011.

XXI. Significant risk factors and threats to the company

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

Risk associated with the macroeconomic situation

The video gaming 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 Company 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 2011, 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 success of the Group's operations is to a large extent dependent on the knowledge and experience of employees. This is a characteristic feature of video games developers in a business where the key elements are intellectual assets. 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 system 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 loss of key clients

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. There is a risk of the termination of distribution agreements or the bankruptcy of entities assisting 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 2011, the City Interactive Group's sales were made:

- to the largest customer at a level of 20% of total sales,
- to the 5 largest customers at a level of 64% of total sales.

Risk associated with suppliers

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. A failure to obtain the certification and the potential for termination of agreements by them in the event of non-fulfillment of criteria are two principal elements of risk which exists in reality and may have an impact on the Issuer'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 and its subsidiaries. Payments connected with the release of games for consoles formed the main part of the Group's trade liabilities during the reporting period and are always paid on time.

Risk connected with the implementation of development plans

The Group has an excess of cash generated by operating activities, which is used to finance game development. The Parent has the capability to obtain financing from the capital market in the event of it becoming necessary to finance additional projects.

Risk connected with the existing product portfolio

The video gaming market is driven by expectations connected with the debut of new products. There is a risk that some products are finished later than planned, which as a consequence might have a negative impact on cash flows and financial performance in subsequent 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 Group'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. Another significant factor is supplier delay 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 a claim being sought in court against any of the Group companies concerning copyrights to games, their elements, trademarks or reserved names for specific products. Operations in the United States are particularly burdened with this risk since the jurisdiction is characterized by tight legislation. In order to avoid losses in this domain, the Group hires law firms specializing in intellectual property law and registers the

trademarks of its products. In submitting such application in order to protect trademarks in the European Union and other countries around the world, its availability in specific markets is verified and the risk of violating the copyrights of third parties is estimated.

Liquidity risk

The City Interactive Group currently has a financial surplus and receivables completely cover its payables, which eliminates liquidity risk. Protection against the risk of purchaser insolvency is ensured through analysis of their financial condition and constant monitoring concerning payment of receivables. It should additionally be emphasized that the Parent is able to obtain funds through bank debt or the issue of bonds on very beneficial financial terms.

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

The Group has the capability to finance investment projects. In 2012 the Group intends to maintain the current level of investment. Own funds and funds sourced from the banking or financial sector will be used to finance investment projects.

XXIII. Description of significant factors and perspectives for corporate growth

The Group consistently pursues its development strategy aimed at regularly releasing high quality video games. Currently, quality of the game development, promotion and sales process will be the decisive factor affecting product planning and development activities. In the opinion of the Issuer's Management, this will result in a further improvement in City Interactive S.A.'s results in subsequent years.

A significant factor in the Group's development was the spectacular success of *Sniper: Ghost Warrior*, thanks to which the Issuer became Poland's first global distributor and developer of video games and the *Sniper: Ghost Warrior* brand, with its strong and established position in the games market, is recognized around the world. *Sniper: Ghost Warrior* has sold over 2.5 million copies to date, which translated into the Issuer's record results over the last two years. This meant that the Issuer's distribution capabilities were expanded in relation to all of its products. The success has a significant contribution to higher volumes of orders for the Issuer's games through distribution networks around the world.

For almost two years intensive work has been on-going on the production of the sequel - *Sniper: Ghost Warrior 2*, improved and based on the latest CryENGINE®3 technology, which has a good chance of becoming the Issuer's all-time largest production and distribution success, and will be able to compete with the largest global titles in the First Person Shooter segment. The realism of the gameplay and story, coupled with a shooting mechanism which is improved on the previous version, make the game something completely new and a pioneering experience in tactical sniper simulation aimed at a broad consumer base. The release of *Sniper: Ghost Warrior 2*, which is planned for Q2/Q3 2012, will undoubtedly be one of the most important factors impacting on the Group's financial results in 2012.

Over the coming years, the Group will continue to expand and maximize revenues from the *Sniper: Ghost Warrior* brand. After the release of *Sniper: Ghost Warrior 2* in 2012, the company plans to commence development work on another sequel to the game. The board believes that further refined and high quality products will lead to improved results in subsequent years.

The Issuer's second key project in the production phase with high commercial potential is *Enemy Front*, a first person shooter set in the Second World War. Production of the game is being handled by two of the Issuer's studios in Rzeszow and Guildford in the UK, and the creative director for the project is Stuart Black (an experienced games designer and producer who has been active in the industry for 17 years). *Enemy Front* is a classic of the genre, created on the most popular topic, however with a modern approach using one of the most modern and highly advanced technologies for the creation of first person shooter games - the CryENGINE®3. The game is set behind Nazi lines over several years in various historically significant locations. The game's release on Xbox360®, Sony PlayStation®3 and PC is planned for the third quarter of 2012. The company's management board is counting on an equally impressive reception for the game as was met by *Sniper: Ghost Warrior*.

During the second quarter of 2012 the City Interactive Group plans to release a subsequent game - *Combat Wings*, which will be released for Xbox360®, Sony PlayStation®3 and PC. The game presents spectacular dogfights from the major air battles of the Second World War. The damage system, scale of military operations and extensive range of aircraft available in the game make *Combat Wings* one of the leading titles in this market segment. This is to be a completely new brand which, as was the case with *Sniper: Ghost Warrior*, will fill a niche in the market.

The third quarter of 2012 will also see the release of *Alien Fear* - a science fiction-based first person shooter where the player is cast as the lone survivor of a group of marines which have come to the aid of lost space station Deep Space One. The game is produced based on the latest version of Unreal® Engine3 technology and will be marketed in electronic distribution for Xbox360®, Sony PlayStation®3 and PC.

The Group is developing more and more games for new generation consoles. This is a clear move in the direction of the most important global market, where sales are based on console markets, while at the same time, heading in the same direction as the very latest video market trends, the management board has commenced activities to develop operations based on new genres and game models (role-playing game - RPG, free-to-play - F2P) and new distribution channels (games for iOS systems, i.e. the iPad®, iPhone® and iPod Touch®, as well as online and social games), which constitutes a subsequent step in the Group's development.

In August 2011 a new production studio was established in Romania, responsible for the creation of video games including those from the online free-to-play FPS (first person shooter) model segment. The Romanian team is currently working intensively on the Issuer's first free-to-play model game, *World of Mercenaries*. The modern online multiplayer shooter is planned for Q4 2012.

In turn, in the second half of 2011 the Issuer commenced work on a large project aimed at producing an RPG game for the Xbox360®, Sony Playstation®3 and PC, with the release planned for 2013.

The Group is also currently working on a mobile version of *Sniper: Ghost Warrior* on iOS platforms, i.e. the iPad®, iPhone® and iPod Touch®, will be produced based on Epic Games Inc.'s Unreal® Engine3 technology. Its release is planned for Q2-Q3 2012.

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

Release plan for 2012:

Game	Platform	Date
Combat Wings	PS®3 / XBOX360® / PC	Q2 2012
Sniper: Ghost Warrior 2	PS®3 / XBOX360® / PC	Q2/Q3 2012
Sniper: Ghost Warrior - iOS	iPad® / iPhone®	Q2/Q3 2012
Alien Fear	PS®3 / XBOX360® / PC	Q3 2012
Enemy Front	PS®3 / XBOX360® / PC	Q3/Q4 2012
World of Mercenaries	Online	Q4 2012

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 2010 – June 30, 2011. The agreement concerns audit of the financial statements of the Parent and Group for 2011 (semi-annual review and annual audit).
- c) Total remuneration due for review and audit of the Parent's and Group's financial statements in 2011 – PLN 40 000 net.
- d) The entity auditing the Parent's and Group's financial statements for 2010 (semi-annual review and annual audit) was Misters Audytor Sp. z o.o. Total remuneration due for review and audit of the Parent's and Group's financial statements in 2010 was PLN 38 800 net.

Marek Tymiński

President of the Management Board

Andreas Jaeger

Member of the Management Board

Warsaw, April 13, 2012