



CD PROJEKT®

**MANAGEMENT BOARD REPORT ON
CD PROJEKT CAPITAL GROUP
AND CD PROJEKT S.A. .
ACTIVITIES IN 2018**

Disclaimer

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

This report on the activities of the CD PROJEKT Capital Group and CD PROJEKT S.A. contains important supplementary information related to the separate financial statement of CD PROJEKT S.A. Due to the fact that the activities and separate financial statement of CD PROJEKT S.A. have a dominant influence upon the activities and consolidated financial statement of the CD PROJEKT Capital Group, information contained in further parts of this report shall apply to the consolidated financial statement of the Group insofar as it describes the activities and results of CD PROJEKT S.A.



Esteemed Shareholders,

In the past year we busied ourselves with laying further foundations for the Group's future. The year also represented the first major test for *Cyberpunk 2077*.

The most important test was the launch of the game's promotional campaign. The global release of a Cyberpunk trailer marked the culmination of the Xbox platform conference which immediately preceded the opening of the E3 fair. The game itself was also showcased at a series of invitational presentations held at E3 and later, in August, at gamescom. In parallel, we proceeded with public release of a 48-minute gameplay trailer, enabling us to gauge the degree to which the game is anticipated by players.

Today I feel confident in announcing that Night City – a futuristic city noir located somewhere in sunny California – was enthusiastically received by industry experts and fans alike. Work on *Cyberpunk 2077* is proceeding apace, with over 400 people currently involved in the project.

In 2018 we also concluded the first distribution agreements for *Cyberpunk 2077* – with Warner Bros. Home Entertainment which will handle distribution in North America, and Bandai Namco, which will cover most of Europe. Both companies are tried and tested business partners with whom we had successfully collaborated on *The Witcher 3*. Altogether, we now have distributions contracts in place in several dozen countries, with more in the pipeline.

Our second project – *GWENT: The Witcher Card Game* – underwent major design changes over the past year and was released in October, along with its single-player spinoff: *Thronebreaker*. *GWENT* marks a major departure from our previous pattern of focusing on large-scale RPGs. As such, it enabled us to expand our skillset and establish an entirely separate development team capable of implementing and managing GaaS (Game as a Service) projects.

Our last year's milestones are just the beginning. We are intensively expanding our business activities. Over the past years we greatly strengthened our creative teams both at the Warsaw HQ and at the Kraków studio. The CD PROJEKT RED team was also bolstered by a highly experienced group of developers from Wrocław, where we established a new studio. Finally, the Group was expanded by the Spokko creative team, currently working on a yet-unannounced project targeting mobile devices.

Regarding GOG.com, for some time now we have been unveiling major changes to that company's business model. We continue to pursue and exploit synergies between our two main activity segments, an example of which is *GWENT*, developed by a consortium of CD PROJEKT RED and GOG.com.

These activities, while not directly affecting the reported results of the Group, represents an investment in our future. And the future looks awesome indeed!

ADAM KICIŃSKI





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Cyberpunk 2077 promotional campaign

launched at E3 in Los Angeles

Over 100 awards
already received by
Cyberpunk 2077

A collage of various award certificates and trophies, including one from 'GAMESPOT' and another from 'IGN'. The background is a dark, textured surface with scattered papers and small objects.

New company
incorporated in the framework
of the Capital Group:
Spokko

A solid dark red background with white text.

48-minute
Cyberpunk 2077 gameplay published in August

A scene from the game showing a character in a futuristic setting, possibly a hospital or a clinic, with other characters and medical equipment.

In October we announced our
strategic partnership
with Digital Scapes – a Canadian studio

A solid dark red background with white text.

Cyberpunk 2077 trailer
and gameplay viewed
50 million
times on all supported channels

A character from the game, likely a female, holding a glowing object. The background is dark with some light sources.



Two new releases

appearing in October:

Thronebreaker: The Witcher Tales
and *GWENT: The Witcher Card Game*



Guest appearances of

The Witcher

in *SOULCALIBUR VI* and
Monster Hunter: World

30%

net profitability

363 million PLN

in sales revenues and

109 million PLN

in net profit for 2018

New development studio

– CD PROJEKT RED Wrocław –
established in March



CD PROJEKT stock has joined
prestigious indices:

WIG20, Stoxx 600**

CD PROJEKT S.A. market
capitalization has reached

18 billion PLN*



GOG.com

celebrated its

10th anniversary

* As of 5 March 2019

** CD PROJEKT S.A. stock joined WIG20 on 16 March 2018 at the close of the trading day; in August 2018 CD PROJEKT S.A. stock also joined the Stoxx Europe 600 index.

The background features abstract geometric shapes in shades of pink and grey. A large, light pink shape dominates the left side, with several sharp, triangular points extending towards the right. A grey shape is visible in the bottom-left corner, partially overlapping the pink one. The overall composition is modern and minimalist.

**Brief description
of the CD PROJEKT
Capital Group**



Activity profile

CD PROJEKT S.A. (also referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically growing global digital entertainment segment. These activities have been ongoing for nearly 25 years and originally focused on the Polish market. The Company – then called CD PROJEKT – began by distributing foreign games in Poland (note that the corresponding activity segment, handled by the Group's CDP.pl subsidiary, was disaggregated in 2014). A pivotal moment in the Group's history came in 2002 with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG¹ – *The Witcher*.

The CD PROJEKT Group currently conducts operating activities in two key segments: CD PROJEKT RED and GOG.com.

Map 1 CD PROJEKT worldwide sales (update with data derived from IR slides)



- Headquarters (CD PROJEKT RED studio and GOG.com)
- CD PROJEKT RED dev studios
- Branch offices
- Community managers

¹ Role-Playing Game – a storyline-driven game based on a consistent narrative.



CD PROJEKT RED

Videogame development and publishing is the main area of activity of the CD PROJEKT RED studio, which operates in the framework of CD PROJEKT S.A., CD PROJEKT Inc. and CD PROJEKT Co. Ltd. The activity covers creation and publication of videogames, licensing the associated distribution rights as well as manufacturing, distributing or licensing tie-in products which exploit the commercial appeal of brands owned by the Company. In the scope of its publishing activities the Company also assumes responsibility for its promotional and advertising campaigns and maintains direct relations with the player base through regular participation in trade fairs, as well as via electronic and social media channels.





GOG.com

The core activity of the GOG.com segment involves selling and delivering videogames directly to the end users' devices via the Company's proprietary GOG.com platform and the GOG Galaxy application. GOG.com is currently among the world's most popular independent digital distribution platforms, with nearly 2700 selected videogames licensed from over 600 developers, copyright holders and publishers worldwide. All games are distributed free of cumbersome DRM² restrictions.



GOG sp. z o.o. headquarters in Warsaw



CD PROJEKT S.A. headquarters in Warsaw

During the reporting periods 95.6% of the CD PROJEKT Capital Group's sales revenues were generated by exports. Throughout 2018 North America and Europe accounted for 55% and 29.1% of the Capital Group's sales respectively. 92.6% of the Group's sales were carried out via digital distribution channels, including GOG.com as well as external platforms such as Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle and App Store.

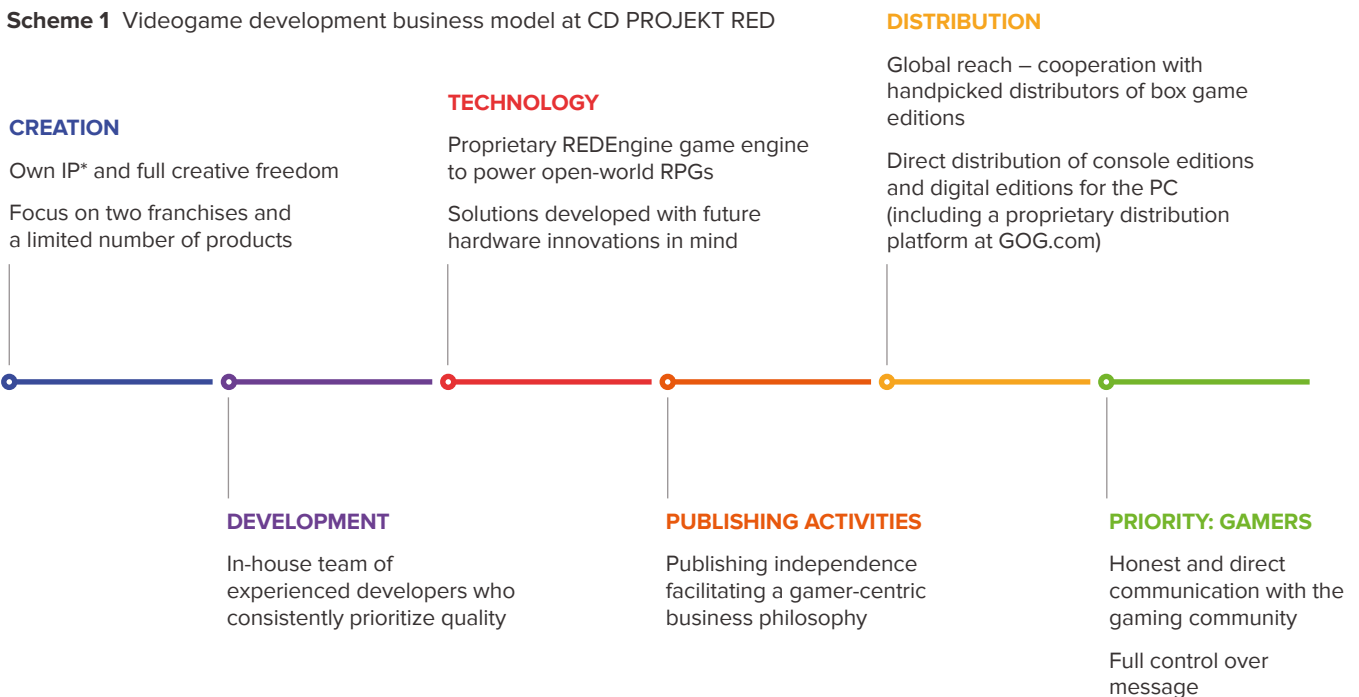
² Digital Rights Management



Business philosophy

The business philosophy of the CD PROJEKT Capital Group rests upon two pillars: uncompromising dedication to quality in the videogame and service development process, and retention of financial and creative independence (itself necessary to facilitate the former goal). The Board regards these two factors as decisive in ensuring success on the competitive global digital entertainment market. CD PROJEKT RED stands apart from other major videogame developers and publishers in that it emphasizes control over every stage of the game development and marketing process – from initial design, through work on technological solutions, publishing activities, promotion and distribution, all the way to player relations. This model is implemented by operating a proprietary digital distribution and online gaming platform – part of a broad user-friendly and player-centric ecosystem.

Scheme 1 Videogame development business model at CD PROJEKT RED



* Proprietary brands *The Witcher* and *Cyberpunk*



Diversity policy

On 8 January 2019 the Board of CD PROJEKT S.A. approved the CD PROJEKT S.A. Diversity Policy, which sets forth core values guiding the Company's relationship with its team members, key managers and members of the Board and Supervisory Board. The goal of the approved Diversity Policy is to reinforce cultural awareness and foster diversity which is regarded as the foundation of innovation, creativity and long-term growth of CD PROJEKT S.A.



We shape a work environment which both respects and acknowledges diversity, fostering a sense of belonging, openness and trust. This approach helps evoke the full potential of our team, contributes to our commercial success and strengthens our organizational culture.

We combat any and all symptoms of racism, homophobia or xenophobia. We believe that tolerance underpins creativity and innovation.



On 13 November 2017 CD PROJEKT S.A. enacted an anti-mobbing and anti-discrimination policy. Among others, this policy appoints a group of so-called “Trusted persons” who may represent the first recourse for employees where mobbing or discrimination is suspected. As of 31 December 2018 four Designated Confidants were active at the Company. In 2018 81% of CD PROJEKT S.A. team members who discharge managerial responsibilities took part in a training session devoted to counteracting workplace mobbing and anti-mobbing procedures.



We strongly believe that people are our greatest asset. Our company philosophy embodies the principle of fair play. Fair treatment of our employees, collaborators, business partners and players constitutes an essential ingredient of our activities and decisions.



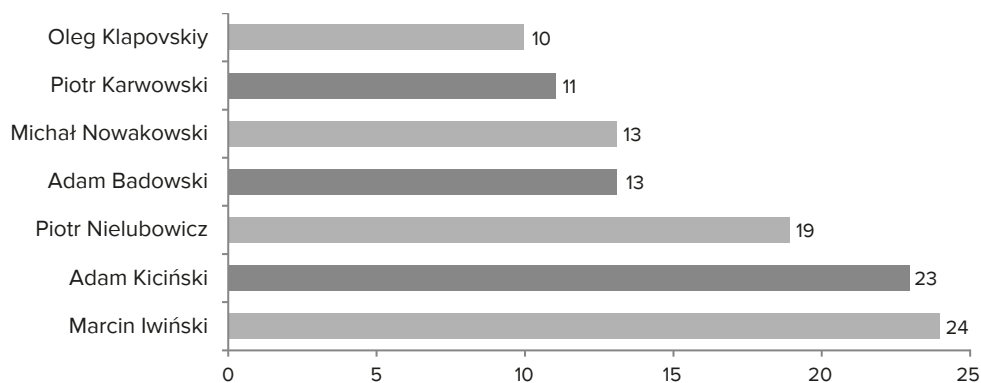


Managerial and supervisory bodies

In line with the Company's Diversity Policy the Management Board and Supervisory Board of CD PROJEKT S.A., as well as the Company's key managers, maintain a measure of diversity which stems from the non-discrimination principle espoused by CD PROJEKT. The Company has consistently implemented a policy of filling executive and managerial positions with appropriately qualified, creative, experienced and educated candidates. The Company regards other factors, such as gender, as irrelevant in this scope.

Members of the Company's Management Board and Supervisory Board possess formal qualifications in such disciplines as management and marketing, finance, law and information technology. All members of the Management Board also possess longstanding experience in acting in a managerial capacity at companies which comprise the CD PROJEKT Capital Group.

Figure 1 Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years)

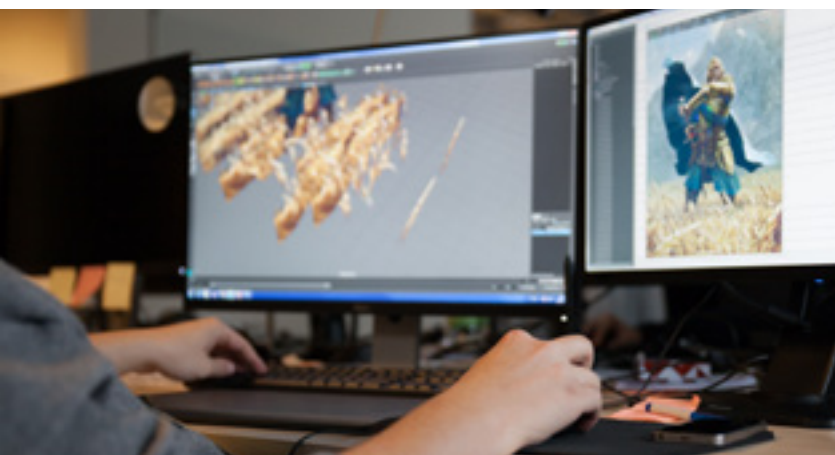


Both in 2017 and in 2018 the Management Board of CD PROJEKT S.A. consisted of seven persons, all of them men, whereas the Company's Supervisory Board had one female member – its Chairwoman.



Our team

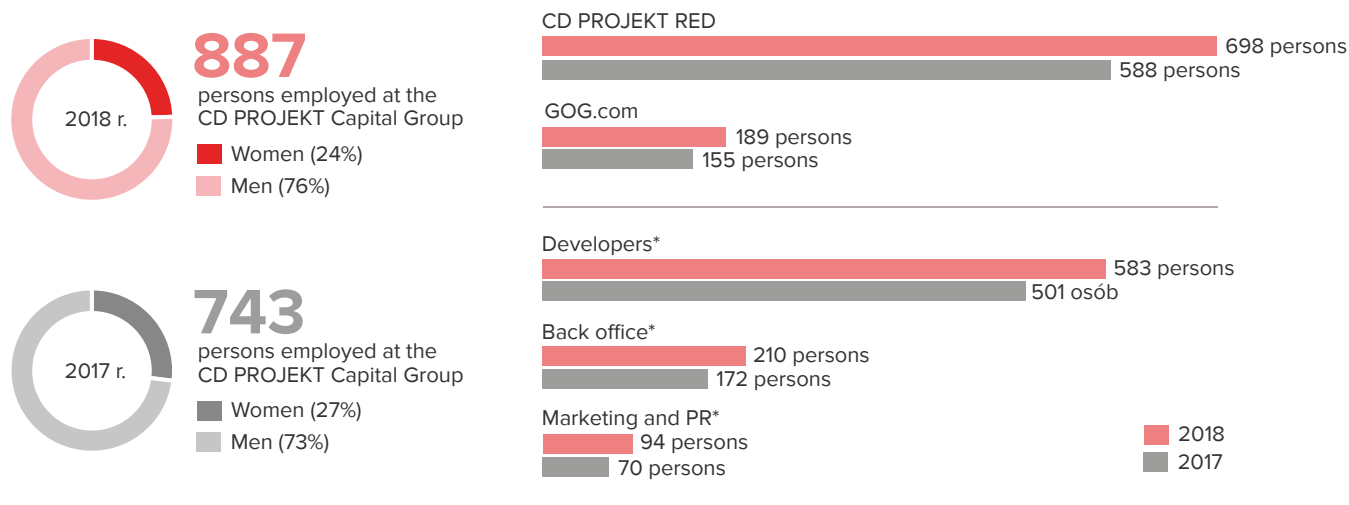
The videogame industry is characterized by strong autonomy of cooperating individuals and businesses. This is particularly true of creative aspects of the production process, such as storyboarding, conceptual design, artistic vision, 2D and 3D model design, animation, programming, sound recording and gameplay design. The outcomes of each stage often constitute distinct creative works in the sense of the Act on Copyrights and Related Rights. Given the specific nature of our environment, the Group's products and services rely to a great extent on collaboration with individuals who are not bound by standard employment contracts. Accordingly, the Company sees fit to extend the description of its workforce to include individuals who are not on the payroll, but nevertheless contribute to videogames and other services offered by the Group. In light of the above, this section provides a comprehensive description of a team of independent specialists who regularly collaborate with the Group and who directly influence its operations and growth prospects, regardless of their contractual ties to the Group (employment contract, contract for work, contract of mandate, permanent collaboration, appointment or any other type of contract used in countries where the Group's foreign subsidiaries carry out their core activities), and the duration thereof (indefinite contract, fixed-term contract, project, trial period etc.)





Employment structure

Scheme 2 Employment at the CD PROJEKT Capital Group at the end of 2017 and 2018



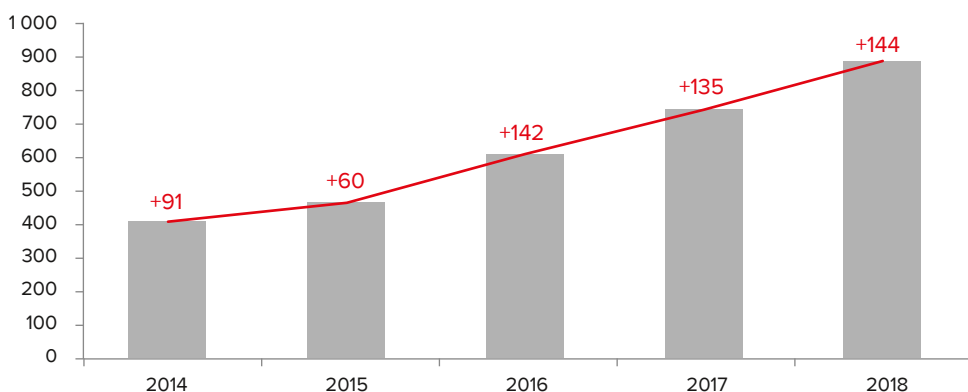
13% turnover in 2018 **14%** turnover in 2017 **2.57** average tenure in 2018 (in years) **2.76** average tenure in 2017 (in years)

* Number of employees at the CD PROJEKT Capital Group

At the close of 2018 the CD PROJEKT Capital Group employed 887 persons (19% year-over-year increase). CD PROJEKT RED accounted for 79% of the Group’s workforce, with the remaining 21% assigned to GOG.com.

The dynamic growth in the Group’s employment observed in 2018 is due to an expansion of the Group’s activities and upscaling of its development projects. The CD PROJEKT Capital Group Strategy for 2016-2021 stipulates that by 2021 the Group will have established two major development teams and two smaller ones, each working on an independent project.

Figure 2 Changes in employment at the CD PROJEKT Capital Group between 2014 and 2018



At the end of 2018 the vast majority of the total 720-strong team (591 CD PROJEKT RED staff and 186 GOG.com staff) was affiliated with the Warsaw office. The Kraków branch employed 74 people while the nascent Wrocław branch employed 21. CD PROJEKT also operates offices in Los Angeles, Berlin, Tokyo and Shanghai, each tasked with coordinating local marketing and sales activities.

**Table 1** Employment at CD PROJEKT RED development studios at the end of 2017 and 2018

	CD PROJEKT RED – Warsaw studio	CD PROJEKT RED – Kraków studio	CD PROJEKT RED – Wrocław studio
2017	534	54	-
2018	591	74	21

65% of the CD PROJEKT Capital Group workforce consists of developers. In 2018 these employees worked on CD PROJEKT RED releases – including *Cyberpunk 2077*, *GWENT: The Witcher Card Games* and *Thronebreaker: The Witcher Tales* – on expanding the GOG.com digital distribution platform, on the GOG Galaxy application and on support and maintenance of *GWENT* online services.

CD PROJEKT RED stands apart from other videogame development studios in that it also operates an extensive marketing department. At the end of 2018 this department had a staff of 75. Marketing and PR activities are a crucial element of any videogame release, being regarded as a prerequisite of commercial success and critical acclaim. The CD PROJEKT RED marketing department issues general strategies and coordinates the marketing and promotional activities carried out by the Company's foreign partners.

The CD PROJEKT RED segment also includes an internal publishing department, which oversees relations with business partners and supervises sales of the Company's products.

In addition, Group member companies employ a broad range of specialists in the fields of accounting, finance, law, taxation, administration, HR, recruitment, payroll, training, systems management, investor relations and IT. Altogether, this team ensures smooth operation of the entire organization and provides the necessary support for developers of videogames and services created by the Group.

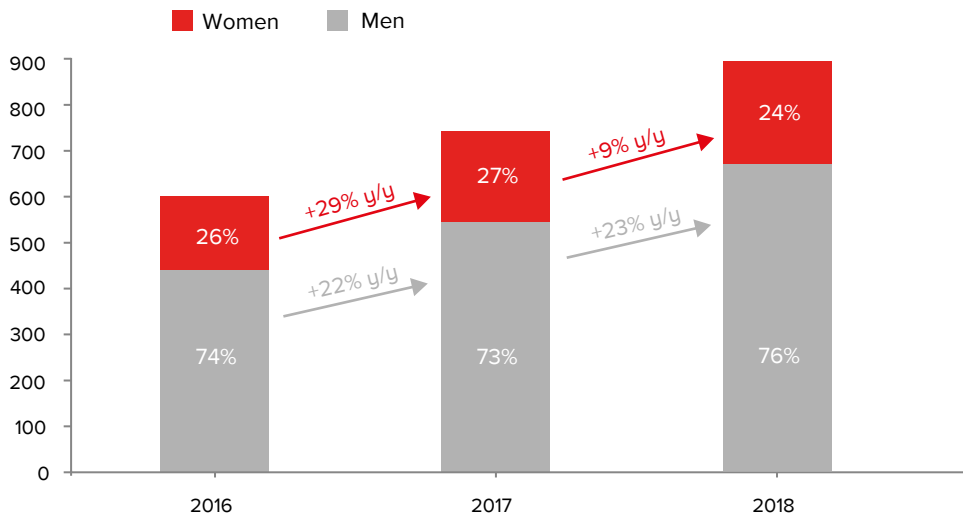
At the close of 2018 women represented 24% of the Capital Group workforce. This is substantially more than the Polish videogame industry average of 15%³.



³ The State of Polish Video Games Sector 2017, Krakow Technology Park p. 73, www.cdprojekt.com/pl/wp-content/uploads-pl/2016/03/kondycja-polskiej-branzy-gier17.pdf

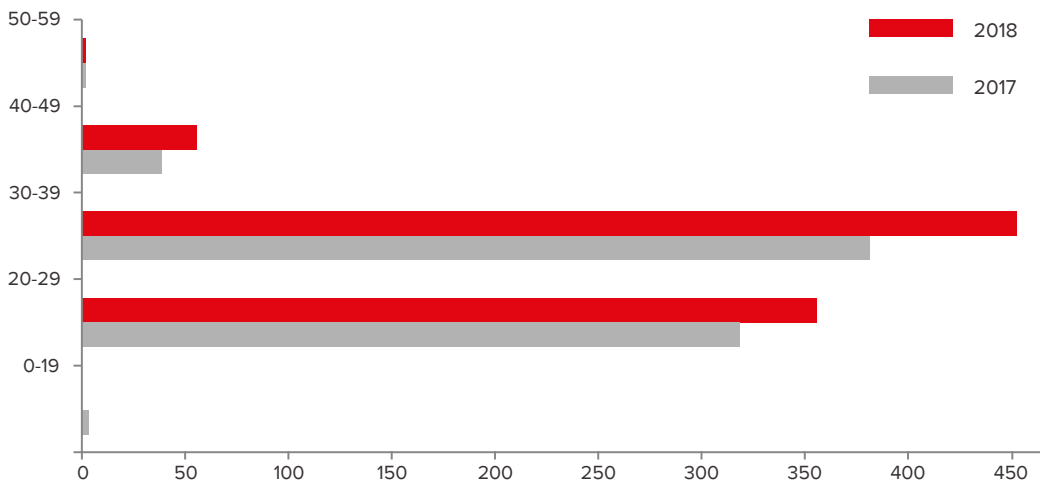


Figure 3 CD PROJEKT Capital Group workforce by gender at the end of 2016, 2017 and 2018.



The average age of CD PROJEKT Capital Group employees reflects current global market trends. More than half of the workforce (51%) falls within the 30-39 age bracket. The second largest group – employees aged 20-29 – represents 35% of our workforce. In 2017 the average employee age was 32 at CD PROJEKT RED and 31 at GOG.com.

Figure 4 Capital Group workforce by age bracket at the close of 2017 and 2018.



Foreigners represent 19% of the CD PROJEKT Capital Group workforce. As of 31 December 2018 the Group employed individuals from 39 countries. The largest foreign groups hail from Ukraine (20 people), United Kingdom (15 people), France (14 people), Russia (13 people) and United States (11 people). CD PROJEKT operates an internal relocation department which helps foreigners move to Poland and assists them during the initial months of their stay.

At the close of 2018 the CD PROJEKT Capital Group employed 2 disabled individuals. The Warsaw-based offices of CD PROJEKT were adapted to suit their needs.

For team members who have special mobility or health requirements, the Company makes every effort to individually adapt the workplace configuration and conditions to suit their specific needs and capabilities.



Benefits

In addition to standard remuneration, each employee of the Group is also entitled to a range of benefits, depending on their workplace location.

Healthcare - The Company provides either full or partial coverage of health insurance packages offered by private national providers, including ENEL-MED, LUXMED and MEDICOVER. This coverage also extends to the employees' life partners and family members.

Sports and fitness activities - We offer Benefit and Multisport packages, enabling access to popular sporting and fitness venues throughout the country, including swimming pools, gyms, dance schools and many others.

The Warsaw offices are also equipped with a gym, available around the clock and staffed by a personal fitness trainer.

Flextime - CD PROJEKT RED supports flextime. Team members may report for work between 8:00 and 10:00 a.m.

Library - The internal CD PROJEKT library offers a wide selection of books, games and movies – currently nearly 600 items. In 2018 the library was expanded with over 140 books and approximately 100 videogames for various platforms.

Dogs at the office - For several years, CD PROJEKT has been a dog-friendly employer. Any employee may bring their four-legged friend to work as long as certain basic requirements are met. According to recent studies, dogs at the office assist employees in managing their job stress, maintaining high morale and achieving professional satisfaction. Such companionship also fosters interpersonal relations, improves cooperation and builds synergies among employees.





Events - Integration events and meetups are held several times a year. The Company also organizes numerous presentations and courses to help employees develop their personal skills and pursue hobbies.

Highlights of the Group's calendar include annual picnics organized by CD PROJEKT RED and GOG.com. These events feature various competitions and other activities. In addition, each year the team gathers for a Christmas meetup, with special gifts presented to employees who have been with CD PROJEKT for 5, 10 and 15 years respectively. In 2018 82 team members were acknowledged in this manner (5 years: 64 employees; 10 years: 16 employees; 15 years: 2 employees).

In addition to companywide events, both CD PROJEKT RED and GOG.com organize internal or cross-departmental outings financed by the Company.





Training and professional development

CD PROJEKT Capital Group member companies strive to provide their respective teams with the best possible employment and professional development conditions.

On the first day of their employment each team member undergoes the so-called onboarding procedure. They are familiarized with the Company's history, values, culture and customs. They receive information regarding the way the Group conducts its business, our IT systems, data security policies and legal aspects of investing in CD PROJEKT shares. They are also advised of the available bonuses and social incentives offered by CD PROJEKT. Following the main onboarding session, the newcomer participates in further training organized by specific departments – covering issues such as IPR, copyright protection, circulation and protection of inside information, restrictions associated with employment at a publicly traded company, GDPR regulations and auxiliary systems for processing mail or invoicing expenses to CD PROJEKT.

Members of the CD PROJEKT Group are also provided with career advancement opportunities, e.g. through participation in training courses, market events and Polish language classes for foreigners.

CD PROJEKT RED

The training programs offered by CD PROJEKT RED as part of its training budget, are available to developers as well as to back office workers. The permanent offer focuses on drawing and language courses. The Studio also works to address the specific needs of its team members by organizing targeted courses, both internally and externally, and procuring access to online tutorials on e-learning platforms.

In 2018 32 employees participated in Polish language courses over a total of 576 academic hours. The Studio also organizes English language courses for its back office workers. In 2018 these courses attracted 93 participants. On average, 116 classes were held each month, yielding a total of 1392 academic hours. Since 2018 Chinese classes are offered in addition to Polish and English language courses.

As part of its internal training curriculum the Studio organizes drawing classes, tutored by the Studio's own team members as well as invited professionals. These professional development activities are aimed at artists and animators who work on CD PROJEKT RED releases.

To address specific needs of individual development teams, additional training courses, both internal and external, are organized by CD PROJEKT. In 2018 these included, among others, cultural study programs, 3D scanning courses, programming courses held in collaboration with the Warsaw University of Technology Faculty of Mathematics and Information Science, a series of screenwriting courses, project management courses and color theory classes assisted by a figurine painting workshop. We also organize meetings with outstanding specialists, titled Meet a Star. In 2018 we were visited by Nathan Fowkes, a celebrated concept artist.

In 2017 CD PROJEKT RED introduced a 12-month managerial development program (called the Manager Academy) offered in Polish as well as in English. This program carried on in 2018, with 45 training sessions (approx. 360 academic hours) attended by 72 participants.





By the end of 2018 90% of all qualified individuals (132 of 147) had completed the Academy course.

In 2018 we organized a total of 2870 hours of internal training activities, attended by 497 persons. The average training budget per employee increased by 18% in 2018, reaching 2 223 PLN.

In addition to training courses, since 2016 CD PROJEKT RED has been co-organizing the annual *Promised Land Art Festival*, held annually in Łódź – one of the world's foremost events for representatives of the creative industry. It provides a forum for participants to exchange their experience and participate in lectures and workshops supervised by representatives of globally recognized brands. In 2018 events held under the Promised Land umbrella attracted approximately 190 members of the CD PROJEKT creative team.



Top Quality HR certificate for the Manager Academy





GOG.com

Much like the CD PROJEKT RED team, the GOG.com team has access to drawing classes and language courses. In 2018 over ¼ of the total number foreigners employed at GOG.com participated in the latter.

Several times a year the company organizes specialized training sessions and meetups for interested employees. In 2018 this included lectures and meetings devoted to the Docker technology, while in December we initiated a series of educational meetings called PHPers, providing PHP programmers with an opportunity to expand their skills.

Grading and feedback system

CD PROJEKT cares about the development of its team members' competences and believes in the power of feedback in the context of corrective actions and further growth.

Both CD PROJEKT RED and GOG.com have established formal feedback channels and the associated annual incentive programs.

At CD PROJEKT RED, as part of their monthly and quarterly evaluations, team members may receive special prizes – goblets and Rarog Birds – depending on the quality of their individual contributions and dedication to their work. These prizes subsequently affect individual annual bonuses.

Bonuses and profit sharing

It is the intent of CD PROJEKT board to ensure that all team members partake in the Company's financial results. In recent years part of our net profit was allocated to bonuses and split among all employees on the basis of individual arrangements or with distinction to their job tenure, position, individual achievements and accolades received in the framework of the feedback system.

Incentive program: entitlement to claim Company shares

The Group has instituted an incentive program for persons regarded as particularly important for the Company and other members of its Capital Group. Under this program selected individuals may, in the future, be entitled to purchase Company stock at a predetermined price which corresponds to the listing of CD PROJEKT S.A. stock at the moment the program entered into force. Implementation of the program is contingent upon attaining a series of result goals, or upon ensuring that the Company stock price increases by a certain percentage. The program is scheduled for a maximum of 6 fiscal years (2016-2021). Up to 6 million individual entitlements may potentially be issued under the program. Further details are presented later on in this report.





Employer branding

Throughout 2018 CD PROJEKT continued to promote its image as a desirable employer, offering an exciting environment in which to further one's professional career. These activities were targeted externally, at students and professionals, as well as internally, at the Company's current employees.

The abovementioned activities include participation in job fairs and industry events, where the Company and its representatives assume the role of experts, sponsors and mentors, helping participants assemble their personal portfolios, providing advice and organizing training sessions.



Of all the employer branding events in which CD PROJEKT took part, the following are regarded as particularly notable:

Trojan Horse was a Unicorn – a multi-day event dedicated to creators associated with videogame and motion picture industries. At the 2018 main event the Studio's representatives took on the role of experts during recruitment sessions. This enabled the Studio to attract fresh talent and encounter famous "veterans". Our recruitment team also helped participants flesh out their CVs and consider career development opportunities. In addition, CD PROJEKT RED artists who took part in this year's edition of **THU** assessed the portfolios of aspiring novices and provided useful advice in the scope of artistic development.

Digital Dragons ranks among the largest gaming market events in Europe. It provides a forum for exchanging experience and forging new partnerships. In addition to videogame developers it also attracts young individuals who wish to take their first steps on the path to a career in videogame development. In 2018 CD PROJEKT RED was the event's main sponsor. The Open Day organized by the Company's Kraków studio marked a key highlight of the fair. We talked to hundreds of people; our representatives took part in numerous presentations while the recruitment team provided advice for prospective young videogame developers.

Team Videogame Development Competition (Konkurs Zespołowego Tworzenia Gier Komputerowych) is a recurring event organized by the Łódź University of Technology. In 2018 CD PROJEKT RED was the technology sponsor of the landmark 10th edition of the Competition. Our programmers and designers, many of whom are graduates of the Łódź University of Technology, had the pleasure of reviewing several dozen submissions by young creators and awarding a special prize for the most technologically sophisticated project.

Furthermore, since 2016 CD PROJEKT RED has co-organized the **Promised Land Art Festival**, held annually in Łódź – one of the world's foremost events for representatives of the creative industry. Over 700 people took part in last year's edition, including approximately 20% of the CD PROJEKT RED team.





In May GOG.com also organized a **hackathon** under the “Let’s make gamers’ lives easier!” banner. During the 12-hour event participants were asked to create a prototype application which makes gaming more convenient, based on the tools and product base provided by GOG.com. Laureates received prizes and were offered internship opportunities at GOG.com.

Our premises

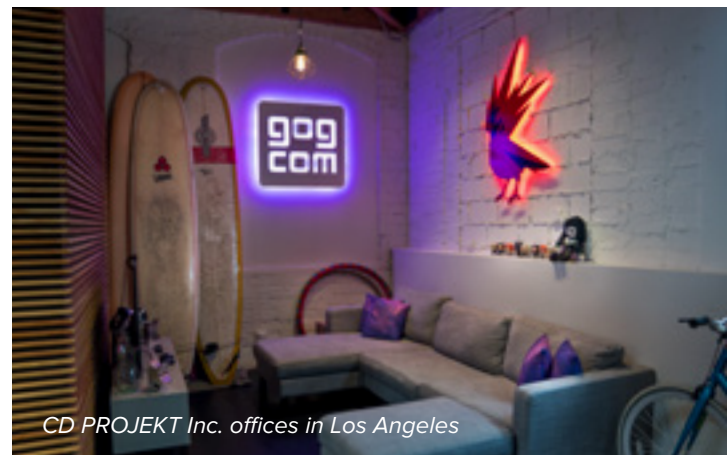
CD PROJEKT emphasizes the need to ensure comfortable working conditions. The Group’s premises are designed in such a way as to combine modern technology with elements of the natural environment, foster collaboration, enable focus and support creativity.

The headquarters of the CD PROJEKT Capital Group are located in Warsaw. They are equipped with the necessary infrastructure to enable development and release of top-quality videogames, including a large professional motion capture studio, nine sound studios, a video recording studio and three seminar rooms (including a drawing room). The premises also include appropriately furnished common spaces, extensive catering support, conference rooms and social areas.

CD PROJEKT also operates offices in Kraków in Wrocław, staffed by independent development teams, as well as offices in Los Angeles, Berlin, Tokyo and Shanghai, tasked with coordinating sales and marketing activities in the United States, Germany, Japan and China respectively.



CD PROJEKT RED offices in Kraków



CD PROJEKT Inc. offices in Los Angeles



CD PROJEKT RED offices in Wrocław



CD PROJEKT Co. Ltd. offices in Shanghai



We care about the decor of our offices and follow the innovative biophilic design trend which aims to reintroduce aspects of nature to our work and living spaces. To foster a healthy and friendly environment we resort to natural materials when furnishing our premises. Elements which accentuate the natural environment are applied in various configurations – this includes plantlife, natural lighting (where possible) and wooden decorations. Numerous studies have confirmed that integrating natural elements into workplace design increases team productivity, creativity and morale. Offices dominated by natural materials may also lessen physical fatigue among workers and improve their sense of well-being.

Project Green

In July 2018 an innovative, dedicated infrastructure was installed at the Warsaw headquarters with the aim of providing high-quality clean air inside the building and beautifying its internal spaces. The installation includes more than 2000 plants, some of which are planted in active pots ensuring forced air circulation, while special sensors measure CO² levels, temperature and humidity. Improving air quality, reducing noise and decorating offices with plants is intended to improve working conditions, enhancing the well-being of employees and contributing to their productivity – as attested to by an internal survey.



The infrastructure also provides a recuperation area for damaged plants (so-called “plant hospital”).



Water

Disposable plastic products represent a serious environmental threat. The CD PROJEKT Group has joined initiatives which aim at reducing the use of such products in the Company's daily activities. In July 2018 the Warsaw HQ was equipped with a second self-contained water purification system with an inbuilt mineralization tank. This provides employees with access to clean, purified and mineral-enriched water directly from a special tap.

The success of this solution is reflected by a significant drop in the quantity of plastic bottles supplied to the office on a monthly basis. One month after the launch of the second water purification system this figure decreased by 30%, while an 88% decrease was realized by the end of 2018.



Other amenities

The Warsaw premises of the Company include two internal canteens: a vegetarian/vegan canteen and a meat-serving canteen. Both are committed to using high-quality ingredients sourced from regional suppliers wherever possible. Additionally, fresh ecologically grown fruits are supplied to employees twice a week. In the winter season we also provide fresh ginger, lemons and honey. By the end of 2018 each shipment consisted of approx. 150 kg of fruits.

A modern gym (192 sq. m. total area) was added to the Warsaw premises in 2017. The gym is available around the clock and staffed by a personal fitness trainer. In 2018 the gym was used by approximately 60-75 persons daily (25% increase compared to 2017).





Transportation

The Warsaw headquarters of CD PROJEKT are conveniently located and easily accessible by public transit.

We provide a range of improvements for employees who use alternative means of commuting. In 2014 we constructed a bicycle shelter, while in the past year – given the observed increase in the number of employees who prefer to commute by bike – we responded by expanding our bicycle parking area.

We also support using electric vehicles to commute. In 2018 we installed four additional electric car charging stations, bringing the total number to five.



Consumption of energy and raw materials, and waste management

CD PROJEKT – we conserve energy

We diligently work to decrease the energy and water consumption at our offices. As we upgrade the office space at Company premises, we make sure to deploy modern solutions which reduce our energy and water footprint. We also regularly participate in events which draw attention to environmental protection issues, such as Earth Day.

Energy consumption

In 2015 a modernized LED-based lighting infrastructure was deployed at our premises. The vast majority of our light fixtures are flicker-free and equipped with microprism collars ensuring high comfort for our employees. In the largest and most important spaces throughout the fixtures enable light stream modulation – this adds convenience and improves energy efficiency.



Another important aspect of our light fixtures is their enhanced color rendering quality, which, coupled with adjustments in source intensity, improves the employees' vitality and comfort. When properly adjusted and directed, light may have a beneficial influence, mobilizing and preventing the onset of depression in the fall and winter seasons. It also helps maintain the correct circadian rhythm when little natural lighting is available.

We continue to replace obsolete air handling units with modern devices equipped with air recuperation features and air filters.

Water consumption

Most of our water consumption is settled on a flat-rate basis; however some – particularly at our canteens – is metered and charged for in accordance with meter readings.

Additionally, all kitchens at CD PROJEKT premises are equipped with energy-efficient dishwashers. In addition, touch-free tap fixtures have been installed in lavatories to help reduce water consumption while simultaneously improving personal hygiene.

Waste management

All our offices comply with official recycling regulations. We collect and safely dispose of all forms of documentation, whether paper-based or stored on magnetic storage media.

Office waste, such as spent electronic equipment or toner cartridges, is turned over to organizations which specialize in recycling such materials.

Table 2 Equipment and materials recycled [kg]

	2018
LCD monitors	644
LCD TVs	48
PCs	537
Total waste	1 229



Charity and sponsorships

All donations to charitable causes are carried out in the framework of bottom-up initiatives, depending on the perceived needs, while also mindful of their alignment with the Company's values and the CD PROJEKT S.A. Sponsorship Policy.

In 2018, as part of its drive to modernize office equipment (including furniture and electronic equipment) CD PROJEKT partnered with Fundacja Pocięchom to establish the Podkowa Youth Club. This organization is aimed at children and adolescents aged 7-15 and threatened with social exclusion, residing in the Warsaw district of Praga Północ.

During the Winter Charity Drive organized in December 2018 employees had the opportunity to support two non-profit organizations: Avalon Project and Chata Zwierzaka.

To support either charity, interested individuals could participate in one of six events, including:

- ◆ sporting challenge – partnering with colleagues to jointly run or cycle 5000 km over the course of two weeks,
- ◆ bake sale,
- ◆ sale of a 2019 calendar featuring photos of employees' cats.

The Company also engages in a variety of one-off voluntary work projects..





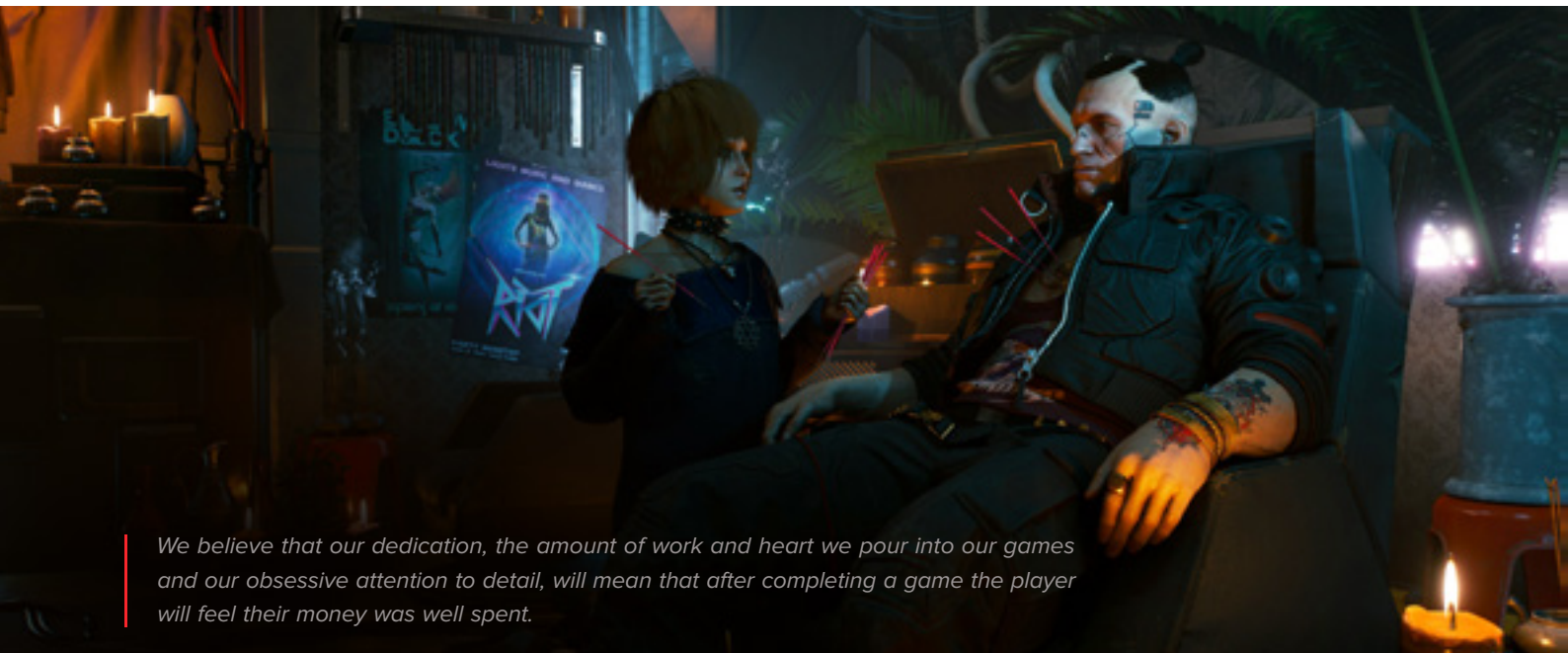
CD PROJEKT Capital Group growth prospects

Strategy of the CD PROJEKT Capital Group for the years 2016 – 2021

The Group's main growth vectors are closely tied to the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at <https://www.cdprojekt.com/en/capital-group/strategy/>.

The following goals (among others) are listed in the Group Strategy for 2017-2021 in the CD PROJEKT RED segment:

- ◆ release of *Cyberpunk 2077*,
- ◆ release of another AAA story-driven RPG,
- ◆ expansion of our brands to cover new media and product types,
- ◆ ongoing sales support and active management of the Group's back catalogue,
- ◆ more than twofold expansion of the CD PROJEKT RED team. Establishment of four independent teams to work on separate games, incl. segments heretofore unexplored by the Studio,
- ◆ establishment of local branch offices of CD PROJEKT RED in key territories.



We believe that our dedication, the amount of work and heart we pour into our games and our obsessive attention to detail, will mean that after completing a game the player will feel their money was well spent.

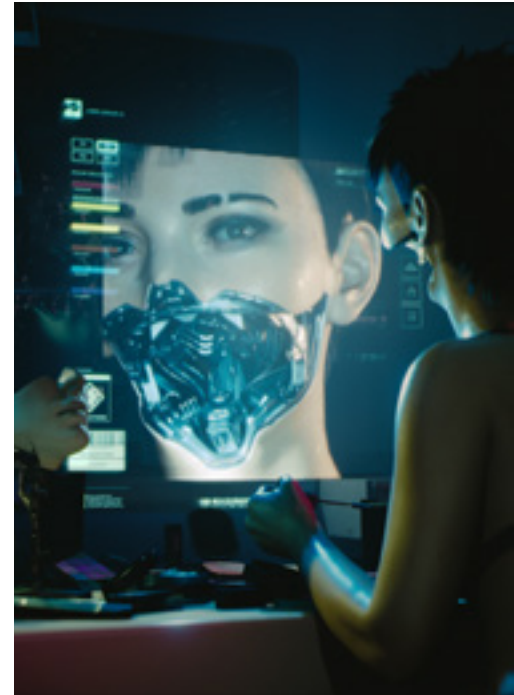
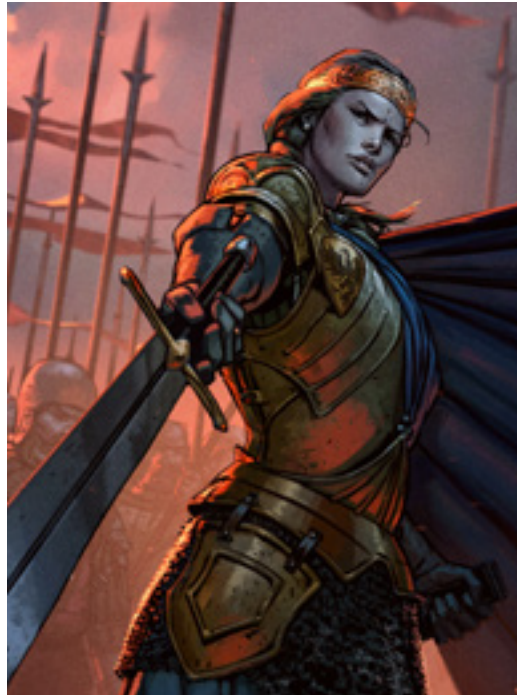
In the GOG.com segment the 2017-2021 strategy stipulates, among others, the following:

- ◆ expansion of the portfolio of fresh releases developed outside of the CD PROJEKT Group with full support for GOG Galaxy,
- ◆ technical support for new releases by CD PROJEKT RED, with custom-tailored solutions in the scope of online gameplay and services,
- ◆ rollout of additional language localizations of the GOG.com platform.



Incentive program for 2016-2021

On 24 May 2016 the General Meeting adopted resolution no. 20⁴, which institutes an incentive program covering the 2016-2021 period. The program covers a 6-year period. A maximum of 6 million individual entitlements may be awarded under the program. The resolution sets forth two types of goals: result goals and market goals.



Result goals – 80% of entitlements

Attainment of the result goal will enable entitled parties to claim 80% of the total number of entitlements issued under the program, as long as the following criteria are met:

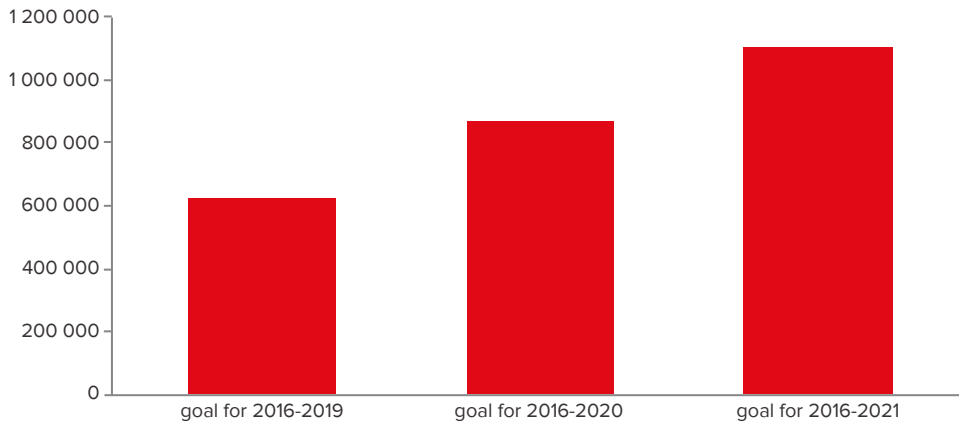
- ◆ for the years 2016-2019 – consolidated net profit not lower than 625.7 million PLN (6.51 PLN per share), or
- ◆ for the years 2016-2020 – consolidated net profit not lower than 866.0 million PLN (9.01 PLN per share), or
- ◆ for the years 2016-2021 – consolidated net profit not lower than 1 106.3 million PLN (11.51 PLN per share).⁵

⁴ Full text available in Current Report no. 18/2016

⁵ The result goal is based on the consolidated net profit of the Capital Group within a given period.



Figure 5 Incentive program goals



Market goals – 20% of entitlements

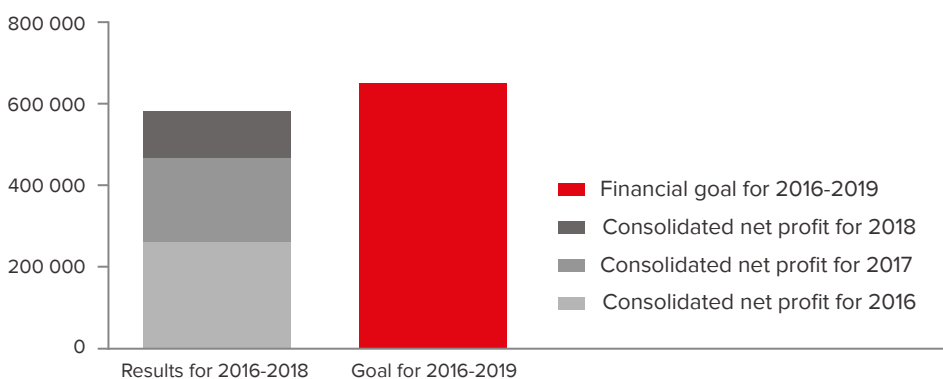
The market goal stipulates that the price change of CD PROJEKT S.A. stock on the Warsaw Stock Exchange must outperform the corresponding change in the WIG index by at least 100% during the period covered by the program. Attainment of this goal will enable entitled parties to claim 20% of the total number of entitlements issued under the program.

The incentive program covers the years 2016-2021, but entitlements may be assigned before the end of this period should both goals be met early.

Attainment of incentive program goals as of 31 December 2018

The consolidated profit of the CD PROJEKT Capital Group from continuing operations in the years 2016-2018 was 560 118 thousand PLN (with aggregate consolidated net earnings per share from continuing operations at 5.85 PLN). Between 30 December 2015 and 28 December 2018 (final trading day of 2018) the Company stock price increased by 567% while the WIG index only increased by 27% over the same period.

Figure 6 Financial goal - 80% of entitlements; to-date implementation



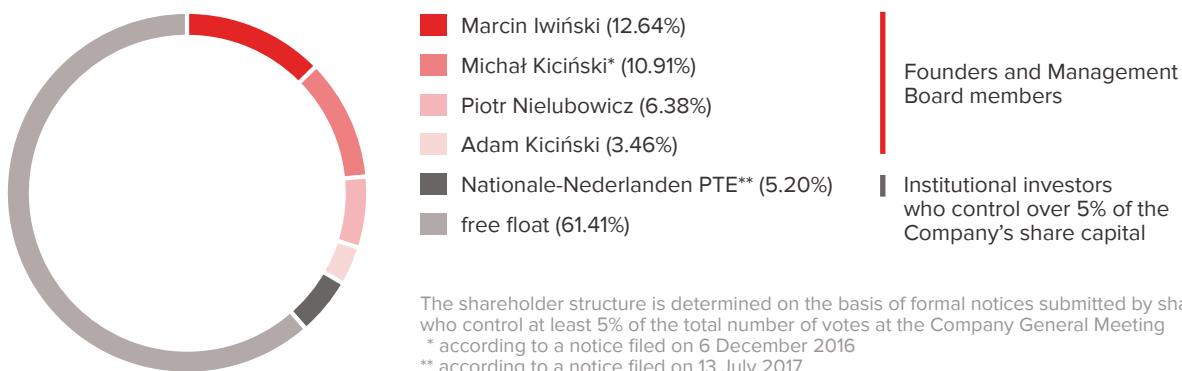


CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw stock exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.⁶ and Optimus S.A., along with their respective shareholders – Optimus purchased 100% of shares in CDP Investment while existing shareholders of CDP Investment acquired Optimus S.A. shares. The formal merger between both companies was carried out in December 2010.

As of the publication date of this report 96 120 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system. Key shareholders of CD PROJEKT S.A. are its co-founders – Marcin Iwiński and Michał Kiciński. Other major shareholders who are also members of the Company's Management Board are Adam Kiciński – President of the Board, and Piotr Nielubowicz – Vice President and CFO. Free float accounts for 61.41% of shares of CD PROJEKT S.A. stock.

Figure 7 Company shareholder structure as of the publication date of this report



In 2018 one of the Company received two notices from one of its foreign investors, SwedBank Robur Fonder AB with a registered office in Sweden, concerning changes in the volume of Company stock held by that entity. On 19 January 2018 SwedBank Robur Fonder announced that its investment funds have jointly increased their share of CD PROJEKT S.A. Company share capital to above 5% of voting stock⁷, while three quarters later, on 5 October 2018 the Company was notified that the share of Company voting stock controlled by these investment funds had again dropped below 5%⁸.

Following the annual review of the Warsaw Stock Exchange indices, CD PROJEKT S.A. joined the WIG20 index on 16 March 2018. WIG20 aggregates 20 of the largest and most liquid companies on the Warsaw market. As of 10 January 2018 CD PROJEKT S.A. contributes 4.84% to the value of the index. In the second half of the year the Company also joined the prestigious Stoxx Europe 600 index. Rebalancing of this index occurred on 21 September 2018.

⁶ Former CD PROJEKT group holding company.

⁷ Current Report no. 2/2018.

⁸ Current Report no. 18/2018.

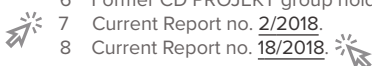
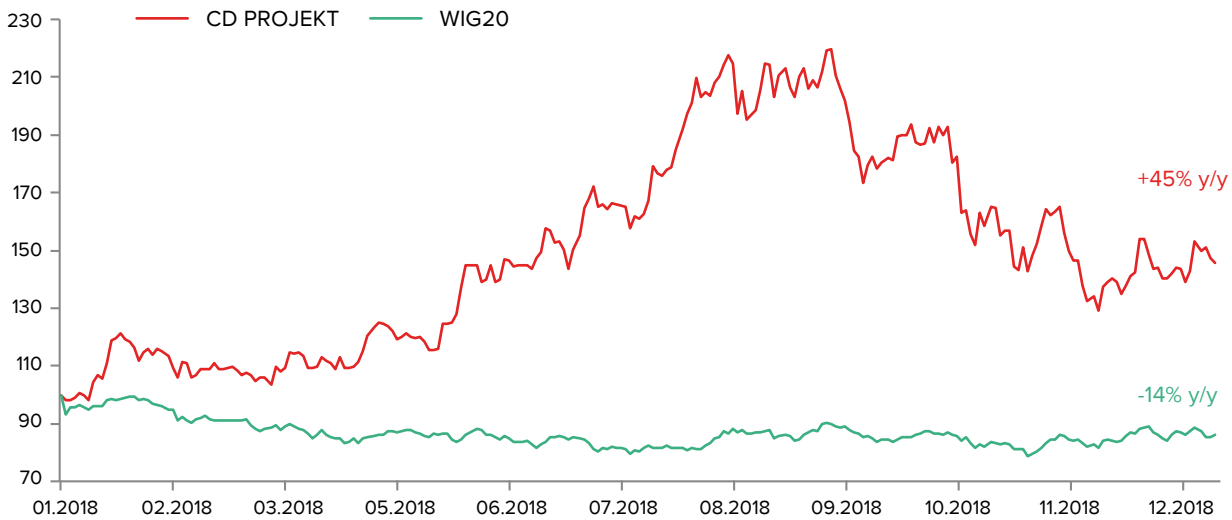




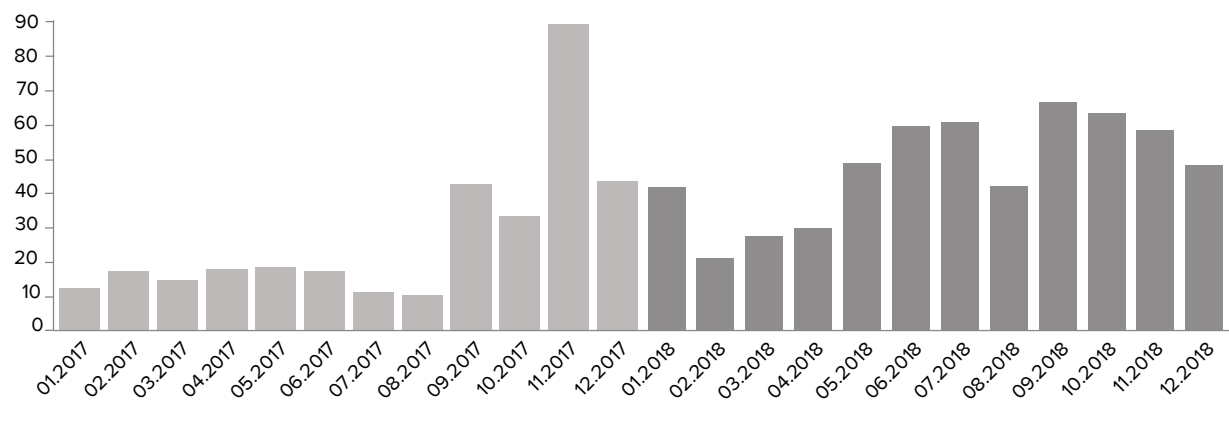
Figure 8 CD PROJEKT S.A. stock price and the WIG20 index between 1 January 2018 and 31 December 2018.



Between 1 January 2018 and 31 December 2018 the Company stock price fluctuated between 98 PLN (3 January 2018) and 219.80 PLN (29 August 2018). During this period the stock price increased by 45% to 145.60 PLN at the close of the trading day on 28 December 2018. Over the same period the WIG20 index and the main WIG index both lost 14%.

As of 31 December 2018 the Company market capitalization is 14 billion PLN.

Figure 9 Average daily trading value of CD PROJEKT shares (on monthly basis) between 1 January 2018 and 31 December 2018 (PLN millions)



27 million PLN average daily trading volume in 2017

47 million PLN average daily trading volume in 2018

In 2018 the liquidity of CD PROJEKT S.A. stock, measured as the trading volume, increased substantially. The aggregate trading volume for 2018 was 11.7 billion PLN, which is 72% more than in 2017. The average daily trading volume was 47 million PLN, compared to 27 million PLN the year before. A substantial increase was also observed in the number of transactions per trading day, from 2435 to 3426 at the close of 2018.

Between 1 June 2017 and 31 March 2018 Bank Zachodni WBK S.A. – Dom Maklerski BZ WBK acted in the capacity of the Company's animator on the Warsaw Stock Exchange.



Figure 10 CD PROJEKT market capitalization and the total trading value of CD PROJEKT shares between 1 May 2010 and 31 December 2018 (PLN millions)

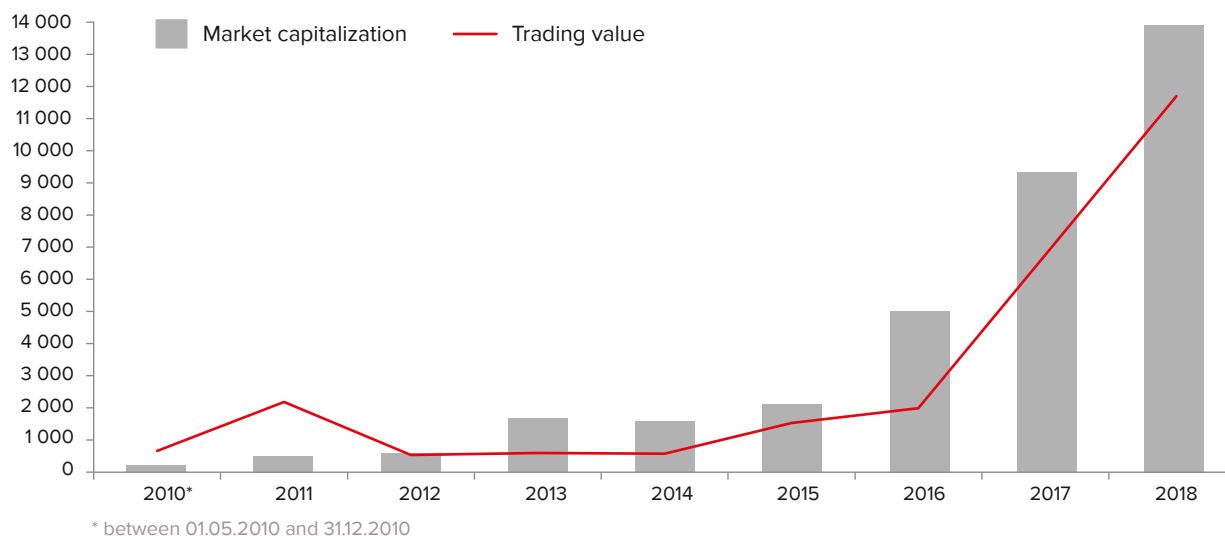


Table 3 CD PROJEKT S.A. stock – key highlights.

	2018	2017	Change
Net earnings per share from continuing operations (PLN)	1.14	2.08	45.19%
Quantity of shares in trading (thousands) at end of year	96 120	96 120	-
Highest closing price during fiscal year (PLN)	219.80	126.25	74.10%
Lowest closing price during fiscal year (PLN)	98.00	51.91	88.79%
Price at beginning of period (PLN)	100.00	52.38	90.91%
Price at end of period (PLN)	145.6	97.00	50.10%
Average price during period (PLN)	149.64	84.85	76.36%
P/E index at end of period	127.72	46.64	173.84%
Market capitalization at end of period (PLN thousands)	13 995 072	9 323 640	50.10%
Average number of transactions per trading day	3 426	2 435	40.70%
Average daily trading value (PLN thousands)	47 284	27 043	74.85%
Average daily trading volume (shares)	304 712	298 164	2.20%

As of the publication date of this report 15 brokerage houses, both foreign and domestic, issue recommendations concerning Company stock. A full list of analysts and brokerage houses which issue recommendations concerning Company stock can be found on the CD PROJEKT website at www.cdprojekt.com/en/investors/analysts/.





Capital market communications

CD PROJEKT strives to provide investors with reliable information concerning the Company's business activities. In this scope, the Company employs a wide selection of tools, targeted at individual investors, brokerage analysts and investment fund managers.

In 2018 two results conferences were organized for capital market stakeholders and financial media journalists. At these conferences CD PROJEKT S.A. presented Capital Group results for 2017 and for the first half of 2018 respectively. The Company also took this opportunity to outline key events and present its business plans. Both conferences were webcasted on the Company website along with a live English translation. Publication of the Group's financial results for 2017 and for the first half of 2018 was augmented by a live chat session aimed at individual investors. The session proved very popular, attracting several hundred participants. Board members fielded dozens of questions concerning, among others, the Group's results and newest releases.

In addition to the aforementioned results conferences, the Company also organized two teleconferences with market analysts and journalists, following publication of quarterly financial statements for the first and third quarter of 2019 respectively. In parallel, the Company website provided comments by Piotr Nielubowicz, Vice President and CFO, addressing the key factors which shaped the Group's financials during each reporting period.

All documentation related to the Company's periodic reports can be found under the "Results Center" tab on the Company's corporate website (see www.cdprojekt.com/en/investors/).

Additional video recordings are provided on the CD PROJEKT RED YouTube channel at www.youtube.com/user/CDPRED/videos.

In order to accommodate the expectations of its shareholders, the Company – for the first time ever – provided a live webcast of its 2018 annual General Meeting of Shareholders. All relevant materials can be found at www.cdprojekt.com/pl/inwestorzy/prezentacje/?typ-prezentacji=assembly.

In 2018 the Company organized numerous meetings of Board members and Investor Relations personnel with representatives of Polish and foreign investment funds, along with numerous meetings with analysts who issue recommendations concerning CD PROJEKT stock. The Board also took part in investor conferences organized by Polish brokerage houses, and in ten series of meetings with foreign investors, held, among others, in London, New York, Boston, Los Angeles (at the E3 fair), Stockholm, Prague, Cologne (at the Gamescom fair) and Barcelona.

The Company continues to address questions from individual investors via its corporate IR Forum. The full list of questions and answers can be found at www.cdprojekt.com/pl/forums/topic/lista-pytan-do-zarzadu/. The Investor Relations department also maintains the CD PROJEKT Twitter feed (@CDProjektRED_IR) with up-to-date information concerning key events which affect the CD PROJEKT Capital Group. As of 14 February 2019 this feed is followed by over 7.1 thousand users.

In 2018 CD PROJEKT received the highest score among 60 WSE companies in an investor relations quality survey carried out by Parkiet Gazeta Giełdy.

The background features abstract geometric shapes in shades of pink and grey. A large, light pink shape dominates the left side, with several sharp, triangular points extending towards the right. A grey shape is visible in the bottom-left corner, partially overlapping the pink shapes.

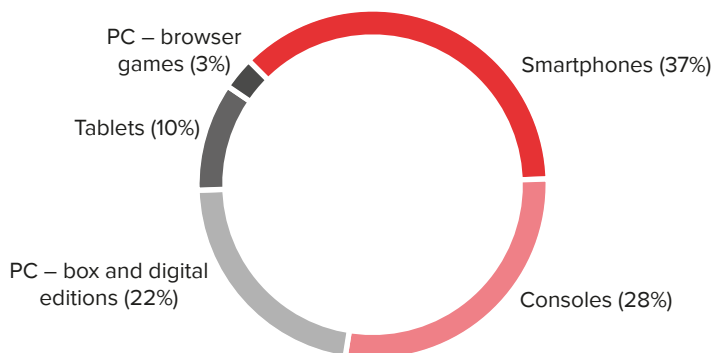
CD PROJEKT Capital Group activity profile



Market environment – global videogame industry

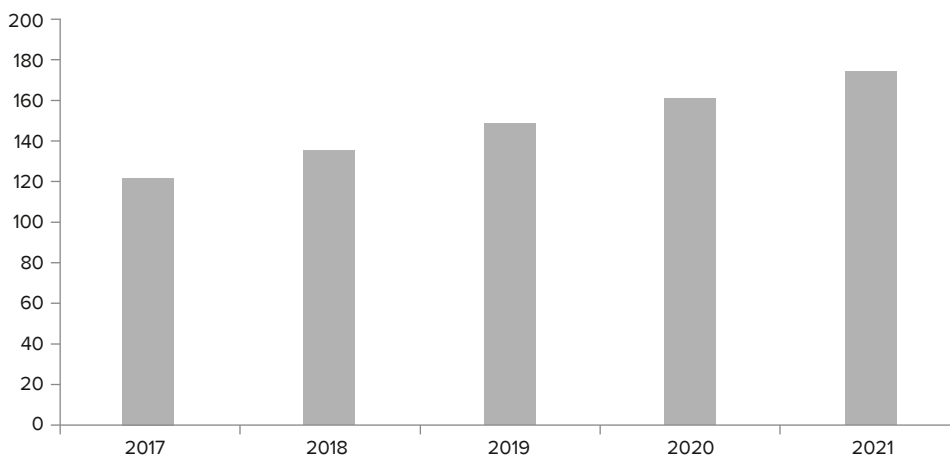
Newzoo⁹ – a renowned global provider of games and e-sports analytics – estimates the volume of the global videogame market at 134.9 billion USD at the end of 2018, which corresponds to a 10.9% increase over the 2017 year-end value (121.7 billion USD). In 2018 very strong growth was observed in the console segment, which was estimated at 38.3 billion USD on 31 December 2018 (notable y/y increase of 15.2%).

Figure 11 2018 estimated global videogame market volume per device (in %)



Long-term projections remain optimistic. The cumulative annual growth rate (CAGR) for the 2017-2021 period is estimated at 9.3%, with a projected 2019 year-end value of 148.1 billion USD. In a report titled “Global Entertainment & Media Outlook 2018-2022”¹⁰ PwC notes that consumers devote ever more time and resources to media and entertainment, with videogames currently ranking as the second most popular leisure activity.

Figure 12 Global videogame market volume, 2017-2021 (PLN billions)



⁹ Newzoo Cuts Global Games Forecast for 2018 to \$134.9 Billion; Lower Mobile Growth Partially Offset by Very Strong Growth in Console Segment, Newzoo, 2 November 2018; accessed on 10 January 2019, [newzoo.com/insights/articles/newzoo-cuts-global-games-forecast-for-2018-to-134-9-billion/](https://www.newzoo.com/insights/articles/newzoo-cuts-global-games-forecast-for-2018-to-134-9-billion/)

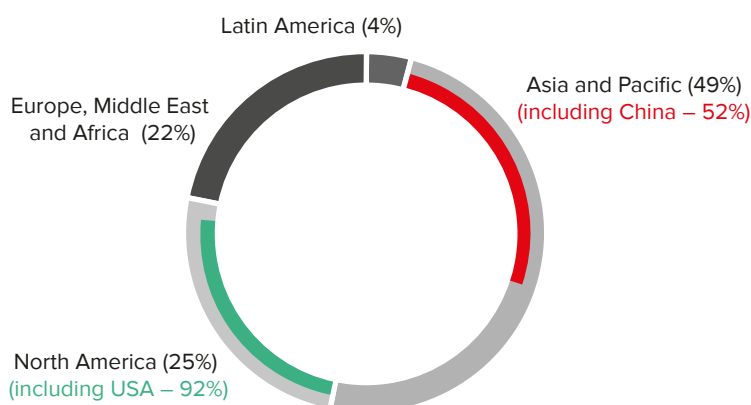
¹⁰ Perspectives from the Global Entertainment & Media Outlook 2018–2022, PwC, accessed on 10 January 2019, www.pwc.com/gx/en/entertainment-media/outlook/perspectives-from-the-global-entertainment-and-media-outlook-2018-2022.pdf



In terms of territorial distribution, Asia and Pacific countries account for 66.2 billion USD (8.3% y/y increase), which represents nearly 50% of the 2018 global market volume. North America comes in second place, at 33.9 billion USD (14.1% y/y increase). This dynamic growth is attributable to strong involvement of North America in the rapidly expanding console segment. Positive growth dynamics were also observed in Europe, the Middle East and Africa (13.2% growth, reaching 29.9 billion USD). China continues to rank as the world's largest videogame market (34.4 billion USD), followed by the United States (31.5 billion USD)¹¹.

Further down the list are Japan (17.7 billion USD), South Korea (5.8 billion USD), Germany (5 billion USD) and the United Kingdom (4.7 billion USD).

Figure 13 2019 estimated global videogame market volume by territory (in %)



As estimated by Newzoo, mobile devices represent the largest group of gaming hardware (47% market share, 79% of which are smartphones). Consoles come in second place (28%), followed by PCs (25%). According to projections, mobile devices will account for more than 50% of the global market by 2021.

A different breakdown of the market with respect to hardware platforms has been published by ESA (Entertainment Software Association¹²). This study specifically concerns the US market, which is the most important region from the point of view of the Group's activities. Here, PCs are the largest group (41%), while smartphones – though most popular globally – come in second, at 36%, which is equivalent to gaming consoles.

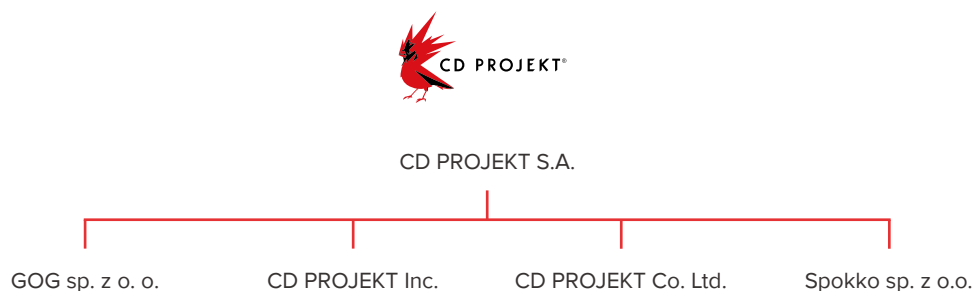
¹¹ Key numbers, Newzoo, accessed on 10 January 2019, newzoo.com/key-numbers/
¹² Essential facts about the computer and video game industry, Entertainment Software Association, April 2018; accessed on 10 January 2019, www.theesa.com/wp-content/uploads/2018/05/EF2018_FINAL.pdf

Organizational structure of the CD PROJEKT Capital Group



As of 31 December 2018 the CD PROJEKT Capital Group consists of the parent entity – CD PROJEKT S.A. – and four subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CDPROJEKT Co. Ltd. and Spokko sp. z o.o.

Scheme 3 CD PROJEKT Capital Group structure as of the end of 2018



On 29 August 2018 a new company was incorporated in the framework of the CD PROJEKT Capital Group under the name Spokko sp. z o.o. CD PROJEKT S.A. acquired 75% of shares in the new entity, with the remaining shares in possession of key employees responsible for conceptual development and production of projects carried out at Spokko.

On 14 January 2019 a new company, named CD PROJEKT RED STORE sp. z o.o., was incorporated. Further information can be found in the section devoted to events occurring after the balance sheet date, elsewhere in this report.



Table 4 Summary of business activities of the parent company and other members of the CD PROJEKT Capital Group as of 31 December 2018

Company	Activity profile
CD PROJEKT S.A.	The core activities of the company, carried out by its CD PROJEKT RED studio, include development of videogames, publishing its own videogames, selling the associated distribution rights as well as manufacturing, selling and/or licensing tie-in products which exploit the popularity of brands owned by the company. CD PROJEKT S.A. also acts as the holding company of the CD PROJEKT Capital Group and coordinates the activities of other companies belonging to the Group.
GOG sp. z o.o.	This company concerns itself with online distribution of videogames, enabling customers from around the world to purchase games, remit payment and download game binaries to their personal devices. To this end the company owns and maintains the global digital distribution platform at GOG.com. In addition, GOG sp. z o.o. has formed a consortium with CD PROJEKT S.A. to develop and operate <i>GWENT: The Witcher Card Game</i> . Within the framework of this consortium, GOG sp. z o.o. is responsible for the game's online features and handling in-game transactions in the PC edition.
CD PROJEKT Inc.	This company coordinates publishing and promotional activities covering the Group's own products and the GOG.com platform throughout North America. To facilitate this goal, the company operates an office in Los Angeles.
CD PROJEKT Co. Ltd.	This company coordinates publishing and promotional activities covering the Group's products in the People's Republic of China, which includes managing a local team tasked with coordinating publishing and promotional activities related to <i>GWENT: The Witcher Card Game</i> .
Spokko sp. z o.o.	Development studio specializing in projects for mobile devices.

The above member companies of the CD PROJEKT Capital Group, with exception of CD PROJEKT Co. Ltd. and Spokko sp. z o.o., were subject to full consolidation as of 31 December 2018. Detailed information can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2018.



Disclosure of business segments, products and services, outlets, suppliers and clients

In 2018 the Capital Group conducted business activities in two segments:

- ◆ CD PROJEKT RED,
- ◆ GOG.com.

CD PROJEKT RED

Target and scope of business activities

Videogame development is the main area of activity of the CD PROJEKT RED studio, which is a subunit of CD PROJEKT S.A. (domestic holding company of the CD PROJEKT Capital Group), CD PROJEKT Inc. (USA) and CD PROJEKT Co., Ltd. (China). Videogame development is based on two brands owned by the Company: *The Witcher* and *Cyberpunk*.



This activity covers creation and publication of videogames, licensing the associated distribution rights as well as manufacturing, distributing or licensing tie-in products which exploit the commercial appeal of brands owned by the Company.

In the scope of its publishing activities the Company also assumes responsibility for its promotional and advertising campaigns, and maintains direct relations with the player base via electronic and social media channels (see the [Communications](#) section) as well as through regular participation in trade fairs.





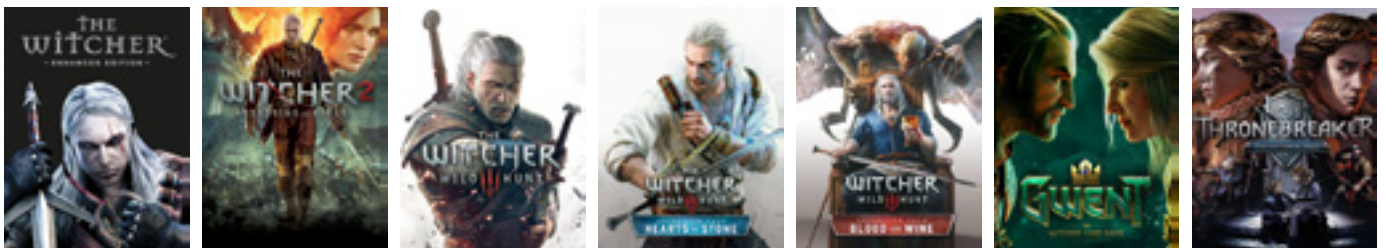
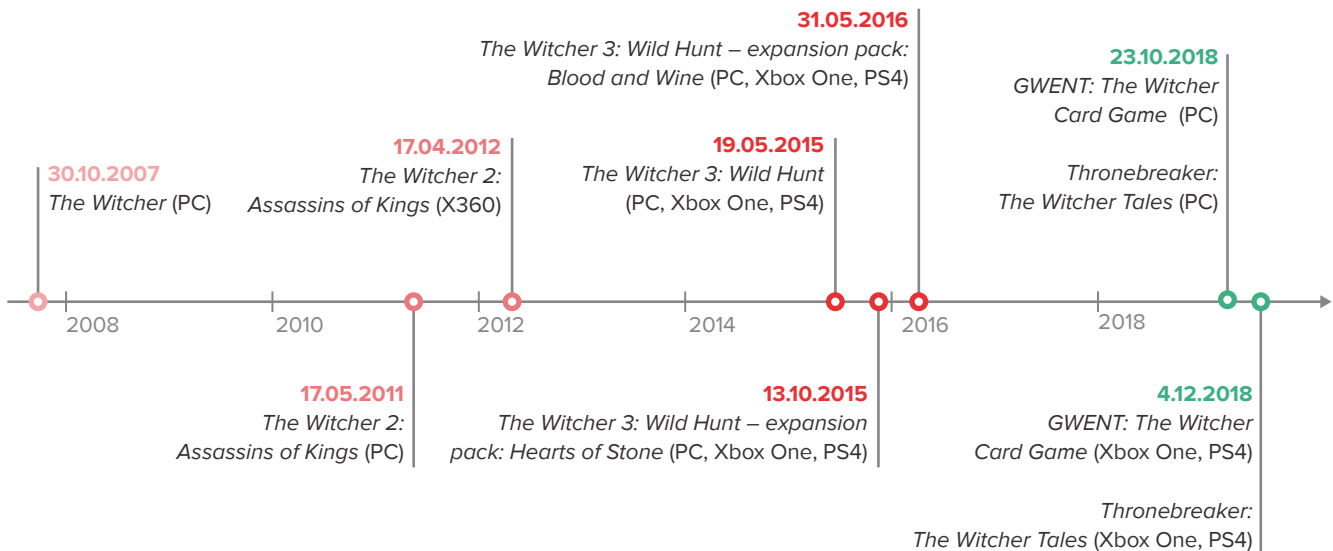
Key products

Videogame development commenced in 2002 and initially focused on the studio's RPG debut: *The Witcher*. This game, set in Andrzej Sapkowski's fantasy world, was released in 2007 to global acclaim, garnering over 100 awards and accolades.

As of the publication date of this report, key releases in the Company's portfolio include *The Witcher*, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, as well as two expansion packs: *Hearts of Stone* and *Blood and Wine*.

In 2018 the Company released the full version of *GWENT: The Witcher Card Game*, developed in collaboration with GOG sp. z o.o., as well as a single-player game – *Thronebreaker: The Witcher Tales*, built around similar gameplay mechanics.

Scheme 4 CD PROJEKT RED releases between 2007 and 2018



By the end of 2018 videogames featuring the professional monster hunter Geralt of Rivia had received over 1000 awards.

CD PROJEKT RED is continuing its development work on the largest RPG release in the Studio's history: *Cyberpunk 2077*, set in a vibrant, technologically advanced world. Players assume the role of V – a cyberpunk who has recently migrated to the most crime-ridden city of the future. *Cyberpunk 2077* is based on the *Cyberpunk 2020* pen-and-paper RPG system created by Mike Pondsmith.



Key sources of revenue

Sales of CD PROJEKT RED games are mainly carried out under the following business models:

- ◆ sales of distribution rights covering specific territories (for either box or digital editions), accounted post factum on the basis of monthly or quarterly sales reports / licensing reports filed by Company partners
- ◆ sales of physical boxed products (box editions of videogames) to the Company's distribution partners
- ◆ sales of batches of activation codes which permit games to be downloaded and installed
- ◆ sales carried out through optional microtransactions in *GWENT: The Witcher Card Game* (incl. kegs and meteorite dust) via GOG and proprietors of console platforms.

Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with publishers and distributors, both international (e.g. BANDAI NAMCO Entertainment Europe S.A.S., Microsoft, Sony, VALVE Corporation, Warner Bros. Home Entertainment) and domestic (including cdp.pl and GOG) Digital distribution agreements are typically settled in monthly cycles, while distribution of physical videogame editions follows quarterly reporting cycles. Depending on the specific partner or contract, the Company also collects licensing reports – these are submitted 30, 45 or 60 days following the end of each reporting period (typically each month or quarter).

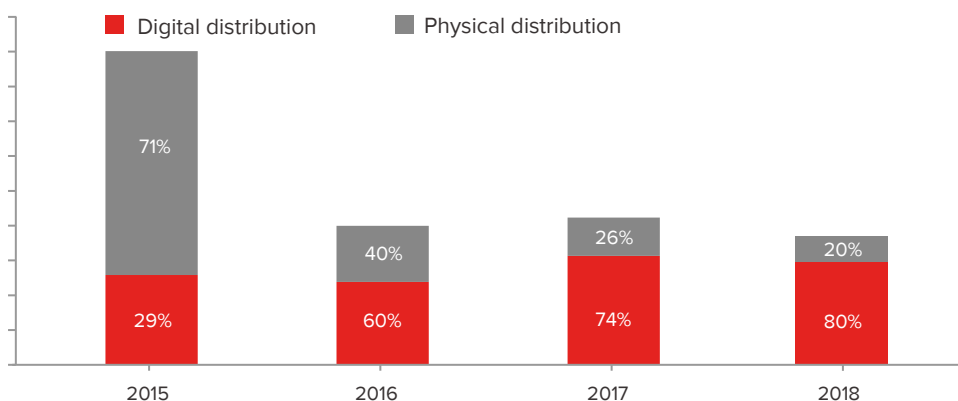
In 2018 the most important CD PROJEKT RED products from the point of view of revenues were:

- ◆ *The Witcher 3: Wild Hunt*, together with its expansions – *Hearts of Stone* and *Blood and Wine*
- ◆ *GWENT: The Witcher Card Game*
- ◆ *Thronebreaker: The Witcher Tales*

Additionally, the Company offers earlier instalments in *The Witcher* franchise, including *The Witcher* and *The Witcher 2: Assassins of Kings*, both of which continue to attract players and generate revenues.

80% of *The Witcher 3: Wild Hunt* copies sold by the end of 2018 were digital editions of the game.

Figure 14 *The Witcher 3: Wild Hunt* – copies sold by distribution channel; 2015-2018

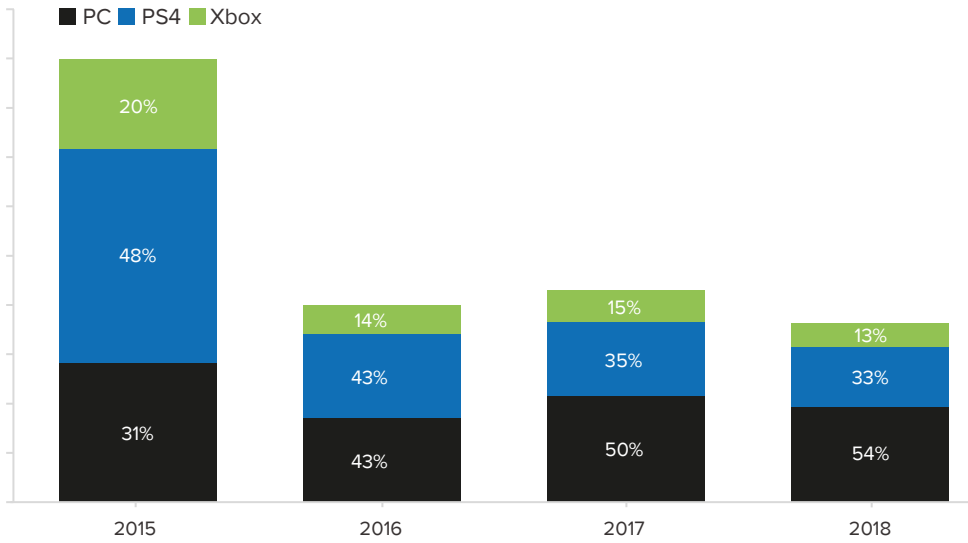


The increasing share of digital products in the total sales volume is due to a global shift towards digital purchases among customers, along with the longer shelf life of digital games compared to their box editions.

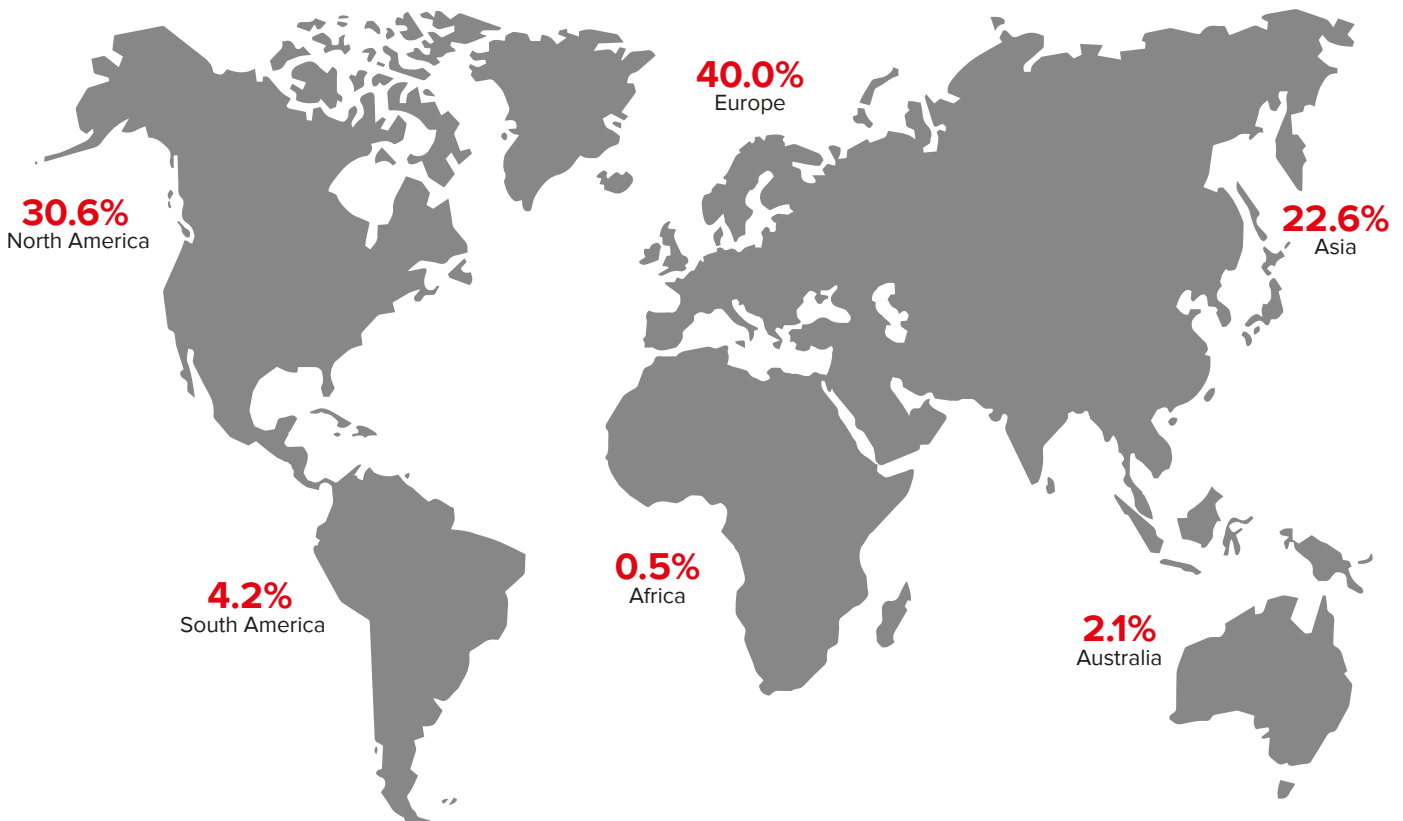
In 2018 the PC version accounted for the plurality of *The Witcher 3: Wild Hunt* copies sold.



Figure 15 *The Witcher 3: Wild Hunt* – copies sold by hardware platform; 2015-2018



Map 2 Sales of *The Witcher 3: Wild Hunt* in 2018 by territory (copies sold)





Key suppliers and clients

Within the CD PROJEKT RED activity segment, the Group carries out active distribution of its games for various hardware platforms, using both traditional distribution channels, in cooperation with leading global distributors (such as BANDAI NAMCO Entertainment Europe S.A.S., BANDAI NAMCO Entertainment Australia PTY LTD, cdp.pl sp. z o.o. and Warner Bros. Home Entertainment), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Origin, Amazon, Humble Bundle and AppStore, along with its own proprietary platform at GOG.com).

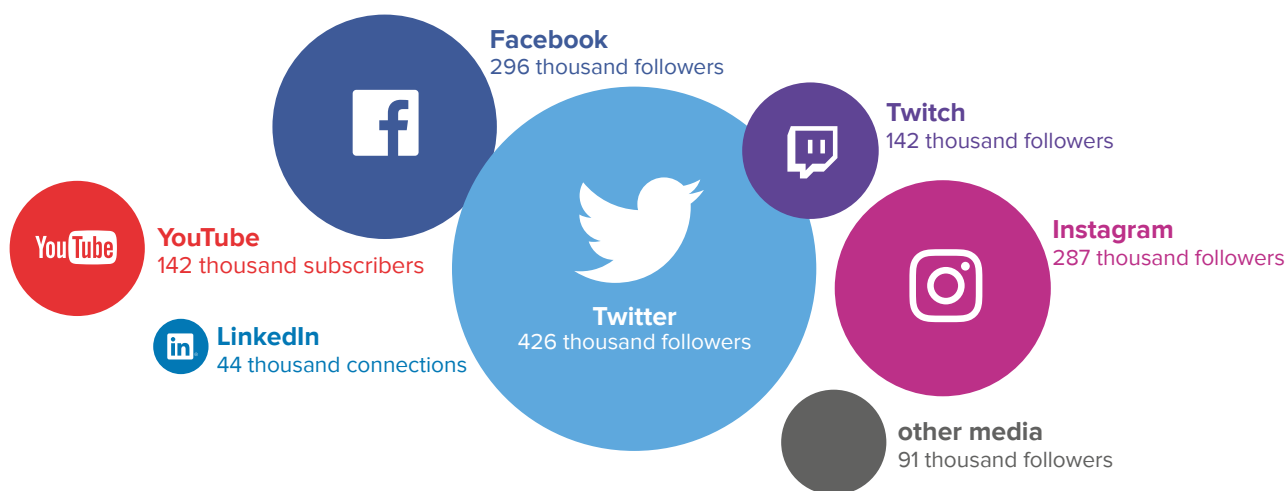
In 2018 sales to one client exceeded 10% of the Group's consolidated sales revenues and totaled 87 327 thousand PLN (24.1% of the Group's revenues). This client is not affiliated with CD PROJEKT S.A. or any of its subsidiaries. No other client accounted for more than 10% of the Group's consolidated sales revenues.

The videogame development process relies on certain bought-in tools and technological solutions; however, these do not result in significant concentration of supply. No CD PROJEKT RED supplier accounted for more than 10% of the consolidated revenues of the Capital Group in 2018.

Communications

CD PROJEKT RED prides itself on direct and honest communications with the global gaming community under the "Gamers first" policy. Player relations are carried out primarily through social media channels. CD PROJEKT RED actively manages over 90 social media profiles in over a dozen languages, both global and local (such as the BILIBILI and Weibo platforms in China and the Naver Cafe platform in Korea).

Scheme 5 Number of users and subscribers of CD PROJEKT RED social media profiles as of 2 February 2019

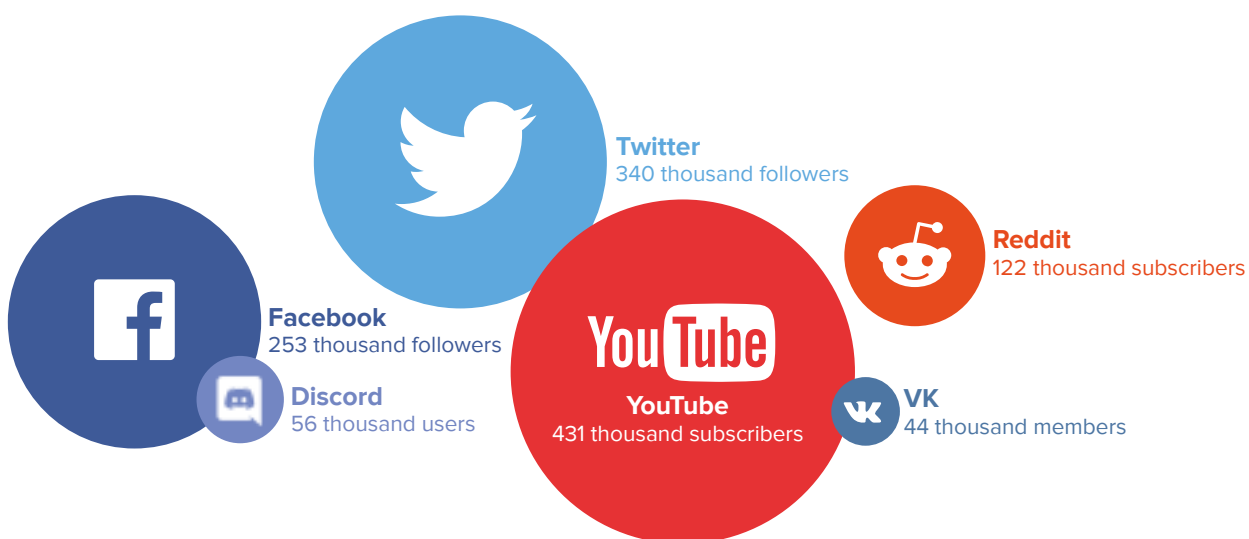




On 10 June 2018, in the run-up to E3, CD PROJEKT RED launched an official server on Discord – a social communication platform targeted at gamers. Within the first week, over 40 thousand Discord users joined the server.

Significant growth was also observed on the official *Cyberpunk 2077* Twitter profile. Between June 2018 and the publication date of this report the number of followers increased threefold (to over 340 thousand). One of the most popular tweets of 2018 was *beep* – liked by over 56 thousand users, shared by nearly 19 thousand and replied to nearly 4 thousand times.

Scheme 6 Number of users and subscribers of *Cyberpunk 2077* social media profiles as of 2 February 2019



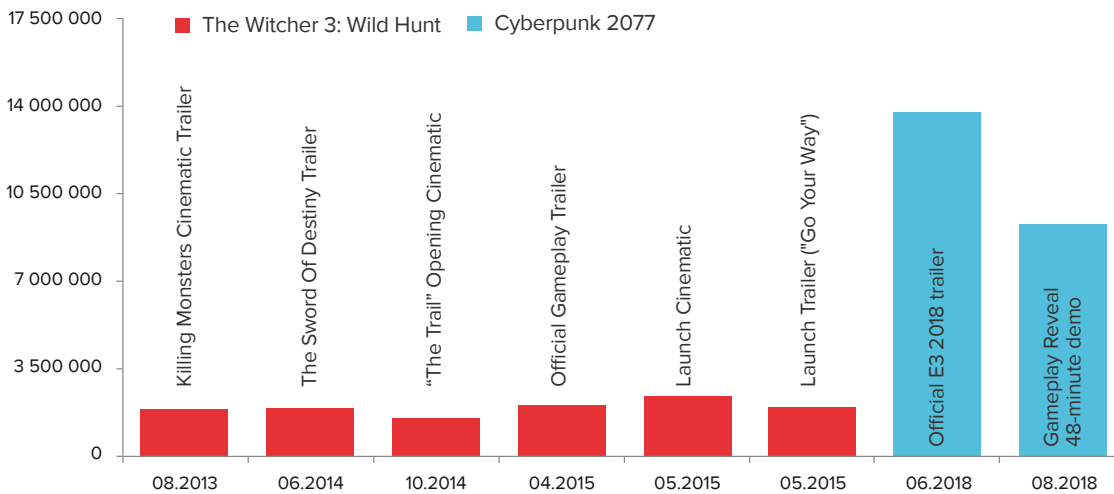


Key product and marketing events

Cyberpunk

The most notable event of 2018 was the unveiling of *Cyberpunk 2077* at the world’s largest gaming fair – E3 in Los Angeles. The official Microsoft conference, held just before the official launch of E3, culminated in the screening of a new *Cyberpunk 2077* trailer.

Figure 16 Viewership of CD PROJEKT RED’s most popular promotional content (within 4 weeks of initial release; the Studio’s official YouTube channel only)



At E3 the representatives of CD PROJEKT RED also held a series of closed presentations for media and business partners, showcasing a nearly hourlong gameplay trailer of *Cyberpunk 2077*. These events were very favorably received by journalists and the game received over 100 awards for E3 excellence, including such prestigious acknowledgments as “Best Game” from IGN, “Best of E3” from GameSpot and “Game of the Show” from Game Informer.





On 27 August 2018, several days after the close of gamescom, the Studio released a 48-minute gameplay trailer of *Cyberpunk 2077* – the first such public release for this game. The trailer was streamed on Twitch.tv (as well as being rebroadcast by the world's largest gaming media outlets) and preceded by a nine-hour teaser campaign. Peak viewership of the stream reached 460 000 thousand spectators. The trailer was subsequently uploaded to YouTube.

Cyberpunk 2077 trailer and gameplay viewed 50 million times on all supported channels.

The above reveal was preceded by an alternate reality game (ARG) designed by CD PROJEKT RED, where players were able to seek for clues and solve a set of puzzles. The first puzzle appeared on 22 August and solving it took players approximately 2 hours. The website at trauma-team-international.com/ (which is an integral part of the game) attracted 31 thousand visits from over 12 thousand unique users. Everyone who managed to complete the game received a hint concerning the release date of the gameplay trailer, while the first 60 players were rewarded with unique gadgets.

In October the Company announced that it had concluded major distribution agreements concerning *Cyberpunk 2077* with Warner Bros. Interactive Entertainment (North America) and BANDAI NAMCO Entertainment Europe (selected European markets).

Throughout 2018 *Cyberpunk 2077* received 120 awards and accolades, including Most Wanted Game from Golden Joystick Awards. The game was also featured on the covers of over 20 gaming magazines throughout the world, including EDGE, PC Gamer, Official PlayStation Magazine, CD-Action, PC Games Extended, GamesMaster and PSX Extreme.



GWENT

In February 2018 CD PROJEKT RED unveiled and subsequently launched a new *GWENT* gameplay mode – the Arena – which comes with a range of gameplay improvements and additional cards.

On 12 April 2018 the Company announced the *GWENT* Homecoming project, which took several months and involved significant changes in gameplay mechanics and graphic design.

The new incarnation of *GWENT* was officially released on 23 October for the PC and on 4 December for Xbox One and PlayStation 4.

In parallel, the Studio released *Thronebreaker: The Witcher Tales*. This game received an aggregate score of 85 on Metacritic (PC), including high ratings from respected gaming media – e.g. IGN (9.4/10), GameSpot (9/10) and Gamesradar+ (5/5). The release of *Thronebreaker* was accompanied by a set of activities designed to promote sales, including showcases for American, European and Asian media. Prior to its release the game was also covered in numerous gaming media portals and social media channels. Over 100 media representatives and influencers (including IGN, GameSpot, Eurogamer.net, Pretty Good Gaming, GRYOnline.pl, GameStar, PC Gamer, Igromania, Famitsu, Inven and GAMECORES) had the opportunity to play the first act of *Thronebreaker* for 2 hours and subsequently share their opinions, along with short gameplay videos.

In the run-up to the release of *GWENT* the Company also launched a preorder campaign, publishing a dedicated website and an additional trailer. These activities were further supported by a dedicated online marketing campaign.

GWENT marketing activities also focused on a series of e-sports tournaments organized by CD PROJEKT RED in the scope of the *GWENT* Masters series. Five *GWENT* Open tournaments were held in 2018 (in January, March, May, July and October respectively), while in April and September 2018 two *GWENT* Challenger events took place at the Wieliczka Salt Mine and the Jomsborg Fortress in Warsaw respectively, each with an aggregate prize pool of 100 000 USD.

Scheme 7 Number of users and subscribers of *GWENT* social media profiles as of 2 February 2019





Other events related to *The Witcher* videogame series

On 6 March 2018 backward compatibility for near-4K resolution was added for *The Witcher 2: Assassins of Kings* on Xbox One X.

On 15 March 2018 BANDAI NAMCO Entertainment and CD PROJEKT RED jointly announced that Geralt of Rivia would be making a guest appearance in SOULCALIBUR VI as one of the game's playable characters, and that *the Witcher's* visage would be featured on the game's box.

In March 2018 Game Informer – the most widely circulated gaming magazine in the world – released its 300th issue. To mark the occasion, the editors organized a survey where readers could vote on the world's best videogames of all time. The ranking, published on 19 March 2018, was topped by *The Witcher 3: Wild Hunt*.

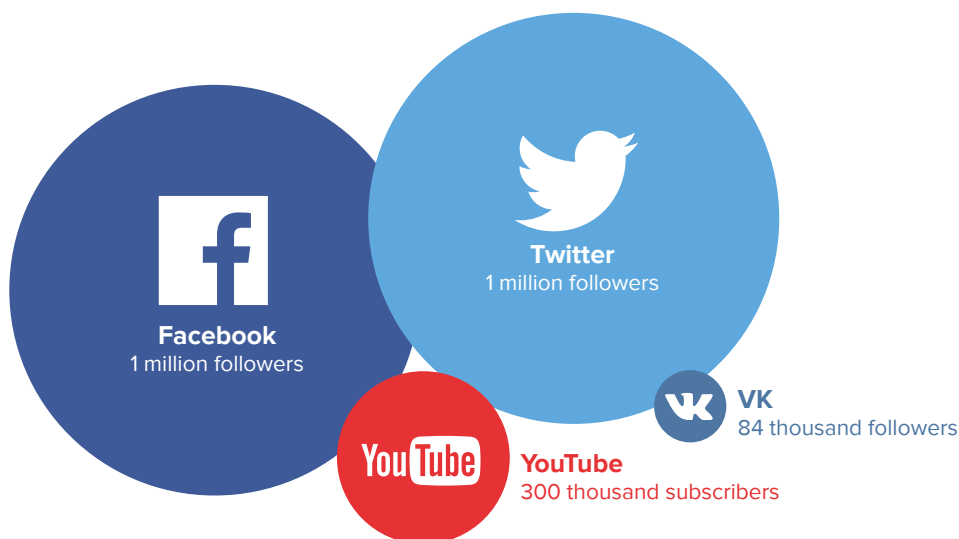
In November 2018, to celebrate the centenary of the restoration of Polish independence, *The Witcher* was selected as an exemplar of modern Poland, appearing in the "100 years of awesomeness" spot on the NASDAQ building façade in New York. In addition to *the Witcher*, the spot – designed by nąTemat.pl – featured Lech Wałęsa, Robert Lewandowski and Aleksander Doba.

On 10 December CD PROJEKT RED announced its collaboration with Capcom, with Geralt of Rivia making a guest appearance in Monster Hunter World. The bonus content, inspired by *The Witcher 3: Wild Hunt*, was released on 8 February for PlayStation 4 and Xbox One as a free update.



Source: nąTemat.pl

Scheme 8 Number of users and subscribers of *The Witcher* social media profiles as of 2 February 2019





After the close of the reporting period, in February 2019, CD PROJEKT RED was named Best Developer in a Steam Awards survey, while *The Witcher 3* – despite being almost four years old at this point – received another award (in the Best Environment category).



Source: Steam

GOG.com

Scope and model of business activity

The GOG.com platform was launched in August 2008. Its initial mission was to revitalize major PC cult classics and offer them for sale to international customers with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. The platform is now offered in English, French, German, Russian, Chinese and Polish – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels, accepting payments in thirteen currencies. GOG.com also carries releases for the macOS and Linux operating systems.

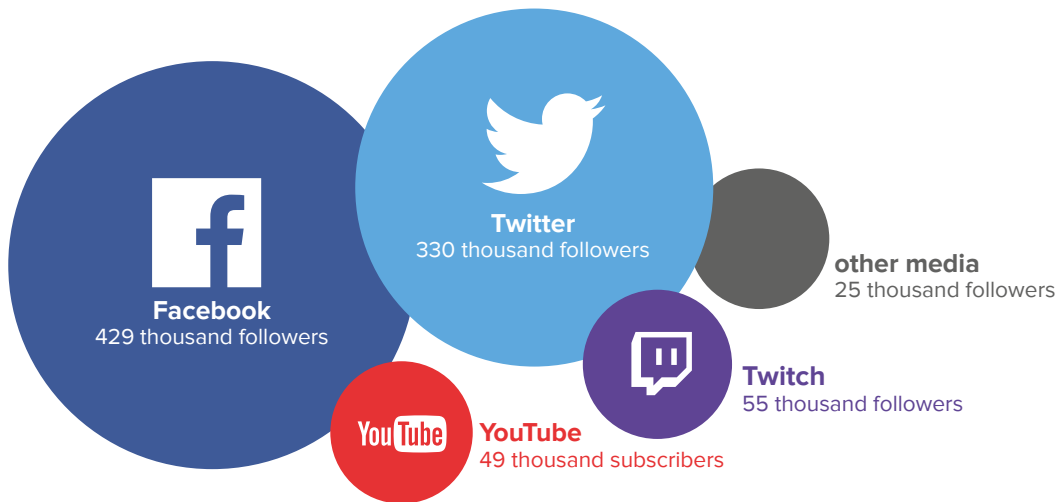
GOG.com activities focus on:

- ◆ digital distribution of videogames via the Company's proprietary GOG.com distribution platform and the GOG Galaxy application, on the basis of contracts signed by GOG sp. z o.o. with producers, IPR holders and external publishers. The platform enables customers to purchase games, remit payment and download game files to their personal devices.
- ◆ development and support for the Company's proprietary GOG Galaxy client to provide user-friendly and straightforward purchase, launch and update features for all games from the GOG.com catalogue, and to facilitate cross-platform online gameplay. GOG Galaxy is currently responsible for all networking features of *GWENT*, including in-game sales and payment processing in the PC edition.
- ◆ collaboration with CD PROJEKT S.A. in the framework of a consortium set up to develop and operate *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. In this scope, GOG sp. z o.o. is responsible for handling in-game purchases in the PC edition, and for delivering the required IT infrastructure and implementing networking features.



Payments collected by GOG sp. z o.o. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company to submit sales reports in monthly or quarterly cycles, not later than 30 days following the close of the given reporting period. With regard to certain older products the company may be contractually permitted to adapt them to the requirements of modern operating systems, or to enable multiplayer gameplay if such features were originally provided by the given game.

Scheme 9 Number of users and subscribers of GOG.com social media profiles as of 15 February 2019



Key products

As of the publication date of this report, the GOG.com catalogue comprises nearly 2700 products from more than 600 publishers and producers of videogames, including such well-known brands as Activision, Bethesda, Disney, Electronic Arts, Ubisoft and Warner Bros. The key difference between GOG.com and its competitors (i.e. other independent platforms – Steam, Gamersgate, Humble Bundle etc.) is its set of core principles. As a rule, the company ensures that all of its games are free of cumbersome DRM measures. Products offered on GOG.com are richly featured and usually include bonus content such as soundtracks, maps and wallpapers. GOG.com. also ensures full compatibility of its games with current versions of MS Windows, Mac OS and popular distributions of Linux, and provides technical support in case of installation problems. If a game cannot be made to run on the user's computer, it can be returned within 30 days of purchase for a full refund. Owing to these values GOG.com has become one of the most popular digital videogame distribution platforms in the world.

The Group uses GOG.com to market its own products directly to end users – this includes *The Witcher* and *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt* (along with its expansion packs – *Hearts of Stone* and *Blood and Wine*, also offered as a Game of the Year Edition), *Thronebreaker: The Witcher Tales* and *The Witcher Adventure Game*. Thanks to GOG Galaxy support for *GWENT* networking features, distribution of *GWENT* to PC users can take advantage of the sales and payment mechanisms offered by GOG.com.



Key sources of revenue

Revenues obtained in the GOG.com segment are directly dependent on the popularity of the offered games and their respective sales volumes. The Company continuously expands the scope of its cooperation with suppliers and seeks access to new, attractive products. GOG.com is also home to seasonal and one-off sales campaigns, including summer, fall and Christmas bargain packages as well as other events which introduce new means of attracting gamers. In 2018 the largest contribution to the total revenues of GOG.com was from *GWENT: The Witcher Card Game*. *GWENT* revenues attributed to the GOG.com segment comprise:

- ◆ the GOG sp. z o.o. share of revenues from in-game sales to final customers in the PC edition (excluding the Chinese market), as stipulated in the consortium agreement,
- ◆ the GOG sp. z o.o. share of revenues from in-game sales handled by external partners (including the Chinese partner), as stipulated in the consortium agreement.

Key product and marketing events

New games in the GOG.com catalogue

In 2018 the GOG.com catalogue was expanded with numerous fresh releases as well as a large number of PC classics. Among the most important new additions available on their respective global release dates are *Thronebreaker: The Witcher Tales* (developed by a consortium consisting of CD PROJEKT RED and GOG.com), *Project Warlock*, *Frostpunk*, *Pillars of Eternity 2*, *Moonlighter*, *Return of the Obra Dinn* and *Beholder 2*. Newly added classic titles include *Indiana Jones and the Infernal Machine* (GOG exclusive), *Star Wars Episode I Racer* (GOG exclusive), *Escape from Monkey Island* (GOG exclusive) and *Flashback*. Additionally, games representing the Visual Novel and Hidden Object genres made their first ever appearance on GOG.com.

In March 2019 GOG.com secured temporary exclusive distribution rights for the first part of *Diablo* – a Blizzard Entertainment cult classic. Two additional games by Blizzard Entertainment – *Warcraft: Orc and Humans* and *Warcraft II* – will soon follow.

Sales support

With regard to digital distribution sales support focuses primarily on securing distribution rights to new, appealing videogames, and on seasonal sales campaigns.

The most important event of the first half of 2018 – in terms of sales support – was the June Summer Sale, which covered over 1300 games and included a significant participatory component. Another event which attracted significant attention was May the 4th, celebrating the Star Wars Day. On this day GOG offered sales on Star Wars games and also added *Star Wars: Episode I Racer* to its catalogue as a GOG exclusive.

Sales support activities peaked in November, where – in addition to its annual Black Friday and Cyber Monday sales – GOG.com hosted a special event celebrating the centenary of the restoration of Polish independence, titled *Made in Poland*. The sale, which focused on games by Polish developers, was a major marketing success, attracting coverage not just from Polish media but from the largest global gaming media outlets such as *PC Gamer*, *Kotaku*, *Game Informer* and *GameStar*.

Towards the close of 2018 GOG.com held a three-week Winter Sale covering over 2000 items from its catalogue. For the duration of this sale the platform also again activated its GOG Connect feature, which enables players to add games they already own on Steam to their GOG.com catalogue free of charge.



10th anniversary of GOG.com

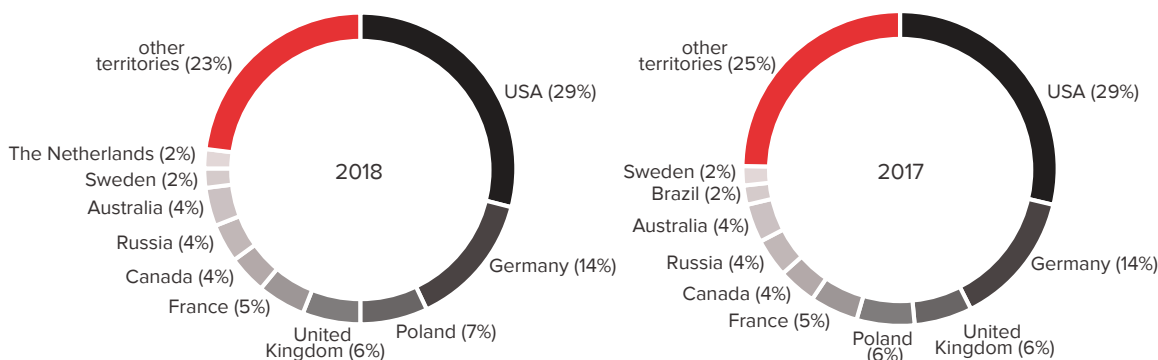
In October 2018 GOG.com celebrated its 10th anniversary with a range of sales and major changes to the platform itself. The layout of the GOG.com homepage was redesigned, as was its product list and catalogue management UI. A special website was also launched at (gog.com/10years), detailing the platform’s history and enabling users to vote on the first-ever free game to be offered on GOG.com.



Key suppliers and clients

GOG.com markets games via online channels directly to millions of individual users worldwide. As such, the segment does not have key clients in the usual sense of the term.

Figure 17 Sales of GOG.com products and services in 2017 and 2018 by territory



The territorial breakdown of GOG.sales in 2018 did not undergo appreciable changes compared to 2017. As before, United States are the segment’s largest market (29% of sales), followed by Germany (14%), Poland (7% - increase by 1%) and the United Kingdom (6%).

As of 31 December 2018 no single supplier of GOG.com accounted for more than 10% of the consolidated sales revenues of the Capital Group.



Key corporate events

On 11 January 2018, as a consequence of its successful participation in a 2017 tender, the Company concluded a preliminary agreement concerning purchase of the commercial property located at Jagiellońska 76 in Warsaw, directly adjacent to the Company's current registered office. On the same day the Company remitted an advance payment in the amount of 1 667 thousand PLN. However, as the seller (a state-funded entity) failed to secure the necessary approval of the transaction from the State Solicitor's Office, the purchase transaction was not successfully concluded and CD PROJEKT recovered the aforementioned advance payment.

On 16 March 2018 CD PROJEKT S.A. joined the WIG20 index which aggregates twenty of the largest and most liquid companies on the Warsaw Stock Exchange.

On 26 March 2018 CD PROJEKT again (for the third time in a row) won top honors in the XIX edition of the prestigious Stock Exchange Company of the Year ranking published by Puls Biznesu. The Company took first place in the Management Competence category and second place in the Product and Service Innovation and Success in 2017 categories. The ranking is based on a survey conducted among approximately 100 capital market specialists – analysts, stock brokers and investment advisors.

On 18 May 2018 an agreement was concluded under which CD PROJEKT S.A. acquired the Strange New Things (SNT) development studio based in Wrocław. This purchase bolstered the CD PROJEKT RED team with nearly 20 experienced professionals who possess longstanding experience in videogame development. The studio will form the core of the new Wrocław branch of CD PROJEKT RED, tasked with project related to *Cyberpunk 2077*. In formal terms the takeover of SNT proceeded by way of acquisition of an enterprise from Strange New Things sp z o.o. sp. k. In compliance with the relevant authorization granted by the General Meeting of CD PROJEKT S.A. of 8 May 2018, part of this transaction was settled in Company stock (21 105 shares) previously bought back on the open market. These shares were turned over to former partners of Strange New Things sp. z o.o. sp. k. and subjected to temporary lock-up with a view towards forging a long-term bond between the committed resources and the results of the studio's activities.

On 19 June 2018 the Minister of Entrepreneurship and Technology conferred upon CD PROJEKT S.A. the status of a Research and Development Center (Centrum Badawczo-Rozwojowe; CBR). This status entitles the Company to apply increased limits and an expanded list of qualified expenses for the purposes of calculating corporate income tax relief. It also exempts the Company from property tax insofar as the given property is used for R&D activities.

On 16 August 2018 a new company was established in the framework of the CD PROJEKT Capital Group under the name Spokko sp. z o.o. CD PROJEKT S.A. acquired a majority stake in the new entity (75%) with the remaining shares in possession of key personnel responsible for the development and conceptual design of projects carried out at Spokko. The Group provides the new company with access to its intellectual property, backed up by the creative and commercial muscle of the CD PROJEKT RED studio. Spokko is working on a new, unannounced project targeting mobile gaming platforms.

On 1 October 2018 the Company received a demand for payment from plenipotentiaries representing Mr. Andrzej Sapkowski, author of a series of *The Witcher* novels.

The notice indicates that Mr. Andrzej Sapkowski expects payment of additional royalties beyond what had been contractually agreed upon between himself and the Company. The contents of the notice are attached to a current report detailing this circumstance ([CR 15/2018](#)).





In the Company's opinion the demands expressed in the notice are groundless with regard to their merit as well as the stipulated amount. The Company had legitimately and legally acquired copyright to Mr. Andrzej Sapkowski's work, i.a. insofar as is required for its use in games developed by the Company. All liabilities payable by the Company in association therewith have been properly discharged.

It is the Company's will to maintain good relations with authors of works which have inspired CD PROJEKT RED's own creations. Consequently, the Board will go to great lengths to ensure amicable resolution of this dispute; however, any such resolution must be respectful of previously expressed intents of both parties, as well as existing contracts.

On 31 December 2018 the Company effectively purchased the immovable property located at Jagiellońska 76, directly adjacent to its headquarters. The transaction followed the provisions of the preliminary agreement concluded on 12 July 2018. The property consists of a land plot, a seven-story office building and several utility buildings. Following renovation and adaptation, the property will provide additional space for the development activities carried out by the CD PROJEKT Capital Group in light of its dynamic expansion.

Events following the balance sheet date

On 14 December 2018 a new company was established in the framework of the CD PROJEKT Capital Group under the name CD PROJEKT RED STORE sp. z o.o. CD PROJEKT S.A. acquired all shares of the new entity. The new company will be responsible for creation and online retailing of products which exploit the appeal of CD PROJEKT RED videogames.

On 13 March 2019 CD PROJEKT again won top honors in the annual Puls Biznesu ranking – Stock Exchange Company of the Year. The Company also took first place in the Growth Perspectives category, second place in the Management Competence category and third place in the Product and Service Innovation category. Similarly to previous editions, the ranking was based on a survey conducted among approximately 100 capital market specialists.



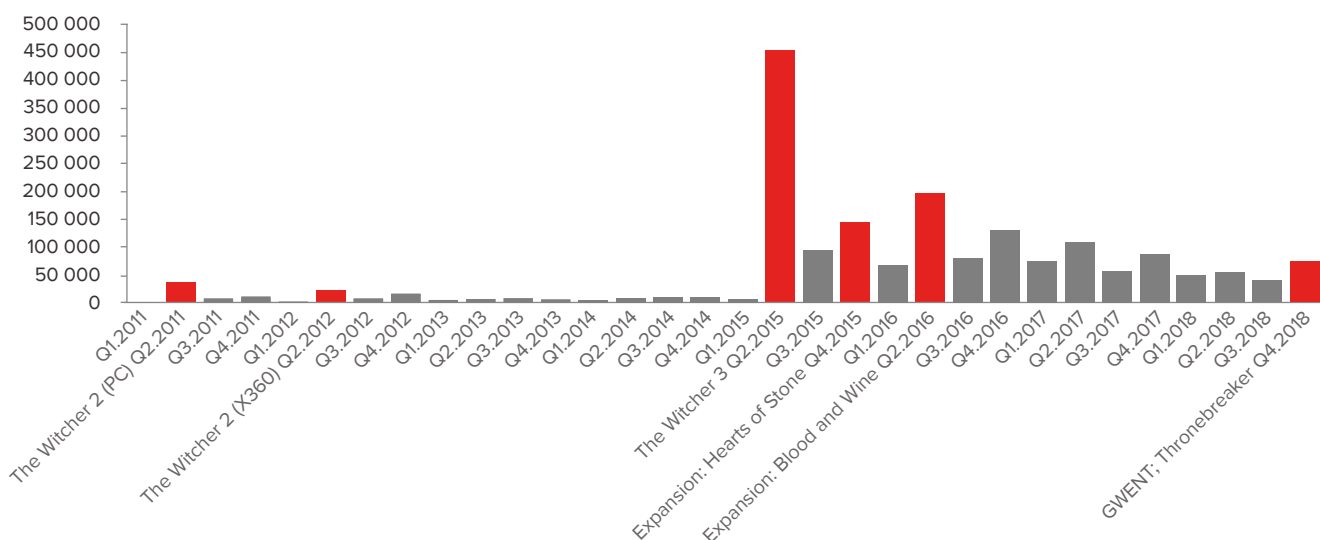
Disclosure of seasonal or cyclical activities

CD PROJEKT RED

CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

GWENT: The Witcher Card Game, currently maintained by the Company, follows the „game as a service” model, where the scope of expenditures and revenue streams directly depends on the popularity of the service.

Figure 18 CD PROJEKT RED release quarters – sales of products, materials and services in 2011-2018 (PLN thousands)



GOG.com

The digital videogame distribution market, which is the main area of activity of GOG.com, is characterized by seasonal fluctuations in revenues. On an annual basis, the highest revenues are typically obtained in the fourth quarter while the lowest revenues correspond to the third quarter. Sales in Q2 and Q4 are boosted by promotional activities organized in these periods.

The sales volume is also strongly dependent on the timing of new releases in each reporting period.

Strong revenues reported by GOG.com in the second quarter of 2015 were due to the release of *The Witcher 3: Wild Hunt*. Regarding the second quarter of 2016, that period was dominated by the release of *Blood and Wine* – a major expansion pack for *The Witcher 3*. In addition, GOG.com collects revenues from transactions carried out in the framework of the *GWENT: The Witcher Card Game* project. Both in 2017 and in 2018 *GWENT* represented the most important product of the GOG.com segment.



Disclosure of external and internal factors affecting further growth of the CD PROJEKT Capital Group

Future growth of the Company and its Capital Group is critically dependent on the ability to retain world-class creative professionals and experts, and to attract a growing number of specialists, both Polish and foreign, to work on the Group's future releases. Ongoing expansion of the company also calls for effective management of production and publishing activities related to several projects carried out in parallel at the Company HQ in Warsaw and at its branch offices in Kraków, Wrocław, Berlin, Los Angeles, Shanghai and Tokyo. The market performance of each new release is an important aspect of the Studio's reputation as a developer of top-quality, highly sought-after entertainment products. It also underpins the value and recognition of brands such as *The Witcher*, *Cyberpunk* and CD PROJEKT RED, upon which the long-term development strategy of the Company and its Capital Group is founded.

Moreover, the activities of CD PROJEKT Capital Group member companies are affected by external factors such as the global macroeconomic conditions, legal reforms and changes in taxation. In this sense, CD PROJEKT is in a similar position to many other companies conducting business on domestic and international markets.

Key internal and external factors which may, in the Board's opinion, prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section of this Management Board report on CD PROJEKT Capital Group and CD PROJEKT S.A. activities in 2018.

With regard to the first quarter of 2019 as well as later periods, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com, while also pursuing new initiatives in the framework of its subsidiaries – Spokko and CD PROJEKT RED STORE. A description of further growth plans can be found in the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at www.cdprojekt.com/en/capital-group/strategy/.



CD PROJEKT RED

Key factors which will guide activities in the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among players. In this context, the most significant factors shaping the current results of the CD PROJEKT Capital Group include the popularity of previously published games set in *The Witcher* universe, as well as – in future periods – the progress of development and market reception of the Company's new releases, including *Cyberpunk 2077* and further products. The enthusiastic reception of the Studio's new product by gamers and experts alike is testament to the strong potential of the brand, both in terms of PR and commercial appeal.

Commitment to product quality, maintaining the pace of the *Cyberpunk 2077* marketing campaign, PR activities, hype management and fostering community relations are all important aspects of the game's expected market success. In addition, global recognition and popularity of the *Cyberpunk 2077* brand may entice gamers who are not yet familiar with *The Witcher* games to seek access to the Company's earlier products.



Future results of the CD PROJEKT Capital Group will also depend on the popularity and progress of development of *GWENT: The Witcher Card Game*. Following its official release in Q4 2018 the *GWENT* team is currently focusing on adding new content, card sets and vanity items as well as organizing regular in-game events with the aim to attract and retain gamers.

GWENT: The Witcher Card Game is the first multiplayer game developed by the CD PROJEKT Group in which CD PROJEKT and GOG collaborate to jointly create new technological solutions while extending their knowledge and experience in terms of provisioning online products. These technologies and know-how are strategically important for the Group and its future development and publishing capabilities.

The Company believes that maintaining the observed growth dynamics and expansion of its activity profile will depend on further enhancement of its world-class videogame development skillset and on maintaining effective communication channels with the global gaming community. Managing two separate major franchises (*The Witcher* and *Cyberpunk*), along with several independent development teams, enables the Company to conduct parallel work on several projects and smoothens its long-term release schedule. This migration towards a dual-franchise model supported by several independent product lines also permits optimization of manufacturing and financial activities, mitigates important risk factors and makes it easier for Company employees to seek professional fulfillment.

GOG.com

In the GOG.com segment, maintaining the current high sales volume should be supported by the customers' increasing tendency to turn to online channels for purchases.

GOG.com growth also depends on seeking additional brand-new products. The Company actively communicates with leading global developers and publishers of videogames, continually expanding its list of business partners and products offered. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG sp. z o.o. also seeks to expand its user base by attracting new players – those who have not yet set up a GOG.com account. The Company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.

In April 2017 GOG rolled out an updated version of its GOG Galaxy technology stack, which supports (among others) unhindered online multiplayer gaming. Owning this technology enables GOG.com to add more online games to its catalogue. Furthermore, releasing additional products with built-in GOG Galaxy multiplayer support may entice gamers to take up interest in other games offered on GOG.com. GOG Galaxy is continually expanded with new features, in like with gamers' and developers' expectations.

Further growth of activities in the GOG.com segment, including the potential to acquire unique know-how and experience, and to fully leverage the Company's technological expertise, will be influenced by the Company's involvement in the *GWENT* project, where GOG.com is responsible for networking and online sales.

Participation in the *GWENT* project and applying GOG Galaxy in the development of a free-to-play online game marks GOG.com's entry into a new market segment. The resulting technologies and experience will, in the Board's opinion, strongly affect future growth prospects of GOG.com in this heretofore unexplored area of the gaming market.



Disclosure of significant achievements in the scope of research and development activities

Given the nature and scope of CD PROJEKT Capital Group activities – with regard to videogame development, digital distribution and work on GOG Galaxy – the ongoing search for new solutions and more effective use of existing technologies constitutes a core aspect of the Group's business profile. The innovative potential of the Company's products was acknowledged on 19 June 2018 when the Minister for Entrepreneurship and Technology conferred upon CD PROJEKT S.A. the status of a Research and Development Center (RDC). This status enables the Company to actively and effectively exploit national R&D support programs.

Since 2008 CD PROJEKT RED has ceaselessly worked on its proprietary game engine – REDengine. The engine supports development of RPGs with advanced graphics and complex storylines, targeted for the PC and home game consoles. Since 2013 it supports creation of open-world games, while in 2015 it added the ability to enrich products with add-ons and expansions. REDengine is also why *The Witcher* has become a benchmark of the capabilities of modern videogame platforms.

CD PROJEKT RED is currently working on the fourth generation of REDengine, among others by carrying on development of four technologies co-financed under the Gameln umbrella (part of the Intelligent Growth Operational Programme):

City Creation – comprehensive technology enabling creation of massive “living” cities playable in real time and based on the principles of artificial intelligence and automation, including innovative processes and tools which assist in the development of top-quality open-world games,

Animation Excellence – comprehensive technology facilitating rapid increases in the quality and efficiency of creating complex body and face animations for use in open-world RPGs, including innovative process solutions and a unique dedicated toolkit,

Cinematic Feel – comprehensive technology which delivers exceptional cinematic quality of cutscenes set in open-world RPG environments, including innovative process solutions and a unique dedicated toolkit,

Seamless Multiplayer – comprehensive technology facilitating immersive multiplayer gameplay with support for matchmaking, session management, object replication and various gameplay models, along with a unique dedicated toolkit.

Achieving the desired level of innovation in the scope of each of these projects depends on successful attainment of a series of corresponding milestones. In 2018 the Studio successfully completed a range of activities which involved not just development of the technologies themselves, but also their productive use in future games.

Given the specific nature of the presented technologies and their intended use in the Studio's future releases, specific outcomes achieved in 2018 will only be disclosed after the close of the corresponding projects. Even so, it can be stated that results obtained during the past year represent a major step on the road to attaining the declared objectives of each project, and that they constitute a valuable body of knowledge related to videogame R&D activities.



The above projects, ongoing since early 2017, concern innovative solutions which will have a positive effect on the global competitiveness of the Company's future AAA releases, starting with *Cyberpunk 2077*. Results of to-date development work on the Studio's newest product – in the form of a *Cyberpunk 2077* gameplay trailer – were showcased to a limited audience at E3 in Los Angeles (June 2018) and gamescom in Cologne (August 2018), and subsequently publicized on the cyberpunk.net website (August 2018).

The Group currently manages three development teams, each of which works on a different product line in the framework of the Group's franchises.

Throughout 2018 the combined teams of CD PROJEKT RED and GOG.com continued to work on *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. *GWENT*, which represents a novel product type from the perspective of the Group, required prior creation of a range of new solutions facilitating multiplayer gameplay, various online and backend features, core mechanisms of a complex, multilayer card game as well as support for a free2play release with optional in-game transactions. An important development milestone was reached in October 2018 with the official full release of *GWENT: The Witcher Card Game*. Development work on this product will continue in 2019. In parallel to *GWENT*, the Company also pursued another project – *Thronebreaker: The Witcher Tales*. Originally intended as an expansion for *GWENT* players, it was eventually upgraded to a standalone project which underwent further development work and was commercialized separately. The project was finalized in the fourth quarter of 2018, with the game released exclusively as a digital download for the PC (on GOG.com and Steam), Xbox One and PS4.

The second development team, operating under the Spokko brand, is working on a heretofore unannounced project.

Additionally, in 2018 the Group acquired the Wrocław-based Strange New Things studio. The SNT development team, with its longstanding experience in multiplayer game development, represents a substantial strengthening of CD PROJEKT RED's activities in this regard.

In the context of GOG.com, projects co-funded by the Gameln programme included ongoing work on an innovative cross-platform technology enabling distribution and support for gameplay in a previously unavailable mode under any operating system, on any console or mobile device.

The most important benefits resulting from this project include:

- ◆ Creation of a universal system enabling communication between a local client (i.e. game running on the user's computer/console) and a common online infrastructure appropriate for the given platform for which the game has been released,
- ◆ Creating an online infrastructure (cloud) capable of supporting multiplayer gameplay while ensuring reliability and efficient query processing,
- ◆ Implementing cross-platform user account synchronization.

In 2018 the Company also finalized development of a robust set of community features for its online distribution platform, initiated in 2017. This effort resulted in an innovatively engineered in-house "user community" solution closely integrated with the Company's main sales platform – i.e. the www.gog.com portal. It provides users with the ability to participate in communities where they can share – among others – their achievements and activity profiles. This functionality is available both on GOG.com and within games, with help from client community management software.





The goal of the aforementioned project was to further improve the sales platform at www.gog.com, equipping it with features encouraging user involvement, as well as to be able to track market trends. The latter feature is intended to help the Company adapt to user requirements and gather information regarding their preferences, thereby facilitating further growth of GOG.com.

In 2018 CD PROJEKT S.A. representatives chaired the Polish Games Association (PGA), which brings together the largest and most widely recognized videogame developers in Poland. The mission of the Association is to support growth and increase the competitiveness of the Polish videogame industry on the global stage. In the course of its activities, the Association liaises with public authorities, entrepreneurs, non-profit organizations and also – as a member of the European Game Developers Federation – with similar groups in other countries. In 2018 PGA was involved in the following activities:

- ◆ announcement of the third call for proposals under the Gamelnn Sectoral Programme.
- ◆ support for introducing tax relief measures for development of videogames with an impact on Polish culture,
- ◆ participation in public hearings in the scope of clarifying the IP BOX tax relief scheme,
- ◆ formulating the gaming industry's official statements regarding lootboxes, the Copyright Directive, inclusion of videogame addiction on the list of mental health issues and e-Privacy,
- ◆ participation in formulating the EGDF strategy for 2020-2030.

Disclosure of significant agreements¹³

In 2018 the Group concluded two significant agreements concerning distribution of *Cyberpunk 2077*. In Current Report no. 17/2018 of 3 October 2018 the Company announced that it had concluded an agreement with Warner Bros. Home Entertainment Inc. concerning distribution of box editions of the game throughout the United States, Canada and Mexico. In [Current Report no. 20/2018](#) of 16 October 2018 the Company announced that it had concluded an agreement with BANDAI NAMCO Entertainment Europe S.A.S. concerning distribution of box editions of the game in 24 European countries.

The agreements detail the responsibilities of each party with respect to the license grant, basic conditions governing distribution of the game as well as the distributors' obligations with regard to the corresponding marketing campaigns, including minimum financial commitments thereto.

Licensing royalties payable to the Company in association with each license grant will be calculated on the basis of sales revenues obtained by the distributors, less the agreed-upon distribution fees, costs and provisions for expenses related to the game's distribution and promotion. These royalties will be settled on a quarterly basis in accordance with sales reports submitted by distributors.

¹³ An agreement is regarded as significant if the projected total value of liabilities arising under the agreement exceeds 10% of the consolidated assets of the Capital Group.



Risk management at the Capital Group

The CD PROJEKT Capital Group carries out ongoing assessment and mitigation of risk factors which may affect its financial or material standing. The Group is exposed to common risks typical for commercial entities which carry out economic activities in Poland, export products and maintain subsidiaries (including foreign subsidiaries). Pursuing complex, innovative projects which call for multiple iterations to ensure that the final product meets the stated requirements involves higher-than-average operating risk. With each new release the Group gains valuable publishing and development experience, enabling it to adapt its practices in the scope of project management, progress monitoring and risk mitigation.

Risks associated with customers

In the CD PROJEKT RED segment, the pool of customers consists of distributors and publishers who purchase licenses to publish and distribute Company products. Efficient cooperation with customers is dependent upon many factors, including the appeal of the product, customers' own publishing plans and customers' preferences in specific countries. CD PROJEKT S.A. makes every effort to ensure that its products are characterized by high quality, rendering them more desirable to final customers and increasing licensee and distributor retention.

In the scope of products and services offered by the Group the final customers are natural persons with access to the retail market. Demand for products and services may fluctuate depending on market trends or sudden changes in perception among key demographics. Internet discussion forums and other social media provide customers with the ability to easily communicate with one another and influence each other's opinions. Unforeseen changes in perception among final customers and trendsetters are beyond the Group's control. Group members strive to maintain open channels of communication with final customers (this includes social media activity and in-house customer support). In line with the Group's philosophy, both CD PROJEKT S.A. and its subsidiaries emphasize open, honest and diligent communications as a foundation for mutual trust and long-term customer relations.

Risk of losing key suppliers

In the CD PROJEKT RED segment the Company relies on external suppliers for certain components required in the development of games, such as physics systems, audio libraries and other specialized software. Given that a wide range of commercial development tools is available the Company actively monitors the market and may take steps to replace selected components or tools used in the production process, should such changes become necessary. The operations of GOG sp. z o.o. depend on cooperation with developers, producers and publishers who supply final products and with whom publishing, distribution and retail sale agreements are negotiated. The Company mitigates the risk of losing suppliers by maintaining good trade relations and by working to diversify its supply chains and attract new suppliers.

Risk of technical malfunctions, data leaks or data loss

The activities of the Group are dependent upon correct operation of IT systems, computers and servers. Outages and technical malfunctions may render the Group unable to perform



its daily activities and may disrupt the operation of the Group's online services. Data storage and data processing carries the risk of theft or leakage of critical information. Technical issues affecting the Group's data storage services, or access by unauthorized parties may result in data loss, reduced sales revenues and unforeseen costs or penalties. Such occurrences may also negatively impact the Group's reputation and undermine customer trust. In order to facilitate uninterrupted operation of its technical infrastructure and mitigate the associated risks the Group has deployed a range of safeguards and backup systems ensuring constant supply of electrical power. All devices hosted in the Group's main server room are backed up by UPS to protect against power surges and outages. Additionally, the Group has purchased a generator to supply power to its critical systems in the event of a blackout. The main server room is equipped with an automatic fire suppression system. Critical data is automatically backed up to an offsite facility and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction. The Group works to ensure proper maintenance of its critical IT infrastructure, with continuous monitoring and periodic upgrades to improve the operation of servers and other systems. Nevertheless, despite the Group's best efforts, risks associated with hardware malfunctions and data loss cannot be entirely eliminated.

Risk associated with processing of personal data

Processing personal data is regulated by the relevant legislation, including Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (also referred to as the General Data Protection Regulation or GDPR), which is scheduled for unconditional entry into force in Poland on 28 May 2017. The Group has set up a legal, organizational and technical framework which enables secure processing of personal data, in compliance with the new Regulation. Should existing or future personal data protection solutions fail to operate as expected, leakage, corruption or loss of personal data may ensue, whether due to system malfunction, human error or malicious actions by third parties. Infringement of data protection legislation may result in financial penalties imposed by the relevant authorities, and may also impact the Group's reputation and undermine customer trust. Starting with 25 May 2018 the potential consequences of such infringement have become much more severe due to the raise in penalty caps and an expansion of remedial prerogatives appertaining to authorities. Exercise of these prerogatives has the potential to negatively impact the financial standing of the Group's member companies, and hamper their ongoing and future activities. With regard to processing of personal data, CD PROJEKT Capital Group member companies are assisted by internal mechanisms in place at the Capital Group, as well as by external entities. Despite introduction of formalized procedures regulating access to such data, the risks associated with operating activities cannot be entirely eliminated.

Risk of incorrectly estimating demand and future sales

Developing, publishing and distributing products, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential. CD PROJEKT Capital Group members apply their longstanding experience to determine the commercial potential of each product they release, however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.



Risks associated with entering a new market segment – i.e. free-to-play (F2P) games with optional microtransactions

By undertaking development of *GWENT: The Witcher Card Game*, the CD PROJEKT Capital Group has effectively entered a new market segment: free-to-play (F2P) games with optional microtransactions. *GWENT* is a multiplayer online card game. The business model and lifecycle of F2P games differs from CD PROJEKT RED's to-date experience with RPGs. The Company is currently acquiring experience with development and marketing of "games as a service" including optional microtransactions. *GWENT* is also available in China – an environment which differs significantly from markets where CD PROJEKT had previously conducted business activities. Cooperation with GAEA – an experienced Chinese business partner – should mitigate the Company's exposure to risks associated with entering a new market and a new business model. The potential inability to ensure market success for this new product may translate into lower-than-expected financial results, both within the CD PROJEKT RED segment and the GOG.com segment (note that *GWENT* is co-developed by both companies as a collaborative undertaking).

Risk of delays in videogame development

Postponed releases are a commonplace occurrence in the videogame industry. Developing games is a highly complex, iterative and costly activity, based on creative effort and requiring continuous development and refinement of technological solutions. This increases the likelihood of incorrect estimation of the required workload, delays due to technical issues in the programming layer (e.g. failure to meet quality assurance criteria or technical glitches), or problems caused by insufficient funding. With regard to products purchased by GOG sp. z o.o. Group members have no control over delays arising on the supplier side. With regard to development of proprietary products by CD PROJEKT S.A. the company actively manages its development schedule in order to minimize the likelihood of delays. Acting to further improve the effectiveness of videogame development the Company has deployed a standardized and semiautomatic production management system, which enforces best practices in the area of detailed control over the range and course of ongoing development work.

Risks associated with certification

Development of games for "closed" platforms, such as gaming consoles or iOS devices, and publishing games on markets where the binding legislation calls for certification (e.g. China) requires direct cooperation with the entity responsible for certification. This process involves validation of the game, and applies to any new releases thereof, to expansion packs and to other forms of additional content. Termination of cooperation between the developer and the platform proprietor is a significant risk, as are delays in the certification process or denial of certification. Each of those events may adversely impact the revenue stream for a given game. CD PROJEKT S.A. devotes substantial effort to meeting its contractual obligations due to platform proprietors as well as legal requirements, and consistently prioritizes the quality of its products.

Risks associated with infringement of intellectual property rights, patents and trademarks

Effective acquisition, licensing and protection of intellectual property rights (including trademarks) held by the Group is an important aspect of the Group's activities.



Group member companies acquire copyrights (e.g. in the videogame development process) on the basis of contracts concluded with authors, employees, affiliates and external suppliers. Despite introduction of suitable contractual provisions regulating copyright management, situations may arise where copyright has not been effectively transferred to the Group, acquired from an unauthorized party or inadvertently infringed. An additional risk involves conflicts between provisions which protect the interests of IPR holders in various jurisdictions. The Group performs continuous analysis of such risks and works to adapt the material content of its service contracts to minimize them.

Due to the global reach of CD PROJEKT Capital Group products and services, it is natural to offer such products and services in local languages and using national alphabets. This, however, involves the risk that a brand name or trademark held by the Company may conflict with an existing trademark, giving rise to copyright infringement claims. In addition, the Group may be unable to locally register some of its trademarks due to their resemblance to trademarks which have already been registered. The Group actively monitors trademark claims filed by third parties and conducts analysis of existing trademarks before deciding on names for its own products.

Some jurisdictions permit patenting of software, information technology concepts or elements of videogames. Group member companies attempt to monitor the situation in this regard; however due to the nonuniform nature of applicable laws, some of which extend far-reaching protection to patent holders, patent infringement claims against the Company cannot be ruled out.

It should be noted that any claim filed against the company in conjunction with potential infringement of intellectual property rights, patents or trademarks may negatively affect the Group's reputation and growth prospects even before such claims have been adjudicated.

Group revenues are also negatively affected by the actions of parties who distribute its products without the owner's consent, thus violating intellectual property laws. CD PROJEKT Capital Group member companies have no direct control over the scale of such illegal distribution. Insofar as is possible, Group members try to attract customers by releasing products in various price brackets, published in an appealing manner and therefore providing good value for money – both via services operated by GOG sp. z o.o. and with regard to the Group's own products.

The Group continuously revises the legal safeguards present in third-party contracts and registers its trademarks throughout the European Union and elsewhere. The Group also takes action to combat infringement of intellectual property rights – among others, by monitoring online auction portals and distribution platforms in Europe, the United States and Asia.

Risks associated with the inability to recruit skilled professionals

The activities and growth prospects of CD PROJEKT Capital Group member companies are greatly dependent on maintaining an experienced, knowledgeable and motivated workforce. As the Polish videogame industry has been dynamically expanding over the past dozen or so years, Polish universities and vocational training schools have not yet had time to train a sufficient number of professionals specializing in videogame development. Current activities of the Group, as well as its future development plans, call for further recruitment of employees, both Polish and foreign. The inability to attract world-class specialists, or the loss of experienced employees, might impact the quality and release schedule of Group products, and therefore also the Group's financial result. Member companies work to expand their internal HR and recruitment departments in order to mitigate this risk. They provide employees with good



employment conditions, competitive salaries, bonuses, incentive programs (such as profit sharing), free-of-charge or co-financed training courses, and other benefits, including private healthcare, two in-house canteens, an in-house gym and passes for external clubs and sports venues. The Group has also implemented a relocation program for foreign employees in order to ease their immigration and settlement in Poland.

Risk of insolvency and credit risk

Within the framework of CD PROJEKT Capital Group the implementation of annual plans, including plans which relate to financial liquidity, is monitored in monthly cycles. In order to minimize the risk of customer insolvency the Company performs ongoing monitoring of the collection of receivables. Collection of problematic debts is subcontracted to specialized third parties. The Group identifies key customers whose total share in the Group's revenue stream exceeds 10%. In 2018, owing principally to the activities of GOG.com, slightly over one third of the Group's consolidated sales revenues came directly from retail sales of the Group's products and services to final customers. The Group actively manages its liquid assets and monitors its debt in relation to the Group's equity and financial results, both current and projected. As of the publication date of this report CD PROJEKT is not in debt due to any credit or loan agreements, and has set aside provisions in cash. Surplus cash is deposited in banks which cooperate with the Group or invested in low-risk financial instruments (in line with the principle of diversifying the deposit and investment portfolio). The Group performs ongoing management of its liquid assets in order to meet any liabilities arising from its ordinary activities and permit unhindered continuation of videogame development and publishing projects.

Risks associated with credit agreements and interest rate risks

In 2018 no member company of the Capital Group had any outstanding liabilities due to bank credit agreements, third-party loans or bonds. Several vehicle lease agreements were in force; however, their aggregate value was much lower than the Group's positive cash account balance.

The Group invests most of its surplus cash in short-term bank deposits. Consequently, lower interest rates may have a negative impact on the financial revenues obtained by the Group.

Risks associated with sureties

Certain agreements concluded by CD PROJEKT Capital Group member companies may involve guarantees or sureties. These provisions may potentially compel each guarantor to cover the liabilities of other parties to whom guarantees or sureties have been contractually pledged. Detailed information regarding the scope of guarantees and sureties granted by each member of the CD PROJEKT Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2018, in the section titled "Conditional liabilities from guarantees and collateral pledged".

Asset impairment tests

In accordance with the International Financial Reporting Standards, Group member companies conduct periodic asset impairment tests. Positive results of future tests cannot be guaranteed.



Risks associated with PLN strengthening against USD and EUR

Due to the global scope of its activities the Capital Group obtains most of its revenues in foreign currencies. Consequently, the Group is subject to risks associated with sudden changes in exchange rates, particularly the strengthening of PLN against foreign currencies.

A majority of publishing and distribution agreements to which CD PROJEKT S.A. is party (as a videogame developer) is denominated in foreign currencies – typically in USD or EUR. As a result, the strengthening of PLN against foreign currencies is regarded as an unfavorable circumstance by the Group, reducing its revenues from distribution and licensing contracts. CD PROJEKT S.A. attempts to minimize its exposure to fluctuations in exchange rates, however the corresponding risks cannot be entirely eliminated.

GOG sp. z o.o. revenues are denominated in 13 currencies, including primarily USD, and to a lesser extent EUR, PLN, GBP, RUB, CAD, AUD and others, while expenses are mostly borne in USD and PLN. Accordingly, the strengthening of PLN or EUR against the currencies in which GOG sp. z o.o. obtains revenues is viewed as an unfavorable circumstance by the CD PROJEKT Capital Group, reducing the profitability of GOG sp. z o.o.

Risks associated with changes in macroeconomic conditions

The overall condition of the global economy, including political and economic crises as well as deterioration of economic conditions may have a negative impact on the Group's financial standing. A negative macroeconomic or political outlook may hinder access to sources of financing, induce consumers to adopt a conservative stance, or result in restrictions upon the sale of products as a result of economic sanctions, thereby negatively affecting product sales. Group members monitor the impact of global economic conditions upon their respective markets and adjust their actions accordingly.

Risks associated with the emergence of new technologies

The digital entertainment segment which represents the Group's primary area of activity is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games are delivered to the final customer, as well as the capabilities of gaming platforms. Since 2008 CD PROJEKT RED has been developing its proprietary videogame engine called REDengine, which supports creation of cutting-edge expansive RPGs for the PC and the newest generations of gaming consoles. Successive iterations have enriched the engine with – among others – support for nonlinear storytelling, efficient management of expansions and performance optimizations. The studio is currently working on the fourth version of REDengine in an effort to expand the boundaries of what modern AAA games are capable of. Developing videogames for the most modern hardware platforms is a major asset of the Company, as evidenced by the great marketing success of *The Witcher 3: Wild Hunt*, but it also entails certain risks associated with vendor lock-in in a dynamically changing environment. CD PROJEKT Capital Group member companies monitor technological progress to forestall risks to their own activities, and adapt their strategies taking into account breakthroughs in videogame development or distribution processes.



Risks associated with legislative changes, fiscal regulations and conflicts of jurisdiction

Legal regulations, both in Poland and abroad, are subject to frequent changes. These changes, as well as the variability in the interpretation of existing law, constitute a risk which manifests itself e.g. with regard to taxation, trade regulations, intellectual property law, labor law and capital market law. Any change in legislation has the potential to negatively impact Group activities by incurring administrative penalties, increasing operating costs or invalidating projections concerning future events. Legislative changes may also impact the legal environment in which the Group conducts its operations. Introduction of new regulations may be associated with inconsistent case law and conflicting or outright unfavorable interpretations by public administration bodies.

Significant changes have recently occurred in Polish tax law. Legislative bodies have imposed additional reporting obligations upon taxpayers and introduced a range of new restrictions related e.g. to qualifying expenditures to cost categories, while also introducing new forms of tax relief, enabling taxpayers to reduce their overall tax burden. When deciding to make use of such relief, the CD PROJEKT Capital Group must develop appropriate internal documentation and settlement standards, which, in turn, may potentially be brought into question by tax authorities.

The CD PROJEKT Capital Group has no influence upon changes in legal or fiscal regulations, either in Poland or abroad.

The draft Directive on Copyright in the Digital Single Market, which is currently being prepared by the EU legislature, may have a significant impact on the Group's activities. The current draft imposes new requirements upon copyright purchasers and online platforms, while also granting additional rights to copyright holders. The final text of the Directive, its date of entry into force and the means of its implementation by EU member states are as yet unknown. The CD PROJEKT Capital Group monitors ongoing work on the Directive and prepares to undertake suitable legal and organizational actions in the event of its approval.

In order to minimize the risk associated with significant changes in legislation which affects the Group's activities, independent legal departments have been established in each of the Group's activity segments. In addition, the Capital Group actively implements measures which ensure uniformity of its internal processes and enable it to properly discharge its legal obligations.

Member companies of the CD PROJEKT Capital Group are subject to legal and fiscal regulations in countries where they distribute their products and goods, as well as – to some extent – in countries in which they purchase or license products and technologies used in the videogame development process. Large portions of sale, purchase and licensing agreements concluded with foreign parties are governed by foreign law. This creates the risk of incorrect interpretations of foreign law or of the provisions of contracts governed by foreign law. Such exposure to multiple legal systems also carries the risk of potential inadvertent breaches of foreign law. In order to mitigate this risk, Group members employ the services of foreign legal consultants who specialize in the relevant fields.

Risks associated with subsidies

Certain investment and development activities carried out by Group member companies make use of public subsidies. Reliance upon this form of financing carries the risk that public authorities may question the corresponding documentation, the relevance of the obtained subsidies or their recognition and settlement, whether in the course of the subsidized activities or long after their completion. The Company applies due diligence in all matters related to procurement of



subsidies. It employs dedicated specialists whose task is to monitor the process and submit any required documentation. In complex matters the Company also avails itself of the assistance of external experts.

Risks associated with competitors' actions

The Group's performance is affected by its competitors' strategies, financial standing and the ability to procure financing on favorable terms. The Group mitigates this risk by implementing an active publishing policy and prioritizing the quality of its own products and services.

Risks associated with stock market conditions / manipulation attempts

The price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange is subject to natural fluctuations. Stock price depends on various factors, only some of which are under the Group's control – examples include the Group's financial standing, its growth prospects or the general condition of the capital market. In addition, stock price may be affected by misleading or erroneous information or rumors concerning the Group's condition or its activities, disseminated by third parties (market manipulation). For its part, CD PROJEKT makes every effort to provide investors with equal access to accurate information by publishing current and periodic reports, updating its corporate website at www.cdprojekt.com, actively managing its IR Twitter profile at [@CDProjektRED_IR](https://twitter.com/CDProjektRED_IR), scheduling regular meetings with investors and market analysts, and managing a dedicated investors' forum on the Company's web portal.

Risk of loss of reputation

Good reputation of the Company and of its subsidiaries may induce customers to purchase products and services offered by the Group, improve its growth prospects and enable it to attract and retain skilled employees, collaborators, subcontractors and business partners. It may also translate into favorable opinions regarding the Group on the part of its market environment and other stakeholders. Loss of reputation may occur as a result of factors both within and beyond the Group's control. Such loss would have a negative effect on the Company and its subsidiaries, and consequently, might impact their financial standing. The Management Board believes that a fair and equitable approach to employees, gamers and business partners, intensive and honest communication with customers, and focus on the quality of all products and services offers, are the foundation upon which the Group's long-term reputation is based.

All these priorities are enshrined in the Group's business philosophy, which forms part of the CD PROJEKT Capital Group Strategy for the Years 2016 - 2021, as formally approved by the Board.



**Financial statement
of the CD PROJEKT
Capital Group**



Overview of key economic and financial indicators disclosed in the consolidated and separate financial statement

Description and assessment of factors and unusual circumstances affecting the Group's financial result in 2018

The most important contribution to results reported by the Capital Group in 2018 was from ongoing sales of *The Witcher 3: Wild Hunt* and the game's two expansion packs (also available as the Game of the Year Edition bundle). Another important contribution to the Group's revenues came from *GWENT: The Witcher Card Game*, officially released in October 2018 along with a standalone single-player RPG: *Thronebreaker: The Witcher Tales*.

Regarding development expenses, the most important projects of 2018 were *Cyberpunk 2077*, *GWENT* and *Thronebreaker*.

At the close of October 2017 a transnational merger was carried out between two CD PROJEKT S.A. subsidiaries, namely GOG Poland sp. z o.o. and GOG Ltd. The effects of this merger upon the settlement of the *GWENT* consortium activities in 2018 as well as with regard to earlier reporting periods will be detailed later on in this section.

No unusual circumstances affecting the Group's financial result occurred in 2018.



Consolidated profit and loss account – selected highlights

Table 5 Consolidated profit and loss account – selected highlights (PLN thousands)

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017*
Sales revenues		362 901	463 184
Revenues from sales of products	1	235 919	346 841
Revenues from sales of services	1	108	98
Revenues from sales of goods and materials	1	126 874	116 245
Cost of products, goods and materials sold		106 254	82 174
Cost of products and services sold	2	12 692	1 273
Cost of goods and materials sold	2	93 562	80 901
Gross profit (loss) from sales		256 647	381 010
Other operating revenues	1; 3	2 480	4 607
Selling costs	2	107 183	110 673
General and administrative costs	2	36 602	32 228
Other operating expenses	3	3 134	2 797
(Impairment)/reversal of impairment of financial instruments		184	1 021
Operating profit (loss)		112 392	240 940
Financial revenues	1; 4	10 771	10 856
Financial expenses	4	130	4 391
Profit (loss) before tax		123 033	247 405
Income tax	5	13 699	47 135
Net profit (loss)		109 334	200 270
Net profit (loss) attributable to equity holders of parent entity		109 334	200 270
Net earnings per share (in PLN)			
Basic for the reporting period	7	1.14	2.08
Diluted for the reporting period	7	1.09	2.01

*adjusted data



Clarifications regarding the consolidated profit and loss account of the CD PROJEKT Capital Group

The consolidated Sales revenues of the CD PROJEKT Capital Group in 2018 were 362 901 thousand PLN, which is 21.7% lower than the corresponding 2017 value.

In the reporting period, the Group's publishing plan foresaw no new AAA releases. Consequently, the bulk of the reported revenues was generated by previously published products, notably *The Witcher 3: Wild Hunt* (together with its expansion packs, i.e. *Hearts of Stone* and *Blood and Wine*), along with commercialization of new smaller-scale products: *GWENT* and *Thronebreaker*. Revenues from sales of products, at 235 919 thousand PLN, contributed 65.0% to the Group's consolidated sales revenues.

Revenues from sales of goods and materials were generated mostly in the GOG.com segment and resulted from digital distribution of videogames licensed from external suppliers. The aggregate figure of 126 874 thousand PLN represents 35.0% of the Group's consolidated sales revenues (9.1% y/y increase). The reported increase in the value of goods and materials sold by GOG.com is due to ongoing expansion of GOG.com's catalogue, seasonal sales and deployment of new features, such as user profiles and activity logs. As a result, 2018 marks the best year in GOG.com's to-date history in terms of revenues from sales of products licensed from external suppliers.

Consolidated costs of products, goods and materials sold, at 106 254 thousand PLN, were 29.3% higher than the reference value. This increase in the Group's own costs is a consequence of the following factors:

- ◆ An increase in the Cost of goods and materials sold resulting from increased sales of goods licensed from external suppliers in the GOG.com segment.
- ◆ In the fourth quarter of 2018 the Group has begun to amortize the development costs of *GWENT* and *Thronebreaker*, which are aggregated with Cost of products and services sold. This represents a difference compared to the reference period where the consolidated result was not affected by any cost offsets (since all development costs of CD PROJEKT RED's older releases had been fully amortized in earlier periods).

In line with the accounting policy adopted by the Group, *GWENT* development expenses will be amortized in a straight-line fashion over 3 years following the release of the full version of the game. With regard to *Thronebreaker*, development expenditures are reassigned to costs following finalization of development and commencement of sales on the basis of a projection of future sales revenues based on historical data. In the reporting period 40% of the development expenditures associated with *Thronebreaker* were reassigned to costs of products sold.

The Gross profit from sales of the CD PROJEKT Capital Group was 256 647 thousand PLN, which translates into gross profitability (ratio of pre-tax sales profit to sales revenues) of 70.7%.

The reported Selling costs consist mainly of promotional and advertising expenses borne in each segment of the Group. The bulk of these expenses (65.1%) are attributable to the CD PROJEKT RED segment and cover, among others, promotional activities associated with *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, as well as preliminary promotional activities related to *Cyberpunk 2077*. In the GOG.com segment (37.5% of total) selling costs resulted from:

- ◆ GOG.com's share in *GWENT* and *Thronebreaker* promotional expenses as regulated by the consortium agreement,



- ◆ marketing activities related to the GOG.com platform,
- ◆ costs related to processing sales on the digital distribution platform.

The presented category also aggregates some of the costs and provisions for compensation contingent upon the Group's financial result, as well as the cost of other bought-in sales support services. The aggregate value of the Group's 2018 selling costs was 107 183 thousand PLN, which represents an 3.2% decrease compared to 2017.

The main component of General and administrative expenses in the reporting period corresponds to compensation and provisions for compensation contingent upon the Group's financial result, along with liabilities arising under the incentive program. This category also aggregates certain bought-in services. The reported increase (by 13.6%) compared to 2017 is mainly due to recruitment of additional staff and ongoing expansion of the Group's activities in both segments. Altogether, general and administrative expenses amounted to 36 602 thousand PLN in 2018.

In 2018 the surplus of Financial revenues over Financial expenses increased by 64.6%, reaching 10 641 thousand PLN. This was mainly due to a decrease in negative temporary differences, along with slightly greater interest from bank deposits held to maturity.

The effective income tax rate reported in the profit and loss account for 2018 was 11.1% compared to 19.1% for 2017. The difference is mainly due to application of R&D tax relief to activities associated with the development of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* – but in the calculation of current income tax and deferred tax.

The consolidated Net profit of the CD PROJEKT Capital Group in 2018 was 101 700 thousand PLN, while its net profitability (ratio of post-tax net profit to aggregate sales revenues) was 28.0%.

The reported decrease in the Group's sales revenues and the corresponding decrease in consolidated net profit compared to 2017 are a direct consequence of the passage of time since the release of *The Witcher 3: Wild Hunt*, which still represents the largest contribution to the Group's sales revenues. New products released in late 2018 – *GWENT* and *Thronebreaker* – only modestly improved the Group's net profit in this period. In parallel, the operating costs of the CD PROJEKT RED segment continued to be affected by ongoing work on the Group's largest project to-date – *Cyberpunk 2077* (which remains in development) – and by its promotional campaign launched in June 2018.



Segmented profit and loss statement of the CD PROJEKT Capital Group

Table 6 Sales revenues, expenses and financial result by activity segment

	CD PROJEKT RED	GOG.com	Consolidation eliminations	Total
Sales revenues	227 830	144 317	(9 246)	362 901
Revenues from sales of products	220 641	12 782	2 496	235 919
Revenues from sales of services	4 409	15	(4 316)	108
Revenues from sales of goods and materials	2 780	131 520	(7 426)	126 874
Cost of products, goods and materials sold	13 752	98 766	(6 264)	106 254
Cost of products and services sold	11 132	2 896	(1 336)	12 692
Cost of goods and materials sold	2 620	95 870	(4 928)	93 562
Gross profit (loss) from sales	214 078	45 551	(2 982)	256 647
Other operating revenues	3 442	428	(1 390)	2 480
Selling costs	69 750	40 185	(2 752)	107 183
General and administrative costs	30 794	6 035	(227)	36 602
Other operating expenses	3 628	896	(1 390)	3 134
(Impairment) / reversal of impairment of financial instruments	171	13	-	184
Operating profit (loss)	113 519	(1 124)	(3)	112 392
Financial revenues	10 887	427	(543)	10 771
Financial expenses	104	569	(543)	130
Profit (loss) before taxation	124 302	(1 266)	(3)	123 033
Income tax	14 995	(1 296)	-	13 699
Net profit (loss)	109 307	30	(3)	109 334
Net profit (loss) attributable to equity holders of the parent entity	109 307	30	(3)	109 334



Clarifications regarding the segmented profit and loss account

Ongoing strong sales of *The Witcher 3: Wild Hunt* along with its expansion packs were responsible for the bulk of revenues and net results of the CD PROJEKT RED segment in 2018. Regarding GOG.com the most important product of the year was *GWENT: The Witcher Card Game*. Optimization of the game carried out in the scope of the Homecoming project, which lasted approximately 6 months and coincided with the reporting period, necessitated a scale-back of promotional activities, resulting in a reduction in *GWENT* monetization performance until the release of the final version in October 2018. This event was simultaneous with the release of *Thronebreaker: The Witcher Tales* – initially on GOG.com, and then (several weeks later) on Steam and gaming console stores (PlayStation 4 and Xbox One). Regarding other notable activities at GOG.com, in 2018 this segment generated its higher ever revenues from sales of games licensed from external suppliers. Moreover, in the CD PROJEKT RED segment (as well as – where digital distribution is concerned – in the GOG.com segment) the Group continued to market its earlier games, including *The Witcher*, *The Witcher 2: Assassins of Kings* along with a range of tie-in products.

An important factor which affects the balance and reporting methodology of GOG.com and CD PROJEKT RED sales revenues with regard to *GWENT* was the transnational merger between GOG Ltd. and GOG Poland sp. z o.o., carried out at the end of October 2017. Up until the merger GOG Ltd. had not been a *GWENT* project consortium partner: the consortium consisted only of CD PROJEKT S.A. and GOG Poland sp. z o.o. Consequently, prior to the merger, GOG Ltd. revenues from sales of virtual goods in *GWENT* to end users were disclosed entirely in the GOG.com activity segment and not shared with consortium partners. Instead, GOG Ltd. recognized licensing royalties payable to its supplier, i.e. the consortium consisting of CD PROJEKT S.A. and GOG Poland sp. z o.o. These royalties, associated with sales of goods by GOG Ltd., were then proportionally split between CD PROJEKT S.A. and GOG Poland sp. z o.o. in line with the consortium agreement, and reported as sales of products and services by each of these entities – including by GOG Poland sp. z o.o. whose results are attributed to the GOG.com segment, subject to the appropriate consolidation eliminations.

Following the merger between GOG Ltd. and GOG Poland sp. z o.o., all retail sales carried out in the framework of *GWENT* are recognized as revenues from sales of products by the consortium, and split proportionately between consortium partners: CD PROJEKT S.A. and GOG sp. z o.o. The result is that the reported *GWENT* sales revenues and margins reported in the GOG.com segment have decreased while those reported in the CD PROJEKT RED have increased. Given that all transactions carried out between Group members are subject to consolidation eliminations, the presented merger and subsumption of all GOG Ltd. activities under the *GWENT* project consortium will have no effect on the Group's consolidated sales revenues or sales margins. 2018 marks the first full annual reporting period which follows the merger between GOG Poland sp. z o.o. and GOG Ltd.

The reported revenues and pre-tax profit from sales in both segments were also affected by the status of the currency market. In 2018 the average daily USD/PLN exchange rate for 2018 was 3.61 compared to 3.78 in 2017. Given that 95% of Capital Group sales in 2018 were exports, this strengthening of the Polish currency means that – when applying the above conversion rates – for each dollar in 2018 sales revenues the Company stood to gain 0.16 PLN less than in the preceding year (a reduction by 4.3%). This unfavorable change had a greater impact on the GOG.com segment whose business model is characterized by lower net profitability than its CD PROJEKT RED counterpart.

With regard to operating costs, both CD PROJEKT RED and GOG.com reported similar selling costs to those incurred in 2017. An important event which affected selling costs in the



CD PROJEKT RED segment was the launch of the *Cyberpunk 2077* promotional campaign, including preparation of content for the Xbox conference along with participation in E3 in Los Angeles and gamescom in Cologne. The reported selling costs in both segments also covered marketing and promotional activities associated with *GWENT: The Witcher Card Game* and release of *Thronebreaker: The Witcher Tales*. In the GOG.com segment selling costs furthermore comprise expenses related to processing transactions and – to a lesser degree – maintenance and optimization of the digital distribution platform along with promotional activities aimed at improving the market competitiveness and public awareness of GOG.com.

Regarding general and administrative expenses, in the GOG.com these were comparable to the previous year, while in the CD PROJEKT RED segment they increased by 4 311 thousand PLN, i.e. 16.3%, as a result of ongoing recruitment and ongoing expansion of CD PROJEKT RED activities.

The finalization of development and release of *GWENT* and *Thronebreaker*, carried out jointly by CD PROJEKT RED and GOG.com, enabled the Group to apply R&D tax relief in both segments. In the case of GOG.com, given the reported tax loss, the relief was wholly aggregated with deferred tax, while in CD PROJEKT RED it was split between current tax and deferred tax. This had a positive impact on the net financial result of each segment and of the Capital Group itself.



Profit and loss account of CD PROJEKT S.A. – selected highlights

Table 7 Separate profit and loss account of CD PROJEKT S.A. – selected highlights

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017*
Sales revenues		225 232	328 235
Revenues from sales of products	1	220 641	319 481
Revenues from sales of services	1	1 811	2 168
Revenues from sales of goods and materials	1	2 780	6 586
Cost of products, goods and materials sold		13 753	9 011
Cost of products and services sold	3	11 133	2 608
Cost of goods and materials sold	3	2 620	6 403
Gross profit (loss) from sales		211 479	319 224
Other operating revenues	1; 4	3 450	5 078
Selling costs	3	69 929	75 714
General and administrative costs	3	28 035	23 359
Other operating expenses	4	3 634	3 636
(Impairment)/reversal of impairment of financial instruments		171	1 032
Operating profit (loss)		113 502	222 625
Financial revenues	1; 5	10 897	10 789
Financial expenses	5	104	4 070
Profit (loss) before tax		124 295	229 344
Income tax	6	14 844	44 731
Net profit (loss)		109 451	184 613
Net earnings per share (in PLN)			
Basic for the reporting period	8	1.14	1.92
Diluted for the reporting period	8	1.09	1.85

*adjusted data

Clarifications regarding the profit and loss account of CD PROJEKT S.A.

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group. Consequently, clarifications regarding the consolidated profit and loss account of the Capital Group – except for data referring directly to the GOG.com segment and contributions from the CD PROJEKT Inc. subsidiary – are generally applicable to the activities and results of CD PROJEKT S.A. In 2018 CD PROJEKT S.A. reported 225 232 thousand PLN in sales revenues, which is 31.4% less than in 2017. The Company's net profit for 2018 was 109 451 thousand, corresponding to 59.3% of the net profit for 2017. Finally, the Issuer's net profitability was 48.6% - somewhat less than in 2017, when the corresponding figure was 56.2%.



Consolidated statement of financial position of the CD PROJEKT Capital Group – selected highlights

Table 8 Consolidated statement of financial position – selected highlights (PLN thousands)

	Note	31.12.2018	31.12.2017*
FIXED ASSETS		388 309	255 535
Tangible assets	11	19 241	18 832
Intangibles	12	50 210	46 209
Expenditures on development projects	12	242 816	143 130
Investment properties	14	9 553	-
Perpetual usufruct of land	15	3 478	-
Goodwill	12; 13	56 438	46 417
Shares in subsidiaries excluded from consolidation	16; 41	3 683	452
Deferred income tax assets	5	2 320	-
Other long-term receivables	17; 41	570	495
CURRENT ASSETS		738 529	725 978
Inventories	18	258	323
Fixed assets held for sale	19	49	-
Trade receivables	21; 41	37 008	46 261
Current income tax receivables		1 611	-
Other receivables	22	19 231	17 582
Prepaid expenses	23	21 502	14 296
Cash and cash equivalents	24; 41	103 878	66 987
Bank deposits (maturity beyond 3 months)	41	554 992	580 529
TOTAL ASSETS		1 126 838	981 513

* adjusted data



	Note	31.12.2018	31.12.2017
EQUITY		1 002 864	882 899
Equity attributable to shareholders of the parent entity		1 002 864	882 899
Share capital	25	96 120	96 120
Supplementary capital	27	739 724	549 335
Other reserve capital	27	26 145	15 212
Exchange rate differences		1 012	118
Retained earnings	28	30 529	21 844
Net profit (loss) for the reporting period		109 334	200 270
Minority interest equity	29	-	-
LONG-TERM LIABILITIES		6 691	4 130
Other financial liabilities	31; 37	163	148
Deferred income tax liabilities	5	-	1 878
Deferred revenues	38	6 338	2 023
Provisions for employee benefits and similar liabilities	39	190	81
SHORT-TERM LIABILITIES		117 283	94 484
Other financial liabilities	31; 37	246	190
Trade liabilities	33	49 914	37 374
Current income tax liabilities		-	3 457
Other liabilities	34; 35	40 388	6 770
Deferred revenues	38	3 569	3 052
Provisions for employee benefits and similar liabilities	39	2	1
Other provisions	40	23 164	43 640
TOTAL EQUITY AND LIABILITIES		1 126 838	981 513

* *adjusted data*



Clarifications regarding the consolidated statement of financial position of the CD PROJEKT Capital Group

Assets

At the end of 2018 the value of Fixed assets held by the Group was 19 241 thousand PLN, which is roughly the same as at the end of 2017. The largest contribution to this figure is from adaptation of office space in buildings where Group member companies conduct their activities (Buildings and Structures line item – 9 662 thousand PLN). Machinery and Equipment (7 102 thousand PLN) comprise, among others, computers, servers and other electronic devices used in the Group's activities and in the videogame development process, including equipment deployed at the CD PROJEKT S.A. motion capture studio.

Intangibles, valued at 50 210 thousand PLN as of 31 December 2018, consist mostly of the CD PROJEKT brand name and *The Witcher* trademark (aggregate value of 32 199 thousand PLN), along with copyrights held by the Group (11 318 thousand PLN). This figure also includes computer software utilized by Group member companies (5 109 thousand PLN). Compared to the end of 2017, the aggregate value of intangibles increased by 4 001 thousand PLN (8.7%), primarily as a result of purchases of copyright and computer software – the latter necessitated by recruitment of additional staff.

Expenses related to development of the Group's future releases is represented by Expenditures on development projects and valued at 242 816 thousand PLN. Most of these expenditures occurred in the CD PROJEKT RED segment, where *Cyberpunk 2077* is currently the largest ongoing development project. Regarding products which have already been released but whose development costs are yet to be amortized, these include *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, both released in October 2018. The reported value of expenditures on development projects increased by 99 686 thousand PLN compared to the reference period, mainly due to ongoing development, steady expansion of development teams and general upscaling of development activities related to *Cyberpunk 2077* in the run-up to E3 and gamescom (where the game was presented, for the first time ever, to gaming media and business partners). The reported increase in R&D expenditures was also due to implementation of the *GWENT* Homecoming project and activities preceding the release of *Thronebreaker*. The aggregate value of *GWENT* and *Thronebreaker* development expenses subject to amortization in the fourth quarter of 2018 was 11 867 thousand PLN.

Another important component of the Group's fixed assets is its Goodwill (56 438 thousand PLN), i.e. the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the parent company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The bulk of the reported figure (46 417 thousand PLN) is a result of the merger between the parent entity and the CDP Investment Capital Group which occurred on 30 April 2010. On 18 May 2018 the Group's goodwill increased by 10 021 thousand PLN (21.6%) as a result of the purchase of the Wrocław-based development studio from Strange New Things sp. z o.o. sp. k.

Following purchase of immovable property located in Warsaw at Jagiellońska 76, directly adjacent to the current Company headquarters, the Fixed Assets category was expanded with two additional line items: Investment properties (9 553 thousand PLN) and Perpetual usufruct of land (3 478 thousand PLN).



In the second half of 2018 CD PROJEKT S.A. acquired majority interest in newly established member companies of the CD PROJEKT Capital Group: Spokko sp. z o.o. (75% share) and CD PROJEKT RED STORE sp. z o.o. (100%). These activities are responsible for the reported increase in Shares in subsidiaries excluded from consolidation.

Regarding working assets, the consolidated Trade receivables were valued at 37 008 thousand PLN as of 31 December 2018. The largest contribution to this figure was from the CD PROJEKT RED segment. CD PROJEKT RED reported 31 714 thousand PLN in transactional receivables (including receivables from GOG.com, which are subject to consolidation eliminations). Most of the reported trade receivables were associated with licensing reports collected from the Group's business partners after the balance sheet date and covering the final quarter of 2018. The aggregate value of the Group's trade receivables decreased by 9 253 thousand PLN (20.0%) during the reporting period, chiefly due to differences between the breakdown of sales in Q4 2018 and Q4 2017 respectively. During the current reporting period the share of GOG.com sales, where receivables are collected without delay, were greater than in 2017, whereas the share of the CD PROJEKT RED segment, which is characterized by longer collection periods, saw a decrease.

The aggregate value of Other receivables at the end of 2018 was 19 231 thousand PLN, which represents an increase by 9.4% compared to the end of the preceding year. The figure mostly comprises current income tax receivables associated with withholding tax deducted at source by foreign recipients of CD PROJEKT S.A. licenses and reportable in the Company's annual financial statement. The figure also aggregates advance payments for fixed assets, where the reported increase is due to an advance payment remitted by the Company in the context of purchasing immovable property – however, as this purchase transaction was not successfully finalized, the Company recovered the advance payment (this took place after the close of the reporting period). Other receivables also include VAT settlements and advance payments for services and supplies which are to be delivered to the Group in future reporting periods.

Prepaid expenses, at 21 502 thousand PLN, are dominated by minimum guarantees paid by GOG.com to its foreign suppliers and not aggregated with the profit and loss account as of the balance sheet date (total value of 19 670 thousand PLN on 31 December 2018). The Group's prepaid expenses increased by 50.4% during the reporting period, chiefly as a result of an increase in the aforementioned minimum guarantees related to new releases which are to be distributed by GOG sp. z o.o.

The aggregate value of Cash and cash equivalents and Bank deposits (maturity beyond 3 months) was 658 870 thousand PLN and increased by 11 354 thousand PLN compared to the end of the reference period. This increase was achieved despite significant R&D expenses incurred throughout the reporting period (98 475 thousand PLN), payment of compensation contingent upon the Company's financial result in 2017, purchase of fixed assets and intangibles, takeover of an enterprise (Wrocław studio) and the surplus of 2017 income tax paid mostly by CD PROJEKT S.A. over the tax amount reported in the current profit and loss account. The bulk of the Group's cash assets (including bank deposits) were held by CD PROJEKT S.A. (596 141 thousand PLN) and GOG sp. z o.o. (62 319 thousand PLN).

Throughout 2018 the total value of the Group's fixed assets increased by 132 774 thousand PLN (52.0%), mostly due to the reported R&D expenses associated with ongoing development projects at CD PROJEKT S.A. and GOG sp. z o.o. The value of working assets was also greater (by 12 551 thousand PLN, i.e. 1.7%), mostly due to an increase in the Group's cash holdings and prepaid expenses at GOG.com. At the close of the reporting period fixed assets constituted 34.5% of the Group's total assets, with working assets making up the rest (65.5%).



Equity and liabilities

At the end of 2018 the Equity of the CD PROJEKT Capital Group was 1 002 864 thousand PLN, representing an increase by 119 965 thousand PLN (13.6%) compared to the end of 2017 – mostly resulting from the net profit (109 334 PLN) obtained during the reporting period.

The Group's consolidated long-term deferred revenues in 2018 were reported at 6 338 thousand PLN, which is 4 315 thousand PLN more than at the end of the preceding year. This increase is mostly attributable to recognition of subsidies obtained in the framework of the GamelNN program.

The second largest component of the Group's consolidated equity and liabilities (after equity) corresponded to Trade liabilities, at 49 914 thousand PLN. This figure consists mainly of GOG.com trade liabilities, valued at 41 179 thousand PLN (including liabilities due to CD PROJEKT RED and subject to consolidation eliminations), payable to IPR holders in conjunction with digital distribution of their products. The remaining trade liabilities (9 995 thousand PLN) are attributable to CD PROJEKT RED and mostly associated with promotional activities related to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. The Group's aggregate trade liabilities increased by 12 540 (33.6%) during the reporting period – this is mostly due to an increase in royalties payable to IPR holders in the GOG.com segment resulting from a greater digital sales volume than in the preceding year.

Other liabilities, valued at 40 388 thousand PLN at the end of 2018, increased by 33 618 thousand PLN compared to the end of 2017. This increase is mostly related to advance payments collected in 2018 from foreign distributors contracted to distribute future CD PROJEKT RED products, as well as liabilities incurred by CD PROJEKT S.A. as a result of its purchase of the immovable property at Jagiellońska 76 on 31 December 2018. The Group's other liabilities also aggregate current tax liabilities (VAT, PIT) and social security payments, neither of which saw significant changes during the reporting period.

Compared to the end of the previous year, Other provisions shrank by 20 476 thousand PLN (46.9%) – mostly due to disbursement of compensation contingent upon the Company's financial result in 2017. The reported figure consists mainly of provisions for future compensation contingent upon the Group's result in the current reporting period, as well as provisions for other liabilities in both activity segments of the Capital Group.

As of 31 December 2018 equity accounted for 89.0% of the aggregate equity and liabilities of the CD PROJEKT Capital Group, with the remaining 11.0% made up of short- and long-term liabilities. The corresponding 2017 year-end figures were 90.0% and 10.0% respectively.

The full segmented consolidated statement of financial position of the Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for 2018.

Structuring of consolidated assets and liabilities with regard to liquidity

Thanks to its financial performance and steady expansion of activities, in 2018 both the balance sheet total of the CD PROJEKT Capital Group and its aggregate equity exceeded – for the first time ever – 1 billion PLN, with reported increases in the asset volume as well as in the Group's capital by 14.8% compared to the end of 2017.

The Group's total assets were dominated by working assets (65.5%), most of which (89.2%) were cash assets and bank deposits with maturity periods beyond 3 months (total value: 658 870 thousand PLN). Regarding fixed assets (34.5% of total), these consisted mainly of expenditures on development projects – particularly *Cyberpunk 2077* and two games published in 2018:



GWENT and *Thronebreaker* (total value: 242 816 thousand PLN, representing 62.5% of fixed assets). This was followed by goodwill (56 438 thousand PLN – 14.5% of fixed assets) and intangibles (50 210 thousand PLN – 12.9% of fixed assets) and investment properties along with perpetual usufruct of land (13 031 thousand PLN).

Taken together, the above fixed asset categories increased in value by 126 739 (53.8%) throughout 2018, reflecting the focus of CD PROJEKT investments. Despite financing all development activities entirely with its own resources, the Group reported an increase in its monetary assets (cash and bank deposits) – reported as working assets – by 11 354 thousand PLN (1.8%). This achievement was enabled by the large net profit obtained in the CD PROJEKT RED segment along with advance payments received from foreign clients in that segment.

At the end of the reporting period, equity accounted for 89.0% (1 002 864 thousand PLN) of the aggregate holdings of the CD PROJEKT RED Capital Group. Similarly to the preceding year, at the end of 2018 the Group had no outstanding debt under any credit or loan agreement.



Statement of financial position of CD PROJEKT S. A. – selected highlights

Table 9 Statement of financial position of CD PROJEKT S.A. – selected highlights

	Note	31.12.2018	31.12.2017
FIXED ASSETS		369 328	252 551
Tangible assets	12	16 507	15 649
Intangibles	13	99 848	85 155
Expenditures on development projects	13	218 795	135 229
Investment properties	15	9 553	-
Perpetual usufruct of land	16	3 478	-
Investments in subsidiaries	17; 42	20 279	16 023
Other financial assets	18	298	-
Other long-term receivables	18; 42	570	495
CURRENT ASSETS		676 398	660 004
Inventories	20	258	323
Fixed assets held for sale	21	49	-
Trade receivables	23; 42	31 397	37 058
Current income tax receivables		1 396	-
Other receivables	24	45 474	22 219
Other financial assets	18	421	444
Prepaid expenses	25	1 262	932
Cash and cash equivalents	26; 42	41 149	18 499
Bank deposits (maturity beyond 3 months)	42	554 992	580 529
TOTAL ASSETS		1 045 726	912 555

* adjusted data



	Note	31.12.2018	31.12.2017
EQUITY		971 515	851 680
Equity attributable to shareholders of the parent company		971 515	851 680
Share capital	27	96 120	96 120
Supplementary capital	29	739 799	539 294
Other reserve capital	29	26 145	15 212
Retained earnings	30	-	16 441
Net profit (loss) for the reporting period		109 451	184 613
LONG-TERM LIABILITIES		6 853	5 280
Other financial liabilities	32; 38; 42	163	148
Deferred income tax liabilities	6	204	3 071
Deferred revenues	39	6 302	1 983
Provisions for employee benefits and similar liabilities	40	184	78
SHORT-TERM LIABILITIES		67 358	55 595
Other financial liabilities	32; 38; 42	246	190
Trade liabilities	34; 42	10 429	9 972
Current income tax liabilities		-	2 158
Other liabilities	35; 36	34 960	1 650
Deferred revenues	39	187	586
Provisions for employee benefits and similar liabilities	40	2	1
Other provisions	41	21 534	41 038
TOTAL EQUITY AND LIABILITIES		1 045 726	912 555



Clarifications regarding the statement of financial position of CD PROJEKT S.A.

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group. Consequently, clarifications regarding the consolidated statement of financial position of the Capital Group – except for data referring directly to the GOG.com segment and contributions from the CD PROJEKT Inc. subsidiary – are generally applicable to the activities and financial position of CD PROJEKT S.A.

In 2018 the balance sheet total of CD PROJEKT S.A. was lower than the balance sheet total of the CD PROJEKT Capital Group by 81 112 thousand PLN (7.2%). At the end of 2017 the corresponding figures were 68 958 thousand PLN and 7.0% respectively.

The greatest differences between the consolidated statement of financial position of the CD PROJEKT Capital Group and the separate statement of financial position of CD PROJEKT S.A. affect the following line items:

- ◆ Goodwill – defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity – is presented as a component of the intangible assets of CD PROJEKT S.A., at 49 168 thousand PLN, while in the consolidated statement it is reported as a separate line item in the Fixed Assets category, at 56 438 thousand PLN.
- ◆ Investments in subsidiaries – CD PROJEKT S.A., being the proprietor of other member companies of the Group, reports investments in subsidiaries in its separate financial statement. In 2018 these investments amounted to 20 279 thousand PLN and were partly subject to consolidation eliminations.
- ◆ Other line items comprising Assets and Liabilities – the separate statement is exclusive of figures arising from consolidation of statements submitted by other member companies of the Capital Group, including in particular those attributable to the GOG sp. z o.o. subsidiary.



Consolidated statement of cash flows of the CD PROJEKT Capital Group – selected highlights

Table 10 Consolidated statement of cash flows – selected highlights

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017*
OPERATING ACTIVITIES			
Net profit (loss)		109 334	200 270
Total adjustments:	54	32 600	38 413
Depreciation of fixed assets, intangibles and expenditures on development projects		4 768	4 906
Depreciation of expenditures on development projects recognized as cost of products and services sold		11 867	-
Interest and profit sharing (dividends)		(10 706)	(10 425)
Profit (loss) from investment activities		545	906
Change in provisions		(27 312)	(1 660)
Change in inventories		65	78
Change in receivables		8 310	28 911
Change in liabilities excluding credits and loans		37 668	6 890
Change in other assets and liabilities		(2 351)	1 695
Other adjustments		9 746	7 112
Cash flows from operating activities		141 934	238 683
Income tax on pre-tax profit (loss)		13 699	47 135
Income tax (paid)/reimbursed		(23 042)	(52 733)
Net cash flows from operating activities		132 591	233 085
INVESTMENT ACTIVITIES			
Inflows		1 136 419	1 101 872
Disposal of intangibles and fixed assets		230	65
Cash assets gained in acquisition of an enterprise		26	-
Closing bank deposits (maturity beyond 3 months)		1 125 444	1 091 382
Other inflows from investment activities		10 719	10 425
Outflows		1 231 413	1 383 986
Purchases of intangibles and fixed assets		15 176	13 893
Expenditures on development projects		98 475	76 625
Acquisition of an enterprise		10 550	-
Purchase of investment properties		4 078	-
Capital contributions to subsidiary		2 500	452
Advance payment for investment properties		727	940
Opening bank deposits (maturity beyond 3 months)		1 099 907	1 292 076
Net cash flows from investment activities		(94 994)	(282 114)



FINANCIAL ACTIVITIES

Inflows	-	-
Outflows	706	101 353
Dividends and other payments due to equity holders	-	100 926
Payment of liabilities under financial lease agreements	693	427
Interest payments	13	-
Net cash flows from financial activities	(706)	(101 353)
Total net cash flows	36 891	(150 382)
Change in cash and cash equivalents on balance sheet	36 891	(150 382)
Cash and cash equivalents at beginning of period	66 987	217 369
Cash and cash equivalents at end of period	103 878	66 987

* adjusted data

Clarifications regarding the consolidated statement of cash flows of the CD PROJEKT Capital Group

In the framework of its operating activities, in 2018 the CD PROJEKT Capital Group generated 132 591 thousand PLN in positive cash flows, mostly as a result of a strong surplus of inflows from sales of products over the corresponding monetary costs. Given the time elapsed since the release of the Group's most important existing product – *The Witcher 3* (published in 2015) – and the fact that the reporting period saw no new AAA videogame releases, cash flows from operating activities were lower than in the previous year, in proportion to the reported change in the Group's net result. In addition to the Group's financial result for the reporting period, the presented level of operating cash flows was positively affected by changes in liabilities, particularly related to advance payments from the Company's foreign partners in lieu of future royalties. The reduction in the Group's provisions resulting from remittance of compensation contingent upon its financial result for the preceding year (i.e. annual bonuses for 2017) translated into a lower aggregate value of operating cash flows for 2018.

In 2018 the Group generated 94 994 thousand PLN in negative cash flows from investment activities, chiefly by incurring 98 475 thousand PLN in development expenses. Compared to the reference period, development expenses increased by 21 850 thousand PLN (28.5%), mostly as a result of:

- ◆ ongoing expansion of the development teams and upscaling of development activities at CD PROJEKT S.A. and GOG sp. z o.o.,
- ◆ increased *Cyberpunk 2077* development expenses associated with participation in E3 and gamescom, where the game was initially showcased to media and business partners,
- ◆ increased development expenses related to *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, both of which were released towards the close of the reporting period.

Another important contribution to investment outflows in the current period was from purchases of intangibles and fixed assets, jointly valued at 15 176 thousand PLN – including copyrights, computer equipment and adaptation of office space.



Cash flows from investment activities were also affected by a one-time event, namely the purchase of an enterprise from Strange New Things sp. z o.o. sp. k. This Wrocław-based development studio was acquired by the Group for 10 550 thousand PLN.

Other inflows from investment activities, valued at 10 719, comprise mainly interest on bank deposits.

Unlike in 2017, when CD PROJEKT S.A. paid out a dividend in the amount of 100 926 thousand PLN to its shareholders, the current period saw no significant cash flows in the scope of financial activities.

Throughout 2018 the consolidated balance of the Capital Group's cash assets (less any bank deposits with maturity periods exceeding 3 months) increased by 36 891 thousand PLN, while the balance of bank deposits with maturity periods exceeding 3 months decreased by 25 537 thousand PLN. As a consequence, the aggregate balance of cash assets and bank deposits increased by 11 354 thousand PLN while the Group continued to finance the previously described videogame development projects and invest in fixed assets and intangibles, in addition to purchasing immovable property adjacent to its current headquarters and acquiring the Wrocław-based development studio (for an aggregate total value of 128 279 thousand PLN).

As of 31 December 2018 the CD PROJEKT Capital Group held cash assets and bank deposits jointly valued at 658 870 thousand PLN.



Separate statement of cash flows of CD PROJEKT S.A. – selected highlights

Table 11 Consolidated statement of cash flows – selected highlights

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017*
OPERATING ACTIVITIES			
Net profit (loss)		109 451	184 613
Total adjustments:	53	12 340	37 573
Depreciation of fixed assets, intangibles and expenditures on development projects		2 730	1 892
Depreciation of expenditures on development projects recognized as cost of products and services sold		8 971	-
Exchange rate profit (loss)		(11)	92
Interest and profit sharing (dividends)		(10 279)	(10 358)
Profit (loss) from investment activities		483	908
Change in provisions		(26 343)	(2 618)
Change in inventories		65	78
Change in receivables		(768)	37 733
Change in liabilities excluding credits and loans		25 035	(306)
Change in other assets and liabilities		3 613	1 125
Other adjustments		8 844	9 027
Cash flows from operating activities		121 791	222 186
Income tax on pre-tax profit (loss)		14 844	44 731
Income tax (paid)/reimbursed		(21 236)	(50 908)
Net cash flows from operating activities		115 399	216 009

**INVESTMENT ACTIVITIES**

Inflows	1 136 575	1 103 322
Disposal of intangibles and fixed assets	229	63
Cash assets gained in acquisition of an enterprise	26	-
Repayment of long-term loans granted	584	1 519
Closing bank deposits (maturity beyond 3 months)	1 125 444	1 091 382
Other inflows from investment activities	10 292	10 358
Outflows	1 228 618	1 378 962
Purchases of intangibles and fixed assets	13 949	12 312
Expenditures on development projects	88 554	71 127
Expenditures on development projects transferred within a consortium framework	7 505	-
Acquisition of an enterprise	10 550	-
Purchase of investment properties	4 078	-
Long-term loans granted	848	2 055
Capital contributions to subsidiary	2 500	452
Advance payment for investment properties	727	940
Opening bank deposits (maturity beyond 3 months)	1 099 907	1 292 076
Net cash flows from investment activities	(92 043)	(275 640)

FINANCIAL ACTIVITIES

Inflows	-	-
Outflows	706	102 418
Dividends and other payments due to equity holders	-	100 926
Payment of liabilities under financial lease agreements	693	427
Interest payments	13	-
Other outflows (incl. cash pool transactions)	-	1 065
Net cash flows from financial activities	(706)	(102 418)
Total net cash flows	22 650	(162 049)
Change in cash and cash equivalents on balance sheet	22 650	(162 049)
Cash and cash equivalents at beginning of period	18 499	180 548
Cash and cash equivalents at end of period	41 149	18 499

*adjusted data

Separate statement of cash flows of CD PROJEKT S.A. – selected highlights

CD PROJEKT S.A. is the parent company of the CD PROJEKT Capital Group and the largest single entity within the Group, controlling 90.5% of its cash assets and bank deposits (as of 31 December 2018) and having the greatest influence on the Group's reported cash flows. Consequently, clarifications regarding the consolidated statement of cash flows of the Capital Group – except for data referring directly to the GOG.com segment and contributions from the CD PROJEKT Inc. subsidiary – are generally applicable to the activities and results of CD PROJEKT S.A.



Disclosure of the feasibility of investment plans

In line with the information presented above, at the end of 2018 the Group had no outstanding liabilities under any credit or loan agreements, and held 658 870 in its own cash assets and bank deposits. Future investment plans are expected to be financed with the Group's own resources along with positive cash flows from operating activities. Ongoing development of videogames may also be partly financed with prepayments received from distributors or publishers under the relevant licensing and distribution agreements. As of the publication date of this report the Group anticipates no difficulty in securing adequate financing for its near-term investment plans.

Disclosure of credits and loans in 2018

Throughout 2018 the CD PROJEKT Capital Group had no outstanding debt under any credit or loan agreement.

Disclosure of credits and loans granted in 2018

In 2018 no member company of the CD PROJEKT Capital Group granted any credits or loans to external entities. CD PROJEKT Inc. has access to financing under a loan agreement concluded with CD PROJEKT S.A.

Disclosure of guarantees and sureties granted in 2018, and other off-balance sheet items

Information regarding guarantees, sureties and other off-balance sheet items can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2018.

Disclosure of the current economic and financial standing of the Capital Group

In 2015-2018, owing chiefly to the success of *The Witcher 3: Wild Hunt* and the subsequent expansion packs – *Hearts of Stone* and *Blood and Wine* – the Group reported a qualitative leap in its revenues, net profit, positive cash flows, equity and monetary assets, both within the CD PROJEKT RED segment and throughout the Group as a whole. In the current reporting period the parent Company focused on expanding its videogame development potential by recruiting additional staff and deploying the necessary infrastructure. The GOG.com segment also expanded its operations and increased its revenues. The current economic and financial condition of the CD PROJEKT Capital Group should be regarded as stable.

Disclosure of the projected economic and financial standing of the Capital Group

The enthusiastic reception of *The Witcher 3: Wild Hunt* by gamers and gaming media alike, as attested to by over 250 Game of the Year awards, ensured long-term popularity of the game, which, despite nearly 4 years having elapsed since its release, continues to generate revenues and positive cash flows for the Company and its Capital Group. The entirety of development expenses related to *The Witcher 3: Wild Hunt* and its expansion packs have already been fully



discounted in reporting periods preceding 31 December 2016; consequently all further sales of these products are characterized by large profit margins and generate strongly positive cash flows for the Group. The Group's future condition is also dependent on the status of *GWENT: The Witcher Card Game*, a joint project by CD PROJEKT S.A. and GOG sp. z o.o. In the Board's opinion this project enables the Group to pursue several new opportunities, including publishing and maintenance of an online multiplayer game, securing a foothold on the Chinese market and engaging in e-sports activities. In the event, the Group gains experience and expands its skillset, which may prove crucial in expanding its development and publishing capabilities in the context of new projects. It should also be noted that implementation of the Company's and Group's current plans will call for significant expenditures in future reporting periods – particularly related to development and promotion of new releases, including *Cyberpunk 2077*, which the Group will focus on in the coming quarters. The Group also anticipates further expansion of activities in its GOG.com segment, including further development and refinement of GOG Galaxy. As of the publication date of this report the Board regards the Group's economic and financial standing as good and foresees no threats to its liquidity or solvency.

Disclosure of transactions with affiliates

In 2018 the CD PROJEKT Capital Group engaged mainly in the following types of transactions with affiliates:

- ◆ sales of licenses between CD PROJEKT S.A. and GOG sp. z o.o., as required by these companies' respective business profiles,
- ◆ procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,
- ◆ subletting of office space,
- ◆ procurement of CD PROJEKT Inc. services by CD PROJEKT S.A. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in North America,
- ◆ procurement of CD PROJEKT Co., Ltd. services by CD PROJEKT S.A. and GOG sp. z o.o. in the scope of coordinating promotional and publishing activities in China,
- ◆ loans granted to CD PROJEKT Inc. by CD PROJEKT S.A.
- ◆ other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2018.

CD PROJEKT S.A. and GOG sp. z o.o. cooperate in the framework of development of *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. According to the consortium agreement, each company bears a portion of *GWENT* project expenses, and is entitled to the corresponding share of the associated revenues.

Disclosure of the main domestic and foreign investments and of the structure of the main capital deposits

At the end of 2018 the Group's reported assets were primarily comprised of bank deposits with maturity periods exceeding 3 months (554 992 thousand PLN). Surplus cash is deposited in banks which cooperate with the Group or invested in low-risk financial instruments (in line with the principle of diversifying the deposit and investment portfolio). As of 31 December 2018 the aggregate value of cash, cash equivalents and bank deposits was 658 870 thousand PLN.



The business activities of the Group, and particularly of CD PROJEKT S.A., are directly associated with development and distribution of videogames. Development of new releases constitutes the primary investment activity of the Group and its parent Company. In the preceding years the Company had carried out its development activities in Warsaw and Kraków, whereas in 2018, following acquisition of a development studio from Strange New Things sp. z o.o. sp. k., the CD PROJEKT RED team was bolstered by a new studio located in Wrocław and employing a distinct team of developers. R&D expenditures are disclosed as part of the Fixed Assets category, in the Expenditures on Development Projects line item. At the end of 2018 the cumulative balance of these expenditures was 242 816 thousand PLN, which corresponds to a y/y increase of 99 686 thousand PLN. This increase was mostly related to development of *Cyberpunk 2077*, *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. As of 31 December 2018 the balance of development expenditures in the CD PROJEKT RED segment was 218 753 thousand PLN, while the corresponding figure in the GOG.com segment was 24 066 thousand PLN.

Significant fixed assets reported in the consolidated statement of financial position of the CD PROJEKT Capital Group for 31 December 2018 include 50 210 thousand PLN in intangibles – chiefly the CD PROJEKT brand and *The Witcher* trademark.

The Group's statement of financial position also acknowledges goodwill, i.e. the positive difference between the cost of establishing a business combination and the parent Company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. At the end of 2018 goodwill was valued at 56 438 thousand PLN, having increased due to the acquisition of the Wrocław-based Strange New Things studio.

At the end of 2018 the Group held tangible fixed assets valued at 19 241 thousand PLN. The most significant contributions to this figure came from adaptation of office space in buildings occupied by the Capital Group (Buildings and Structures line item; 9 662 thousand PLN) along with Machinery and Equipment (7 102 thousand PLN) – mostly computers, servers and other devices utilized by the Group.

In 2018 CD PROJEKT S.A. concluded two preliminary agreements concerning purchase of investment properties located in direct proximity to its headquarters. One of these transactions fell through as the seller (a public institution) failed to secure the required approval from the State Solicitor's Office. The other transaction, concerning the property located in Warsaw, at Jagiellońska 76, was successfully completed on 31 December 2018. Following renovation and adaptation work, the newly acquired property should provide additional creative space necessitated by the dynamic expansion of the CD PROJEKT Capital Group.

Throughout 2018 member companies of the CD PROJEKT Capital Group financed their activities and investment project mostly with their own resources.

At the end of 2018 the CD PROJEKT Capital Group controlled two wholly owned foreign subsidiaries: CD PROJEKT Inc. and CD PROJEKT Co., Ltd. Domestic subsidiaries of the Capital Group included GOG sp. z o.o. (100% share), Spokko sp. z o.o. (incorporated in 2018; 75% share) and CD PROJEKT RED STORE sp. z o.o. (incorporated on 14 January 2019, after the balance sheet date; 100% share). The aggregate value of investments in domestic and foreign subsidiaries reported in the separate financial statement of CD PROJEKT S.A. – the Capital Group's holding company – was 20 279 thousand PLN.



Disclosure of significant differences between the financial results reported in the annual financial statement and earlier projections covering the given year

The CD PROJEKT Capital Group had never published financial projections for 2018. Accordingly, no description of the significant differences between the Group's actual results and earlier projections is provided.

Disclosure of the appropriation of revenues generated by issuing capital market instruments up until the publication date of the report

The Company did not issue any new stock between 1 January and 31 December 2018, as well as by 27 March 2019.

The background features abstract geometric shapes in shades of pink and grey. A large, light pink shape dominates the left side, with several sharp, triangular points extending towards the right. A darker pink shape is positioned below it, and a grey shape is visible in the bottom left corner. The overall composition is modern and minimalist.

Corporate governance



Entity contracted to audit financial statements

On 14 June 2018 the Supervisory Board of CD PROJEKT S.A. selected Grant Thornton Polska sp. z o.o. sp. k. with a registered office in Poznań as the entity contracted to conduct a review of the semiannual financial statement and audit the annual financial statement of the Company and its Capital Group for 2018 and 2019. Grant Thornton Polska sp. z o.o. sp. k. has also been contracted to audit the financial statement of GOG sp. z o.o.

Shareholders controlling at least 5% of the vote at the General Meeting

The Company's share capital amounts to 96 120 000 PLN, divided into 96 120 000 shares with a nominal value of 1 PLN per share. The shareholder structure is determined on the basis of formal notices issued by shareholders who control at least 5% of the total number of votes at the General Meeting of Shareholders.

Table 12 Shareholders controlling at least 5% of the vote at the general meeting as of the publication date of this statement

	Number of shares	% of share capital	Number of votes at the GM	% of total number of votes at the GM
Marcin Iwiński	12 150 000	12.64%	12 150 000	12.64%
Michał Kiciński*	10 486 106	10.91%	10 486 106	10.91%
Piotr Nielubowicz	6 135 197	6.38%	6 135 197	6.38%
Nationale-Nederlanden PTE**	4 998 520	5.20%	4 998 520	5.20%
Free float	62 350 177	64.87%	62 350 177	64.87%

* as disclosed in [Current Report no. 49/2016](#) of 6 September 2016
 ** as disclosed in [Current Report no. 15/2017](#) of 13 July 2017

The percentage share in the Company's share capital and in the total number of votes at the General Meeting is calculated on the basis of the most recent notices received from Company shareholders as of the publication date of this report.



Agreements which may result in changes in the proportions of shares held by shareholders and bondholders

In 2016 the Company instituted an incentive program for its key employees and collaborators. Implementation of the incentive program may result in changes in the proportion of shares held by Company shareholders. As of the publication date of this report warrants have been granted to program participants entitling them to claim up to 5 660 000 Company shares, depending on the manner in which the program is implemented. The total number of warrants which may potentially be assigned under the incentive program is 6 000 000.

Disclosure of the purchase of own shares

On 24 May 2018 the Company purchased 21 105 of its own shares with the intent to facilitate the purchase of an enterprise from Strange New Things sp. z o.o. sp. k. The purchase transaction was carried out via the mBank S.A. Brokerage House, at 144.57 PLN per share. It proceeded in compliance with the resolution of the Issuer's Management Board of 24 May 2018 concerning purchase of the Company's own shares in the course of implementing Resolution no. 22 of the Ordinary General Meeting of Shareholders of 8 May 2018 concerning empowerment of the Management Board to buy back the Company's own shares, and creation of a reserve capital to facilitate said buyback (Current Report no. 8/2018). On 25 June 2018 all shares purchased in this transaction were turned over to Strange New Things sp. z o.o. sp. k.

Information regarding the control system of employee share programs

The incentive program under which Company shares may be awarded, covering the years 2016-2021, was approved by the General Meeting of Shareholders on 24 May 2016. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the Management Board on 5 July 2016. Implementation of the program is directly supervised by the Supervisory Board and Management Board of CD PROJEKT S.A.



Company shares held by members of the Management Board and the Supervisory Board

Table 13 Quantity of shares held by members of the Company's managerial and supervisory bodies

Name	Position	as of 27.03.2019	as of 31.12.2018	as of stan na 01.01.2018
Adam Kiciński	President of the Board	3 322 481	3 322 481	3 322 481
Marcin Iwiński	Vice President of the Board	12 150 000	12 150 000	12 150 000
Piotr Nielubowicz	Vice President of the Board	6 135 197	6 135 197	6 135 197
Adam Badowski	Board Member	150 000	150 000	150 000
Michał Nowakowski	Board Member	37 650	37 650	101 149
Piotr Karwowski	Board Member	8 000	8 000	8 000
Oleg Klapovskiy	Board Member	1 042	1 042	1 042
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10	10	10 010
Maciej Nielubowicz	Supervisory Board Member	51	51	51

Members of the managerial and supervisory bodies of CD PROJEKT S.A. do not directly hold any shares of the Company's subsidiaries.

 In Current Report no. 12/2018 of 19 July 2018 the Company announced that on 19 July 2018 it had been notified of a sale of Company stock carried out by a person discharging managerial duties at the Company. According to the aforementioned notice, on 19 July 2018 Ms. Katarzyna Szwarc, Chairwoman of the Supervisory Board of CD PROJEKT S.A., sold 10 000 Company shares on the regulated market of the Warsaw Stock Exchange at 200 PLN per share.

 In Current Report no. 21/2018 of 18 October 2018 the Company announced that on 18 October 2018 it had been notified of a sale of Company stock carried out by a person discharging managerial duties at the Company. According to the aforementioned notice, on 17 October 2018 Mr. Michał Nowakowski, Member of the Management Board of CD PROJEKT S.A., sold 63 499 Company shares on the regulated market of the Warsaw Stock Exchange at an average price of 165.74 PLN per share.



Composition of the Management Board of CD PROJEKT S.A.



Adam Kiciński

President of the Board

Oversees formulation of the Company's and its Capital Group's business strategies and supports their practical implementation. Coordinates Company activities in the scope of investor relations.



Marcin Iwiński

Vice President for International Affairs

Coordinates the Company's international activities and the corresponding policies. Takes part in supervising and managing the Company's foreign subsidiaries.



Piotr Nielubowicz

Vice President and CFO

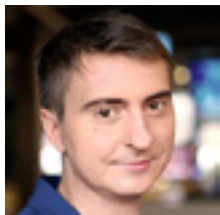
Coordinates the Company's financial and accounting branches; ensures that the Company meets its financial reporting obligations. Participates in investor relations.



Adam Badowski

Board Member

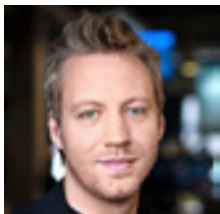
Heads the CD PROJEKT RED development studio which is owned by the Company, Coordinates the Company's game development activities.



Michał Nowakowski

Board Member

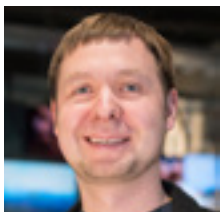
Oversees formulation and implementation of the Company's sales policies.



Piotr Karwowski

Board Member

Co-manages the GOG.com segment, assuming responsibility for design and development of the GOG.com platform and of the GOG Galaxy technology stack. Oversees the Group's online services and its network presence. Since 2018 – responsible for operation and development of *GWENT*.



Oleg Klapovskiy

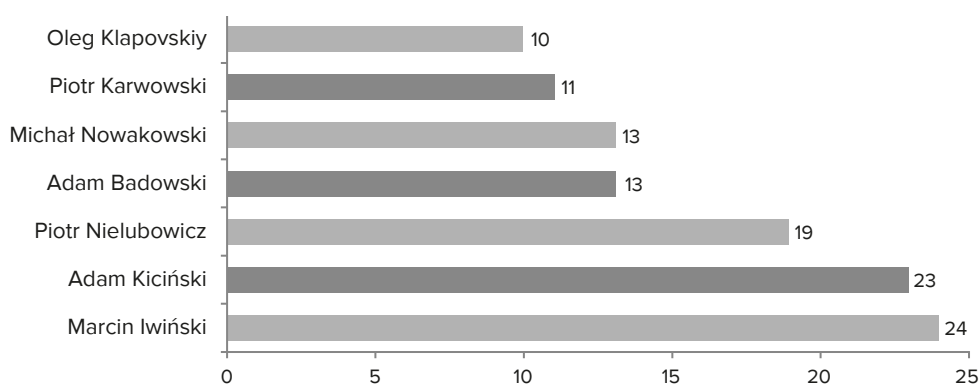
Board Member

Co-manages the GOG.com segment, assuming responsibility for cooperation with foreign business partners, the segment's sales policy and its daily activities.



Management Board members represent the Company and its Management Board. Management Board members cooperate with each other, share information regarding important matters affecting the Company, jointly manage the Company and jointly bear the associated responsibility. The Management Board, acting as a collective body, formulates the Company's strategies, develops its financial plans and manages the Company in such a way as to ensure implementation of these strategies and plans. The Management Board has embraced the concept of collective management in order to enhance its own capabilities for strategic thinking, build upon its positive energy and uphold the belief that nothing is truly impossible. Deep mutual trust, coupled with a shared set of core beliefs and ethics, enable the Management Board to discharge its duties efficiently and without undue bureaucracy.

Figure 19 Tenure of current members of the Management Board as holders of managerial positions within the CD PROJEKT Capital Group (in years)



Changes in Management Board composition

No changes in the composition of the Company's Management Board occurred in the reporting period.



Composition of the Supervisory Board of CD PROJEKT S.A.

Katarzyna Szwarc	<i>Chairwoman of the Supervisory Board and of the Audit Committee</i>
Piotr Pałowski	<i>Deputy Chairman of the Supervisory Board</i>
Maciej Nielubowicz	<i>Secretary of the Supervisory Board; Audit Committee Member</i>
Krzysztof Kilian	<i>Supervisory Board Member</i>
Michał Bień	<i>Supervisory Board Member; Audit Committee Member</i>

Changes in Supervisory Board composition

No changes in the composition of the Company's Supervisory Board occurred in the reporting period.

Gross compensation of members of the Management Board and Supervisory Board of CD PROJEKT S.A.

Adam Kiciński, President of the Board

Mr. Kiciński's compensation paid by CD PROJEKT S.A. in 2017 was 420 thousand PLN, all of which represented his base salary. In 2018 this base salary remained unchanged at 420 thousand PLN. In 2018 Mr. Kiciński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2017, was 5 728 thousand PLN, while the portion associated with the net result of the Capital Group for 2018 was 2 296 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.



Marcin Iwiński, Vice President of the Board

Mr. Iwiński's compensation paid by CD PROJEKT S.A. in 2017 was 336 thousand PLN, all of which represented his base salary. In 2018 this base salary remained unchanged at 336 thousand PLN. In 2018 Mr. Iwiński also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2017, was 5 728 thousand PLN, while the portion associated with the net result of the Capital Group for 2018 was 2 296 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Nielubowicz, Vice President of the Board

Mr. Nielubowicz's compensation paid by CD PROJEKT S.A. in 2017 was 348 thousand PLN, all of which represented his base salary. In 2018 this base salary remained unchanged at 348 thousand PLN. In 2018 Mr. Nielubowicz also received bonuses under the incentive program in force at the Company. This variable portion of his salary associated with the net result of the Capital Group in 2017, was 5 728 thousand PLN, while the portion associated with the net result of the Capital Group for 2018 was 2 296 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Adam Badowski, Board Member

Mr. Badowski's compensation paid by CD PROJEKT S.A. in 2017 was 396 thousand PLN, all of which represented his base salary. In 2018 this base salary remained unchanged at 396 thousand PLN. In 2018 Mr. Badowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the CD PROJEKT RED and GOG.com segments for 2017 was 3 204 thousand PLN, while the portion associated with the net result of the Capital Group for 2018 was 1 585 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Michał Nowakowski, Board Member

Mr. Nowakowski's compensation paid by CD PROJEKT S.A. in 2017 was 360 thousand PLN, all of which represented his base salary. In 2017 this base salary remained unchanged at 360 thousand PLN. In 2018 Mr. Nowakowski also received bonuses under the incentive program in force at the Company. The variable portion of his salary associated with the aggregate net result of the CD PROJEKT RED and GOG.com segments for 2017 was 3 204 thousand PLN, while the portion associated with the net result of the Capital Group for 2017 was 1 585 thousand PLN. The latter portion had not been disbursed as of the balance sheet date.

Piotr Karwowski, Board Member

Mr. Karwowski's compensation paid by CD PROJEKT S.A. in 2017 was 60 thousand PLN, all of which represented his base salary. In 2018 this base salary remained unchanged at 60 thousand PLN. Mr. Karwowski does not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program at GOG sp. z o.o. as a board member thereof. His compensation, disbursed by GOG sp. z o.o. in association with the aforementioned function, is disclosed in the table below.



Oleg Klapovskiy, Board Member

Mr. Klapovskiy's compensation paid by CD PROJEKT S.A. for the period between his appointment (11 October 2017) and 31 December 2017 was 15 thousand PLN. In 2018 his base salary was 60 thousand PLN. Mr. Klapovskiy does not participate in the incentive program in force at CD PROJEKT S.A., however he does participate in the incentive program at GOG sp. z o.o. as a board member thereof. He was not assigned any additional compensation in association with this role for the period between his appointment to the Board of CD PROJEKT S.A. (11 October 2017) and 31 December 2017. With regard to 2018, his compensation paid out by GOG sp. z o.o. is disclosed in the table below.

Table 14 Compensation (including bonuses payable under the incentive program and dependent on the Company's financial result) of members of the Management Board and Supervisory Board of CD PROJEKT S.A. paid out by Company subsidiaries in conjunction with duties performed at these subsidiaries (PLN thousands).

Name	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Marcin Iwiński	24	24
Piotr Karwowski	1 089	360
Oleg Klapovskiy	1 064	66*

* for the period specified in the above table

The Extraordinary General Meeting held on 24 May 2016 voted to institute a new incentive program covering the years 2016-2021 for the benefit of key employees and collaborators of the Company and other companies constituting its Capital Group, as well as other persons regarded as having decisive influence on the financial results of the Company and its Capital Group. Details are provided in a separate Terms and Conditions document approved by the Extraordinary General Meeting of 24 May 2016 and in the corresponding resolutions of the Supervisory Board and Management Board. The value of potential benefits payable to members of the Management Board under the incentive program for 2016-2021 is listed in the table below.



Table 15 Quantity of entitlements warrants to members of the Management Board under the 2016-2021 incentive program, along with the value of the corresponding benefits (PLN thousands).

Name	Position	Entitlements granted	wartość potencjalnych korzyści	
			01.01.2018-31.12.2018	01.01.2017-31.12.2017
Adam Kiciński	President of the Board	800 thousand	1 378	1 378
Marcin Iwiński	Vice President of the Board	800 thousand	1 378	1 378
Piotr Nielubowicz	Vice President of the Board	800 thousand	1 378	1 378
Adam Badowski	Board Member	600 thousand	1 034	1 034
Michał Nowakowski	Board Member	600 thousand	1 034	1 034
Piotr Karwowski	Board Member	200 thousand	345	345
Oleg Klapovskiy	Board Member	200 thousand	345	76*

* for the period between 11.10.2017 and 31.12.2017

The value of potential benefits payable to Management Board in light of their participation in the incentive program settled in Company shares, as indicated in the above table, is based on the fair value of assigned entitlements as calculated by a licensed actuary. These values have been duly recognized as Company expenses in the years 2018 and 2017 respectively.

Future assignment of entitlements under the incentive program in force at the Capital Group is contingent upon fulfilling result, market and loyalty criteria.

Assignment of bonuses to Management Board members – general rules

The variable portion of the Management Board members' compensation under the groupwide incentive program is strictly dependent on the financial results of the Group and determined by the Supervisory Board.



Compensation of Supervisory Board members

Table 16 Compensation of members of the Supervisory Board of CD PROJEKT S.A. in 2017 and 2018 (gross figures; PLN thousands)

Name	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Katarzyna Szwarz – Chairwoman of the Supervisory Board	112	96
Piotr Pągowski – Deputy Chairman of the Supervisory Board	48	48
Maciej Nielubowicz – Secretary of the Supervisory Board (since 11.10.2017)	64	11
Krzysztof Kilian – Supervisory Board Member	48	48
Michał Bień – Supervisory Board Member	64	48
Maciej Majewski – Secretary of the Supervisory Board (since 11.10.2017 r.)	-	37

Disclosure of retirement benefits and similar compensation payable to former members of the Company's executive, supervisory or administrative bodies, and of any liabilities associated with such benefits, specifying the aggregate amounts for each category of recipients

As of 31 December 2018 the Company had no such liabilities.

Agreements between the Company and members of its managing and supervisory bodies concerning compensation in the event of their resignation or dismissal

As of 31 December 2018 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their duties on the basis of General Meeting appointments and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

Transactions between the Company and members of its managing and supervisory bodies not otherwise reported

In 2018 there were no significant transactions between the Company and members of its managing and supervisory bodies. This does not include medical insurance premiums, use of company cars, reimbursement of official expenses and minor purchases of Capital Group products by members of the Management Board and Supervisory Board.



Changes in basic management practices at the Company and its Capital Group

No significant changes in basic management policies affecting the Company and its Capital Group occurred in 2018.

Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2016” document, published as an attachment to Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2018 can be found on the Company website at www.cdprojekt.com.

Disclosure of significant legal proceedings

The following legal proceedings took place during the reporting period (the presented status is valid for the publication date of this report):

Litigation in which CD PROJEKT S.A. is the plaintiff or claimant

CD PROJEKT S.A. (formerly Optimus S.A.) vs. State Treasury

On 15 February 2006 the Management Board of Optimus S.A. filed a complaint in the District Court for the City of Kraków, 1st Civil Department seeking monetary damages from the State Treasury in the amount of 35 650.6 thousand PLN in relation to decisions issued by the Inspector of Treasury Control concerning VAT liabilities allegedly incurred by the Company’s legal predecessor. On 24 November 2003 the Supreme Administrative Court in Warsaw vacated these decisions as unlawful.

On 9 December 2008 the District Court for the City of Kraków issued an interlocutory judgment holding the Optimus claim valid in rem. This judgment concerned the validity of the Company’s claim for monetary damages. On 19 May 2009 this judgment was vacated by the Appellate Court for the City of Kraków, 1st Civil Department, which remanded the case to the District Court for further proceedings. On 1 August 2014 the District Court for the City of Kraków issued a final judgment closing the proceedings in the court of first instance. The District Court’s judgment awarded the Company 1 090.5 thousand PLN plus statutory interest for the period between 15 November 2005 and the remittance date, dismissing the lawsuit on all other



counts. On 9 October 2014 the Company filed an appeal against the District Court's judgment with regard to those sections in which the District Court dismissed the Company's claims, and also the section concerning the cost of legal proceedings associated with the case. A parallel appeal against the section in which the District Court affirms the Company's claims was filed by the State Treasury.

On 21 December 2019 the Appellate Court altered the judgment of the court of first instance by dismissing the Company's lawsuit in its entirety.

The Board will make decisions regarding the future course of action in the presented case, including potentially filing a cassation appeal, once it has familiarized itself with the written justification of the reported judgment and consulted the matter with legal experts. The deadline for filing a cassation appeal is 19 April 2019.

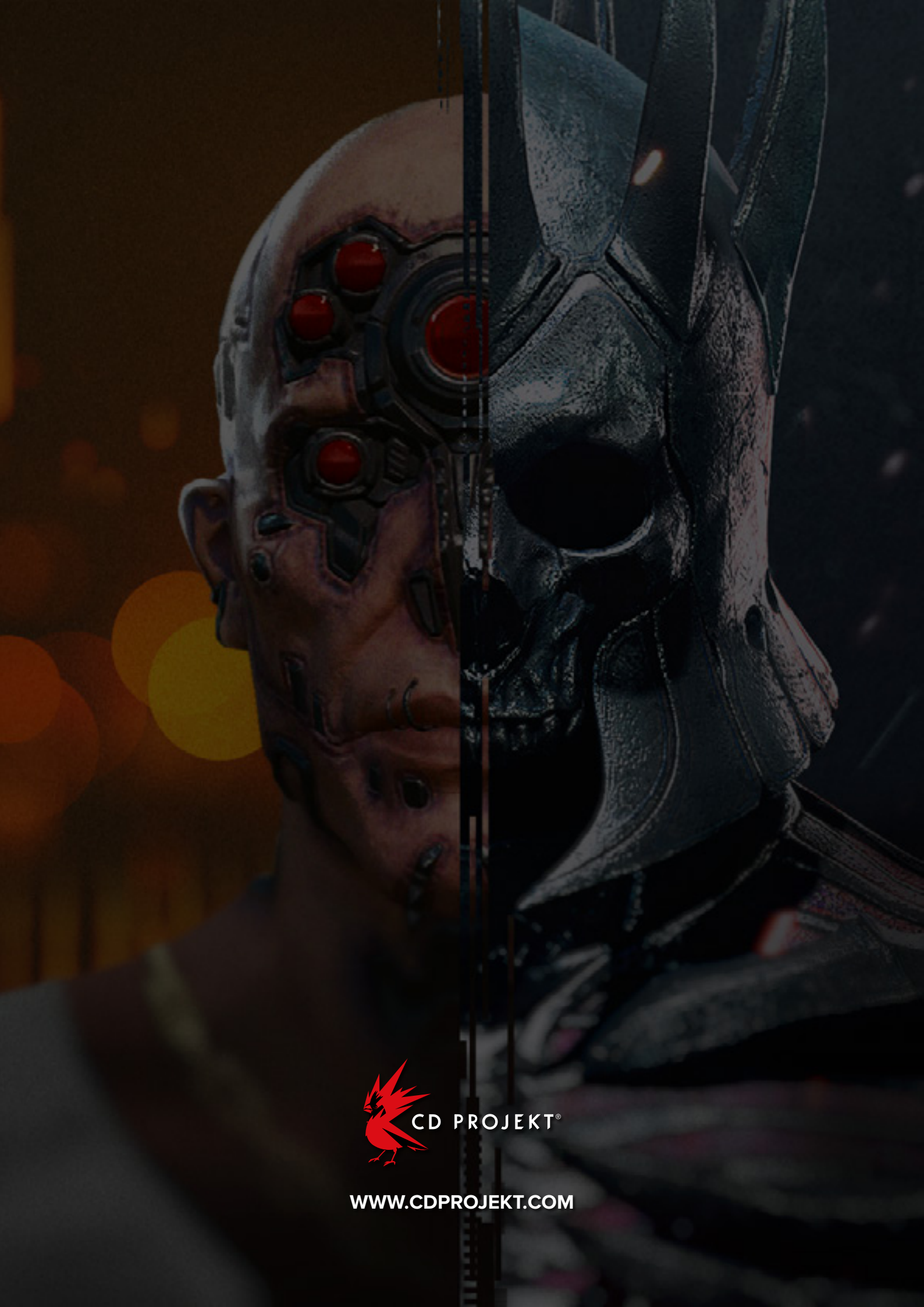
Criminal proceedings in which CD PROJEKT S.A. is recognized as the victim

Case against Michałowi Lorenc, Piotr Lewandowski and Michał Dębski

In case no. XVIII K 126/09, following indictment filed by the District Attorney in the District Court for the City of Warsaw, on 27 October 2016 the District Court convicted Mr. Michał Lorenc, Mr. Piotr Lewandowski and Mr. Michał Dębski of violating sections 296 §1, 296 §3 and others of the Penal Code. The Company acted as an auxiliary prosecutor in the court of first instance and will retain this status until the trial has concluded. Having found the defendants guilty, the Court awarded the Company 210 thousand PLN in damages under Art. 46 of the Penal Code. According to the operative part of the judgement total losses sustained by the Company as a result of the defendants' actions were estimated at not less than 16 million PLN (this figure follows from standard regulations applicable to criminal trials). The Company subsequently filed an appeal against the judgment, contesting, among others, the amount of damages awarded to the Company. On 26 October 2017 the Appellate Court vacated the judgment of the court of first instance and remanded the case to be retried in full. The parent company continues to act in the capacity of an auxiliary prosecutor.

No other significant legal, arbitration or administrative proceedings which would involve the parent Company or its subsidiaries as parties were initiated in the reporting period.

Adam Kiciński President of the Board	Marcin Iwiński Vice President of the Board	Piotr Nielubowicz Vice President of the Board	Adam Badowski Board Member	Michał Nowakowski Board Member	Piotr Karwowski Board Member	Oleg Klapovskiy Board Member
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