

**THE MANAGEMENT REPORT ON ACTIVITIES  
OF THE CAPITAL GROUP TEN SQUARE GAMES S.A.  
AND THE COMPANY TEN SQUARE GAMES S.A.  
FOR THE YEAR 2018**

Wrocław, 21 March 2019

**Disclaimer**

*This English language translation has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation discrepancies, omissions or approximations may exist. In case of any differences between the Polish and the English versions, the Polish version shall prevail. Ten Square Games S.A., its representatives and employees decline all responsibility in this regard.*

*Dear Shareholders,*

*2018 was an exceptional year for us. We can say with satisfaction that after seven years of work on team building, product portfolio and implementation of our strategy, we have managed to build a strong position for Ten Square Games in the world of the largest F2P game developers not only in Poland, but also in the region.*

*The most important achievements of 2018 include above all the dynamic growth and scaling of our biggest title - Fishing Clash. This success increased the revenues of Ten Square Games Capital Group from PLN 27 million in 2017 to over PLN 115 million in 2018. This more than fourfold increase authenticates the Group's plans and ambitions as well as the assumptions of the strategy implemented by us.*

*It is worth mentioning that the revenues generated by the Group's other products (Wild Hunt, Let's Fish and Game Factory) exceed the total revenues of the Ten Square Games Capital Group in 2017. This is one of the reasons why we strongly believe in scaling our business by building a portfolio of long-term sustainable products.*

*In the investment context, 2018 resulted in the debut of Ten Square Games S.A. on the Warsaw Stock Exchange. Over the last ten months, the Company's capitalization has doubled. We would like to thank all our shareholders for their trust. We would also like to remind you that prior to the IPO, we adopted a dividend policy (described in the prospectus) assuming payment to shareholders of up to 75% of consolidated net profit in the form of dividends.*

*However, Ten Square Games is still at an early stage of development. Our activities are therefore focused on the future. The most important tasks facing the company in 2019 are:*

- Strengthening the position of Fishing Clash, its further development, monetization, maintaining the leading position and maintaining it for many years to come.*
- Transfer of our best experiences from Fishing Clash to thematically related areas in our closest sports and simulation niche. Here we focus on two new productions – Mini Golf and a new hobby game based on the success of Fishing Clash.*
- Searching for new areas in niches currently undeveloped by us. The most interesting directions of development are games aimed at women based on the combination of casual game mechanics and the most popular thematic niches. We are currently working on two such titles.*

*People are the foundation for the development and success of our Group. We are constantly developing our team – this is a long-term investment and we believe that Ten Square Games is and will continue to be one of the best places to work in our industry – a place for talented, ambitious and creative enthusiasts of creating games in the F2P model.*

*In 2019 and beyond, we will continue to focus on our strategy while retaining the flexibility and ability to make the rapid changes needed to succeed in the market.*

*An interesting year is coming!*

*Maciej Popowicz – President of the Management Board*

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## 1. BACKGROUND INFORMATION

The Ten Square Games S.A. Group consists of a parent company and subsidiaries. Ten Square Games S.A. ("Parent Company") was established as a result of transformation of Ten Square Games Sp. z o.o., which was recorded by the District Court on November 20, 2017.

### Basic data of the Parent Company:

Name	Ten Square Games S.A.
Legal form	Spółka Akcyjna
Registered seat	ul. Długosza 60, 51-162 Wrocław
Registration country	Poland
Core business activity	publishing activity with regard to computer games (58.21.Z)
Authority keeping the register	District Court, VI Commercial Division of the National Court Register
KRS no.	0000704863
Statistical REGON no	021744780
Tax identification number	8982196752
Company duration	indefinite

### As at 31.12.2018 the composition of the management and supervisory bodies is as follows:

#### The Management Board:

Maciej Popowicz – President of the Management Board;  
Arkadiusz Pernal – Vice-President of the Management Board.  
Magdalena Jurewicz –Member of the Board

#### Supervisory Board:

Maciej Zużalek – Chairman of the Supervisory Board;  
Rafał Olesiński – Vice-Chairman of the Supervisory Board;  
Marcin Chruszczyński – Member of the Supervisory Board;  
Tomasz Drożdżyński – Member of the Supervisory Board;  
Maciej Marszałek – Member of the Supervisory Board;  
Wiktor Schmidt – Member of the Supervisory Board.

In the period from 31/12/2018 to 21/03/2019 there were the following changes in the composition of the Council. Mrs. Milena Olszewska-Miszuris joined the Supervisory Board as Member of the Supervisory Board on 14.01.2019.

There were no changes in the composition of the Management Board during the aforementioned period.

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The shareholding structure of the Parent Company as at 31.12.2018 and as at 21.03.2019 is as follows:

Shareholder	number of shares as at 21/03/2019	share in basic capital	number of votes at GSM	% share in the number of votes
President of the Management Board – Maciej Popowicz	2,852,500	39.48%	2,852,500	39.48%
Vice-President of the Management Board – Arkadiusz Pernal	1,365,000	18.89%	1,365,000	18.89%
Member of the Management Board – Magdalena Jurewicz	25,000	0.35%	25,000	0.35%
NN PTE <sup>3*</sup>	565,000	7.82%	565,000	7.82%
Member of the Supervisory Board – Maciej Zużalek	75,000	1.04%	75,000	1.04%
Member of the Supervisory Board – Maciej Marszałek	52,500	0.73%	52,500	0.73%
Member of the Supervisory Board – Rafał Olesiński	669	0.01%	669	0.01%
<i>other</i>	<i>2,289,331</i>	<i>31.69%</i>	<i>2,289,331</i>	<i>31.69%</i>
<b>TOTAL</b>	<b>7,225,000</b>	<b>100%</b>	<b>7,225,000</b>	<b>100%</b>

Shareholder	number of shares as at 31/12/2018	share in basic capital	number of votes at GSM	% share in the number of votes
President of the Management Board – Maciej Popowicz	2,852,500	39.21%	2,852,500	39.21%
Vice-President of the Management Board – Arkadiusz Pernal	1,365,000	18.76%	1,365,000	18.76%
Member of the Management Board – Magdalena Jurewicz	25,000	0.34%	25,000	0.34%
NN PTE <sup>3*</sup>	565,000	7.77%	565,000	7.77%
Member of the Supervisory Board – Maciej Zużalek	75,000	1.03%	75,000	1.03%
Member of the Supervisory Board – Maciej Marszałek	52,500	0.72%	52,500	0.72%
Member of the Supervisory Board – Rafał Olesiński	669	0.01%	669	0.01%
<i>other</i>	<i>2,339,331</i>	<i>32.16%</i>	<i>2,339,331</i>	<i>32.16%</i>
<b>TOTAL</b>	<b>7,275,000</b>	<b>100%</b>	<b>7,275,000</b>	<b>100%</b>

\* NN Otwarty Fundusz Emerytalny (Open Pension Fund) and NN Dobrowolny Fundusz Emerytalny (Voluntary Pension Fund) – both funds managed by NN Powszechne Towarzystwo Emerytalne (General Pension Management Company)

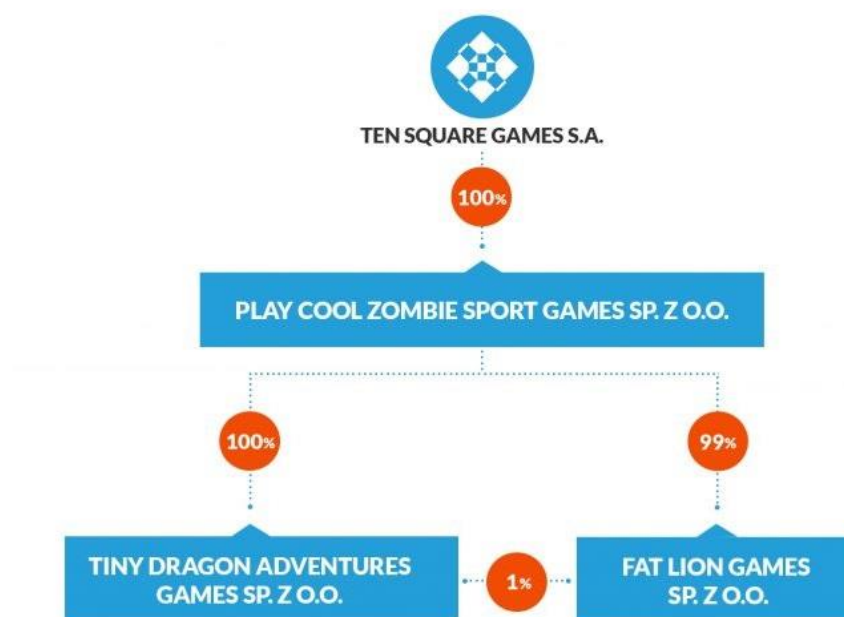
<sup>1</sup>State in accordance with current report no. 8 of 11 May 2018

<sup>2</sup>State in accordance with current report no. 9 of 11 May 2018

<sup>3</sup>State in accordance with current report no. 10 of 11 May 2018



**Composition of the Capital Group as at 31.12.2018 and 21.03.2019:**



On 14 October 2015, the first subsidiary company, Play Cool Zombie Sport Games Sp. z o.o., was registered.

On 29 August 2016, Tiny Dragon Adventure Games Sp. z o.o. was registered.

On 16 May 2017, a subsidiary company Fat Lion Games Ltd was registered in Great Britain. On 20 February 2018 the company was closed (deleted from the register of companies).

On 13 February 2018, a subsidiary company Pangolins Games Private Limited was registered in India. On 21 December 2018 Play Cool Zombie Sport Games Sp. z o.o. sold all its shares (90% of the share capital) to a natural person holding so far 10%, thus on that day the entity ceased to be a part of the Ten Square Games S.A. capital group.

## **2. ACTIVITY PROFILE**

The activities of the Group and the Parent Company focus on the design, production, distribution and development of games for mobile and stationary devices (browser games). The Group's products are offered through the most important mobile platforms – *iOS* and *Android* and through Internet portals.





The Group's game portfolio is developed in the *F2P* model, under which downloading a game is free of charge and revenue comes from the following sources:

- revenues from additional functionalities purchased by the players (micro-payments)
- revenues from advertisements displayed in games (advertisements)
- revenues from the users' activity in games which are shared with the Company's commercial partners on the basis of license agreements (licenses)

### 3. KEY PRODUCTS

In the Q4 and throughout 2018, the most important products of the group were:

- Fishing Clash – a mobile fishing game in the F2P model;
- Let's Fish – browser angling game in the F2P model;
- Wild Hunt – mobile hunting game in the F2P model;
- Game Factory game portfolio - about 250 small mobile games monetized by advertisements.

<i>The Group's most important productions</i>		
<i>Name</i>	<i>Description</i>	<i>Icons</i>
<b>Fishing Clash</b> <i>Mobile game app</i> <i>Launch date:</i> <i>soft launch:</i> 06.2016 <i>hard launch:</i> 10.2017	<p>Mobile fishing game. Players have the opportunity to take part in a sports competition between anglers in excellent 3D graphics. Since its launch in October 2017, Fishing Clash has established its position as the most important mobile angling game in the world, generating over PLN 88 million in 2018, of which over PLN 34 million in the Q4 alone. Fishing Clash is the biggest game of the Group.</p>	
<b>Let's Fish</b> <i>Mobile game app</i> <i>Launch date:</i> <i>hard launch:</i> 01.2014 – Apple 06.2014 – Google <i>Browser game:</i> <i>Launch date:</i> <i>hard launch:</i> 01.2012	<p>A browser fishing game with over seven years of tradition. In the game there are more than 400 species of fish and more than 40 incredible fisheries. Players can plan their strategy and experience their own fishing adventure. Despite its age, the game still generates significant revenues (PLN 16.5 million in 2018).</p>	
<b>Wild Hunt</b> <i>Mobile game app</i> <i>Launch date:</i> <i>soft launch:</i> 04.2016 <i>hard launch:</i> 07.2017	<p>Mobile hunting simulator designed for hunting fans. The player can choose from a variety of hunting weapons. The game offers the opportunity to explore the world thanks to 3D graphics. Since its launch in 2017, the game has established its significant position among players and generated nearly PLN 6 million in revenue, of which over PLN 2 million in Q4 2018 only.</p>	
<b>Game Factory games portfolio</b> <i>Approximately 250 titles published between 10.2015 and 12.2018</i>	<p>Game Factory's portfolio consists of about 250 titles with different themes, mainly in the sandbox model. Examples of games are: Theme Park Craft, Wild West Craft, Dollhouse, Parking Princess or USA Parking Ace. Game Factory games are monetized on the basis of advertisements displayed. Game Factory's game portfolio is not treated as a strategic area of the Group's development due to the changes on Google and Apple platforms in mid-2018. In 2018 Game Factory games generated PLN 6 million in sales. The scale of sales justifies maintaining the portfolio and maximizing profit with small outlays.</p>	



**4. CHOSEN FINANCIAL DATA**

Description	01/01/2018 - 31/12/2018		01/01/2017 - 31/12/2017	
	PLN	EUR	PLN	EUR
<b>CONSOLIDATED COMPREHENSIVE INCOME STATEMENT</b>				
Net revenues	115,257,658	27,012,036	27,032,272	6,368,476
Cost of sales	7,381,948	1,730,049	5,842,944	1,376,527
Operating profit (loss)	44,314,539	10,385,652	10,862,393	2,559,048
Gross profit (loss)	44,849,174	10,510,950	10,233,177	2,410,813
Net profit (loss)	36,469,341	8,547,034	8,412,045	1,981,776
<b>CONSOLIDATED CASH FLOW STATEMENT</b>				
Net operating cash flow	41,240,013	9,665,099	7,673,707	1,807,833
Net cash flow from investment activities	-1,765,709	-413,815	-447,839	-105,505
Net cash flow from financial activity	-6,308,880	-1,478,563	-2,713,111	-639,176
Description	31/12/2018		31/12/2017	
	PLN	EUR	PLN	EUR
<b>CONSOLIDATED BALANCE SHEET</b>				
Fixed assets	2,701,316	628,213	2,160,581	518,013
Current assets	51,766,242	12,038,661	12,411,681	2,975,780
Equity	42,084,424	9,787,075	11,689,465	2,802,624
Long-term liabilities	359,388	83,579	285,848	68,534
Short-term liabilities	12,023,746	2,796,220	2,596,949	622,635

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Description	01/01/2018 - 31/12/2018		01/01/2017 - 31/12/2017	
	PLN	EUR	PLN	EUR
<b>SEPARATE COMPREHENSIVE INCOME STATEMENT</b>				
Net revenues	113,885,544	26,690,465	25,352,149	5,972,660
Cost of sales	6,705,812	1,571,589	5,842,944	1,376,527
Operating profit (loss)	44,454,586	10,418,474	9,483,192	2,234,125
Gross profit (loss)	45,291,248	10,614,556	8,910,838	2,099,286
Net profit (loss)	37,022,951	8,676,780	7,304,842	1,720,932
<b>SEPARATE CASH FLOW STATEMENT</b>				
Net operating cash flow	42,051,487	9,855,278	6,055,595	1,426,625
Net cash flow from investment activities	-1,765,709	-413,815	-447,839	-105,505
Net cash flow from financial activity	-5,953,273	-1,395,222	-2,527,291	-595,399

Description	31/12/2018		31/12/2017	
	PLN	EUR	PLN	EUR
<b>INDIVIDUAL BALANCE SHEET</b>				
Fixed assets	2,706,316	629,376	2,179,080	522,448
Current assets	51,019,639	11,865,032	10,956,685	2,626,935
Equity	41,350,580	9,616,414	10,400,181	2,493,510
Long-term liabilities	370,540	86,172	285,848	68,534
Short-term liabilities	12,004,835	2,791,822	2,449,736	587,340

	2018	2017
<b>EUR/PLN exchange rate</b>		
- for the balance-sheet data	4.3000	4.1709
- for the data from the profit and loss statement and cash flow statement	4.2669	4.2447

In order to convert the balance-sheet data, the average exchange rate quoted by the National Bank of Poland at the balance sheet date was adopted.

In order to convert the positions under the comprehensive income statement and the cash flow statement, the exchange rate which is the arithmetical average of the exchange rates quoted by the National Bank of Poland at the last day of each month of a given period was adopted.

The Management Board of the Parent Company performs a joint analysis based on consolidated data, due to the fact that the separate and consolidated data for Ten Square Games S.A. and the Ten Square Games S.A. Capital Group are similar to each other (maintained trends for individual balance sheet and result items).

The increase in revenue in 2018 (+326% y/y) is related to the growing revenue of Fishing Clash, for which cash payments amounted to PLN 88.8 million in 2018, compared to PLN 3.8 million in the previous year. The global launch of the game took place in Q4 2017. Since the debut, payments in Fishing Clash have been steadily increasing quarterly and amounted to PLN 7.6 million in Q1 2018, PLN 17.5 million in Q2 2018, PLN 28.8 million in Q3 2018 and PLN 34.8 million in Q4 2018, respectively, which translated into an increasing share in payments after quarters in 2018: 52% in Q1 2018, 73% in Q2 2018, 81% in Q3 2018 and 84% in Q4 2018.

Let's Fish revenue also reached its historical peak in Q4 2018 and throughout 2018. The game generated payments at the level of PLN 16.5 million as compared to PLN 12.8 million in the previous year.

Wild Hunt also recorded an increase in sales in 2018, closing this period with payments of PLN 4.9 million (PLN 0.9 million in the previous year). The increase in revenues from Wild Hunt was caused, among others, by changes in the algorithms of mobile shops, which are aimed at supporting games of higher quality. Wild Hunt is very popular and willingly downloaded by players who appreciate the aesthetics of the game, which allowed for a significant increase in revenues from this title.

Game Factory's game portfolio monetized exclusively through advertising recorded a decrease in revenue from PLN 8.6 million in 2017 to PLN 6.0 million in 2018 due to changes in the algorithms of mobile stores in 2018.

The Group does not note significant seasonality of sales. The level of revenues is dependent on the life cycle of a given game (group of games).

Manufacturing costs of sold services include mainly the remuneration of Company's employees and associates. An increase in costs in 2018 results from the increases in the level of employment in the comparative periods.

Selling expenses increased in proportion to sales revenues. Within this item, the Group presents, for instance, commissions for on-line shops and marketing expenses. In 2018, commission and fee expenses amounted to PLN 30.1 million as compared to PLN 3.6 million in the previous year. The costs of marketing campaigns in 2018 amounted to PLN 24 million (including PLN 23.4 million for Fishing Clash advertising) as compared to PLN 1.5 million in the previous year. Revenue share costs amounted to PLN 1.6 million as compared to PLN 1.2 million in the previous year.

The increase in general and administrative expenses in 2018 was caused, among others, by incurring current expenses related to the First Public Offering process, which resulted in the debut on the Warsaw Stock Exchange on 11 May 2018 and subsequent current expenses related to the Company's presence on the stock market. An additional factor influencing the level of overheads is also the increase in employment.

The consolidated net profit of the Group for 2018 amounted to PLN 36,5 million and it increased by PLN 28 million, which means an increase by 334%.

The increase in operating cash flow (+437%) is a direct result of good financial results, for which the global success of Fishing Clash is responsible. The Group's investment activity is mainly related to the production of new titles – in 2018 work on three titles was in progress:

- Fishing Battle – completed in mid-2018 (cash expenditure in 2018 on title production: PLN 546,000);
- MiniGolf – production in progress as at 31.12.2018 (cash expenditure 2018: PLN 767,000)
- Hobby game – production in progress as at 31.12.2018 (cash expenditure 2018: PLN 168,000);

Financial activities are cash flows related to the payment of dividends.

The increase in current assets (increase in cash and increase in trade receivables) is a result of high sales of the Group's products.

An increase in trade liabilities results from an increase in current marketing expenditures, mainly connected with the Fishing Clash game.

The Group (and the Parent Company) has high liquidity, all liabilities are settled in a timely manner, and the Group does not experience any problems with the repayment of receivables.

## **5. INFORMATION ON BASIC PRODUCTS/SERVICES TOGETHER WITH VALUE AND QUANTITY SPECIFICATION AS WELL AS THE SHARE OF PARTICULAR PRODUCTS/SERVICES AND SPECIFICATION OF CHANGES IN THIS RESPECT IN A GIVEN FINANCIAL YEAR.**

The Group focuses on the distribution of games in the F2P (Free-2-Play) model, and revenues from games are generated mainly by micro-payments in the game (over 90% of total revenues). Therefore, the Group does not record the number of products sold, but only the valuable recognition of sales. In the opinion of the Management Board, the measure allowing to determine the popularity of the product is the level of payments generated by active players.

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2018	1Q	2Q	3Q	4Q	2018 IN TOTAL
Fishing Clash	7,559,687	17,527,268	28,846,155	34,830,640	88,763,750
Let's Fish	3,704,913	3,748,715	4,317,775	4,681,695	16,453,098
Wild Hunt	668,209	926,445	1,264,693	2,020,821	4,880,169
other	2,467,083	1,668,189	1,007,841	1,238,266	6,381,379
<b>PAYMENTS IN TOTAL</b>	<b>14,399,892</b>	<b>23,870,618</b>	<b>35,436,464</b>	<b>42,771,423</b>	<b>116,478,397</b>
Deferred income	0	0	0	-1,220,739	-1,220,739
<b>REVENUES IN TOTAL</b>	<b>14,399,892</b>	<b>23,870,618</b>	<b>35,436,464</b>	<b>41,550,684</b>	<b>115,257,658</b>

2018	1Q	2Q	3Q	4Q
Fishing Clash – MAU (average per period)	1,206,433	1,456,767	1,862,515	1,499,813
Let's Fish – MAU (average per period)	823,139	684,358	630,915	535,582
Wild Hunt – MAU (average per period)	538,589	432 313	1,384,340	1,249,584

\* MAU - monthly active users, number of active players per month

2017	1Q	2Q	3Q	4Q	2017 IN TOTAL
Fishing Clash	86,333	278,686	704,711	2,732,478	3,802,209
Let's Fish	2,909,282	2,490,638	3,238,366	4,172,001	12,810,288
Wild Hunt	56,083	86,378	332,386	389,212	864,059
other	2,119,315	2,199,745	2,518,822	2,717,834	9,555,716
<b>PAYMENTS IN TOTAL</b>	<b>5,171,014</b>	<b>5,055,448</b>	<b>6,794,285</b>	<b>10,011,525</b>	<b>27,032,272</b>
Deferred income	0	0	0	0	0
<b>REVENUES IN TOTAL</b>	<b>5,171,014</b>	<b>5,055,448</b>	<b>6,794,285</b>	<b>10,011,525</b>	<b>27,032,272</b>

2017	1Q	2Q	3Q	4Q
Fishing Clash – MAU (average per period)	67,612	103,527	177,201	601,751
Let's Fish – MAU (average per period)	1,069,338	986,163	1,002,243	894,997
Wild Hunt – MAU (average per period)	38,120	40,895	178,419	402,356

**6. INFORMATION ON SALES MARKETS, DIVIDED INTO DOMESTIC AND FOREIGN MARKETS, AS WELL AS INFORMATION ON SOURCES OF SUPPLY OF MATERIALS FOR PRODUCTION, GOODS AND SERVICES, SPECIFYING DEPENDENCE ON ONE OR MORE CUSTOMERS AND SUPPLIERS**

The Group's products are sold globally through a chain of stores with mobile applications (Google Play, AppStore) and with the use of browser channels. Payments are made by individuals and the Group receives an aggregated amount from its intermediaries (e.g. Google Play). The Group has framework agreements with intermediaries, which have been concluded on market terms. The share of aggregators in payments is presented in the table below. The increase in the share of AppStore and Google Play results from an increase in revenues from the mobile channel, mainly due to an increase in revenues from Fishing Clash.

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	Payments in 2018	share in payments in 2018	Payments in 2017	share in payments in 2017
AppStore	29,567,556	25%	2,567,509	9%
Google Play	62,927,195	54%	3,506,961	13%
other	23,983,646	21%	20,957,802	78%
<b>PAYMENTS IN TOTAL</b>	<b>116,478,397</b>	<b>100%</b>	<b>27,032,272</b>	<b>100%</b>

The Group assigns payments from users on the basis of their IP number, using external databases and sales reports in countries available on selected distribution platforms.

region	Payments 2018	share in payments	Payments 2017	share in payments
Europe	49,162,817	42.2%	14,495,762	53.6%
<i>including Poland</i>	<i>9,450,956</i>	<i>8.1%</i>	<i>4,233,210</i>	<i>15.7%</i>
North America	47,745,685	41.0%	6,661,896	24.6%
Asia	12,691,407	10.9%	4,415,260	16.3%
South America	2,877,332	2.5%	671,571	2.5%
Australia and Oceania	2,414,675	2.0%	648,489	2.4%
Africa	1,586,482	1.4%	139,294	0.5%
<b>PAYMENTS IN TOTAL</b>	<b>116,478,397</b>	<b>100.0%</b>	<b>27,032,272</b>	<b>100.0%</b>
Deferred income	-1,220,739	N/A	0	N/A
<b>REVENUES IN TOTAL</b>	<b>115,257,658</b>	<b>N/A</b>	<b>27,032,272</b>	<b>N/A</b>

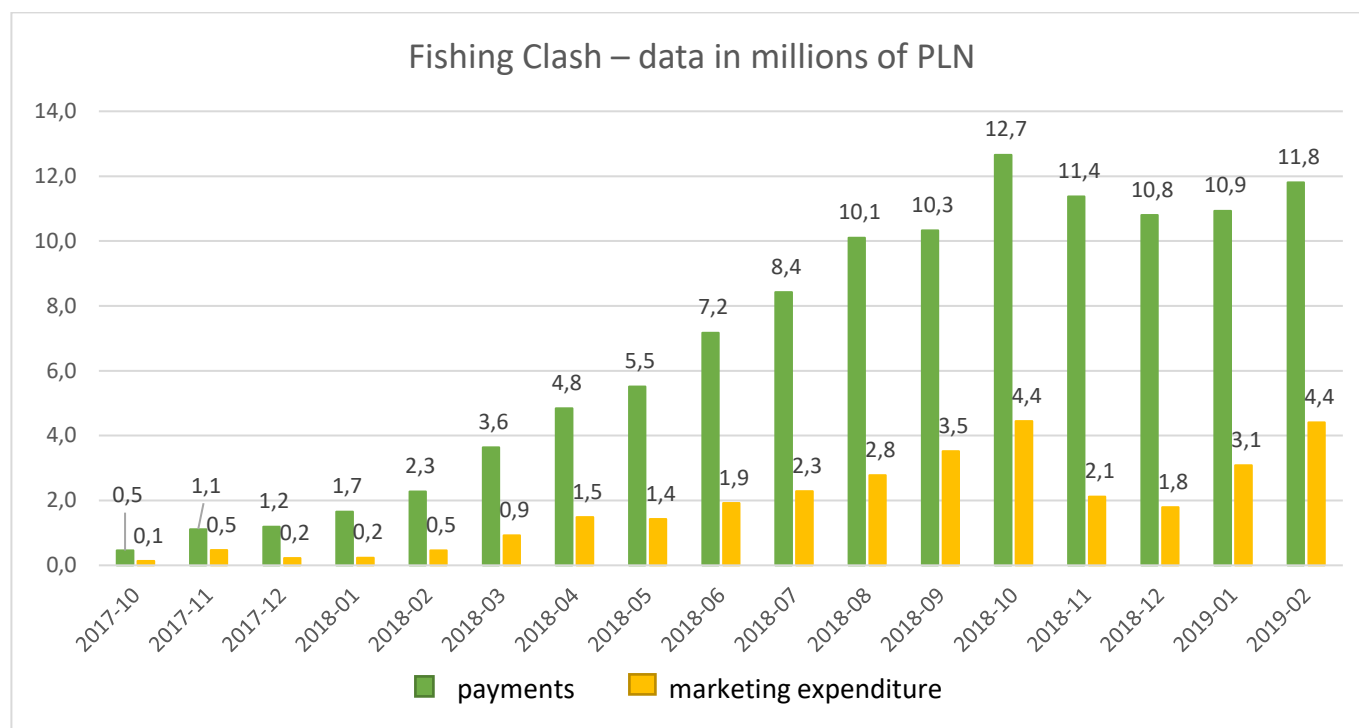
Costs incurred by the Group include costs of production, maintenance, distribution and marketing of games. The costs of production and maintenance of titles are mostly salaries for employees and co-workers. Distribution costs are commissions for intermediaries (mobile stores, payment aggregators). Marketing costs are related to the costs of marketing campaigns led by intermediaries. In none of these cases is the Group obliged to cooperate with a given entity (no long-term agreements signed, cooperation based on orders each time) and therefore the Group does not identify any significant dependence on suppliers.

## 7. BRIEF DESCRIPTION OF THE ISSUER'S MATERIAL ACHIEVEMENTS AND FAILURES IN THE REPORTING PERIOD, TOGETHER WITH THE SPECIFICATION OF THE MOST IMPORTANT EVENTS RELATED TO THE ISSUER

2018 was a defining year for the Group. A significant increase in Fishing Clash supported by product work and consistent marketing moved Ten Square Games from approximately PLN 27 million in revenues generated in 2017 to over PLN 115 million in 2018 (+326% y/y). This more than fourfold hike in revenues and results confirms the Group's plans and expectations towards the strategy implemented by the Group. Despite the significant contribution of Fishing Clash (PLN 88.8 million), the share of other products in the Group's revenues of over PLN 27.7 million in 2018 (in terms of payments in the period) is also worth mentioning. This underlines the importance of the Group's strategy to build a portfolio of profitable products with a long lifespan.

The Group's results were visibly influenced by marketing expenses incurred for the promotion of Fishing Clash. In 2018, marketing expenses reached the total level of PLN 24 million, of which approximately PLN 8.3 million was spent in the fourth quarter only. The Group considers the operational effectiveness and profitability of its marketing activities to be one of the key elements of Fishing Clash's success.

The Fishing Clash project team also focused on product development, introducing improvements such as new kinds of fish, new fisheries and improved functionality, focusing on the so-called live-ops, i.e. current game content management.



\* Data for January and February 2019 are the Group's estimates.

In the fourth quarter of 2018, Ten Square Games team also worked on new products for the Group. The pipeline of new productions currently includes a Mini Golf game, a new hobby game, two productions addressed to a female audience (in the early design phase in Q1 2019) and several experimental projects, including HTML5 games.

## 8. CURRENT AND PROJECTED FINANCIAL SITUATION

The Capital Group and the Parent Company are in good financial condition, which allowed for further development of new games with the use of own financing. The Management Board's objective is to maintain a stable financial standing of the Company and the entire Group by expanding the portfolio of games offered by the Group and promoting the current titles.

The table below presents the key parameters for assessing the Group's and the Parent Company's profitability.



Management Report on the Activities of Ten Square Games S.A. Capital Group and Ten Square Games S.A.  
for the year 2018

**Profitability indicators**

	<b>2018</b>	<b>2017</b>
<b>Chosen financial data</b>		
EBIT - Capital Group	44,314,539	10,862,393
EBIT – Parent Company	44,454,586	9,483,192
EBITDA - Capital Group	45,011,689	11,440,619
EBITDA – Parent Company	45,127,139	10,061,418
<b>Profitability indicator – the Group</b>		
Profitability EBITDA*	39.05%	42.30%
Profitability EBIT**	38.45%	40.20%
Gross profitability	38.91%	37.90%
Net profitability	31.64%	31.10%
ROA	66.96%	57.70%
ROE	86.66%	72.00%
<b>Profitability indicator – Parent Company</b>		
Profitability EBITDA*	39.62%	39.70%
Profitability EBIT**	39.03%	37.40%
Gross profitability	39.77%	35.10%
Net profitability	32.51%	28.80%
ROA	68.91%	55.60%
ROE	89.53%	70.20%

Source: Management Board

*Principles for the calculation of indicators: Profitability at the level of operating profit plus depreciation (EBITDA) – (operating profit for the period + depreciation) / operating income; Profitability at the level of operating profit (EBIT) – operating profit for the period / operating income; Gross profitability – profit before tax for the period / operating income; Net profitability - net profit for the period / operating income; Return on assets (ROA) – net profit for the period / total assets; Return on equity (ROE) – net profit for the period / total equity.*

Profitability ratios remained at a very high level both in 2017 and 2018. Revenue growth (mainly thanks to Fishing Clash) was in line with an increase in operating result, gross result and net result.

**Debt ratios**

Due to the fact that the Group (including the Parent Company) did not use external financing in 2017-2018, no debt ratios will be presented.

In 2018, the Group's equity accounted for 77.3% (PLN 42.1 million) of total liabilities. The remaining 22.7% were short- and long-term liabilities, including mainly current income tax liabilities in the amount of PLN 7.7 million, i.e. 14.2% of liabilities, trade liabilities of PLN 2.7 million, i.e. 5% of liabilities and deferred income in the amount of PLN 1.2 million, i.e. 2.2% of liabilities.

The structure of liabilities in the case of individual data was analogous to consolidated data.

## Liquidity ratios

	2018	2017
<b>Liquidity ratio</b>		
Current liquidity ratio – the Group	4.31	4.78
Current liquidity ratio – the Parent Company	4.25	4.47

*Source: The Group*

*Principles for the calculation of indicators:*

*Current liquidity ratio – total current assets / total short-term liabilities;*

Both in 2017 and 2018 the liquidity ratios remained at a very high level – it results from generating current positive cash flows during the year.

## 9. DESCRIPTION OF FACTORS AND EVENTS, INCLUDING THE UNUSUAL ONES, HAVING A SIGNIFICANT IMPACT ON THE FINANCIAL STATEMENT

During 2018, the Company made a partial write-down of Fishing Battle costs in the amount of PLN 566,106.

## 10. MAJOR ACHIEVEMENTS IN THE FIELD OF RESEARCH AND DEVELOPMENT

The Parent Company conducts development works related to new games. In 2018, two games of the Mango team and one game of the newly established team were developed. Soft launch of the first Mango title – Fishing Battle – took place in June 2018. Fishing Battle is a multiplayer game (PvP – Player versus Player) based on fishing on time. Based on data gathered during the soft launch, the Parent Company's Management Board decided not to support the game any further.

The second production of Mango, known as Mini Golf, is currently in the production phase (the game will also use the betting engine used in the production of Fishing Battle). Soft launch of Mini Golf is planned for the beginning of Q2 2019.

At the same time, the Group is working on another hobby title. It is currently in the production phase. Soft launch of this product is planned for the second half of 2019. At the same time, in 2019, work on two games addressed to the female audience and a number of prototypes and experiments, including HTML5 games, are in progress. In the opinion of the Management Board, the current development projects are aimed at consistent implementation of the strategy and bring with them a chance to broaden the Group's product offer with new profitable, timeless titles.

## 11. EXPECTED DEVELOPMENT OF THE ENTITY AND THE GROUP

The Group's strategy is based on the search for and innovative combination of the most effective models of games from the *Free 2 Play* segment in interesting thematic areas. Its implementation involves building a portfolio of timeless products with a long lifespan and deep monetization. In the opinion of the Management Board, experience in maintaining F2P games for many years and a well thought-out publishing pipeline allow the Group to consistently implement its strategy.

## 12. SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD WHICH WERE NOT REFLECTED IN THE FINANCIAL STATEMENT FOR A GIVEN PERIOD

In the period from 1 January 2018 to 21 March 2019, there were no significant events not reflected in the Group's financial statement.

## 13. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS, SPECIFYING TO WHAT EXTENT THE ISSUER IS EXPOSED TO THEM

The activities of the Ten Square Games Capital Group are subject to the influence of external and internal factors such as exchange rates, competition, changes in the macroeconomic situation, tax and other regulations. The following are descriptions

of the Group's defined, material and specific external and internal factors that may adversely affect the Ten Square Games Group's business.

Risk factors that may affect the Group's performance are as follows:

- PLN/EUR exchange rate. A significant portion of the Group's revenue is generated in foreign currencies, and the Group is therefore exposed to the risk of sudden changes in foreign exchange rates. At present, a significant portion of the costs associated with the purchase of advertising is incurred in U.S. dollars, offsetting the risk of exposure to foreign exchange rate fluctuations. A change in this proportion is not excluded in the future.

- Appearance on the market of products competitive to the Group's games. Due to low entry barriers for new entrants and easy access to global distribution of new products, the mobile gaming market is a competitive market. Consumers are offered numerous products, often with similar themes. A competitive market requires the Group to work on continuous improvement of the quality of its products and search for new thematic areas of interest to a wide range of customers.

- Parameters of the advertising market, such as prices and supply of advertisements displayed in the Group's games and prices of advertisements purchased by the Group. The Group's economic model assumes the possibility of acquiring players at prices lower than the expected value generated by the players. If it is currently possible for the Group to meet this condition, it cannot be ruled out that the cost of acquiring a user will exceed the above mentioned profitability threshold..

- Change in the policy of key distribution platforms such as Google Play, Facebook and Apple affecting the scope and distribution capabilities of the Group's products. As the Group's products reach users through entities independent of the Group, any change on their part as regards the Group's application promotion policy, application selection and distribution rules may have an impact on the Group's results.

- Duration of game development. F2P productions are relatively short and low-budget, but here, too, delays in production may occur as a result of difficult access to talent or changes in the market and the resulting changes in the product. Game production is a complex process based to a large extent on creative and artistic work, which often makes it difficult to set a precise production schedule.

- The ability to maintain and develop a team of developers and specialists in the field of development of F2P games, as well as attracting experts from Poland and abroad. The market of F2P specialists in Poland is young and shallow. Access to such specialists is of key importance for the Group.

- The Group's products are consumed by players.

The demand for these products may be subject to changing fashions, market trends or sudden changes in the perception of specific customer groups. A change in the macroeconomic situation may also result in a change in the purchasing behaviour of some customers.

- The Group's operations depend on the proper functioning of IT systems and technical infrastructure, networks and servers. As a result of failure of the technical infrastructure, the Group's products may be interrupted, which makes it impossible for the Group to conduct its current operations. Any system failure or access to data by unauthorized persons may result in loss or disclosure of data, reduction of sales revenues, necessity to incur unforeseen costs or penalties.

- The conditions of personal data processing are regulated by general provisions on personal data protection, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (GDPR), whose absolute applicability within the national legal order is mandatory as of 25 May 2018. The Group has put in place legal, organisational and technical solutions to ensure the security of the processed data and full compliance with the new regulation. Should the current data protection measures prove ineffective, data may be disclosed, modified or lost, whether as a result of system failure, human error or unauthorised actions by third parties. Violations of data protection rules can lead to financial penalties by the supervisory authority, as well as loss of reputation and customer confidence.

- Innovation in new technologies in the segment of electronic entertainment. Technological changes that may affect the way games are delivered to consumers and the way they are consumed cannot be ruled out. This may necessitate rapid adaptation of the Group's products to new realities.
- Changes in legal and tax regulations and the risk of providing services to users in various jurisdictions.

#### **14. CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR THE DEVELOPMENT OF THE ISSUER'S BUSINESS**

In the perspective of the first quarters of 2019, the Group intends to continue the development of its operations in the existing areas, i.e. develop its current portfolio and create new projects in the *Free 2 Play* mobile game apps segment.

Further development of Fishing Clash will have a key impact on the Group's results. The improvement of results, both in the area of product and marketing, may significantly influence the result of the subsequent quarter. In order to use its potential, the Group is continuing the optimization of live-ops, developing the functionalities of the product and improving marketing efforts.

The new release of the Mini Golf game (soft launch: Q2 2019) may also have an impact on the Group's future results. The possibility of evaluating the project appears only a few weeks after the soft launch, so at the moment it is difficult to predict whether the game will be successful on the market.

External factors which may influence the Group's results are: the exchange rate of American dollar, the appearance of competitive games on the market, the parameters of advertising market, such as prices and supply of the advertisements displayed in the Group's games as well as the prices of advertisements bought by the Group or a change of policy of crucial distribution platforms, such as Google Play, Facebook and Apple, which may influence the scope and possibility of distribution of the Group's products. The publication of Fishing Clash and its success in the Chinese market is also regarded by the Group as an external factor.

External factors coincide with the Group's basic risks, while internal factors also include outflow of employees and associates, delays in game production or the risk of inaccuracy of estimates and trends on the basis of which the Management Board makes decisions regarding the development of the Group's products.

#### **15. AGREEMENTS WHICH MAY RESULT IN FUTURE CHANGES IN THE PROPORTIONS OF SHARES HELD BY SHAREHOLDERS**

Agreements that may affect future changes in the proportions of shares held by shareholders are those relating to the incentive scheme. Details of the plan are described in note 28 in the consolidated (and separate) financial statement.

#### **16. THE MANAGEMENT BOARD'S STANCE ON THE POSSIBILITY OF FULFILMENT OF PREVIOUSLY PUBLISHED FORECASTS FOR A GIVEN YEAR IN THE LIGHT OF THE RESULTS PRESENTED IN THE QUARTERLY REPORT, COMPARED TO THE FORECASTED RESULTS**

The Management Board of Ten Square Games S.A. did not publish forecasts of financial results in 2018.

#### **17. SEASONALITY OR CYCLICALITY OF OPERATIONS**

The Group's activity is not seasonal.

## **18. CREDITS, LOANS, WARRANTIES**

Ten Square Games S.A. and none of its subsidiaries, as at 31 December 2018 and as at the date of issue of the financial statement, was not a party to credit or loan agreements. The Issuer and its subsidiaries did not grant any warranties during the reporting period.

## **19. ACQUISITION OF OWN SHARES (STOCKS)**

At the Extraordinary General Meeting of Shareholders held on 14 and 17 January 2019, at the request of one of the shareholders, the Shareholders of the Parent Company agreed that the Company would acquire, free of charge, 50,000 (fifty) shares with a par value of PLN 0.1 each (total value of the shares acquired: PLN 5,000) for the purpose of their subsequent redemption. The redemption of shares, and thus the amendment to the Company's Articles of Association, taking into account the action indicated above, was recorded by the District Court on 22 February 2019.

## **20. AFFILIATED BRANCHES (PLANTS) OWNED BY THE ENTITY**

Neither the parent company nor its subsidiaries have branches (plants).

## **21. FINANCIAL INSTRUMENTS**

1. Financial instruments with respect to the following risks: changes in prices, credit risk, material disruption of cash flows and liquidity to which an entity is exposed:

The Group and the Parent Company do not use such financial instruments due to the fact that the expected costs of their use could be higher than the probable benefits.

2. Financial instruments within the scope of the entity's objectives and methods of financial risk management, including methods of hedging material types of planned transactions for which hedge accounting is applied:

The Group and the Parent Company do not use such financial instruments due to the fact that the expected costs of their use could be higher than the probable benefits.

## **22. INFORMATION ON CONCLUDED AGREEMENTS SIGNIFICANT FOR THE ISSUER'S OPERATIONS, INCLUDING AGREEMENTS CONCLUDED BETWEEN SHAREHOLDERS KNOWN TO THE ISSUER, INSURANCE AGREEMENTS, COOPERATION AGREEMENTS OR COOPERATION AGREEMENTS**

On December 13, 2018, an agreement was concluded between the Issuer and NetEase (Shanghai) Online Games Co., Ltd ("NetEase") for distribution of Fishing Clash on the Chinese market. NetEase will be responsible for obtaining a license to distribute the title and for the distribution, marketing and promotion of the game in the People's Republic of China (excluding Hong Kong, Macau and Taiwan). The agreement specifies the mutual obligations of the Parties in connection with the gaming license granted, the basic terms and conditions of distribution, and sets out NetEase's obligations with respect to the marketing campaign. The Company's license fee will be calculated on the basis of the total revenue from micro-payments in-game less agreed distribution fees, transaction costs and uncollectible receivables provisions. Settlement between the parties will take place every month on the basis of a sales report prepared by NetEase. The agreement does not contain provisions that deviate from the terms and conditions commonly used for this type of agreements, including provisions on contractual penalties. The Company would like to point out that obtaining a license in this market depends on many external factors, and therefore NetEase does not guarantee that it will obtain the license necessary for the distribution of the game.

On February 11, 2019 the Issuer and Archicom Nieruchomości 5 Spółka z ograniczoną odpowiedzialnością with its registered seat in Wrocław entered into a lease agreement concerning office space located in the City One office and service building developed within the City Forum project located in Wrocław at ul. Traugutta 45. The agreement was concluded for a definite period of 5 years. The lease period will begin on 02.01.2020, i.e. on the date of taking over the leased object and will end on 02.01.2025, with the proviso that if the acceptance of the leased object moves in relation to the indicated date, then the date of expiry of the lease period will be postponed accordingly to the time of this postponement. The estimated amount of nominal rent payments (without service charges) for the period covered by the Agreement is EUR 1.5 million. The areas covered by the lease agreement will be used by the Issuer to operate economic activity. The terms and conditions of the lease agreement do not differ from market standards applied in agreements of this type.

Apart from the above-mentioned agreements, the Management Board is not aware of the existence of other significant agreements.

**23. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT, INCLUDING THE ABILITY TO MEET THE OBLIGATIONS INCUMBENT ON THE ISSUER, AND IDENTIFICATION OF ANY THREATS AND ACTIONS THAT THE ISSUER HAS UNDERTAKEN OR INTENDS TO UNDERTAKE IN ORDER TO COUNTERACT SUCH THREATS**

The Parent Company and its subsidiaries have a high level of cash as at 31 December 2018 and 31 December 2017. The Group companies settle their liabilities on time (excluding inter-company transfers). The Group companies also have no problems with the collection of receivables – most amounts relating to a given month are settled within the next 4-5 weeks. In the opinion of the Management Board, the Issuer's current financial situation does not require taking any additional steps to counteract the above-mentioned threats.

**24. ASSESSMENT OF THE POSSIBILITY OF REALIZATION OF INVESTMENT PLANS, INCLUDING CAPITAL INVESTMENTS, IN COMPARISON TO THE AMOUNT OF FUNDS HELD, TAKING INTO ACCOUNT POSSIBLE CHANGES IN THE STRUCTURE OF FINANCING THIS ACTIVITY.**

In the opinion of the Issuer's Management Board, the company has full capability of implementing investment plans. The Issuer currently owns several open productions (games), and the production costs of a game up to the moment of soft launch amount to approximately PLN 1 million on average. As at the end of 2018, the Issuer had nearly PLN 40 mln in cash and the ongoing productions will be financed from the Issuer's current funds.

**25. INFORMATION ON THE CONTROL SYSTEM OF EMPLOYEE SHARE PROGRAMS**

The Company's share-based incentive scheme covering the activities of the Company and its Capital Group in 2018-2020 was approved at the General Meeting on 15 March 2018 and partially modified on 14 January 2019 (shareholders' resolution). The detailed regulations of the programme were also approved by the shareholders in the form of a resolution. The implementation of the programme is supervised directly by the Supervisory Board and the Management Board of the Issuer.

**26. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ITEMS IN TERMS OF SUBJECT MATTER, OBJECT MATTER AND VALUE**

As at 31 December 2018 and as at 31 December 2017, the Group did not have any significant off-balance sheet items.



**27. VALUE OF REMUNERATION, AWARDS OR BENEFITS, INCLUDING THOSE RESULTING FROM INCENTIVE OR BONUS SCHEMES BASED ON THE ISSUER'S CAPITAL FOR MEMBERS OF THE ISSUER'S MANAGEMENT, SUPERVISORY OR ADMINISTRATIVE BODIES**

Affiliate	Net purchase		Remuneration		Net dividend	
Period	01/01/2017 - 31/12/2017	01/01/2018- 31/12/2018	01/01/2017 - 31/12/2017	01/01/2018- 31/12/2018	01/01/2017 - 31/12/2017	01/01/2018- 31/12/2018
<b>Management Board</b>	<b>253,000</b>	<b>96,000</b>	<b>47,300</b>	<b>341,740</b>	<b>2,097,676</b>	<b>4,249,713</b>
Maciej Popowicz	143,000	54,000	25,400	161,400	1,421,266	2,862,410
Arkadiusz Pernal	110,000	42,000	21,900	131,400	676,410	1,369,742
Magdalena Jurewicz				48,940	0	17,561
<b>Supervisory Board</b>	<b>0</b>	<b>0</b>	<b>15,500</b>	<b>186,000</b>	<b>24,158</b>	<b>105,364</b>
Maciej Zuzałek			1,000	12,000	0	52,682
Rafał Olesiński			3,500	42,000	0	0
Marcin Chruszczyński			3,500	42,000	0	0
Tomasz Drożdżyński			3,000	36,000	0	0
Maciej Marszałek			1,500	18,000	24,158	52,682
Wiktor Schmidt			3,000	36,000	0	0

Neither members of the Management Board nor members of the Supervisory Board participate in the Company's incentive scheme for the years 2018-2020.

**28. AGREEMENT WITH THE AUDITOR**

The statutory auditor was appointed by the General Meeting of Shareholders of the legal predecessor of the company, i.e. Ten Square Games Sp. z o.o. by way of resolution no. 1 dated 21 August 2017 on the appointment of an audit firm. The agreement was concluded on 31.08.2017 and covers a two-year period, i.e. audit of the separate and consolidated financial statements for 2017 and 2018 and a semi-annual review in 2018. In addition to the audit agreement, in 2017 the Issuer also concluded agreements for the audit of the transformation plan, the audit of the Historical Financial Information for the purposes of the issue prospectus and an agreement for agreed procedures related to the Company's stock exchange debut in May 2018.

Description	costs in 2018	costs in 2017
audit of the consolidated and separate financial statements for 2018 (2017)	34,000	30,000
review of the consolidated and separate financial statements for the first half of 2018	22,000	0
audit of historical financial information for the years 2015-2016	0	28,000
audit of historical financial information for the years 2016-2017	0	1,200
other services related to the initial public offering	12,800	19,000
<b>TOTAL</b>	<b>68,800</b>	<b>78,200</b>

**29. PRINCIPLES OF CORPORATE GOVERNANCE**

The Issuer is subject to corporate governance rules contained in the document 'Code of Best Practice for WSE Listed Companies'. The statement of compliance with corporate governance rules in Ten Square Games S.A. in 2018 is a separate part of the report of the Management Board on the activities of Ten Sqaure Games S.A. Capital Group and Ten Sqaure Games S.A.

Management Report on the Activities of Ten Square Games S.A. Capital Group and Ten Square Games S.A.  
for the year 2018

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		date	signature
The President of the Management Board	Maciej Popowicz	21/03/2019	
The Vice-President of the Management Board	Arkadiusz Pernal	21/03/2019	
Member of the Management Board	Magdalena Jurewicz	21/03/2019	