



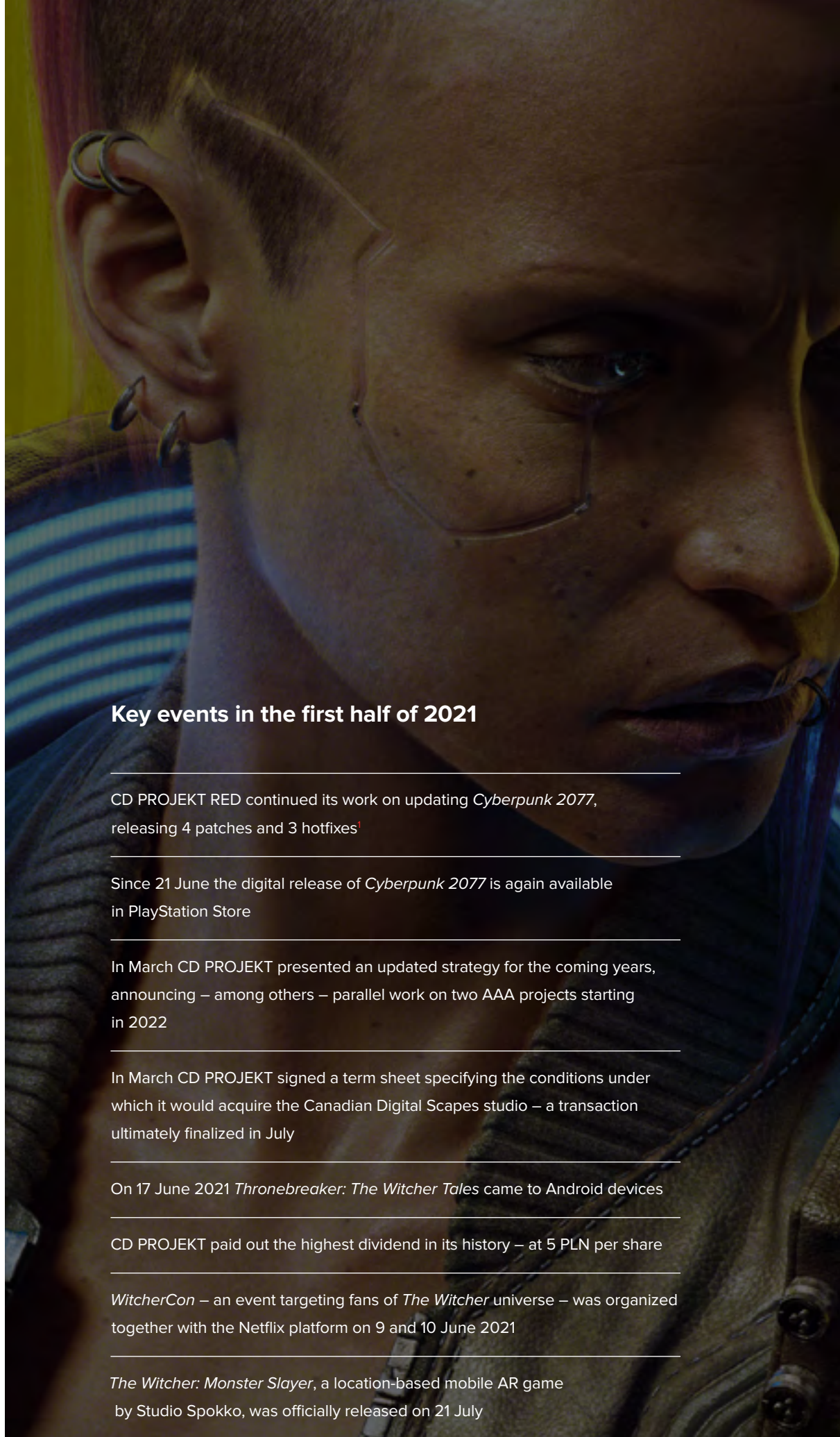
**MANAGEMENT BOARD REPORT ON THE
ACTIVITIES OF THE CD PROJEKT GROUP
IN THE PERIOD BETWEEN 1 JANUARY
AND 30 JUNE 2021**

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.

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Key events in the first half of 2021

CD PROJEKT RED continued its work on updating *Cyberpunk 2077*, releasing 4 patches and 3 hotfixes¹

Since 21 June the digital release of *Cyberpunk 2077* is again available in PlayStation Store

In March CD PROJEKT presented an updated strategy for the coming years, announcing – among others – parallel work on two AAA projects starting in 2022

In March CD PROJEKT signed a term sheet specifying the conditions under which it would acquire the Canadian Digital Scapes studio – a transaction ultimately finalized in July

On 17 June 2021 *Thronebreaker: The Witcher Tales* came to Android devices

CD PROJEKT paid out the highest dividend in its history – at 5 PLN per share

WitcherCon – an event targeting fans of *The Witcher* universe – was organized together with the Netflix platform on 9 and 10 June 2021

The Witcher: Monster Slayer, a location-based mobile AR game by Studio Spokko, was officially released on 21 July

¹ by the publication date of this report



01

BRIEF DESCRIPTION
OF THE CD PROJEKT GROUP

Activity profile

CD PROJEKT S.A. (also referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities on the dynamically growing global digital entertainment market. These activities have been ongoing for over 25 years under the CD PROJEKT brand name, and began by distributing foreign games in Poland (the corresponding activity segment, handled by the Group's CDP.pl subsidiary, was disaggregated in 2014). Pivotal moments 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 RPG² – *The Witcher* – as well as in 2008, with the launch of GOG.COM.



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

² Role Playing Game – a storyline-driven game based on a consistent narrative.

CD PROJEKT RED

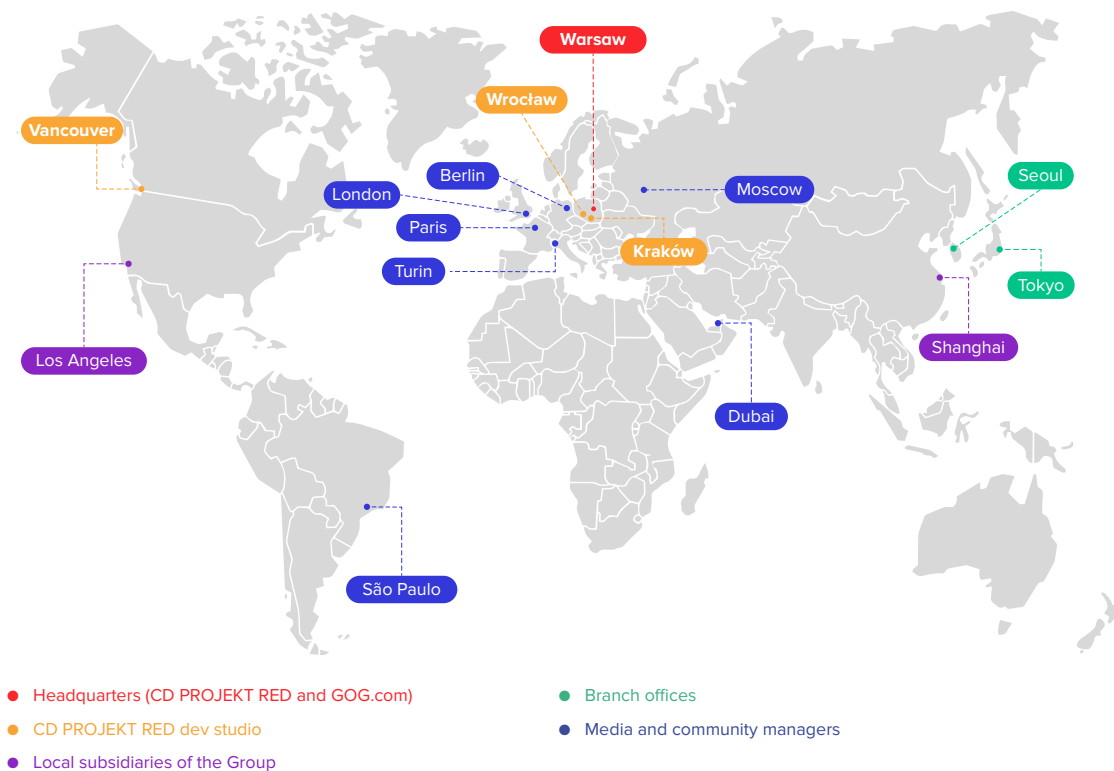
Developing and publishing videogames and tie-in products which exploit the commercial appeal of brands owned by the Company.

GOG.COM

Digital distribution of videogames via the Company's proprietary GOG.COM platform and the GOG GALAXY application.

During the reporting periods 97.9% of the CD PROJEKT Group's sales revenues were generated by exports. Throughout the first half of 2021 North America and Europe accounted for 77.9% and 11.1% of the Group's sales respectively.

Map 1 The CD PROJEKT Group around the world



GROWTH STRATEGY

In March 2021 a [Strategy Update](#) was published by the Group, defining its mission statement as follows:

- To create revolutionary story-driven RPGs, which go straight to the heart of gamers from around the world;
- To be counted among the world's top three video game developers;
- To ensure a lasting place for our brands in the global popular culture.

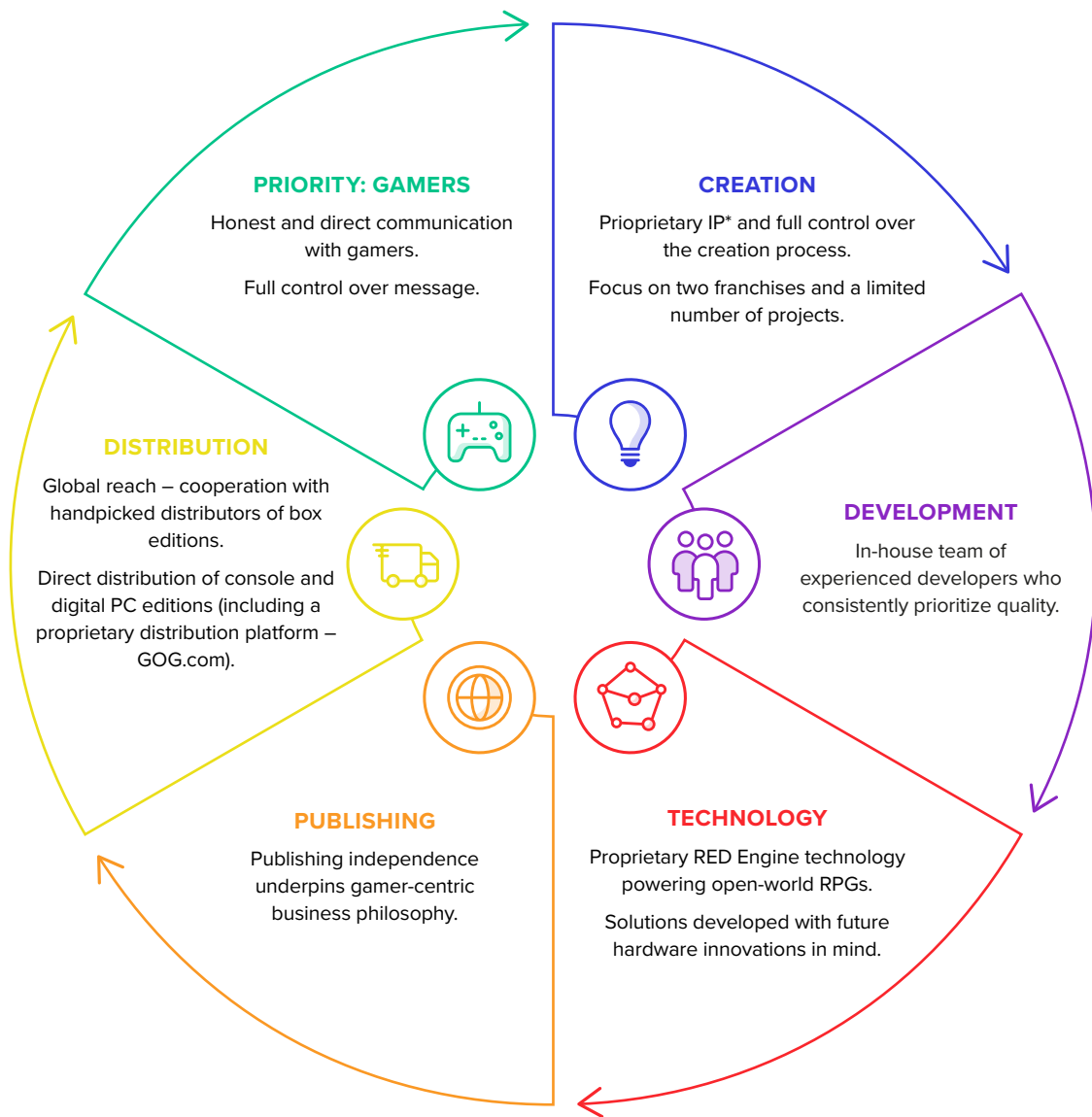
The document also charts three major areas where changes and growth is expected:

- RED 2.0 – the transformation of the studio will entail, among others, a change in its philosophy and approach to developing AAA games, implementing a more agile production cycle to enable parallel work on products representing two major franchises; changes in management practices and the work environment to foster expansion of the team and talent support, and changing ways in which the studio communicates with gamers;
- Brand development – going beyond AAA RPGs and exploiting the appeal of both *The Witcher* and *Cyberpunk* through new products, collaborations, media types and formats, in order to further enhance the reach, recognition and strength of both brands;
- Online development – changes in the long-term approach to online features in the CD PROJEKT Group's games and establishing them as an important component of the Group's future release portfolio while using GOG GALAXY to support the growth and mutual communication of global gaming communities.

The Group's solid financial backbone is one of the elements which will support its further growth, enabling it to maintain creative independence and seek new ways of improvement, both as a business and as a studio – thus realizing its mission statement.

Aspects of the Strategy Update are explained in a [presentation](#) available on the Company website.

Scheme 1 Videogame development business model at CD PROJEKT RED



*Own brands *The Witcher* i *Cyberpunk*

EMPLOYMENT

The Group considers its team to be its greatest asset. We employ people who are passionate about developing world-class products and services. Their talent, involvement and motivation represent the human capital of the CD PROJEKT Group. They, along with their creative ideas, are the force behind the Group's success.

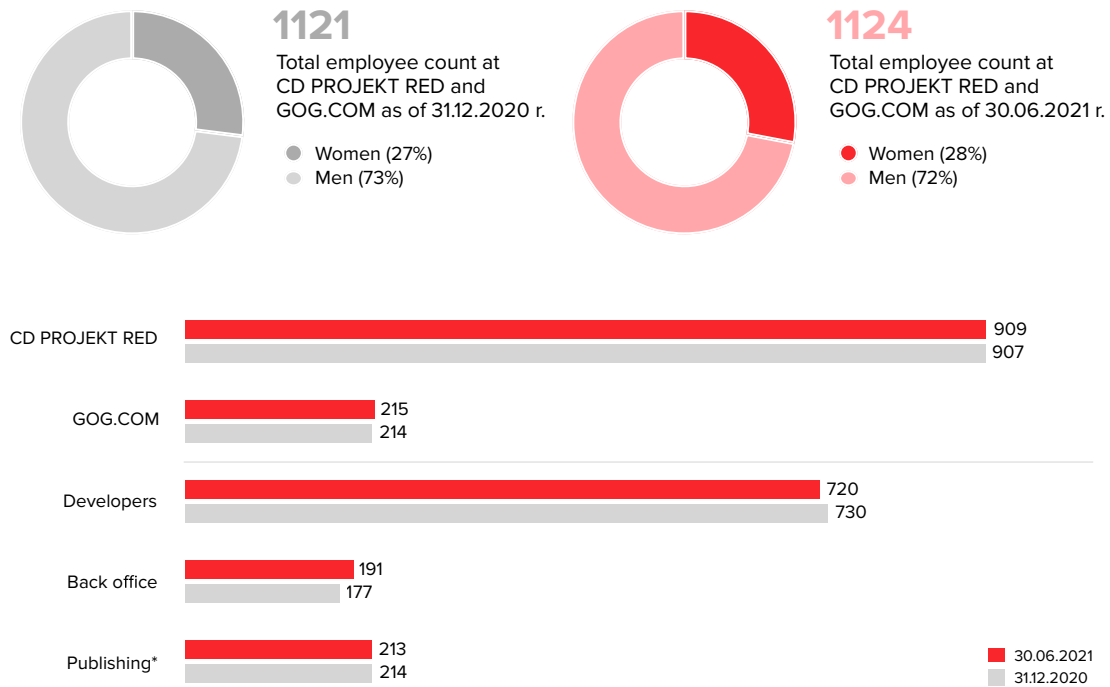


CD PROJEKT embraces diversity in the belief that a workplace which respects diversity is the cornerstone of openness and trust. This enables us to fully unlock the creative potential of our employees, which, in turn, translates into increased depth, innovation and appeal of our products. We also believe that diversity reinforces and enriches our organizational culture. This belief is enshrined in the CD PROJEKT S.A. Diversity Policy – an expression of basic values which apply to the Company and guide relations among its team members, key managers and members of the Management Board and Supervisory Board.

CD PROJEKT is also a signatory to the Diversity Charter – an international initiative organized under the auspices of the European Commission, which obligates us to institute non-discrimination policies at the workplace, take action to promote diversity and involve team members and business partners in these activities.

On 18 June 2021, in association with Pride Month, CD PROJEKT RED's official Twitch profile hosted a charity stream benefitting Campaign Against Homophobia. For 14 hours Studio employees streamed live sessions of *GWENT* and *Cyberpunk 2077*, collecting donations for this LGBT+ advocacy group. Altogether, spectators donated 12 500 PLN, while CD PROJEKT RED itself contributed another 50 000 PLN.

Scheme 2 Employment structure at CD PROJEKT RED and GOG.COM at the end of 2020 and at the end of H1 2021



*The Publishing branch includes, among others, Marketing and PR, Business Development, Customer Relations and Game Releases teams, as well as the CD PROJEKT RED Gear team.

At the close of the first half of 2021 the CD PROJEKT Group employed 1191 persons.

CD PROJEKT Group growth prospects

The CD PROJEKT Group conducts its business in the global videogame market which is among the fastest growing branches of the global economy. Newzoo – respected analysts of the videogame and e-sports markets – estimate that by 2024 the global videogame market will have expanded to 218.7 billion USD³. According to PWC's "Global Entertainment & Media Outlook 2020-2024"⁴ report, the cumulative annual growth rate (CAGR) of the videogame and e-sports markets for the 2020-2024 period is estimated at 6.5%, making them the third fastest growing media and entertainment segment following VR and OTT services⁵.

The global gaming community is also growing year over year, both in terms of numbers and gamer involvement (amount of time spent gaming). Newzoo estimates⁶ that at the end of 2020 the community numbered nearly 2.7 billion people. 2.5 billion played games on mobile devices, with the PC and console segments accounting for 1.3 billion and 0.8 billion gamers respectively. In 2023 the total number of gamers worldwide is projected to exceed 3 billion, which – given the fact that the count stood at less than 2 billion in 2015 – translates into a cumulative annual growth rate of 5.6% in the 2015-2023 period.

The growth outlook of the Group is affected not only by the increasing popularity of this form of entertainment as an approachable and attractive mass market offering, but also by the increasing sophistication and realism of products offered, increasing availability and affordability of gaming hardware, new methods of engaging potential gamers and new game distribution channels.

CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw Stock Exchange since 2010. 100 738 800 Company shares are traded on the Main Market of WSE 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.

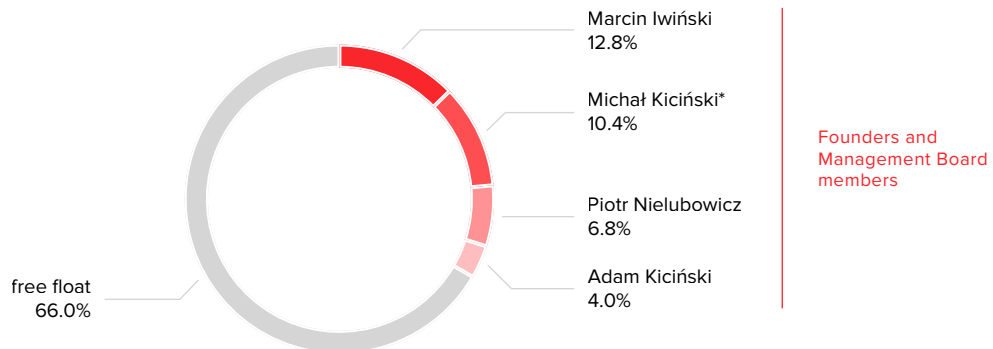
3 The Games Market's Bright Future: Player Numbers Will Soar Past 3 Billion Towards 2024 as Yearly Revenues Exceed \$200 Billion, Newzoo, 1 June 2021; accessed on 9 July 2021; [newzoo.com/insights/articles/the-games-markets-bright-future-player-numbers-will-soar-past-3-billion-towards-2024-as-yearly-revenues-exceed-200-billion/](https://www.newzoo.com/insights/articles/the-games-markets-bright-future-player-numbers-will-soar-past-3-billion-towards-2024-as-yearly-revenues-exceed-200-billion/)

4 Perspectives from the Global Entertainment & Media Outlook 2020–2024, PWC, accessed on 9 July 2021; abridged version available at [pwc.com/gx/en/entertainment-media/outlook-2020/perspectives.pdf](https://www.pwc.com/gx/en/entertainment-media/outlook-2020/perspectives.pdf)

5 Over-the-top services: delivery of paid video, audio and other media content online (e.g. Netflix)

6 Three Billion Players by 2023: Engagement and Revenues Continue to Thrive Across the Global Games Market; accessed on 9 July 2021; [newzoo.com/insights/articles/games-market-engagement-revenues-trends-2020-2023-gaming-report/](https://www.newzoo.com/insights/articles/games-market-engagement-revenues-trends-2020-2023-gaming-report/)

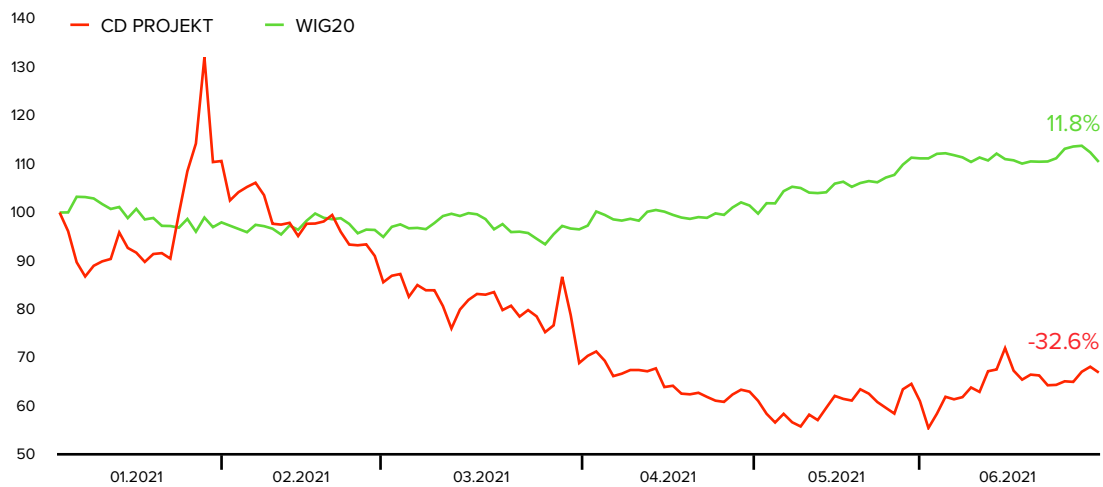
Chart 1 Company shareholding structure as of the publication date of this report



*according to a notice filed on 26 May 2021

Free float accounts for 66.0% of shares of CD PROJEKT S.A. stock.

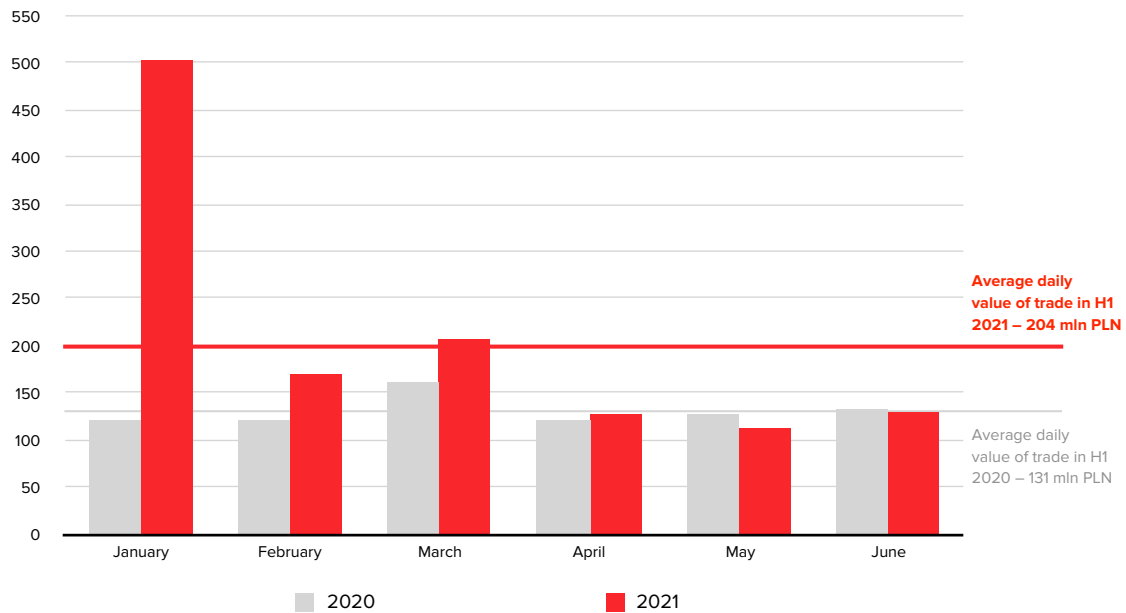
Chart 2 CD PROJEKT S.A. stock price and the WIG20 index between 1 January and 30 June 2021



Between 1 January and 30 June 2021 the Company stock price fluctuated between 153.38 PLN (1 June 2021) and 365.00 PLN (28 January 2021). During this period the stock price decreased by 32.6%, to 185.02 PLN at the close of the trading day on 30 June 2021. Over the same period the WIG20 index gained 11.8% while the main WIG index gained 15.9%.

On 30 June 2021 the Company's market capitalization was 18.6 billion PLN.

Chart 3 Average daily value of trade in CD PROJEKT S.A. shares (by month) between 1 January and 30 June 2021 (PLN millions)



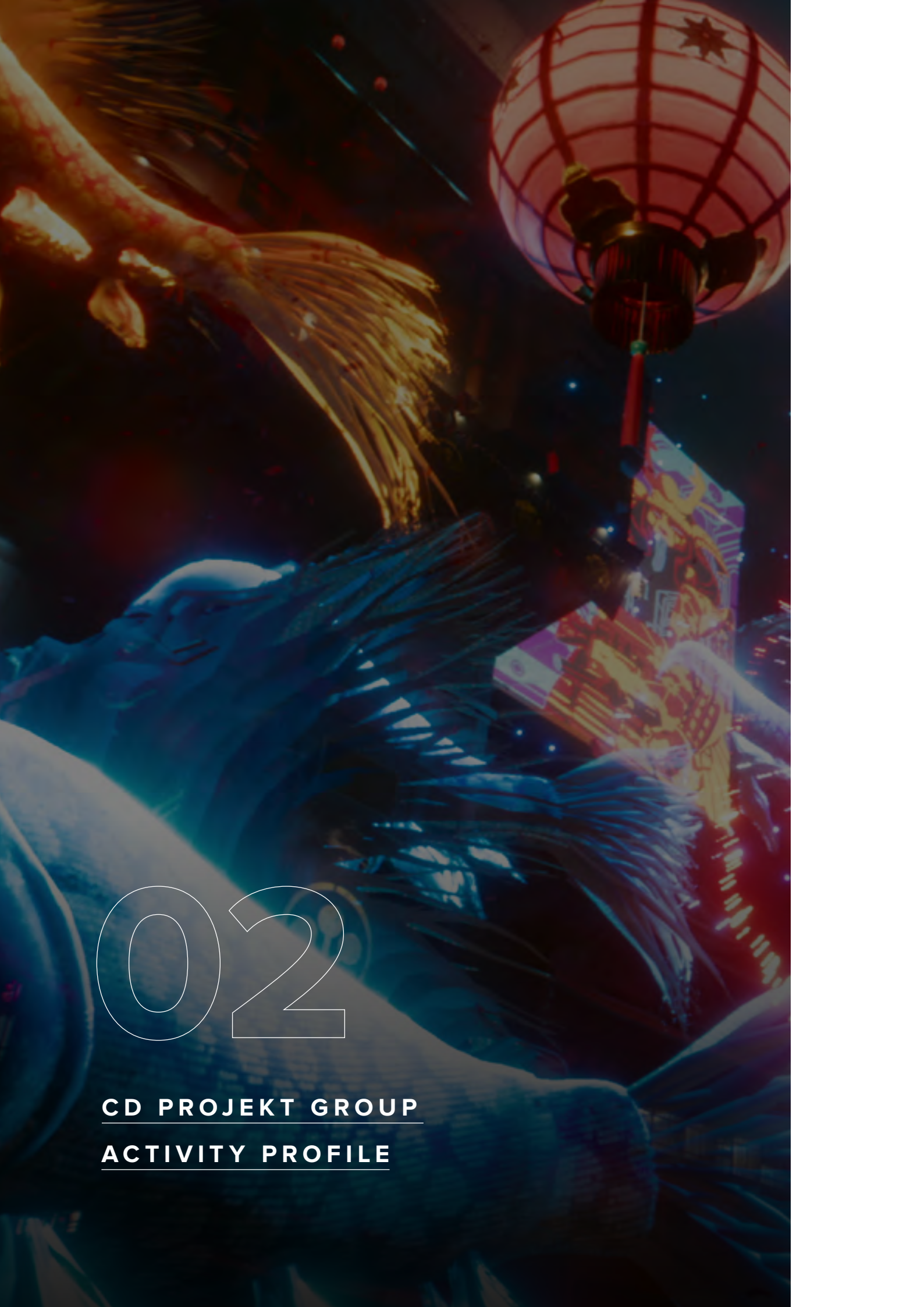
In 2021 the liquidity of CD PROJEKT S.A. stock, measured in terms of value of trade, increased. The aggregate value of trade for the first half of 2021 was 25.1 billion PLN, which represents a 54.3% increase over the corresponding period in 2020. The average daily value of trade was 204.2 million PLN, compared to 131.3 million PLN the year before. A notable increase was also observed in the average number of transactions per trading day – from 7 633 to 15 628.

Table 1 Key indicators of CD PROJEKT S.A. stock

	H1 2021	H1 2020	Change
Net earnings per share (PLN)	1.04	1.53	-32.0%
Quantity of shares in trading (in thousands) at end of period	100 738 800	96 120 000	4.8%
Highest closing price during fiscal year (PLN)	365.00	413.00	-11.6%
Lowest closing price during fiscal year (PLN)	153.38	216.10	-29.0%
Price at beginning of period (PLN)	274.70	279.50	-1.7%
Price at end of period (PLN)	185.02	394.90	-53.1%
Average price during period (PLN)	214.43	327.71	-34.6%
Market capitalization at end of period (PLN thousands)	18 638 639	37 957 788	-50.9%
Average number of transactions per trading day	15 628	7 633	104.7%
Average daily value of trade (PLN thousands)	204 241	131 284	55.6%
Average daily trading volume (shares)	883 302	417 663	111.5%

As of the publication date of this report 23 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 <https://www.cdprojekt.com/en/investors/analysts/>.

CD PROJEKT S.A. or any of its affiliates in the Capital Group does not make any warranties as to the accuracy, adequacy or completeness or any of the information connected with the either sponsored or unsponsored ADR (alternative depository receipts) or any other financial instruments of this kind. Moreover, CD PROJEKT, doesn't support or encourage the creation of any kind of such instruments nor represent any depository institution or bank that issue ADR or any financial instruments of this kind.



02

CD PROJEKT GROUP
ACTIVITY PROFILE

Organizational structure of the CD PROJEKT Group

As of 30 June 2021 the CD PROJEKT Group consists of the parent entity – CD PROJEKT S.A. – and five subsidiaries: GOG sp. z o.o., CD PROJEKT Inc., CD PROJEKT Co. Ltd., Spokko sp. z o.o. and CD PROJEKT RED STORE sp. z o.o. On 8 July 2021, after the balance sheet date, CD PROJEKT S.A. purchased 100% of shares in the Canadian Digital Scapes development studio (later rebranded as CD PROJEKT RED Vancouver Studio Ltd.)

Scheme 3 CD PROJEKT Group at the end of H1 2021 (capital and voting share)

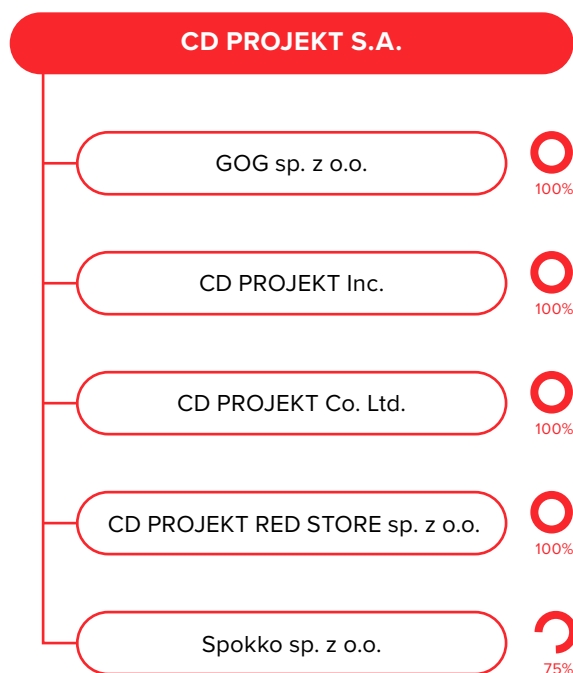


Table 2 Basic activity profile of each member company of the CD PROJEKT Group as of 30 June 2021

Company	Scope of activity
CD PROJEKT S.A.	The principal scope of activity of the company, carried out through its CD PROJEKT RED studio, involves development and publishing of videogames, selling the associated distribution rights, as well as manufacturing, selling or licensing tie-in products which exploit the popularity of brands owned by the Group. CD PROJEKT S.A. also serves as the holding company of the CD PROJEKT Group, and coordinates the activities of subsidiaries which comprise the Group.
GOG sp. z o.o.	The company distributes videogames through online channels to customers from around the world, enabling them to purchase games, remit payment and download purchased products to their personal computer. The company also owns the GOG.COM proprietary global digital distribution platform and the GOG GALAXY 2.0 technology stack. Additionally, in the framework of a consortium formed with CD PROJEKT S.A., the company participates in development and maintenance of <i>GWENT: The Witcher Card Game</i> , where it is responsible for the game's online and networking features, and for handling sales carried out in the game's PC edition.
CD PROJEKT Inc.	The company coordinates publishing and promotional activities related to products marketed by CD PROJEKT S.A. and GOG.COM, and manages sales of merchandise through the CD PROJEKT RED Gear online store throughout North America (with an office in Los Angeles).
CD PROJEKT Co. Ltd.	The main goal of this company is to ensure CD PROJEKT Group's presence on the Chinese market (with an office in Shanghai). It manages a local team which coordinates publishing and promotional activities associated, among others, with promoting <i>GWENT</i> in China.
Spokko sp. z o.o.	Development studio which specializes in mobile releases, responsible for the development of <i>The Witcher: Monster Slayer</i> .
CD PROJEKT RED STORE sp. z o.o.	This company carries out online marketing of merchandise associated with CD PROJEKT RED videogames.

The above member companies of the CD PROJEKT Group, active as of 30 June 2021, were – with exception of CD PROJEKT Co. Ltd. and Spokko sp. z o.o. – subject to full. Detailed information can be found in the Consolidated Financial Statement of the CD PROJEKT Group for the first half of 2021.

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

In the first half of 2021 the Group conducted business activities in two segments:

- CD PROJEKT RED,
- GOG.COM.



CD PROJEKT RED

Target and scope of business activity

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 Group), CD PROJEKT Inc. (USA), CD PROJEKT Co., Ltd. (China) and – since 8 July 2021 – CD PROJEKT RED Vancouver Studio Ltd. (Canada). Videogame development is based on two brands owned by the Company: *The Witcher* and *Cyberpunk*.

Activity within this segment 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.

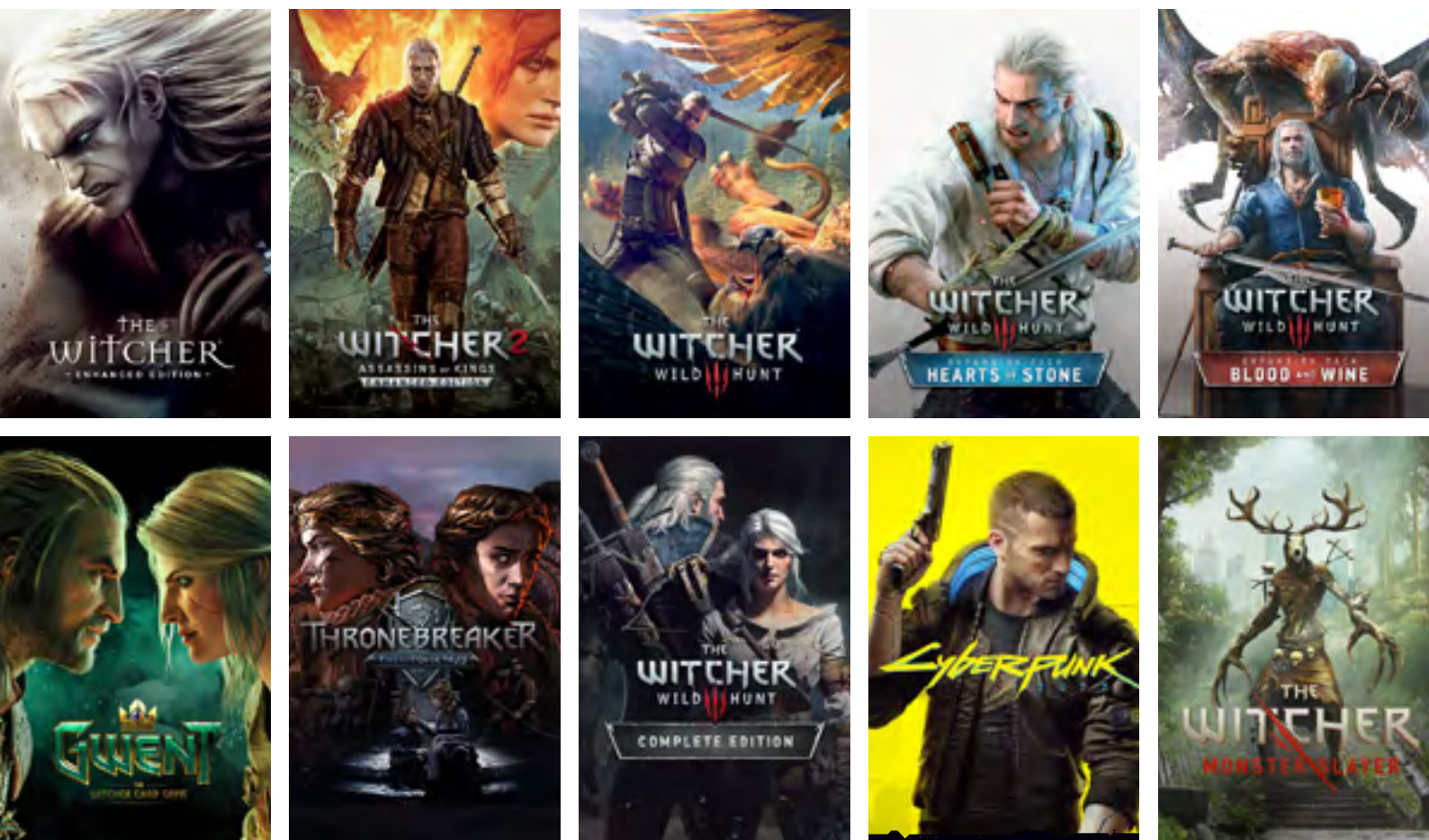
In the scope of its publishing activities the Company also assumes responsibility for its promotional and advertising campaigns, and maintains direct relations with the player base via electronic and social media channels (see the [Communications](#) section) as well as through regular participation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

This segment also aggregates the activity of GEAR.CDPROJEKTRED.COM – an online merch store for fans of CD PROJEKT RED games.

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.

Currently, the Studio's key project portfolio includes *The Witcher trilogy* (*The Witcher*, *The Witcher 2: Assassins of Kings* and *The Witcher 3: Wild Hunt*, together with its two expansions – *Hearts of Stone* and *Blood and Wine*), along with *Cyberpunk 2077* – the first game set in the *Cyberpunk* universe, launched on 10 December 2020.

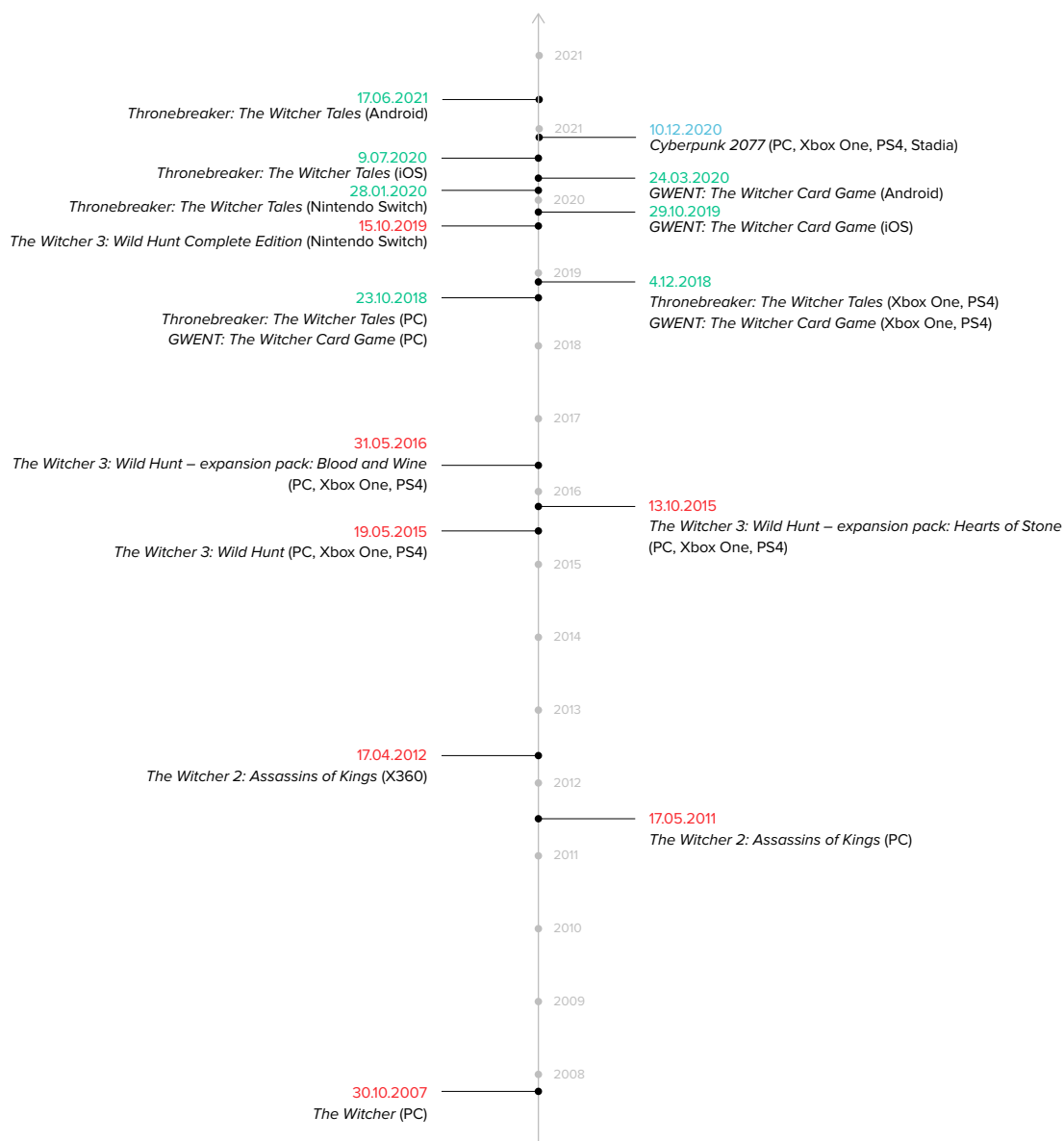


In 2018 the Company released the full version of *GWENT: The Witcher Card Game* (PC, iOS, Android), developed in collaboration with GOG sp. z o.o., as well as a single-player game – *Thronebreaker: The Witcher Tales* (PC, iOS, Nintendo Switch, Xbox One, PlayStation 4), built around similar gameplay mechanics.

On 17 June 2021 *Thronebreaker: The Witcher Tales* was released for Android devices.

In the second half of 2021 CD PROJEKT RED aims to release dedicated next-gen console versions of both *The Witcher 3: Wild Hunt* and *Cyberpunk 2077*.

Scheme 4 CD PROJEKT RED releases; 2007-2021





Key sources of revenue

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

- sales of territorial distribution rights (for box and digital editions), settled post factum on the basis of monthly or quarterly sales reports / licensing reports submitted by the Company's business partners;
- supplies of physical box editions to the Company's business partners for retail resale;
- supplies of batches of activation codes which permit the game to be downloaded and installed;
- sales carried out through optional microtransactions in *GWENT: The Witcher Card Game* (incl. kegs, meteorite dust, add-ons, passes).

Digital distribution agreements concluded by the Company 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 the first half of 2021 the most important CD PROJEKT RED products from the point of view of revenues were:

- *Cyberpunk 2077*,
- *The Witcher 3: Wild Hunt*, together with its expansions – *Hearts of Stone* and *Blood and Wine*.

Revenues were also affected – to a lesser degree – by micropayments in *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*. Additionally, the Company offered 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.

Key business partners and suppliers

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., Warner Bros. Home Entertainment, Epicsoft Asia PTE LTD, Bandai Namco Entertainment Australia PTY LTD, Cenega S.A., Spike Chunsoft Co., Ltd., Soft Club LLC), and leading digital distribution platforms (e.g. Steam, PlayStation Store, Xbox Games Store, Nintendo, Stadia, Apple App Store, Google Play and Humble Bundle, along with its own proprietary GOG.COM platform).

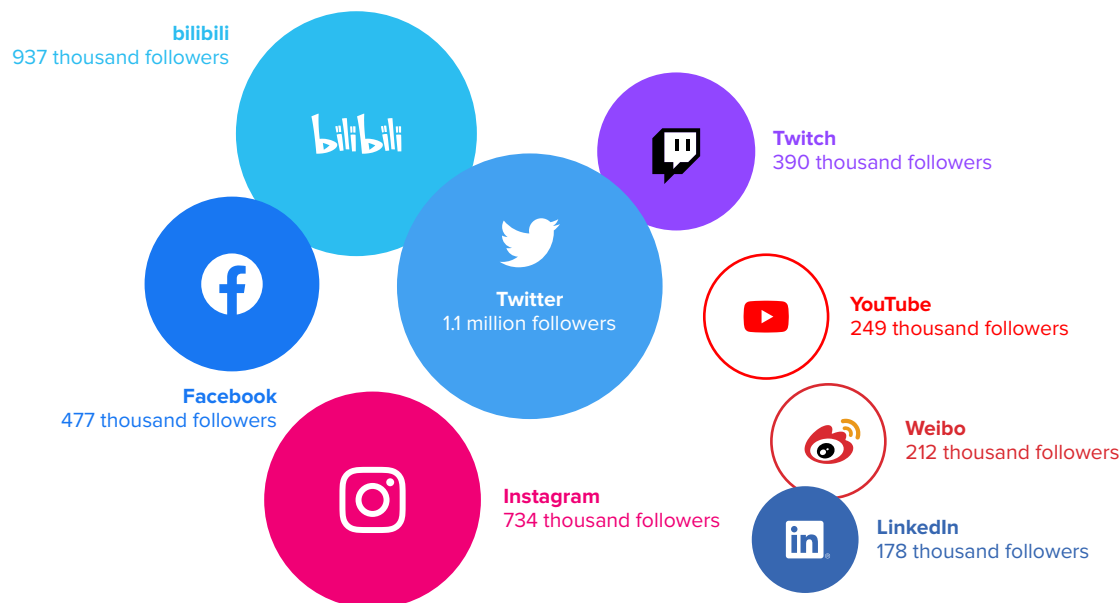
In the first half of 2021 sales to two clients exceeded 10% of the Group's consolidated sales revenues, at 134 809 thousand PLN and 55 777 thousand PLN respectively (28.6% and 11.9% of the Group's revenues respectively). Neither of these clients is affiliated with CD PROJEKT S.A. or any of its subsidiaries.

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 Group in the first half of 2021.

Communication

CD PROJEKT RED prides itself on direct and honest communication 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 Followers and subscribers of CD PROJEKT RED social media profiles as of 3 August 2021



Key product and marketing events

Cyberpunk 2077

On 13 January 2021 in an official video feed, Marcin Iwiński confirmed that the Studio would continue to work on updating *Cyberpunk 2077*. The feed also presented plans regarding further work on the game in 2021, including patches and updates, free DLC, as well as a dedicated next-gen version.

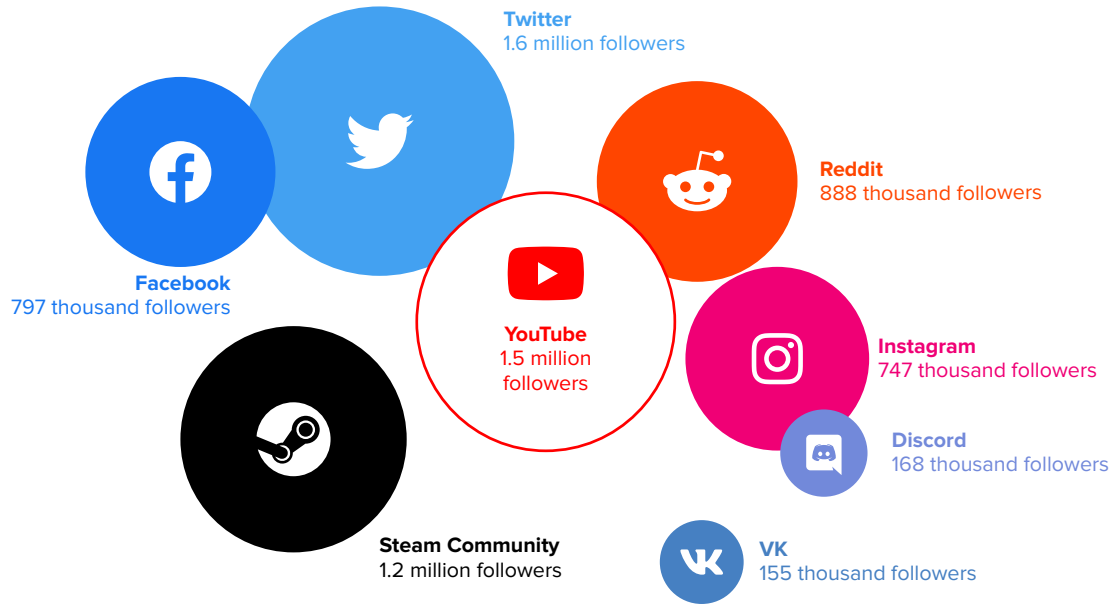
By the publication date of this report *Cyberpunk 2077* four large patches had been published for *Cyberpunk 2077* (Patch 1.1 – 22 January; Patch 1.2 – 29 March; Patch 1.23 – 17 June; Patch 1.3 – 18 August), alongside three hotfixes (on 28 January, 14 April and 28 April respectively). Numerous improvements rolled out during the recent months served to enhance gameplay experience.

In the first half of 2021 *Cyberpunk 2077* received a number of awards. The game was acknowledged by gaming outlets – among others for its storyline, characters, soundtrack and RPG gameplay. It was also named 2020 Game of the Year by CD Action, Gry Online, IGN, Benchmark, Filmweb (PL) and Gameheadquarters (US) and SECTOR (SK). *Cyberpunk 2077* was furthermore nominated for the highly prestigious BAFTA and VES awards.



On 21 June the digital availability of *Cyberpunk 2077* was reinstated on PlayStation Store. CD PROJEKT RED also confirmed that a dedicated next-gen release, capable of fully exploiting the capabilities of PlayStation 5 and Xbox Series X/S, would appear in the second half of 2021.

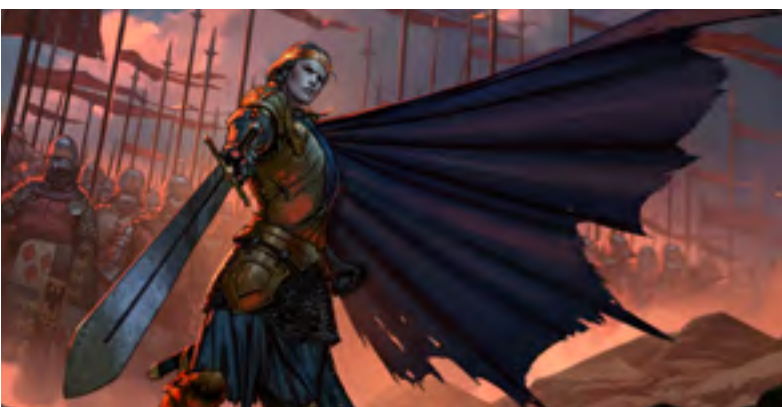
Scheme 6 Followers and subscribers of *Cyberpunk 2077* social media profiles as of 3 August 2021



GWENT

Soon after the beginning of the year, on 18 January, CD PROJEKT launched the third season of the *GWENT Masters* series, and announced a tentative schedule of e-sports events for 2021. The first two *GWENT Open tournaments* (part of the *GWENT Masters* series) were held on 24-25 April and 3-4 July respectively. Meanwhile, on 5-6 June, the first season of the *GWENT Masters* series culminated with the *GWENT World Masters tournament*, featuring eight top players and a total prize pool of 250 thousand USD.

On 9 April 2021 CD PROJEKT RED announced that *GWENT: The Witcher Card Game* would be released for macOS devices incorporating the Apple M1 chip. This enables owners of Macbook machines equipped with the new processor to join the Witcher-themed card game community. The new macOS release support cross-platform gameplay and enables synchronization with supported PC (via GOG.COM and Steam), iOS and Android editions.



On 24 May 2021 CD PROJEKT RED announced *Price of Power* – a new set of three expansions for *GWENT*, built around a common storyline. The first expansion – *Once upon a Pyre* – introducing 26 new cards, was released on 8 June 2021 for all supported platforms. The second expansion – *Thanedd Coup* – also adding 26 new cards, appeared on 3 August.

Scheme 7 Followers and subscribers of *GWENT* social media profiles as of 3 August 2021



Events related to *The Witcher* videogame series

On 28 January 2021 CD PROJEKT RED announced that *The Witcher 3: Wild Hunt* would be available for Nintendo Switch in two versions: the Complete Edition bundle (consisting of the base game, both expansions and all free DLCs) as well as a collection of standalone products.

On 10 February 2021 Go on Board publishers and CD PROJEKT RED jointly announced a new board game: *The Witcher: Old World*. The game takes place many years before the time of Geralt of Rivia. Gamers will play as adepts of one of five witcher schools: School of Wolf, Viper, Cat, Bear or Griffin. The game's crowdfunding campaign was launched on 25 May on Kickstarter and Zagramw.to, and closed on 10 June having gathered nearly 38 million PLN. These funds will be used to prepare additional contents of the game. All supporters will also receive exclusive add-ons. The official release of *The Witcher: Old World* in two language editions (Polish and English) is scheduled for April 2022



On 7 May 2021 CD PROJEKT RED celebrated the 10th anniversary of the release of *The Witcher 2: Assassins of Kings*, as well as six years of market availability of *The Witcher 3: Wild Hunt*. As part of this double anniversary, a variety of social media activities targeting the *Witcher* community were organized in May.



On 1 June 2021 the Studio announced that *The Witcher 3: Wild Hunt – Game of the Year Edition* had been made available to PlayStation Now subscribers.

WitcherCon – the first ever event for fans of The Witcher universe, organized in collaboration with NETFLIX – took place on 9 and 10 June. In conjunction with this event, Twitch and YouTube held broadcasts featuring unique content as well as a range of engaging panel discussions.

At one of the *WitcherCon* panels the Studio announced *The Witcher: Ronin* – a new comic, inspired by the traditions of feudal Japan where Geralt is a ronin following the trail of yuki onna – also known as the Lady of Snow. A limited hardcover collector's edition of *The Witcher: Ronin* will appear on Kickstarter. Additionally, CD PROJEKT RED announced that the dedicated next-gen version of *The Witcher 3: Wild Hunt*, exploiting the additional potential of Xbox Series X/S, PlayStation 5 and PCs, will include unique items inspired by the Netflix series.

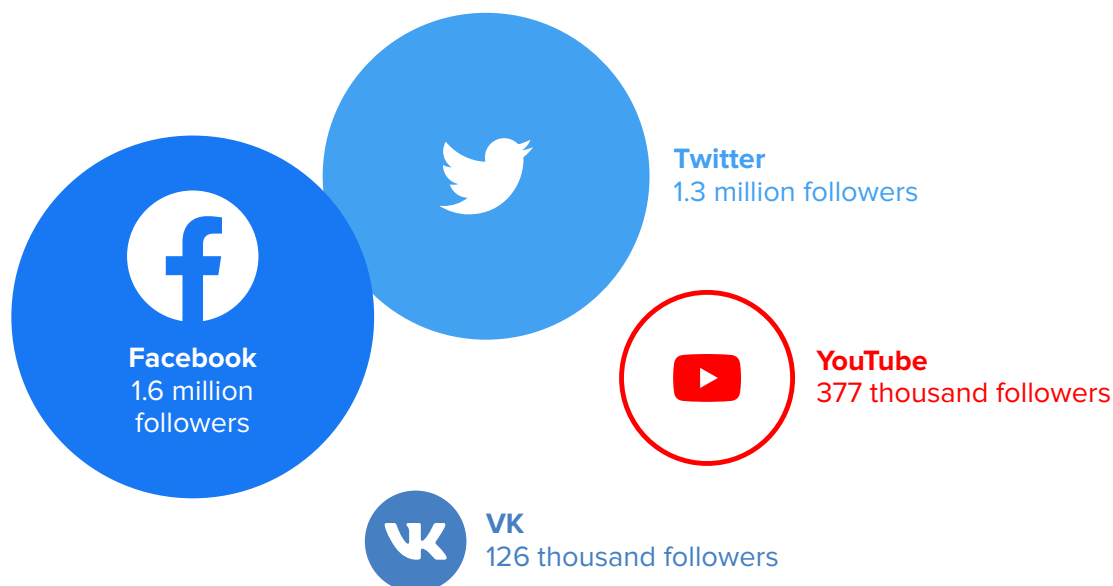
WitcherCon was also attended by Studio Spokko, which presented new content for *The Witcher: Monster Slayer* – a location-based AR mobile game set in The *Witcher* universe.

On 17 June 2021 *Thronebreaker: The Witcher Tales* was released for Android devices.

21 July 2021 marked the official launch of *The Witcher: Monster Slayer* – an AR role-playing game set in *The Witcher* universe, developed by Studio Spokko, which is part of the CD PROJEKT Group. Within the game, users of iOS and Android devices may assume the role of freshly trained monster hunters. With help from advanced augmented reality, location and daytime tracking features, the game features encounters with over

a hundred monsters from *The Witcher* universe. Within one month of release the game had been downloaded 1.7 million times, with strong ratings on App Store and Google Play (4.5/5 and 4.1/5 respectively).

Scheme 8 Number of followers and subscribers of *The Witcher* social media profiles as of 3 August 2021



GOG.COM

Target and scope 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.

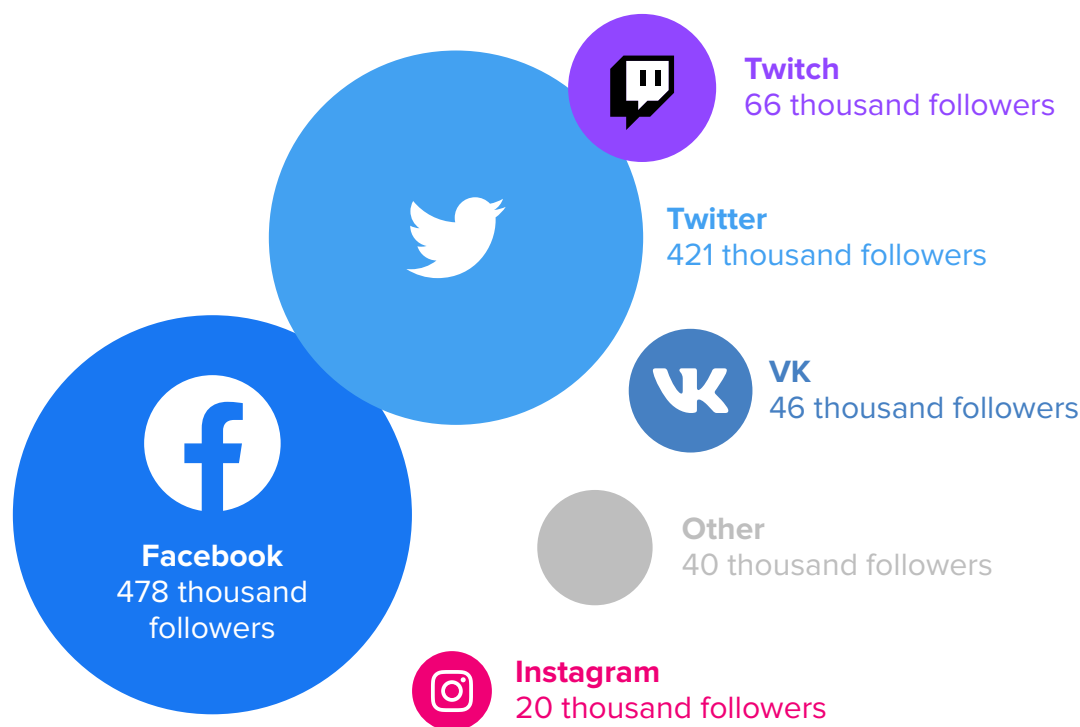
Activities carried out in the GOG.COM segment focus on:

- digital distribution of videogames via the Company's proprietary GOG.COM distribution platform and the GOG GALAXY application. The platform enables customers to purchase games, remit payment and download game files to their personal devices, while the GOG GALAXY application provides – among others – online and cross-play features;
- collaboration with CD PROJEKT S.A. in the framework of a consortium established 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 of *GWENT*, and for delivering the required IT infrastructure and implementing networking features in the PC, iOS and Android editions.

In this scope of the above-mentioned consortium, GOG sp. z o.o. is responsible for handling in-game purchases in the PC edition of *GWENT*, and for delivering the required IT infrastructure and implementing networking features in the PC, iOS and Android editions.

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 to its suppliers 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 followers and subscribers of GOG.COM social media profiles as of 3 August 2021



Key products

As of the publication date of this report, the GOG.COM digital distribution platform offers over 5200 products from more than 800 partners. This includes both timeless classics and fresh releases from such well-known brands as Bethesda, Disney, Electronic Arts, Ubisoft, Konami and Warner Bros.

The key difference between GOG.COM and its competition is its set of core principles. This is evidenced, among others, by striving to ensure that single-player gamers are distributed in the DRM-free model, free of restrictions which might otherwise prevent customers from enjoying their purchases. Products offered on GOG.COM are also richly featured and usually include bonus content such as soundtracks, maps and wallpapers. All games bought on GOG.COM can be returned within 30 days of purchase – the GOG.COM returns policy is among the most customer-friendly on the digital distribution market. In addition to the above, GOG.COM ensures compatibility of its games with current versions of MS Windows, macOS and popular distributions of Linux, which is a particular advantage in the case of classic games.

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 the Game of the Year Edition), *Thronebreaker: The Witcher Tales* and *Cyberpunk 2077*. Owing to GOG GALAXY in-game purchases placed by users of the PC edition of *GWENT* take advantage of GOG's sales and payment services.

The GOG GALAXY application enables gamers to combine all their game shelves into a common library, as well as communicate with friends and track their progress regardless of their preferred gaming platforms.

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.

Other notable sources of revenue in the GOG.COM segment include *Thronebreaker: The Witcher Tales* and *GWENT: The Witcher Card Game*. In this scope, 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 by 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 by the consortium agreement.

Key product and marketing events

GOG GALAXY

In March 2021 GOG announced that four Witcher-themed products from the GOG.COM catalogue – namely, *The Witcher 2: Assassins of Kings*, *The Witcher 3: Wild Hunt*, *The Witcher Adventure Game* and *Thronebreaker: The Witcher Tales* – had been made available on the Nvidia GeForce NOW platform thanks to its integration with GOG GALAXY. The event marked another milestone in the collaboration between GOG and Nvidia, which began with the release of *Cyberpunk 2077* in December 2020, when the GOG.COM release of the game was also made available on GeForce NOW.

Digital distribution of videogames

As of the publication date of this report, the GOG.COM catalog of products numbers over 5200 items.

In the first half of 2021 the catalogue was expanded, among others, with the following games: *Biomutant*, *Mechwarrior 5: Mercenaries*, *Stronghold Warlords*, *Stubbs The Zombie*, *Trails of Cold Steel IV*, *Curse of the Dead Gods*, *Metro Exodus Enhanced Edition* and *Solasta*. GOG.COM also added the following classics: *Commander Keen Complete Pack*, *Voodoo Kid*, *Operation Body Harvest*, *Corridor 7* and *M.U.L.E.*

Sales support

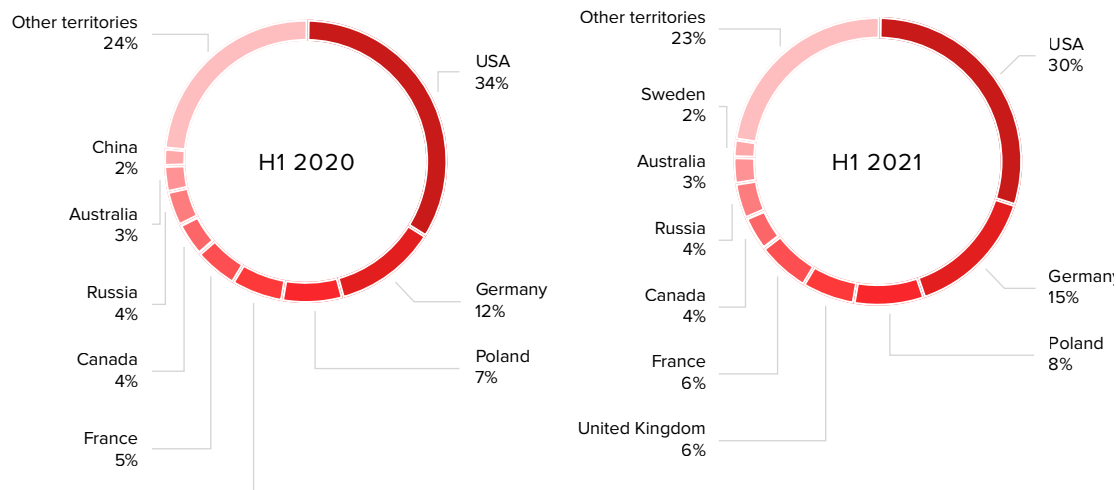
With regard to digital distribution sales support focuses primarily on securing distribution rights to new, appealing videogames, and on seasonal sales campaigns.

Key promotional campaigns of 2021 supporting GOG.COM sales included the We Love Games Sale, celebrating Valentine's Day; the subsequent annual Spring Sale offering discounts on over 3 thousand titles, as well as more than 20 games which users could enjoy free of charge as demos prepared especially for this occasion, and the annual Summer Sale held in June – the largest to-date event of 2021, involving over 3.5 thousand games.

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.

Scheme 10 Sales of products and goods by GOG.COM in H1 2021 and H1 2020 by territory



In the first half of 2021 US gamers represented the largest group of GOG.COM customers (at 30%), followed by Germany (15%), Poland (8%), the United Kingdom (6%) and France (6%).

As of 30 June 2021 no single supplier in the GOG.COM segment accounted for more than 10% of the Group's consolidated revenues.

KEY CORPORATE EVENTS

On 21 January 2021 the Management Board of the Company announced its current policy concerning diversification of surplus current cash. The policy specifies that debt instruments held by the Company may account for not more than 50% of the Company's current financial assets, which are defined as the sum of the following: cash and near-cash, bank deposits with maturity periods longer than 3 months, Polish State Treasury bonds, other bonds guaranteed by the Polish State Treasury and bonds issued by foreign governments, estimated at the price specified in the corresponding forward contract hedges.

On 29 January 2021 the Company was notified of a civil class action lawsuit filed in the US District Court for the Central District of California by five natural persons who had purchased videogames via the Steam platform which is owned by Valve Corporation ("Valve"). The lawsuit names Valve along with other developers and publishers of videogames, including the Company and its subsidiary which forms part of the Group – CD PROJEKT Inc., as defendants. The Plaintiffs asked the court to adjudicate whether the terms of the Steam Distribution Agreement violate US competition law. On 9 April 2021 the Company announced that allegations directed against CD PROJEKT S.A. and CD PROJEKT Inc. had been withdrawn from the filing and that consequently these entities had been excluded from the ongoing lawsuit.

In February 2021 CD PROJEKT fell victim to a hacking attack targeting its servers and CD PROJEKT RED resourced residing thereupon. Backups, which the Company had been creating on a regular basis, remained untouched. The Management Board decided to immediately release information related to the attack and announced that it would not negotiate with hackers. The CD PROJEKT team was informed of the risks and recommended actions in relation to the attack. The incident was also reported to the appropriate authorities – the police and the Personal Data Protection Office. The Company also immediately moved to establish collaboration with providers of IT security services and commissioned a set of forensic analyses. In parallel, work began on restoring the affected systems. This involved using current backups to restore data which had been encrypted by hackers, scanning all personal computers used at the Company for malicious software and deploying new solutions to enhance IT security at the Group. This event resulted in a short-term slowdown in processes and development work underway at the Company. Nevertheless, the compromised resources have been fully restored and the entire infrastructure brought back into operation. The Group is currently designing and implementing a new network architecture and rolling out next-generation security services based on advanced network traffic monitoring. It also plans to carry out network penetration tests once these services are in place, and to conduct security awareness training for its employees.

In March 2021 following exercise of 84 176 subscription warrants issued in the framework of the Company's incentive program covering the years 2016-2019, another batch of newly issued shares was assigned to entitled parties as a conditional increase in the Company share capital, pursuant to Resolution no. 21 of the Ordinary General Meeting of Shareholders of 24 May 2016. The shares were admitted to organized trading on 31 March 2021. As a result of the admission of Series M shares to organized trading, the Company share capital was conditionally increased by 84 176 thousand PLN, reaching 100 738 000 PLN divided into 100 738 800 shares with a nominal value of 1 PLN each.

On 30 March 2021 the Management Board published the CD PROJEKT Group Strategy Update. The new strategy includes, as one of its main points, a transformation of the CD PROJEKT RED studio, and of its game development methodology. This will enable the Studio to conduct parallel development of two AAA projects, which is set to commence in 2022. The updated strategy also entails strengthening of the Company's core IP – *The Witcher* and *Cyberpunk* – among others by entering new product areas, other than RPGs, and building expertise in the area of online gameplay. The updated strategy was discussed at length in a slide deck and video presentation available on the Company website.

On 22 April 2021 the Management Board of CD PROJEKT S.A. submitted a recommendation to the General Meeting concerning allocation of the net profit obtained by CD PROJEKT S.A. in 2020, in the amount of 1 132 234 728.22 PLN. The Board recommended that 503 694 000.00 PLN be divided among shareholders in the form of a dividend (at 5 PLN per share), with the remaining 628 540 728.22 PLN reassigned to the Company's reserve capital. The Supervisory Board subsequently endorsed this recommendation, which proposed a record date of 1 June and a payment date of 8 June 2021.

The General Meeting (GM) held on 25 May 2021 voted to approve statements and reports prepared by the Company's managerial bodies, grant discharge to members of the Management Board and Supervisory Board on account of the performance of their duties during the previous financial year, and pay out a dividend, at 5 PLN per share, financed from the Company's net profit in 2020. The General Meeting also approved an amendment to the Articles of CD PROJEKT S.A., systematizing the list of activities in which the Company engages, and approved a change in the remuneration of Supervisory Board members. Given the expiration of the

Supervisory Board's term of office, the GM appointed Ms. Katarzyna Szwarz, Mr. Michał Bień, Mr. Piotr Pagowski, Mr. Maciej Nielubowicz and Mr. Łukasz Wejchert to the Supervisory Board for the next term. All materials related to the General Meeting, including the wording of all adopted resolutions, can be found at www.cdprojekt.com.

On 26 May 2021 the Company was notified by one of its shareholders, Mr. Michał Kiciński, that his share in the total number of votes at the General Meeting had exceeded 10%. Following purchase of 365 410 shares of Company stock on the regulated market of the Warsaw Stock Exchange, Mr. Michał Kiciński held 10 433 719 shares and controlled 10 433 719 votes, representing 10.36% of the Company share capital and 10.36% of the total number of votes respectively.

On 15 June 2021 the Management Board disclosed the decision by Sony Interactive Entertainment concerning resumption of digital distribution of *Cyberpunk 2077* in PlayStation Store effective on 21 June 2021.

On 29 June 2021 the Company announced that it had received a transcript of a lawsuit filed against the Company and members of its Management Board by a law firm representing the lead plaintiff and other eligible holders of US securities traded under the ticker symbols "OTGLY" and "OTGLF". The lawsuit is not materially different from earlier lawsuits filed in this matter, and likewise, does not specify the amount of damages sought.

EVENTS FOLLOWING THE BALANCE SHEET DATE

Product-related events

The official launch of *The Witcher: Monster Slayer* – a location-based AR mobile game – took place on 21 July 2021. The game was developed by Studio Spokko, which belongs to the CD PROJEKT Group.

Corporate events

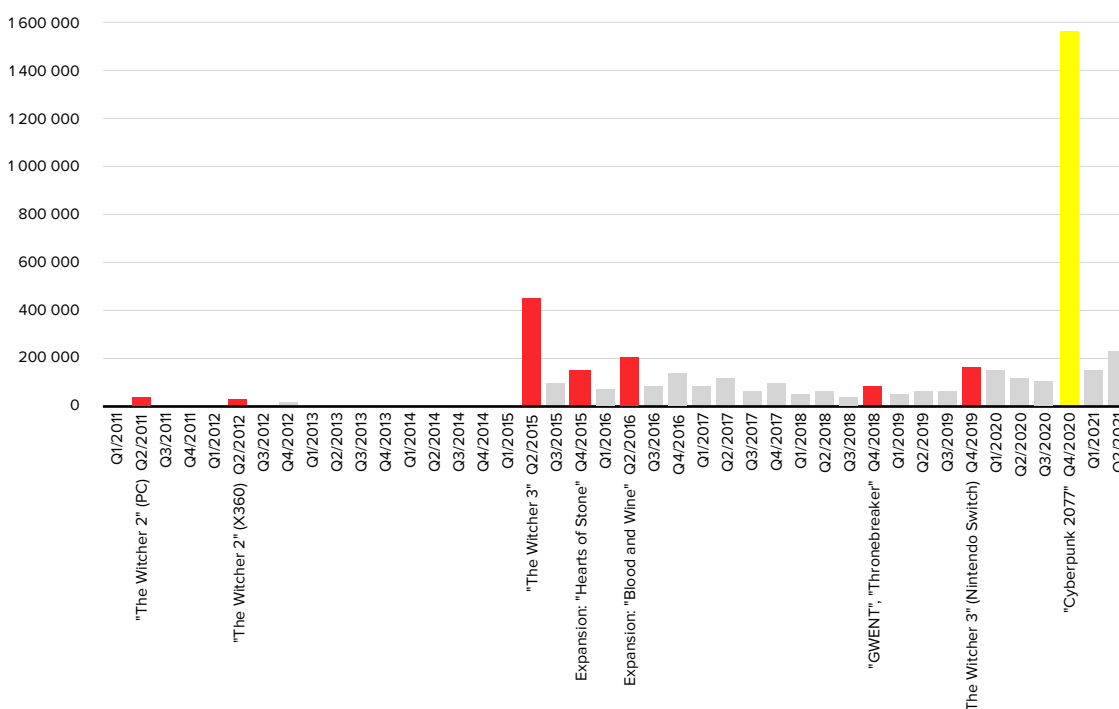
On 8 July 2021 the Company announced that had signed an agreement concerning the takeover of the Canadian Digital Scapes gamedev studio (later rebranded as CD PROJEKT RED Vancouver Studio Ltd.), with which CD PROJEKT RED had been collaborating since 2018. The Vancouver-based studio joined three existing CD PROJEKT RED development teams (in Warsaw, Kraków and Wrocław respectively) to jointly work on new projects.

DISCLOSURE OF SEASONAL OR CYCLICAL ACTIVITIES

CD PROJEKT RED

The revenues and financial result of the CD PROJEKT RED segment are strongly affected by the videogame release schedule. CD PROJEKT RED usually takes between 2 and 5 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released.

Chart 4 Effect of new releases on the quarterly revenues from sales of products, goods and materials by CD PROJEKT RED in 2011-2021 (PLN thousands)



CD PROJEKT RED also engages in smaller-scale projects – such as add-ons for its own games or adapting existing products to work on new gaming platforms. Such projects may be carried out directly by the Company or by its external partners, and their implementation usually takes several months (up to about a dozen).

With regard to games which have already been released, their yearly sales breakdown is dependent on the schedule of periodic sale campaigns. In most cases, strong sales are reported in the second and fourth quarter, while the first and the third quarter (the latter of which overlaps with the summer vacation season) see weaker sales.

For *GWENT: The Witcher Card Game*, operated in the game-as-a-service model, the revenue stream depends on the overall popularity of the service and on the appeal of new in-game content released to gamers.

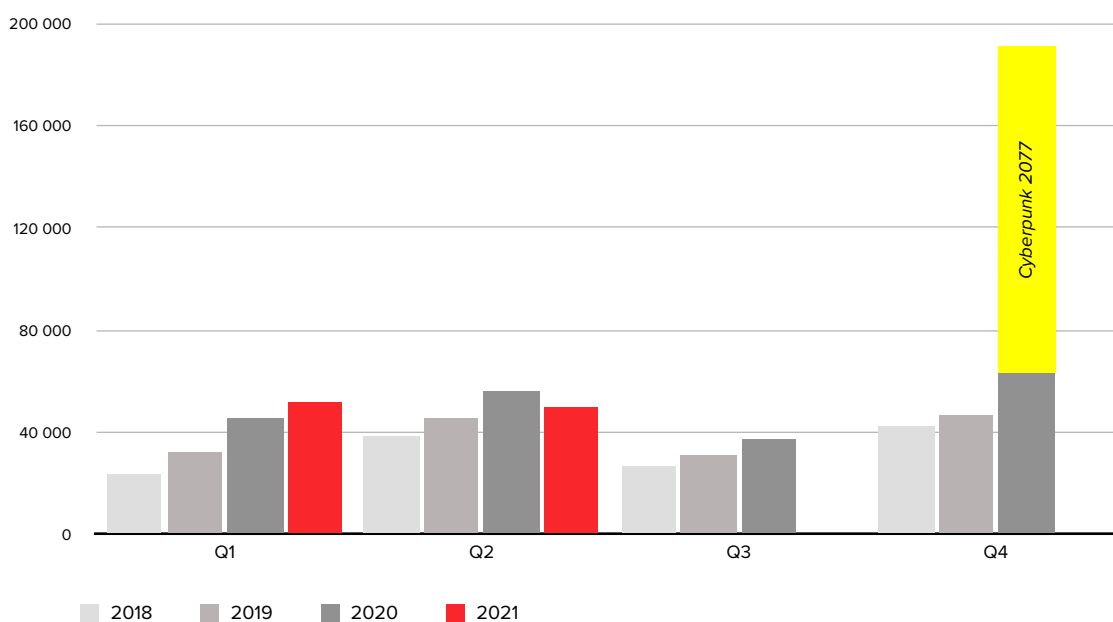
In addition to pure development activities, the Company also actively manages its franchises in other fields, working to continually expand its target audience, and exploring new media types and platforms.

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.

Chart 5 Sales of goods and materials in the GOG.COM segment in 2019-2021 (PLN thousands)



GOG.COM also obtains revenues from microtransactions carried out within *GWENT: The Witcher Card Game*. The volume of such revenues depends, among others, on the game's popularity and on new content released to gamers during each period.

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

Future growth of the Company and its 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. Strategic directions related to talent acquisition, team development and support are presented in the [CD PROJEKT Group Strategy Update](#) (including the attached [video commentary](#))

Ongoing expansion of the team and upscaling of development work calls for effective management of production and publishing activities at the Company HQ in Warsaw and at its branch offices in Kraków, Wrocław, Vancouver, Los Angeles, Shanghai, Seoul 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 Group is founded. Moreover, the activities of CD PROJEKT Group member companies are affected by external factors such as the macroeconomic outlook, 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, in the Board's opinion, may prove detrimental to the Group's activities and growth prospects are listed in the [Management Board report for 2020](#).

With regard to further quarterly periods in 2021 the CD PROJEKT Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.COM, as well as in the framework of its Spokko subsidiary. Additionally, while introducing the Group's strategy update the Management Board also announced increased openness to mergers and acquisitions, in order to assist the growth of CD PROJEKT RED, particularly in terms of technological know-how. In July 2021 CD PROJEKT signed a contract concerning the takeover of the Digital Scapes gamedev studio based in Vancouver (later rebranded as CD PROJEKT RED Vancouver Studio Ltd.).

CD PROJEKT RED

Key factors which determine the growth of the CD PROJEKT RED segment include ongoing projects, the scale of development work associated with those projects and their perceived popularity among gamers. In this context, the most significant factors shaping the current results of the CD PROJEKT Group include the popularity of previously published games set in *The Witcher* and *Cyberpunk* universe, as well as – in future periods – events surrounding the development and market reception of further development projects.

In the coming quarters the activities of CD PROJEKT RED will focus on providing further support for *Cyberpunk 2077*, publishing updates for the original game and developing its dedicated next-gen release, as well as on releasing a dedicated next-gen version of *The Witcher 3: Wild Hunt*, together with its expansions.

Maintaining the observed growth dynamics and expansion of the CD PROJEKT RED segment will depend on further enhancement of its world-class videogame development skillset and on the capacity for effective communication with the global gaming community. Both aspects are crucial for Studio's ongoing transformation – labeled RED 2.0 – which aims, among others, to introduce a more agile approach to the videogame development process, improving the quality of future products, shortening future marketing campaigns and ensuring that such campaigns are based on more polished content. In project management terms, maintaining two separate major franchises (*The Witcher* and *Cyberpunk*), along with several independent development teams, will enable the Company to conduct parallel work on several projects, beginning in 2022, and smoothen 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

Sales in the GOG.COM segment sales have, in the recent years, benefitted from customers' increasing tendency to turn to online channels for purchases.

GOG.COM growth also depends on seeking additional brand-new products to add to its lineup. Accordingly, GOG sp. z o.o. 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 gamers – those who have not yet set up a GOG.COM account. During the recent years 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.

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.

Disclosure of factors which, in the issuer's opinion, may affect its earnings throughout at least the coming quarter

The coming third quarter of the year coincides with the vacation season and is characterized by an ebb in marketing campaigns and the corresponding sales of previously published products. The Group's release schedule does not anticipate any significant releases for the remainder of the third quarter (although note that *The Witcher: Monster Slayer* by Spokko launched in July 2021). In parallel, the Group's earnings may be affected by costs related to continuing work on *Cyberpunk 2077* updates.

In the second half of 2021 CD PROJEKT RED intends to publish dedicated next-gen versions of both *The Witcher 3: Wild Hunt* and *Cyberpunk 2077*. These events are expected to have a positive effect on sales revenues and the Group's financial results in the corresponding period.

Disclosure of significant agreements⁷

No significant agreements were concluded by CD PROJEKT during the reporting period.

Risk management at the Group

The CD PROJEKT Group is exposed to a range of risks, both financial and non-financial, associated with its daily activities. Identification and monitoring of risks is the responsibility of management and key specialists responsible for coordination of processes across the Group's areas of activity. The Management Board of CD PROJEKT carries out ongoing assessment of any identified risks and undertakes actions to mitigate their effect on the Group's financial and material condition.

Developing complex, innovative projects which call for multiple iterations in many areas before satisfactory effects are obtained, entails above-average operating risk. With each completed project the Group gains further publishing and development experience, enabling it to refine its project management and progress monitoring practices, as well as risk mitigation strategies.

⁷ An agreement is regarded as significant if the projected total value of liabilities arising under the agreement may exceed 10% of the Group's consolidated assets.

DIVERSIFICATION OF CREDIT RISK FOR FINANCIAL RESERVES HELD IN H1 2020

In line with its adopted philosophy, the CD PROJEKT Group maintains financial reserves which secure the autonomy and stability of its operations, enable further dynamic growth, provide funding for development of new videogames and technologies along with promotional activities carried out in support of anticipated releases, permit further investments and constitute a buffer which enables the Group to react to unforeseen circumstances or exploit emerging opportunities. Group member companies allocate their monetary assets in a way which acknowledges existing and planned funding requirements while diversifying and mitigating credit risk, and maximizing revenue from interest. At the end of December 2020 the Group held 874 688 thousand PLN in monetary assets (which comprise cash in current accounts, bank deposits and treasury bonds). Over the first half of 2021 this figure increased to 1 129 406 (as of 30 June 2021).

Most of the Group's financial resources are held by CD PROJEKT S.A.

The Company mitigates credit risk associated with its financial resources by diversifying allocation to include domestic and foreign banks whose credit ratings are not worse than BBB- according to S&P and Fitch, or Baa1 according to Moody's, along with a limited number of issuers of treasury bonds (Germany, USA, Switzerland, Poland) whose credit rating is not worse than A-according to S&P and Fitch, or A2 according to Moody's.

Implementation

In January 2021 the Company decided to change its policy concerning diversification of surplus current cash. The amended policy specifies that debt instruments held by the Company may account for not more than 50% of the Company's current financial assets, which are defined as the sum of the following: cash and near-cash, bank deposits with maturity periods longer than 3 months, Polish State Treasury bonds, other bonds guaranteed by the Polish State Treasury and bonds issued by foreign governments, estimated at the price specified in the corresponding forward contract hedges.

Financial resources may be allocated to the following low-risk debt instruments:

- Polish State Treasury bonds,
- domestic bonds guaranteed by the Polish State Treasury,
- foreign treasury bonds issued by the USA, Germany and Switzerland.

Exchange rate risks associated with purchasing foreign bonds denominated in the currencies of their issuers are mitigated by concluding symmetric purchases of derivative instruments, i.e. forward sale contracts.

As of 30 June 2021 the Company held treasury bonds with a total balance sheet value of 410 233 thousand PLN.

Treasury bonds held on 30.06.2021	S&P	Fitch	Moody's	
Polish State Treasury bonds (denominated in PLN)	A-	A-	A2	211 961
US Treasury bonds (denominated in USD)	AA+	AAA	AAA	185 054
German Treasury bonds (denominated in EUR)	AAA	AAA	AAA	13 218
Total treasury bonds held				410 233

The following table presents the concentration of financial assets, deposits and treasury bonds weighted by the total value of each category of diversified assets, with regard to the credit rating of financial institutions and issuers of treasury bonds.

Credit rating of financial institution / issuer of treasury bonds		As of 30.06.2021	As of 31.12.2020
Highest	AAA to AA- acc. to S&P and Fitch; Aaa to Aa3 acc. to Moody's	18,72%	13,26%
Medium-high	A+ to A- acc. to S&P and Fitch; A1 to A3 acc. to Moody's	47,80%	43,60%
Medium	BBB+ to BBB- acc. to S&P and Fitch; Baa1 to Baa3 acc. to Moody's	33,48%	43,14%

Purchases of domestic treasury bonds were carried out by directly issuing purchase orders via the PKO BP Brokerage House.

Purchases of foreign treasury bonds were carried out in the framework of a debt instrument portfolio management contract concluded with Credit Suisse AG. The bank manages investment accounts denominated in currencies which correspond to the currencies in which the Company has decided to purchase debt instruments. A dedicated Asset Manager, employed by the bank, manages the investment portfolio in accordance with the profile specified by the Company.

Assessment of the business model concerning purchase of bonds

In line with the requirements of IFRS 9 Financial Instruments the Company has carried out an analysis of the business model concerning management of financial assets and of the characteristics of contractual cash flows for each component of the bond portfolio. This led the Company to conclude the following:

- The purpose of the conducted investments in domestic and foreign treasury bonds is to hold to maturity and collect the associated contractual cash flows;
- The investment mandates granted to Credit Suisse also permits sale of bonds prior to the expiration of their respective redemption periods in the framework of the adopted portfolio management strategy;
- All purchased bonds pass the SPPI test.

As a result of the presented analysis, the purchased bonds were assigned to two distinct financial asset management models identified by the entity which manages the bond portfolio. Polish State Treasury bonds – given the intent to hold them to maturity and collect the associated contractual cash flows – were estimated at amortized cost. Foreign treasury bonds – given the investment mandate which permits management of portfolio by the Asset Manager – were estimated at fair value through other comprehensive income.

Treasury bonds estimated at fair value through other comprehensive income (portfolio managed by Credit Suisse) – PLN thousands	198 272
German Treasury bonds – EUR	13 218
US Treasury bonds – USD	185 054
Treasury bonds estimated at amortized cost (transactions carried out directly by CD PROJEKT S.A.) – PLN thousands	211 961
Polish State Treasury bonds – PLN	211 961

Mitigation of exchange rate risks associated with purchasing and holding bonds denominated in foreign currencies

In order to mitigate the exchange rate risks associated with holding assets denominated in foreign currencies, for each foreign currency contribution to its investment account the Company concludes a symmetric forward sale contract involving the given currency. Consequently, the total value of forward contracts may exceed the total value of bonds held. The resulting surplus serves to secure unused financial resources which remain in the respective investment accounts. These resources are interest-free, and the credit rating of Credit Suisse is moderately high.

The Management Board of the Company has decided not to engage in hedge accounting with regard to forward contracts which secure foreign-currency assets held in the aforementioned investment accounts (cash, treasury bonds).

The following table summarizes the forward contracts in force as of 30 June 2021 for each currency.

Forward contract currency	Value of forward contracts (foreign currency units)	Value of forward contracts (PLN equivalent, according to forward exchange rates)	Estimated fair value of forward contracts as of 30 June 2021 (PLN)
EUR	5 550	25 315	64
USD	49 740	184 921	(4 582)
Total		210 236	(4 518)

Interest rate risks associated with purchase of bonds

The Company does not pursue an active interest rate risk mitigation policy with regard to the purchased bonds. In order to minimize this risk – which might affect the fair value of bonds during the investment period – the Company restricts itself to purchasing domestic treasury bonds as well as treasury bonds issued by foreign entities with strong credit ratings (Germany, USA), and allocates some of its assets to floating-rate bonds. The Company's intent is to hold the acquired bonds until they are redeemed.

Redemption periods for treasury bonds purchased as of 30 June 2021

2021	3%
2022	26%
2023	12%
2024	10%
2025	17%
2026	29%
2027	3%
Weighted treasury bond portfolio	100%



03

FINANCIAL RESULTS
OF THE CD PROJEKT 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 THE FIRST HALF OF 2021

The first half of 2021 was also the first semiannual period of sales for CD PROJEKT RED's newest release – *Cyberpunk 2077*, published on 10 December 2020. As a result, the assets, liabilities, equity and cash flows of the CD PROJEKT Group were significantly affected by factors which had no counterpart during the reference period – specifically, circumstances associated with the post-release period of *Cyberpunk 2077* and with the CD PROJEKT RED segment:

- revenues from digital distribution were the main driver behind the year-over-year increase in sales revenues;
- depreciation of past expenditures on development of videogames is aggregated with the Cost of products and services sold, starting in December 2020;
- expenses associated with intensive work on the part of the development team on updating and further developing the game compounded the cost of products and services sold;
- collection of trade receivables related to the release of *Cyberpunk 2077* resulted in a record-breaking balance of cash flows from operating activities for the reporting period.

In addition, the CD PROJEKT Group's earnings in the first half of 2021 were significantly affected by continuing distribution of *The Witcher 3: Wild Hunt*, together with its expansions – *Hearts of Stone* and *Blood and Wine* – sold as standalone products as well as the Game of the Year Edition Bundle for the PC, Xbox One, PS4 and Nintendo Switch.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Table 3 Selected data from the segmented consolidated profit and loss account of the CD PROJEKT Group (PLN thousands)

	01.01.2021- -30.06.2021	01.01.2020- -30.06.2020	01.01.2021- -30.06.2021	01.01.2020- -30.06.2020	01.01.2021- -30.06.2021	01.01.2020- -30.06.2020	01.01.2021- -30.06.2021	01.01.2020- -30.06.2020
	CD PROJEKT GROUP		CD PROJEKT RED segment		GOG.COM segment		Consolidation eliminations	
Sales revenues	470 617	363 998	371 911	260 355	106 333	109 794	-7 627	-6 151
Revenues from sales of products	366 986	237 665	359 938	228 099	4 346	7 645	2 702	1 921
Revenues from sales of services	3 687	774	4 957	2 504	139	1	-1 409	-1 731
Revenues from sales of goods and materials	99 944	125 559	7 016	29 752	101 848	102 148	-8 920	-6 341
Cost of products, services, goods and materials sold	162 171	107 402	92 051	36 815	76 860	75 596	-6 740	-5 009
Cost of products and services sold	87 894	14 980	85 589	12 600	2 827	2 969	-522	-589
Cost of goods and materials sold	74 277	92 422	6 462	24 215	74 033	72 627	-6 218	-4 420
Gross profit (loss) from sales	308 446	256 596	279 860	223 540	29 473	34 198	-887	-1 142
Selling costs	131 183	72 147	101 647	49 432	30 330	23 818	-794	-1 103
General and administrative costs	54 187	25 860	50 202	22 930	4 085	3 029	-100	-99
Other operating revenues	3 853	4 015	5 059	4 430	872	300	-2 078	-715
Other operating expenses	4 314	6 445	5 628	6 819	615	254	-1 929	-628
(Impairment) / reversal of impairment losses of financial instruments	-1	-75	-1	-75	-	-	-	-
Operating profit (loss)	122 614	156 084	127 441	148 714	-4 685	7 397	-142	-27
Financial revenues	18 886	9 530	16 150	9 388	2 736	142	-	-
Financial expenses	25 635	4 765	22 473	4 246	3 207	572	-45	-53
Profit (loss) before tax	115 865	160 849	121 118	153 856	-5 156	6 967	-97	26
Income tax	10 817	14 092	11 523	12 692	-697	1 394	-9	6
Net profit (loss) from continuing operations	105 048	146 757	109 595	141 164	-4 459	5 573	-88	20

CLARIFICATIONS REGARDING THE SEGMENTED CONSOLIDATED PROFIT AND LOSS STATEMENT OF THE CD PROJEKT GROUP

Total **Sales revenues** posted by the CD PROJEKT Group in the first half of 2021 were 470 617 thousand PLN, which is 29.3% more than the H1 2020 figure.

The largest contribution to CD PROJEKT Group's revenues (at 78.0%) during the past six months came from **Revenues from sales of products**, at 366 986 thousand PLN (54.4% increase over the reference period). The bulk of these came from the CD PROJEKT RED segment, which obtained 359 938 thousand PLN in revenues from:

- licensing royalties associated with distribution of *Cyberpunk 2077*;
- licensing royalties associated with continuing sales of *The Witcher 3: Wild Hunt*, along with its expansions – *Hearts of Stone* and *Blood and Wine* – including the Nintendo Switch edition;
- reduction in the balance of unused provisions for adjustment of licensing reports related to sales of *Cyberpunk 2077* in its release window – at 39 521 thousand PLN;
- revenues obtained in the framework of *GWENT: The Witcher Card Game*;
- licensing royalties from digital distribution of *Thronebreaker: The Witcher Tales* (released for Android devices in June 2021);
- licensing royalties associated with *The Witcher 2* and *The Witcher*, as well as other licensing revenues related to franchises operated by CD PROJEKT RED.

In the GOG.COM segment, the value of Revenues from sales of products represented mainly GOG's share in revenues generated by *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*, apportioned in accordance with the consortium agreement (decrease by 43.2% compared to the reference period, during which *GWENT: The Witcher Card Game* was released for Android devices and on the Steam platform).

Consolidated **Revenues from sales** of services reached 3 687 thousand PLN at the end of June 2021 (0.8% of the Group's aggregate sales revenues). The reported increase by 376.4% compared to the reference period is mainly due to recognition, in the CD PROJEKT RED segment, of a one-time revenue item associated with a barter advertising agreement, whose equivalent cost is aggregated with Cost of products and services sold. In addition, this line item aggregates shipping charges remitted by customers of the CD PROJEKT RED GEAR merch store.

Revenues from sales of goods and materials in H1 2021 reached 99 944 thousand PLN (21.2% of the Group's total revenues), having decreased by 20.4% compared to H1 2020.

The largest contribution to this revenue category is the digital distribution of games sourced from external suppliers directly to end customers via the GOG.COM platform and the GOG GALAXY application. In the first half of 2021 these revenues were reported at 101 878 thousand PLN – comparable to H1 2020 and resulting from successful promotional activities; mainly Spring Sale and Summer Sale, in addition to We Love Games Sale and RPG Mega Sale. The GOG.COM catalogue was also expanded with a range of hotly anticipated releases such as *Biomutant*, *Mechwarrior 5: Mercenaries*, *Necromunda: Hired Gun*, *EVERSPACE 2* and *The Medium*.

In the CD PROJEKT RED segment, revenues from sales of goods and materials reached 7 016 thousand PLN. This figure comprised mainly revenues from sales carried out by the CD PROJEKT RED GEAR merch store, which markets tie-in products associated with the Group's games and brands to fans throughout Europe

and North America, along with box sets and elements of box sets of the Studio's own videogames (including carrier media, boxes, figurines and gadgets) which CD PROJEKT sells to its distributors. The year-over-year decrease in such sales, associated with the *Cyberpunk 2077* post-release period, resulted in a decrease in this line item by 22 736 thousand PLN compared to the reference period.

The **Cost of products, services, goods and materials sold**, directly offsetting sales, was reported at 162 171 thousand PLN during the first half of 2021, and increased by 51.0% compared to the reference period in 2020.

The **Cost of products and services sold** by the Group, at 87 894 thousand PLN, was 72 914 thousand PLN (486.7%) higher than the reference figure. This line item represents depreciation of development projects at CD PROJEKT S.A. and GOG sp. z o.o. – mainly games developed by CD PROJEKT RED.

In line with the accounting policies in force at the Group expenditures on development projects for which a reliable estimate of the quantity and volume of sales budgets can be provided, are depreciated in proportion to the projected consumption of economic benefits. For other projects, the Group recognizes depreciation using the straight-line method. For projects whose development costs were subject to depreciation in the reporting period the following rules apply:

- 40% of *Cyberpunk 2077* development expenditures was recognized as costs in 2020, in the release quarter, while the remaining 60% will be depreciated throughout a five-year economic use period, at 3% per quarter; by the balance sheet date 46% of these expenditures had already been depreciated;
- *GWENT* development expenditures are depreciated using the straight-line method, throughout three years following the game's full official release (October 2018); full depreciation of the game's past development expenses will occur at the end of September 2021;
- Development expenditures related to *Thronebreaker: The Witcher Tales* (released in October 2018) and *The Witcher 3: Wild Hunt* for Nintendo Switch (released in October 2019) are depreciated throughout three years following their respective releases; however, in their case depreciation is based on the expected breakdown of future revenues, projected on the basis of sales data for past projects.

Given that the depreciation of *GWENT: The Witcher Card Game*, *Thronebreaker: The Witcher Tales* and *The Witcher 3: Wild Hunt* for Nintendo Switch was similar to H1 2020 figures, the observed increase in this line item is in large part due to ongoing depreciation of *Cyberpunk 2077* development expenses (at 34 047 thousand PLN in the first half of 2021).

In addition, as of 30 June 2021 the CD PROJEKT RED segment adjusted its projections regarding the economic outturn of physical distribution contracts for *Cyberpunk 2077*, which will be settled with publishers once the game has been in distribution for a full year. Given that these projections suggest a negative outturn for one of the contracts, resulting in the need to recognize surplus distribution costs (mostly related to the global marketing campaign, along with compensation of the distributor and expenses related to production, warehousing and distribution of physical copies), the CD PROJEKT RED segment recognized a provision in the amount of 40 637 thousand PLN, aggregated with this line item.

This line item also includes the Group's expenses offsetting the reported revenues from sales of services.

The **Value of goods and materials sold** by the Group in H1 2020 was 74 277 thousand PLN – 19.6% less than in the reference period.

The largest contribution to this figure comes from the cost of goods licensed from GOG.COM suppliers, at 74 033 thousand PLN – an increase by 1 406 thousand PLN (1.9%) over the reference period.

This line item also aggregates costs incurred in association with sale of box sets and physical components thereof to distributors, as well as merchandise sold in the CD PROJEKT RED segment. The higher figure reported in H1 2020 was due to the approaching release of *Cyberpunk 2077*.

In the first half of 2021 the CD PROJEKT RED segment posted a consolidated **Gross profit from sales** at 279 860 thousand PLN, which is 56 320 thousand PLN (25.2%) more than in the corresponding period in 2020. This increase in gross sales profit is mainly due to revenues from sales of *Cyberpunk 2077*, while a decrease in revenues was observed with regard to sales of products representing *The Witcher* franchise.

In the GOG.COM segment gross profit in the reporting period reached 29 473 thousand PLN, which is 4 725 thousand PLN (13.8%) less than in the reference period. This reduction in profit is due to the following reasons:

- lower revenues from sales of products, coupled with a comparable cost of products and services sold (the latter dependent on depreciation schedules) – this concerns mainly *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales*;
- strengthening of the national currency observed during the reporting period, cutting into sales revenues (which GOG.COM obtains mainly in foreign currencies) and thereby reducing gross profit from sales;
- increased cost of goods and materials sold in relation to the corresponding sales revenues (the ratio increased from 71.1% in the reference period to 72.7% in the first half of 2021);
- VAT levied on the segment's activities in additional tax jurisdictions, reducing the segment's effective net profit (following deduction of VAT).

Altogether, in the first half of 2021 the CD PROJEKT Group posted a consolidated **Gross profit from sales** at 308 446 thousand PLN, which is 51 850 thousand PLN (20.2%) more than in the corresponding period in 2020. The largest contribution to the reported gross profit from sales came from highly profitable distribution of videogames – *Cyberpunk 2077* and *The Witcher 3: Wild Hunt*, together with its expansions.

The Group's Selling costs in the reporting period amounted to 131 183 thousand PLN, having increased by 59 036 thousand PLN (81.8%) compared to the first half of 2020 – mostly due to expenses incurred in the CD PROJEKT RED segment in association with maintenance and publishing support activities related to *Cyberpunk 2077*.

The CD PROJEKT RED segment reported aggregate selling costs of 101 647 thousand PLN, i.e. 52 215 thousand PLN (105.6%) more than during the reference period.

The largest contribution to selling costs in the CD PROJEKT RED segment came from maintenance of its existing products, at 51 493 thousand PLN. In addition to the relatively steady support and development costs of *GWENT: The Witcher Card Game*, the segment reported additional expenses related to *Cyberpunk 2077*, which had no counterpart in the reference period – this concerns mainly intensive work of the Studio's dev team on updating the game. Such maintenance activities were the main reason behind the reported increase in selling costs compared to H1 2020.

The second important category of selling costs comprises publishing support and the cost of promoting

CD PROJEKT RED's products, along with fixed and result-dependent remuneration of external publishing teams and result-dependent remuneration of management board members at the Group's member companies. In the presented period publishing support concerned mainly *Cyberpunk 2077*, and – to a lesser extent – *The Witcher 3: Wild Hunt*, as well as ongoing marketing related to *GWENT: The Witcher Card Game*.

In addition, the Group's selling costs include expenses reported in the GOG.COM segment related to operating the GOG.COM platform, including in particular:

- compensation of the team responsible for the platform's maintenance, development and promotional activities;
- transaction costs related to processing payments;
- costs of IT services involved in processing sales;
- costs of marketing activities which concern the GOG.COM platform and the GOG GALAXY application;
- depreciation, including of finished development projects.

The reported increase in GOG.COM selling costs – at 6 512 thousand PLN (27.3%) compared to the first half of 2020 is due to completion of development work on GOG GALAXY in the fourth quarter of 2020, triggering the onset of depreciation of the newly created asset, while expenses related to further expansion of the service are now directly assigned to costs.

The Group's **General and administrative expenses** in H1 2021 were reported at 54 187 thousand PLN – 28 327 thousand PLN (109.5%) more than in the reference period.

The bulk of the above figure comes from fixed and result-dependent remuneration of administrative teams, fixed remuneration of board members at the Group's member companies, as well as expenses related to the incentive program, along with other bought-in services which qualify for this category.

The reported increase in general and administrative expenses during H1 2021 was mainly due to the following:

- provisions for expenses arising under the incentive program as a result of estimation of entitlements assigned during the new 2020-2025 incentive program (17 879 thousand PLN in the first half of 2021 compared to 7 930 thousand PLN in the reference period);
- launch of new game development projects in the CD PROJEKT RED segment, where expenses incurred at the initial (exploratory) stage – prior to progressing to the production (development) stage and onset of capitalization – are recognized directly as current-period costs (11 224 thousand PLN vs. 135 thousand PLN in the reference period).

With regard to **Other operating revenues and expenses** in the reporting period these comprise mainly revenues from subletting office space (along with the associated maintenance costs) at CD PROJEKT's Warsaw campus (Jagiellońska 74 and 76).

In the first half of 2021 the Group's member companies obtained 18 886 thousand PLN in **Financial revenues**. The bulk of this figure came from settlement and estimation of derivative financial instruments securing exchange rate risks related to purchases, by CD PROJEKT S.A., of treasury bonds denominated in foreign currencies.

Financial expenses amounted to 25 635 thousand PLN in H1 2021. The reported figure, as well as the increase (by 438.0% compared to the reference period) is mostly due to a surplus of negative exchange rate differences over the corresponding positive differences. Such large increase in negative exchange rate differences in the CD PROJEKT RED segment is mainly related to estimation of treasury bonds denominated in foreign currencies, in correspondence with estimation of exchange rate hedges (which is aggregated with financial revenues), as well as to negative exchange rate differences arising from the Group's trade activities.

At the end of June 2021, the Group posted a surplus of financial expenses over financial revenues at 6 749 thousand PLN, compared to 4 765 thousand PLN in surplus revenues during the reference period.

The Group's consolidated **Gross profit** in the first half of 2021 was 115 865 thousand PLN, which is 44 984 thousand PLN (28.0%) less than during the reference period.

The Group's **Income tax** reported in its consolidated profit and loss account for the first six months of 2021 was 10 817 thousand PLN. This figure results from 53 930 thousand PLN in current income tax offset by a change of 43 113 thousand PLN in deferred tax.

The Group's consolidated **Net profit** for the first half of 2021 was 105 048 thousand PLN, which is 41 709 thousand PLN (28.4%) less than in the first half of 2020. The CD PROJEKT RED segment obtained 109 595 thousand PLN in net profit (22.4% decrease), while the GOG.COM segment posted a net loss of 4 459 thousand PLN.

Table 4 Net profit margin – alternative approach to measuring earnings

	01.01.2021 – 30.06.2021	01.01.2020 – 30.06.2020	01.01.2021 – 30.06.2021	01.01.2020 – 30.06.2020	01.01.2021 – 30.06.2021	01.01.2020 – 30.06.2020
	CD PROJEKT GROUP		CD PROJEKT RED segment		GOG.COM segment	
Net profit margin	22.3%	40.3%	29.5%	54.2%	-4.2%	5.1%

The net profit margin provides additional information regarding the part of sales revenues which remains in possession of the enterprise (as net profit) following deduction of all applicable costs and tax burdens reported in the profit and loss account. An increase in this ratio indicates greater efficiency of business activities relative to sales revenues. The net profit margin is a standard and commonly used indicator in financial analyses. Its usefulness has been assessed in the context of information supplied to investors with regard to the operating efficiency of the CD PROJEKT Group and its individual activity segments.

In the first half of 2021 the Group's net profit margin was 22.3%. Its observed decrease in the CD PROJEKT RED segment (29.5% compared to 54.2% in the first half of 2020) is mainly due to the previously mentioned circumstances:

- expenditures related to servicing *Cyberpunk 2077*;
- commencement of depreciation of earlier development expenditures associated with *Cyberpunk 2077* (beginning in December 2020);
- recognition of current-period costs related to new development projects in their exploratory phase.

In the GOG.COM segment, the negative net profitability coefficient (-4.2% compared to 5.1% in the first half of 2020) is due to the previously described deterioration in the segment's gross sales profit, along with additional current costs related to the newly launched GOG GALAXY platform.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

Table 5 Selected data from the consolidated statement of financial position (PLN thousands)

	30.06.2021	31.12.2020*
FIXED ASSETS	945 128	759 999
Tangible assets	114 121	105 349
Intangibles	59 475	59 790
Expenditures on development projects	379 387	406 798
Investment properties	49 312	48 841
Goodwill	56 438	56 438
Shares in subsidiaries excluded from consolidation	8 273	8 195
Prepaid expenses	11 611	11 676
Other financial assets	211 961	51 588
Deferred income tax assets	54 220	11 003
Other receivables	330	321
WORKING ASSETS	1 202 302	2 130 300
Inventories	16 903	6 957
Trade receivables	131 158	1 205 603
Other receivables	116 882	70 210
Prepaid expenses	11 382	13 383
Other financial assets	206 804	106 444
Cash and cash equivalents	669 100	563 335
Bank deposits (maturity beyond 3 months)	50 073	164 368
TOTAL ASSETS	2 147 430	2 890 299

*adjusted

	30.06.2021	31.12.2020*
EQUITY	1 806 363	2 183 177
Equity attributable to shareholders of the parent entity	1 806 363	2 183 177
Share capital	100 739	100 655
Supplementary capital	1 425 647	774 851
Supplementary capital from sale of shares above nominal value	115 909	113 844
Other reserve capital	64 335	45 547
Exchange rate differences	1 117	1 091
Retained earnings	-6 432	-2 959
Net profit (loss) for the reporting period	105 048	1 150 148
Minority interest equity	-	-
LONG-TERM LIABILITIES	21 228	166 153
Other financial liabilities	15 332	16 006
Other long-term liabilities	2 980	3 173
Deferred revenues	2 518	963
Provisions for employee benefits and similar liabilities	398	398
Other provisions	-	145 613
SHORT-TERM LIABILITIES	319 839	540 969
Other financial liabilities	6 905	2 933
Trade liabilities	48 328	115 444
Current income tax liabilities	54 439	1 742
Other liabilities	10 197	33 134
Deferred revenues	39 073	47 758
Provisions for employee benefits and similar liabilities	4	4
Other provisions	160 893	339 954
TOTAL LIABILITIES	2 147 430	2 890 299

*adjusted

CLARIFICATIONS REGARDING THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE CD PROJEKT GROUP

Assets

As of 30 June 2021 the Group held 945 128 thousand PLN in **Fixed assets**, which is 185 129 thousand PLN more than on 31 December 2020 (24.4% increase).

Property, plant and equipment, with a reported value of 114 121 thousand PLN (8.3% increase) comprises mostly the following:

- value of the property complex at Jagiellońska 74, purchased in October 2019, corresponding to parts of the complex which are used by CD PROJEKT S.A. for its own purposes;
- machinery and equipment, which comprises, among others, servers and other electronic devices used in the Group's activities;
- assets representing the usufruct of leased office space (with the corresponding recognition of liabilities arising from office space lease agreements, represented as Other financial liabilities).

Regarding **Intangible assets**, jointly valued at 59 475 thousand PLN at the end of H1 2021, the largest contribution to the reported figure comes from the CD PROJEKT brand name and *The Witcher* trademark, with a combined value of 33 199 thousand PLN, along with other intellectual property rights held by the Group (18 220 thousand PLN) and computer software (7 718 thousand PLN). The total value of the Group's Intangible assets did not change significantly during the reporting period.

Expenditures on development projects, which cover work on new products and technologies at the Group's member companies, had a reported value of 379 387 thousand PLN at the end of the first half of 2021, having decreased by 27 411 thousand PLN since 31 December 2020 (6.7% decrease). The Group incurred 19 984 thousand PLN in expenditures on future projects which were in their development phase during the reporting period, while depreciation of finished projects – mainly *Cyberpunk 2077*, released in December 2020 – consumed 47 395 thousand PLN.

The next important contribution to the CD PROJEKT Group's Fixed assets in the reporting period came from **Goodwill** (56 438 thousand PLN). Goodwill is defined as 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, along with settlement of the purchase of the Wrocław-based development studio from Strange New Things sp. z o.o. sp. k., which occurred on 18 May 2018 (10 021 thousand PLN). The reported goodwill did not change during the reporting period.

Investment properties, valued at 49 312 thousand PLN, comprise parts of the commercial properties at Jagiellońska 74 and 76 which are subjected to subleasing (with respect to affiliates as well as external entities). The reported increase – by 471 thousand PLN – results from the surplus of renovation expenditures over depreciation.

Shares in subsidiaries excluded from consolidations had a 30 June 2021 value of 8 273 thousand PLN. This figure corresponds to the share capital of Spokko sp. z o.o. as well as – to a lesser degree – capital contributions to CD PROJEKT Co. Ltd. with a registered office in Shanghai.

Other financial assets were jointly valued at 211 961 thousand PLN. This line item mainly represents the value of domestic treasury bonds with maturity periods exceeding 12 months, purchased in the framework of diversifying credit risks. Such bonds are estimated at amortized cost.

At the end of June 2021 the CD PROJEKT Group held 1 202 302 thousand PLN in **Working assets**. The balance of working assets decreased by 927 998 thousand PLN (43.6%) compared to the end of 2020.

The value of the Group's **Inventories** was reported at 16 903 thousand PLN, having increased by 9 946 thousand PLN (143.0%) since the end of 2020. The reported figure represents mainly box sets and components of box sets of the Studio's own videogames supplied to external distributors – mainly of *Cyberpunk 2077* – as well as inventories held by the CD PROJEKT RED GEAR merch store which markets tie-in products associated with the Group's releases to customers based in Europe and North America.

Consolidated **Trade receivables** had a value of 131 158 thousand PLN at the end of June 2021. The reported decrease – by 1 074 445 thousand PLN (89.1%) – during the reporting period is primarily due to collection of licensing royalties in the CD PROJEKT RED segment; mainly related to distribution of *Cyberpunk 2077* in its release quarter.

The Group's **Other receivables** were reported at 116 882 thousand PLN, having increased by 46 672 thousand PLN since the end of 2020. This figure primarily comprises withholding tax deducted at source by CD PROJEKT RED's foreign licensees and reportable in the Company's annual tax declaration, including tax levied on sales of *Cyberpunk 2077* in its release window. This line item also aggregates VAT settlements and prepayments for products and services, remitted by the Group's member companies.

Short-term and long-term **Deferrals** (13 382 thousand PLN and 11 611 thousand PLN respectively) were mainly affected by the so-called minimum guarantees (not included in the profit and loss account as of the balance sheet date), i.e. prepayments remitted by GOG.COM to its suppliers in relation to future licensing royalties associated with distribution of games on the GOG.COM platform (12 179 thousand PLN). Deferrals also include prepayments related to marketing activities, as well as license fees which are settled by CD PROJEKT RED over time. Throughout the first half of 2021 the total value of deferrals decreased by 2 066 thousand PLN (8.2%).

Other financial assets had a reported value of 206 804 thousand PLN. The bulk of this figure corresponds to foreign treasury bonds estimated at fair value through other comprehensive income, purchased by the Company as a means of diversifying credit risk.

The aggregate value of **Cash and cash equivalents** and **Bank deposits (maturity beyond 3 months)** was 719 173 thousand PLN, having decreased by 8 530 thousand PLN since the end of 2020 (1.2% decrease). Factoring in other liquid assets, i.e. treasury bonds, on 30 June 2021 the Group held 1 129 406 thousand PLN in financial reserves – 254 718 thousand PLN more than at the end of 2020.

As of 30 June 2021, the Group's total assets had value of 2 147 430 thousand PLN. 44.0% of this figure corresponded to fixed assets (compared to 26.3% at the end of 2020), with the remaining 56.0% representing working assets (73.7% at the end of 2020).

Equity and liabilities

As of 30 June 2021, the CD PROJEKT Group's **Equity** had a value of 1 806 363 thousand PLN – 376 814 thousand PLN less than at the end of 2020 (17.3% decrease). The main reason for this change is the dividend paid out to CD PROJEKT S.A. shareholders during the reporting period, at 503 694 thousand PLN.

The Group's **Long-term liabilities** had a value of 21 228 thousand PLN at the end of June 2021, which represents a decrease by 144 925 thousand PLN (87.2%) compared to the end of 2020.

The main reason for the reported decrease was reassignment (in the CD PROJEKT RED segment) of long-term provisions to short-term provisions related to distribution of *Cyberpunk 2077* in its release window (in 2020), which took place during the current year. These provisions cover the expected adjustments to licensing reports in the release window, and are aggregated with **Other provisions**.

Other financial liabilities comprise liabilities reported by the Group's member companies in association with perpetual usufruct of land comprising the properties at Jagiellońska 74 and 76 in Warsaw (pursuant to IFRS 16).

The aggregate value of **Short-term liabilities** was 319 839 thousand PLN at the end of June 2021, and decreased by 221 130 thousand PLN throughout the reporting period (40.9% decrease).

The Group's **Trade liabilities** had a value of 48 328 thousand PLN as of 30 June 2021, having decreased by 67 116 thousand PLN (58.1%) compared to the end of 2020. An important part of these liabilities are licensing royalties owed by GOG.COM – royalties arising in the second quarter in 2021 but payable in future reporting periods. The reported decrease in this line item is, however, mainly due to current trade liabilities in the CD PROJEKT RED segment, which decreased following the release of *Cyberpunk 2077*.

Other liabilities, at 10 197 thousand PLN, decreased by 22 937 thousand PLN compared to the end of 2020. The aggregate figure is mainly comprised of current tax liabilities (VAT, PIT, withholding tax) and social security liabilities.

The Group's **Deferred revenues** (both short- and long-term) were reported at 41 591 thousand PLN and decreased by 7 130 thousand PLN since the end of 2020. This line item comprises primarily the following:

- CD PROJEKT RED – so-called minimum guarantees, i.e. prepayments paid or payable by foreign publishers and distributors in relation to licensing royalties for games scheduled for release in future reporting periods;
- CD PROJEKT RED and GOG.COM – deferred revenues related to subsidies;
- GOG.COM – deferred revenues corresponding to transactions with customers (including Store Credit and Wallet contributions);
- GOG.COM – preorders of games scheduled for release in future reporting periods.

At the end of June 2021, the Group reported 23 194 thousand PLN in deferred revenues from future period sales, and 14 831 thousand PLN in deferred revenues from subsidies.

Other short-term provisions had a reported value of 160 893 thousand PLN and decreased by 179 061 thousand PLN (52.7%) compared to the end of 2020.

As of the end of the reporting period, the figure comprises mainly provisions related to future settlement

of key contracts covering physical distribution of *Cyberpunk 2077*, estimated by the Company on the basis of information regarding the game's current sell-through to final customers, number of copies available in distribution channels and warehouses, projections provided by distributors and the Company's own professional judgment concerning the expected volume of sales throughout the remainder of 2021. Altogether, as of 30 June 2021, unused provisions for adjustments related to settlement of key contracts covering physical distribution of the game amounted to 85 985 thousand PLN (having decreased by 108 552 thousand PLN), all of which was aggregated with short-term provisions. Additionally, on 30 June 2021 the Group also held 52 016 thousand PLN in provisions for other expenses (increase by 17 929 thousand PLN) – chiefly related to cooperation between the Company and its distribution partners.

The Group's short-term provisions also include provisions for compensation dependent on the Group's financial result, along with other compensation (22 268 thousand PLN) – the balance of these provisions decreased by 233 862 thousand PLN in the reporting period following the remittance of bonuses for 2020.

The Group's aggregate balance of Other provisions (both short- and long-term) decreased by 324 674 thousand PLN in the first half of 2021, due to the following:

- 345 195 thousand PLN – reduction caused by consumption of provisions created at the end of 2020 and consumed during the reporting period;
- 20 518 thousand PLN – balance of increases caused by creation of new provisions and reductions caused by dissolution of existing provisions for returns and expenses (including reassignment).

As of 30 June 2021, equity accounted for 84.1% of the aggregate equity and liabilities of the CD PROJEKT Group, with the remaining 15.9% corresponding to short- and long-term liabilities.

The Group's segmented consolidated financial statement of financial position is part of the Condensed Interim Consolidated Financial Statement of the CD PROJEKT Group for the period between 1 January and 30 June 2021.

STRUCTURING OF CONSOLIDATED ASSETS AND LIABILITIES WITH REGARD TO LIQUIDITY

Solid earnings posted in past years and particularly in 2020 (which was a record-breaking year for the CD PROJEKT Group) have enabled the Group to amass assets with a total balance sheet value of 2 147 430 thousand PLN. The Group's equity, valued at 1 806 363 thousand PLN on 30 June 2021, corresponds to 84.1% of this figure.

Despite paying out a dividend to CD PROJEKT S.A. shareholders during the reporting period (at 503 694 thousand PLN), at the end of June 2021 the Group held 1 129 406 thousand PLN in financial reserves, in the form of bank deposits and treasury bonds (both domestic and foreign). The Group also had no outstanding debt under any credit or loan agreement.

Regarding the Group's assets, **Working assets** comprise 56.0% of the aggregate figure and are mainly composed of **Cash and cash equivalents, Bank deposits (maturity beyond 3 months), Other financial assets and Trade receivables**. Altogether, these four items represent 49.2% of the Group's total assets.

The available cash, bank deposits and treasury bonds ensure high liquidity for the Group and may secure its further growth which includes future videogame development projects, work on new technologies, promotional

support for planned releases and facilitating future investments. They also provide a financial cushion which allows the Group to react to unforeseen events or exploit emerging opportunities.

Regarding **Fixed assets** (44.0% of all assets) the largest contribution comes from **Expenditures on development** projects (379 387 thousand PLN, i.e. 17.7% of all assets), mostly related to *Cyberpunk 2077*, which was completed and released to in late 2020, along with yet-to-be-depreciated development expenditures for earlier games which continue to generate revenues, i.e. *GWENT: The Witcher Card Game* and *Thronebreaker: The Witcher Tales* (released in 2018), *The Witcher 3: Wild Hunt* for Nintendo Switch (released in 2019), as well as the Group's other ongoing development projects.

The Group also invests in infrastructure which enables it to carry out and expand its activities. **Property, plant and equipment, Intangibles** and **Investment properties**, jointly valued at 222 908 thousand PLN, represent 10.4% of the Group's consolidated assets.

The **Goodwill** resulting from business combinations and mergers, along with **Shares in affiliates excluded from consolidation**, at 64 711 thousand PLN, represented 3.0% of the CD PROJEKT Group's consolidated assets.

Other current investments include minimum guarantees paid in the GOG.COM segment to suppliers of distribution licenses for products sold via the platform. These guarantees correspond to 12 179 thousand PLN in long- and short-term **Deferrals**.

The four asset categories listed above, with an aggregate balance sheet value of 679 185 thousand PLN, corresponded to 31.6% of the Group's total assets and therefore represent the main direction of investments pursued by the Group, fully covered by its accumulated equity.

SELECTED DATA FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT GROUP

Table 6 Selected data from the consolidated statement of cash flows (PLN thousands)

	01.01.2021- -30.06.2021	01.01.2020- -30.06.2020
OPERATING ACTIVITIES		
Net profit / (loss)	105 048	146 757
Total adjustments:	765 828	134 315
Depreciation of fixed assets, intangibles, expenditures on development projects and investment properties	8 889	4 032
Depreciation of expenditures on development projects recognized as cost of products and services sold	46 507	14 165
Profit (loss) from exchange rate differences	-2 015	1 131
Interest and profit sharing (dividends)	350	-4 049
Profit (loss) from investment activities	4 651	-3 699
Change in provisions	-236 364	-6 412
Change in inventories	-9 946	-3 301
Change in receivables	1 029 641	75 304
Change in liabilities excluding credits and loans	-89 563	1 597
Change in other assets and liabilities	-5 179	46 714
Other adjustments	18 857	8 833
Cash flows from operating activities	870 876	281 072
Income tax on pre-tax profit (loss)	10 815	14 092
Withholding tax paid abroad	3	-
Income tax (paid)/reimbursed	-1 231	-9 288
Net cash flows from operating activities	880 463	285 876
INVESTMENT ACTIVITIES		
Inflows	239 333	419 683
Disposal of intangibles and fixed assets	7	16
Closing of bank deposits (maturity beyond 3 months)	164 368	415 380

Purchase of bonds and the associated purchasing costs	66 628	-
Interest on bonds	281	33
Inflows from forward contracts	7 962	-
Other inflows from investment activities	87	4 254
Outflows	510 441	588 651
Purchases of intangibles and fixed assets	18 119	12 292
Expenditures on development projects	109 027	114 274
Purchase of investment properties	1 405	4 093
Loans granted	3 740	2 000
Purchase of bonds and the associated purchasing costs	328 077	158 953
Opening bank deposits (maturity beyond 3 months)	50 073	297 031
Other outflows from investment activities	-	8
Net cash flows from investment activities	-271 108	-168 968

FINANCIAL ACTIVITIES

Inflows	2 169	-
Net inflows from sale of own shares and issue of stock in the exercise of options granted under the incentive program	2 149	-
Collection of receivables arising from financial lease agreements	20	-
Outflows	505 759	1 674
Dividends and other payments due to equity holders	503 694	-
Payment of liabilities arising from lease agreements	1 724	1 469
Interest payments	341	205
Net cash flows from financial activities	-503 590	-1 674
Total net cash flows	105 765	115 234
Change in cash and cash equivalents on balance sheet	105 765	115 234
Cash and cash equivalents at beginning of period	563 335	49 406
Cash and cash equivalents at end of period	669 100	164 640

CLARIFICATIONS REGARDING THE CONSOLIDATED STATEMENT OF CASH FLOWS OF THE CD PROJEKT GROUP

In the scope of its **Operating activities** in the first half of 2021 the CD PROJEKT Group reported 880 463 thousand PLN in positive net cash flows, i.e. 594 587 thousand PLN more than in the reference period (208.0% increase).

The Group's net profit, at 105 048 thousand PLN, which represents the base for operating cash flows, was subsequently adjusted by the following:

- I. Non-cash items (total: -159 475 thousand PLN):
 - **Depreciation of expenditures on development projects recognized as selling costs** (+46 507 thousand PLN) – mainly depreciation of development expenditures related to *Cyberpunk 2077* (released in Q4 2020), *The Witcher 3: Wild Hunt – Complete Edition* for Nintendo Switch (released in Q4 2019) and *GWENT: The Witcher Card Game* along with *Thronebreaker: The Witcher Tales* (released in Q4 2018);
 - **Changes in provisions** (-236 364 thousand PLN), resulting from remittance of remuneration dependent on the Group's financial result in 2020, along with changes in provisions related to the launch of *Cyberpunk 2077* in late 2020;
 - **Depreciation** (+8 889 thousand PLN);
 - **Other adjustments** (+18 857 thousand PLN) – mainly settlement of costs related to the incentive program;
 - **Profit (loss) from exchange rate differences** (-2 015 thousand PLN) related to estimation of treasury bonds;
 - **Profit (loss) from investment activities** (+4 651 thousand PLN) – estimation of exchange rate hedges securing purchases of foreign treasury bonds.

- II. Items related to changes in working assets and short-term liabilities (total: +924 953 thousand PLN):
 - **Changes in receivables** (+1 029 641 thousand PLN), primarily corresponding to decreases in the balance of trade receivables since the end of December 2020, related to the high volume of sales realized near the end of 2020 (mostly collection of licensing royalties associated with the release of *Cyberpunk 2077*, occurring throughout the first half of 2021);
 - **Changes in other assets and liabilities** (-15 179 thousand PLN) mainly related to settlement of a portion of retained earnings;
 - **Changes in liabilities except credits and loans** (-89 563 thousand PLN), primarily affected by the reported adjustments for current income tax and decreases in trade liabilities;
 - **Changes in inventories** (-9 946 thousand PLN), mainly due to an increase in inventories.

- III. Item recognized elsewhere in the cash flow statement – Interest and profit sharing (+350 thousand PLN);

- IV. Difference between income tax due as reported in the profit and loss account for the first half of 2021 and income tax actually paid in the reporting period (+9 587 thousand PLN).

Throughout the first half of 2021 the Group generated 271 108 thousand PLN in negative net cash flows from **Investment activities**, compared to 168 968 thousand PLN in negative cash flows in the reference period.

Key investment-related expenses which correspond to outflows from investment activities (at 132 291 thousand PLN) include:

- **Expenditures on development projects** (109 027 thousand PLN) corresponding mainly to projects underway at CD PROJEKT RED;
- **Purchases of intangibles and PP&E** (18 119 thousand PLN) and **Purchases of investment properties and activation of future costs** (1 045 thousand PLN);
- **Loans granted** to the Spokko sp. z o.o. subsidiary (3 740 thousand PLN) to facilitate development work on *The Witcher: Monster Slayer*.

In the scope of operations involving financial instruments, the Group generated negative cash flows from the expansion of its treasury bond portfolio (by 261 449 thousand PLN) as well as positive cash flows associated with reduction in the aggregate value of bank deposits (by 114 295 thousand PLN), both of which are presented in the Investment activities category.

In addition, positive cash flows (in the Investment activities category) resulted from **Inflows from settlement of forward contracts** (exchange rate hedges), with an aggregate value of 7 962 thousand PLN.

In the first half of 2021 the Group generated 503 590 thousand PLN in negative cash flows from **Financial activities** (compared to 1 674 thousand PLN in negative cash flows during the reference period). This change is mainly attributable to a dividend paid out to shareholders of CD PROJEKT S.A. (at 503 694 thousand PLN).

Altogether, in the first half of 2021 the CD PROJEKT Group obtained 105 765 thousand PLN in positive **Net cash flows**, compared to 115 234 thousand PLN in negative net cash flows during the reference period.

Throughout the reporting period the balance of the Group's financial reserves, which consist of cash, bank deposits and other financial assets (mainly treasury bonds), increased by 254 718 thousand PLN, to 1 129 406 thousand PLN. During this period the Group also paid out a dividend at 503 694 thousand PLN, incurred investment expenditures related to development of new videogames and technologies, and engaged in intensive maintenance work on *Cyberpunk 2077*.

DISCLOSURE OF CREDITS AND LOANS IN THE FIRST HALF OF 2021

Throughout the reporting period the CD PROJEKT Group had no outstanding debt under any external credit or loan agreement.

DISCLOSURE OF CREDITS AND LOANS GRANTED IN THE FIRST HALF OF 2021

During the reporting period no member company of the CD PROJEKT Group granted any credits or loans to external entities. CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. have access to financing under a loan agreement concluded with CD PROJEKT S.A.

DISCLOSURE OF GUARANTEES AND SURETIES GRANTED IN THE FIRST HALF OF 2021, AND OTHER OFF-BALANCE SHEET ITEMS

Information regarding guarantees, sureties and other off-balance sheet items can be found in the Condensed Interim Consolidated Financial Statement of the CD PROJEKT Group for the period between 1 January and 30 June 2021.

DISCLOSURE OF TRANSACTIONS WITH AFFILIATES

During the reporting period the CD PROJEKT Group engaged mainly in the following types of transactions between 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;
- subleasing 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. in the scope of coordinating promotional and publishing activities in China;
- loans granted to CD PROJEKT Inc., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o.o. by CD PROJEKT S.A.;
- collaboration on maintaining the online merch store, licensing and developing merchandise – between CD PROJEKT S.A. (videogame developer and IP holder) and CD PROJEKT RED STORE sp. z o.o. and CD PROJEKT Inc. (operators of merch stores in their respective territories);
- 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 Group. A detailed description of procedures which govern transactions between affiliates is included in the Consolidated Financial Statement of the CD PROJEKT Group for 2020.

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 SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL RESULTS REPORTED IN THE SEMIANNUAL FINANCIAL STATEMENT AND EARLIER PROJECTIONS COVERING THE GIVEN YEAR

The CD PROJEKT Group never published any financial projections related to 2021. 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

In March 2021, in order to facilitate exercise of entitlements assigned under the incentive program in force at the Group between 2016 and 2019, the Company issued new shares to holders of Series B subscription warrants, obtaining 2 149 thousand PLN in revenues in association therewith.

Revenues generated by the issue of stock under the aforementioned incentive program partly covered expenses incurred by the Company in the process of buying back its own stock in order to facilitate implementation of the incentive program.



04

CORPORATE GOVERNANCE

Entity contracted to audit financial statements

On 14 May 2020 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 Group for 2020 and 2021. Grant Thornton Polska sp. z o.o. sp. k. has also been contracted to audit the financial statement of GOG sp. z o.o., CD PROJEKT RED STORE sp. z o.o. and Spokko sp. z o. o.

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

The Company's share capital amounts to 100 738 800 PLN, divided into 100 738 800 shares with a nominal value of 1 PLN per share. The shareholding 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 7 Shareholders controlling at least 5% of the vote at the General Meeting as of the publication date of this report

	Number of shares	% of share capital	Number of votes at the GM	% of total number of votes at the GM
Marcin Iwiński	12 873 520	12.78%	12 873 520	12.78%
Michał Kiciński*	10 433 719	10.36%	10 433 719	10.36%
Piotr Nielubowicz	6 858 717	6.81%	6 858 717	6.81%
Pozostały akcjonariat	70 572 844	70.06%	70 572 844	70.06%

*As disclosed in Current Report no. 33/2021 of 26 May 2021.

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

INCENTIVE PROGRAM COVERING THE YEARS 2016–2019

On 24 May 2016 the General Meeting adopted resolution no. 20⁸, which provides a detailed description of the goals of the incentive program covering the 2016-2021 period. The maximum number of entitlements assignable under the program was 6 million, of which 5 535 500 was ultimately assigned. Following positive verification of the attainment of the program's goals in the 2016-2019 period, 5 167 500 entitlements became exercisable through purchase of own shares or assignment of subscription warrants issued by the Company. Rights arising under the program have been exercised nearly in full immediately upon being presented to entitled parties.

As of the publication date of this report, there remain 32 000 unexercised Series B subscription warrants (entitling holders to take up the equivalent number of shares). These warrants will expire on 31 October 2022.

INCENTIVE PROGRAM COVERING THE YEARS 2020–2025

Pursuant to General Meeting adopted on 28 July 2020 and 22 September 2020, a third edition of the Company incentive program, covering the years 2020-2025, was formally instituted. In line with the adopted stipulations, a total of 4 000 000 entitlements may be granted under the program. The program may also vest by issuing and assigning to entitled parties a certain quantity of subscription warrants which incorporate the right to acquire parent Company shares issued in the framework of a conditional increase in the Company share capital, or, alternatively, by extending an offer to entitled parties to purchase Company shares which will have previously been bought back by the Company on the open market. Acquisition and exercise of subscription warrants or the purchase of the parent Company's own shares by the entitled parties, as appropriate, is predicated upon attaining certain goals and criteria defined under the program. These include earnings goals (80% of entitlements), market goals (20% of entitlements), individual goals (in selected cases) as well as – in all circumstances – fulfillment of a loyalty criterion up until the day the attainment of the program's goals and criteria is declared.

Result goal - 80% of entitlements

Base variant, entitling participants to exercise their entitlements at the base price:

Achieving consolidated net earnings from continuing activity for the Group as a whole, increased by costs related to estimation of the granted entitlements as entered in the Group's accounts for each verification period, of at least:

⁸ Full text available in Current Report no. 18/2016

- a) for the financial years 2020-2023 – 6 billion PLN and at least 59.02 PLN per Company share outstanding on the final date of the corresponding verification period, or
- b) for the financial years 2020-2024 – 7 billion PLN and at least 68.86 PLN per Company share outstanding on the final date of the corresponding verification period, or
- c) for the financial years 2020-2025 – 8.3 billion PLN and at least 81.65 PLN per Company share outstanding on the final date of the corresponding verification period.

Alternative variant whereby any of the above stated goals are achieved one year in advance, entitling participants to exercise their entitlements at a discount:

Achieving consolidated net earnings from continuing activity for the Group as a whole, increased by costs related to estimation of the granted entitlements as entered in the Group's accounts for each verification period, of at least:

- a) for the financial years 2020-2022 – 6 billion PLN, or
- b) for the financial years 2020-2023 – 7 billion PLN, or
- c) for the financial years 2020-2024 – 8.3 billion PLN, or
- d) for the financial years 2020-2025 – 10 billion PLN and at least 98.37 PLN per Company share outstanding on the final date of the corresponding verification period.

Market goal – 20% of entitlements

Entitlements exercised at base price:

A goal predicated upon the change in the price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange in such a way that the percentage difference between the closing price of CD PROJEKT S.A. stock on the verification date and the corresponding closing price on 22 September 2020 is more than 100% greater than the corresponding change in the value of the WIG index over the same period.

With regard to entitlements assigned thus far, the base exercise price is 390.59 PLN, while the discounted price is 317.06 PLN.

As of the publication date of this report there are 2 392 000 entitlements outstanding under the 2020-2025 incentive program.

Information regarding the control system of employee share programs

An incentive program under which Company shares may be awarded, covering the activities of the Company and its Group in the 2020-2025 period, was approved by the General Meetings of Shareholders on 28 July 2020 and 22 September 2020. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the Management Board on 30 October 2020.

Implementation of the aforementioned program is directly supervised by the Supervisory Board and Management Board of CD PROJEKT S.A.

Disclosure of the purchase of own shares

No purchases of own shares took place during the reporting period.

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

Table 8 Shares held by members of the Management Board and Supervisory Board of the Company

Name	Position	as of 1.09.2021	as of 30.06.2021	as of 31.12.2020
Adam Kiciński	President of the Board	4 046 001	4 046 001	4 046 001
Marcin Iwiński	Vice President of the Board	12 873 520	12 873 520	12 873 520
Piotr Nielubowicz	Vice President of the Board	6 858 717	6 858 717	6 858 717
Adam Badowski	Board Member	692 640	692 640	692 640
Michał Nowakowski	Board Member	580 290	580 290	580 290
Piotr Karwowski	Board Member	108 728	108 728	108 728
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10	10	10
Maciej Nielubowicz	Supervisory Board Member	51	51	51

Persons discharging managerial and executive responsibilities at CD PROJEKT S.A. do not directly hold any shares of entities affiliated with CD PROJEKT S.A.

Management structure

Pursuant to domestic regulations expressed in the Commercial Companies Code, in addition to the General Meeting of Shareholders, the Company's official bodies include the Management Board and the Supervisory Board.

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



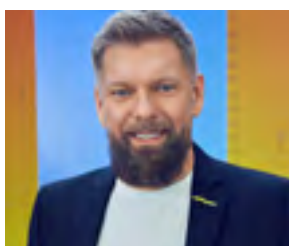
Adam Kiciński – President of the Board

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 – 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. Co-develops and coordinates global publishing plans. Coordinates and participates in shaping relations with the gaming community.



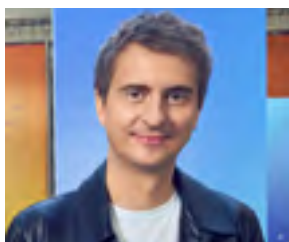
Piotr Nielubowicz – Vice President and CFO

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. Co-develops the conceptual framework and artistic vision of projects carried out at CD PROJEKT RED.



Michał Nowakowski – Board Member

Co-develops and coordinates the Company's global publishing activities. Oversees formulation and implementation of the Company's sales policies.

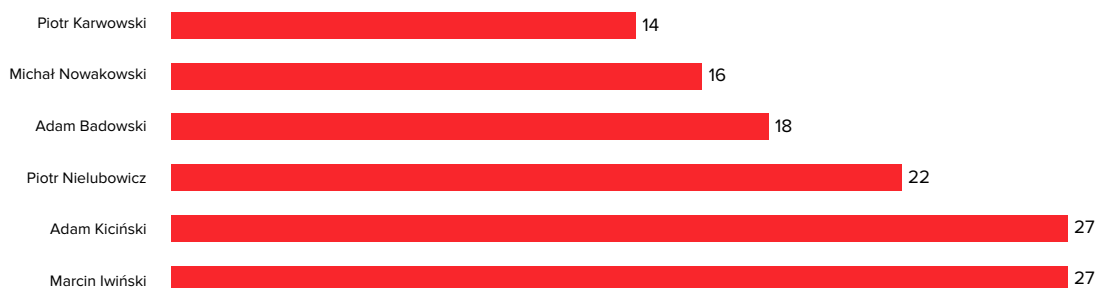


Piotr Karwowski – Board Member

Oversees the Group's activities in relation to online gaming and services. Also supervises the activities and development of the GOG.COM segment, and of *GWENT*.

Management Board members represent the Company and its Management Board. Management Board members cooperate with one another, 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.

Chart 6 Tenure of incumbent members of the Management Board of the Company and other member companies of the CD PROJEKT Group (in years)



Changes in the composition of the Management Board of CD PROJEKT S.A.

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

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

Katarzyna Szwarz	Chairwoman of the Supervisory Board; Audit Committee Member
Piotr Pałowski	Deputy Chairman of the Supervisory Board; Audit Committee Member meeting independence criteria
Maciej Nielubowicz	Secretary of the Supervisory Board; Audit Committee Member
Michał Bień	Supervisory Board Member; Chairman of the Audit Committee
Łukasz Wejchert	Supervisory Board Member; Audit Committee Member meeting independence criteria

Changes in the composition of the Supervisory Board CD PROJEKT S.A.

On 17 May 2021 Mr. Krzysztof Kilian tendered his resignation from the Supervisory Board of the Company, effective on the day of the General Meeting convened on 25 May 2021.

On 25 May 2021 the Ordinary General Meeting appointed Mr. Łukasz Wejchert to the Supervisory Board.

In addition, all other incumbent members of the Supervisory Board, i.e.:

- Ms. Katarzyna Szwarc
- Mr. Michał Bień
- Mr. Piotr Pągowski
- Mr. Maciej Nielubowicz

were reappointed by the General Meeting to a new term of office.

DISCLOSURE OF RETIREMENT BENEFITS AND SIMILAR COMPENSATION PAYABLE TO FORMER MEMBERS OF THE ISSUER'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 30 June 2021 the Company had no such liabilities.

AGREEMENTS BETWEEN THE ISSUER AND MEMBERS OF ITS MANAGING AND SUPERVISORY BODIES CONCERNING COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL

As of 30 June 2021 and as of the preparation date of this report all members of the Company's managing bodies discharged their duties on the basis of appointment resolutions adopted by the Supervisory Board, and there were no provisions in force regulating compensation in the event of their resignation or dismissal.

CHANGES IN BASIC MANAGEMENT PRACTICES AT THE COMPANY AND ITS GROUP

No significant changes in basic management policies affecting the Company and its Group occurred in the first half of 2021.

Corporate governance policies

CD PROJEKT S.A. follows the corporate governance policies listed in the “Best Practice for WSE Listed Companies 2021” document, published as an attachment to Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange on 29 March 2021. Details concerning the implementation of specific corporate governance policies at CD PROJEKT S.A. in 2021 can be found on the Company website at <https://www.cdprojekt.com/en/investors/corporate-governance/>.

Disclosure of significant legal proceeding

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 2018 the Appellate Court overruled the judgment of the court of first instance by dismissing the Company's lawsuit in its entirety.

The Company subsequently filed a cassation appeal against the portion of the judgment which reverses the earlier judgment of the District Court in Kraków by dismissing the lawsuit, as well as the portion in which the judgment dismisses the Company's appeal concerning the costs of legal proceedings.

CRIMINAL PROCEEDINGS IN WHICH CD PROJEKT S.A. IS RECOGNIZED AS THE VICTIM

Case against natural persons (including former members of the Management Board of Optimus S.A.) charged with acting against the Company's interests

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 L., Mr. Piotr L. and Mr. Michał D. 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.

LITIGATION IN WHICH CD PROJEKT S.A. IS NAMED AS A DEFENDANT

Class action lawsuit filed against CD PROJEKT S.A. concerning US securities

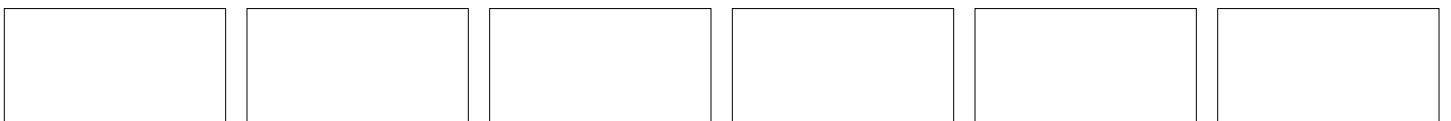
On 25 December 2020 and subsequently on 15 January 2021 the Management Board of the Company received information concerning the filing of civil class action lawsuits in the US District Court for the Central District of California, by law firms acting on behalf of groups of holders of securities traded in the USA under the ticker symbols "OTGLY" and "OTGLF" and based on Company shares, whereby the plaintiffs call for the court to adjudicate whether the actions undertaken by the Company and members of its Management Board in connection with the release of *Cyberpunk 2077* constituted a violation of federal laws, i.a. by misleading investors and, consequently, causing them to incur damages. The complaints do not specify the quantity of damages sought.

On 18 May 2021 the Company was notified that the court had consolidated the aforementioned lawsuit and named a lead plaintiff. Following consolidation, all four lawsuits will be merged into a single case.

On 29 June 2021 the Company announced that it had received a transcript of a lawsuit filed against the Company and members of its Management Board by a law firm representing the lead plaintiff and other eligible holders of US securities traded under the ticker symbols "OTGLY" and "OTGLF". The lawsuit is not materially different from earlier lawsuits filed in this matter, and likewise, does not specify the amount of damages sought.

On 12 August 2021 the Company filed a responsive pleading, asking that the complaint be dismissed by the court. In accordance with US court rules, the Company now awaits a reply from the plaintiff.

The Company will undertake vigorous action to defend itself against any such claims.



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President of the Board

Marcin Iwiński
Vice President of the Board

Piotr Nielubowicz
Vice President of the Board

Adam Badowski
Board Member

Michał Nowakowski
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