



Half-yearly report
on the Capital Group operations
CI GAMES
covering the period of the first six months of
2016



WARSAW, August 30, 2016

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1. Financial highlights

PROFIT AND LOSS STATEMENT

PROFIT AND LOSS STATEMENT	HY1 2016		HY1 2015	
	Thousand PLN	Thousand EUR	Thousand PLN	Thousand EUR
Net trading receivables	11,518	2,629	7,457	1,804
Profit (loss) on operating activities	-2,556	-583	-4,779	-1,156
Gross profit (loss)	-2,004	-457	-3,725	-901
Net profit (loss)	-2,659	-607	-2,794	-676
Number of shares (in thousands)	13,914	13,914	13,914	13,914
Profit (loss) per one ordinary share (PLN/share)	-0.19		-0.20	

Net trading receivables of the Group in HY1 2016 reached PLN 11.5 million, that is were 4 million higher than in HY1 2015. The major factor affecting the difference in the comparative periods was higher sale of Lords of the Fallen game in HY1 2016.

For the first 6 months of 2016 the Issuer recorded the loss of PLN 2.7 million, when compared to the loss of PLN 2.8 million in the analogous period last year. Although the sale volume was higher, in HY1 2015 the Company recorded the other operating profits 1.2 million higher than in this period and also 1.6 million lower income tax when compared to the comparative period.

CASH FLOWS

CASH FLOW STATEMENT	HY1 2016		HY1 2015	
	Thousand PLN	Thousand EUR	Thousand PLN	Thousand EUR
Net cash flow on operating activities	2,979	680	13,915	3,366
Net cash flow on investment activities	-13,153	-3,003	-10,242	-2,477
Net cash flow on financial activities	9,118	2,081	-41	-10
Net cash flow	-1,056	-241	3,632	879

The net cash flow on operating activities in the reporting period was PLN 3 million and largely resulted from the decrease in the trade receivables.

Net cash flow on investment activity was negative and reached PLN -13.2 million. The investment cash flows were most affected by the expenses for the development works connected with creating SNIPER: GHOST WARRIOR 3 game.

The net cash flow on financial activities reached PLN 9.1 million and resulted from using the available credit facilities.

Cash as at the end of the reporting period was PLN 6.1 million and was PLN 1 million lower than as at the end of 2015.

BALANCE SHEET

BALANCE SHEET	30.06.2016		31.12.2015		30.06.2015	
	Thousand PLN	Thousand EUR	Thousand PLN	Thousand EUR	Thousand PLN	Thousand EUR
Fixed assets	79,251	17,908	71,396	16,754	62,593	14,923
Current assets	14,279	3,227	19,282	4,525	29,881	7,124
Total assets	93,530	21,134	90,678	21,278	92,474	22,047
Equity	72,497	16,382	75,227	17,653	80,256	19,134
<i>Share capital</i>	<i>1,391</i>	<i>314</i>	<i>1,391</i>	<i>326</i>	<i>1,391</i>	<i>332</i>
Liabilities	21,033	4,753	15,451	3,626	12,218	2,913
Long-term liabilities	2,745	620	2,748	645	3,868	922
Short-term liabilities	18,288	4,132	12,703	2,981	8,350	1,991
Total liabilities	93,530	21,134	90,678	21,278	92,474	22,047

The balance sheet total of CI Games Capital Group as at 30 June 2016 was PLN 93.5 million that is PLN 2.9 million more when compared to the situation as at 31 December 2015.

The fixed assets in the balance sheet as at 30 June 2016 reached PLN 79.3 million and were 7.9 million (11%) higher than as at 31 December 2015. The increase results from the expenditure on game production.

The Group current assets as at 30 June 2016 reached PLN 14.3 million and were PLN 5 million lower when compared to the comparable period which resulted primarily from the inventory level decrease by PLN 1.4 million, receivables by PLN 2.6 million and cash by PLN 1.1 million.

The Group equity as at 30 June 2016 was PLN 72.5 million, which means PLN 2.7 million (4%) decrease when compared to 31 December 2015. The decrease in equity results primarily from the generated loss.

The Group payables as at 30 June 2016 reached PLN 21 million and increased PLN 5.6 million when compared to the payables value as at the end of December 2015. It was related primarily to the increased debt from bank loan and decreased payables towards suppliers.

2. Description of the significant achievements and failures of the Issuer in the reporting period

In HY1 2016, CI Games continued works on the production and promotion of SNIPER GHOST WARRIOR 3 game, the first release of which was appointed for 27 January 2017. The Issuer has also been carrying out works on LORDS OF THE FALLEN 2 game for PCs and gaming consoles, as well as on LORDS OF THE FALLEN for mobile phones and tablets.

List of the most important events concerning the Issuer

Date	Event
13.06.2016	Announcement of the first release date for Sniper: Ghost Warrior 3 of 27 January 2017
20.05.2016	Execution of the important agreement between CI Games USA, Inc. and Elbo, Inc. and Polarford Ltd. for the publishing of games for XBOX ONE consoles
10.02.2016	Execution of the amendment with PKO BP S.A. – to increase the credit limit by PLN 10 million
03.02.2016	Execution of the settlement with Deck13 Interactive GmbH.

3. Description of factors and events, in particular extraordinary ones, affecting the financial results significantly

In the reporting period there were no extraordinary factors or events, affecting the financial results significantly.

4. Description of organisational changes in the Issuer's capital group

On 18 May 2016, the District Court VII, Civil Division in Bucharest, Romania, issued a decision to complete the liquidation proceedings of the Issuer's subsidiary company, City Interactive Studio SRL with its registered office in Bucharest, and to dissolve it. The Romanian subsidiary company has not carried out any operating activities for a prolonged period of time. The bankruptcy petition for the subsidiary company was filed by the Issuer on 7 November 2013. The decision of the court in Bucharest on the bankruptcy is valid as at the date of the report. City Interactive Studio SRL was crossed out from the register of companies.

5. Management Board standing referring to the feasibility of the foreseen results published before

The Management Board of CI Games S.A. did not publish the foreseen financial results of the Capital Group for HY1 2016.

6. Indication of shareholders holding directly or indirectly through subsidiaries at least 5% of total votes at the Issuers's General Meeting

The total number of votes at the General Shareholders Meeting of the Parent, CI Games S.A., is 13,914,999.

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

Item	Number of shares	% in share capital	Number of votes at GSM	% of votes at GSM
Marek Tymiński	5,966,357	42.88%	5,966,357	42.88%
TFI PZU Spółka Akcyjna	772,888	5.55%	772,888	5.55%
Other	7,175,754	51.57%	7,175,754	51.57%
Total:	13,914,999	100%	13,914,999	100%

7. Presentation of the Issuer's shareholdings right to shares by the Issuer's management or supervisory personnel

Person	Position	As at 1 January 2016 (balance sheet date)	Increase in shareholding during the period from 1 January 2016 to 30 June 2016	Decrease in shareholding during the period from 1 January 2016 to 30 August 2016	As at 30 August 2016 (report publication date)
Marek Tymiński	President of the Management Board	6,366,357	-	400,000	5,966,357

8. 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 on the pending material proceedings (with the value exceeding 10% of the Issuer's equity) with the participation of the Parent Company and its subsidiaries.

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

In the reporting period, the Issuer did not enter any material transactions with affiliates and the terms and conditions of the ones entered did not deviate from market conditions.

10. Information on the credit or loan sureties or guarantees granted by the Issuer or its subsidiary

In the reporting period, the Issuer or its subsidiary entity did not offer any surety for the loan or any guarantee with the amount exceeding 10% of the Issuer's equity.

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

INCENTIVE PROGRAM FOR KEY EMPLOYEES AND ASSOCIATES OF THE COMPANY, INCLUDING MANAGEMENT BOARD MEMBERS

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.

At present, there are 133,000 subscription warrants ascribed, allowing in the future for the acquisition of 133,000 F series shares.

HEDGING TRANSACTIONS

As at 30 June 2016, the Group did not have any open hedge transactions.

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 (in words: PLN fifteen million). Both agreements have been concluded for the period of two years.

On 10 February 2016, the Company executed an appendix to the open-end current loan with Powszechna Kasa Oszczędności Bank Polski S.A. ("Amendment") resulting in increasing the limit of the loan awarded by the Bank by PLN 10,000,000.00.

As a result of the conclusion of the Annexe, the Company has now in the Bank the credit limit in the total amount of PLN 25,000,000.00 (in words: PLN twenty-five million).

12. Indication of factors which, in the opinion of the Issuer, may have an impact on the financial results achievement by the company in the future

THE MOST IMPORTANT EXTERNAL RISK FACTORS FROM THE ISSUER'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 carries out its activity globally. 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.

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 strategy of following the trends and offering verified products on the market, recognized by buyers was adopted. 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 the first six months, 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 RISK 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, by the agency of which the distribution is carried out, 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 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 so as 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 more stringent legislation. To avoid losses on these grounds, the Capital Group uses the services 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 issue of financial instruments.

MARKET OPPORTUNITIES AND PROSPECTS

At present the Issuer is working on the game called SNIPER: GHOST WARRIOR 3, belonging to the First Person Shooter type, dedicated to the new generation consoles: PlayStation®4 and XboxOne® as well as PCs. The first release was appointed for 27 January 2017. The Company has carried out active promotional activities related thereto, e.g. by participating in the largest computer game fairs, e.g.: E3 in the U.S. and Gamescom in Germany, as well as by the community media.

In autumn this year the Issuer is planning to release the LORDS OF THE FALLEN game for mobile phones and tablets. The game has been tested on selected markets and it will be distributed in the Free-to-Play model. The revenue will be generated from micropayments and advertisement sale.

The Issuer is also carrying out concept works on the game called LORDS OF THE FALLEN 2, to be released in 2018.

13. CI GAMES S.A. Management Board Statements

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 half-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 half-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 risk.

The Management Board of CI Games S.A. represents the entity authorized to audit the financial statements, auditing the 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.

Marek Tymiński

Management Board President

Warsaw, Tuesday, August 30, 2016

Adam Pieniacki

Management Board Member

Monika Rumianek

Management Board Member