



MANAGEMENT BOARD REPORT ON  
**CD PROJEKT CAPITAL GROUP ACTIVITIES**  
BETWEEN 1 JANUARY AND 30 JUNE 2016

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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CD PROJEKT

# CD PROJEKT Capital Group – introduction

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# 1

## Key achievements of the Capital Group in the first half of 2016

**Table 1** Key achievements of the CD PROJEKT Capital Group in the first half of 2016

<p>CD PROJEKT RED</p>	<p><b>On 31 May 2016 the Company published the second expansion pack for The Witcher 3: Wild Hunt – Blood and Wine.</b> The game was released simultaneously for the PC, Xbox One and PlayStation 4 as a digital download and a limited box edition. Ratings supplied by Metacritic – the world’s leading ratings aggregator – are 92/100 for the PC, 92/100 for PS4 and 94/100 for Xbox One.</p> <p><b>On 14 June 2016 at the E3 fair in Los Angeles, USA, CD PROJEKT announced GWENT: The Witcher Card Game.</b> GWENT is a free-to-play title with support for multiplayer online gameplay and paid single-player campaigns. Closed beta tests of the PC and Xbox One versions are scheduled to commence on 25 October 2016, with beta tests of the PS4 version following at a later date.</p> <p>As of the day of publication of this report <b>GWENT has received over 25 awards and nominations</b>, including “Best of E3 2016”. The game has been praised by influential gaming media, including PC Gamer, GamesRadar and jeuxvideo.com. The game also won the Best Social/Online Game award at gamescom 2016.</p> <p>GWENT is co-developed by CD PROJEKT S.A. and GOG Poland Sp. z o.o. Both companies have set up a project consortium in order to pool their expertise, knowledge and resources.</p>
<p>GOG.com</p>	<p><b>In January 2016</b> the GOG.com catalogue was extended with a new section called “<b>Games in development</b>”. Currently, GOG.com offers 21 “in development” games. As of the day of publication of this report two such games have successfully completed the development stage and been officially released.</p> <p><b>On 5 May 2016 GOG.com introduced support for payments in six additional currencies</b> – Canadian Dollar, Swiss Franc, Norwegian Krone, Swedish Krona, Danish Krone and Polish Zloty. This brings the total number of currencies supported by GOG.com to eleven.</p> <p>The most important <b>GOG.com</b> release of H1 2016 was the of the second expansion pack for The Witcher 3: Wild Hunt – <b>Blood and Wine</b>.</p> <p>Another notable event affecting the sales and financial result of the GOG.com segment was the summer sale campaign lasting between 8 and 22 June. During this year’s <b>Summer Promo</b> GOG.com noted its <b>highest-ever sales revenues</b> compared to previous summer sales.</p> <p>GOG.com currently offers more than 1,600 games by 350 developers from around the world.</p>
<p>Notable trade events</p>	<p><b>On 28 April 2016</b> the National Center for Research and Development (Narodowe Centrum Badań i Rozwoju; NCBR) launched the GameINN sectoral program which extends financial support to Polish videogame developers who carry out R&amp;D work. Disbursements covered by the program will amount to 80 million PLN by the end of 2016 and 245 million PLN in total by the end of 2023. The first call for proposals closed on 16 August of the current year. Along with other industry representatives CD PROJEKT Capital Group member companies participated in the call by applying for co-funding of R&amp;D projects.</p>



CD PROJEKT

# Overview of the CD PROJEKT Capital Group

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## Activity profile

CD PROJEKT S.A. (hereafter referred to as CD PROJEKT or the Company), headquartered in Warsaw, conducts business activities in the dynamically developing global digital entertainment segment. These activities have been ongoing for over 20 years and originally focused on the Polish market. The Company – then called CD PROJEKT – began by distributing foreign games in Poland (note that the corresponding activity segment, handled by the Group's CDP.pl subsidiary, was disaggregated in 2014). A pivotal moment in the Group's history came in 2002, with the establishment of the CD PROJEKT RED development studio, which initiated work on the Company's first major RPG<sup>1</sup> – The Witcher.

The CD PROJEKT Group currently conducts operating activities in two key segments: CD PROJEKT RED (formerly referred to as “videogame development”) and GOG.com (formerly referred to as “global digital distribution”).

Development and publication of the Group's own top-quality videogames is handled by CD PROJEKT RED, a development studio made famous by the globally acclaimed The Witcher series – games based upon Andrzej Sapkowski's fantasy novels.

The newest instalment in the series – The Witcher 3: Wild Hunt – debuted on 19 May 2015. On 13 October 2015 the Studio published the first expansion pack for The Witcher 3 – Hearts of Stone, with the second expansion pack wrapping up the saga (Blood and Wine) following on 31 May 2016.

CD PROJEKT is also currently working, among others, on GWENT: The Witcher Card Game. Originally announced in June 2016 at the industry's largest trade fair – E3 in Los Angeles – GWENT is a free-to-play online game with support for microtransactions, providing both multiplayer and single-player gameplay. Closed beta tests of the game's PC and Xbox One versions are scheduled to commence on 25 October 2016, with the PS4 version joining in at a later date. More information regarding the game and its beta testing program can be found at [www.playgwent.com](http://www.playgwent.com). The second major development project currently underway at CD PROJEKT RED is the previously announced Cyberpunk 2077.

In the first half of 2016 over 95% of CD PROJEKT S.A. sales revenues was generated by exports. At present the Company markets box versions of its games in collaboration with 23 distributors covering 109 countries around the world. Digital editions of CD PROJEKT games are available globally.

The activities of the GOG.com segment focus on sales and delivery of games directly to the customer's digital devices through the proprietary GOG.com platform and the GOG Galaxy application. GOG.com is among the world's most popular digital distribution platforms, carrying over 1,600 handpicked games by more than 350 developers and publishers. All games are distributed without cumbersome DRM<sup>2</sup> restrictions. The GOG.com platform is available in five language versions: English, German, French, Russian, and – starting on 24 August – Portuguese (Brazilian edition). Customers may render payment in eleven currencies (including the Polish Zloty) and choose from several convenient electronic payment methods, depending on their country of residence.

The Warsaw-based headquarters of CD PROJEKT S.A. are equipped, among others, with a full-fledged motion capture studio<sup>3</sup>, three sound recording studios and an in-house canteen.

In April 2013 CD PROJEKT established an office in Kraków, where an independent development team is located, as well as a Los Angeles branch tasked with coordinating marketing and sales activities throughout North America.

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<sup>1</sup> Role Playing Game – a storyline-driven game built around a consistent narrative.

<sup>2</sup> Digital Rights Management – restrictions associated with intellectual property rights.

<sup>3</sup> The motion capture technology uses special cameras and sensors to accurately register the movements of a human actor and store them in computer memory for further processing. This enables computer-generated characters to act in a smooth, realistic fashion, replicating the original actor's personal “style”



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## CD PROJEKT Capital Group growth outlook

The growth outlook of the CD PROJEKT Capital Group is closely tied to the implementation of the CD PROJEKT Capital Group Strategy for the years 2016-2021, originally announced in March 2016. A detailed overview of the Company's corporate strategy can be found at <https://www.cdprojekt.com/en/capital-group/strategy/>.

On 24 May 2016 the General Meeting adopted resolution no. 20, which institutes an incentive program covering the 2016-2021 period. The resolution specifies two types of goals: the result goal and the market goal. Attainment of the result goal will enable entitled parties to claim 80% of the total number of subscription warrants issued under the program, as long as the following criteria are met:

- for the years 2016-2019 – net profit not lower than 618.4 million PLN (6.51 PLN per share), or
- for the years 2016-2020 – net profit not lower than 855.5 million PLN (9.01 PLN per share), or
- for the years 2016-2021 – net profit not lower than 1.09 billion PLN (11.51 PLN per share)<sup>4</sup>.

The market goal stipulates that the price change of CD PROJEKT S.A. stock on the Warsaw Stock Exchange must outperform the corresponding change in the WIG index by at least 100 percentage points during the period covered by the program. Attainment of this goal will enable entitled parties to claim 20% of the total number of subscription warrants issued under the program. The incentive program covers the years 2016-2021, but warrants may be assigned before the end of this period should both goals be met early.

The full text of resolution no. 20 can be found in [Current report no. 18/2016](#).

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## CD PROJEKT S.A. on the capital market

The CD PROJEKT brand has been present on the Warsaw Stock Exchange since 2010, when – as a result of an investment agreement concluded in 2009 by CDP Investment sp. z o.o.<sup>5</sup> and Optimus S.A., along with their respective shareholders – Optimus purchased 100% of shares in CDP Investment.

As of the publication date of this report 95 820 000 Company shares are traded on the Main Market of the Warsaw Stock Exchange under the continuous trading system.

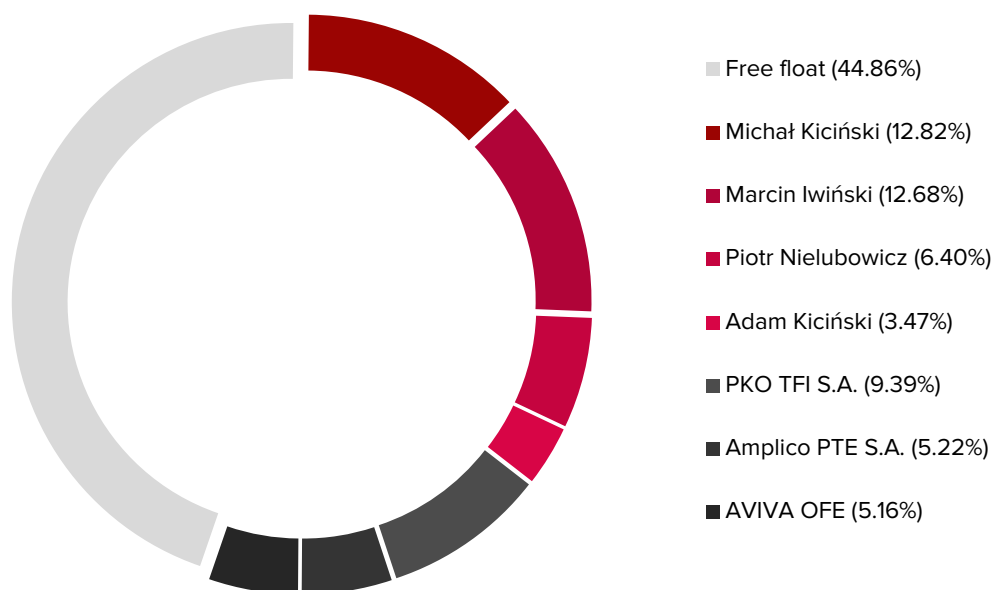
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<sup>4</sup> The result goal is based on the consolidated net profit of the Capital Group within a given period.

<sup>5</sup> Former name of the "CD PROJEKT" group holding company.



**Chart 1** Company shareholder structure as of the publication date of this report.



As of 30 June 2016 the Company contributes 1.1% to the WIG30 index. CD PROJEKT is also a member of the WIG Informatyka index (20% contribution).

The closing price of CD PROJEKT S.A. stock on the Warsaw Stock Exchange on 30 June 2016 was 27.40 PLN. Accordingly, the Company's H1 2016 market capitalization is estimated at 2.6 billion PLN.



CD PROJEKT

## CD PROJEKT Capital Group activity profile

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## Organizational structure of the CD PROJEKT Capital Group

As of the publication date of this report the CD PROJEKT Capital Group consists of CD PROJEKT S.A. (parent entity) and four subsidiaries: GOG Ltd., GOG Poland sp. z o.o., CD PROJEKT Brands S.A. and CD PROJEKT Inc.

**Chart 2** Structure of the CD PROJEKT Capital Group



The parent company – CD PROJEKT S.A. – is the sole proprietor of all listed subsidiaries, with 100% of shares in each.

**Table 2** Summary of the core activities of the CD PROJEKT Capital Group parent entity and its subsidiaries as of 30 June 2016.

Entity	Activity profile
CD PROJEKT S.A.	The core activities of the Company, carried out by its internal CD PROJEKT RED studio, include development of videogames, publishing its own videogames, selling the associated distribution rights as well as manufacturing, selling and/or licensing tie-in products which exploit the popularity of brands owned by the Company. CD PROJEKT S.A. also acts as the holding company of the CD PROJEKT Capital Group and coordinates the activities of other companies belonging to the Group.
GOG Ltd.	This company concerns itself with online distribution of videogames, enabling customers from around the world to purchase games, render payment and download game binaries to their personal devices. To this end the company owns and maintains the global digital distribution platform at GOG.com.
GOG Poland sp. z o. o.	This company provides a wide range of programming services (including development work on GOG Galaxy), IT systems administration and product testing (QA-related activities). Its core business partner and customer is GOG Ltd. Together with CD PROJEKT S.A., GOG Poland Sp. z o. o. also participates in the development of GWENT: The Witcher Card Game.
CD PROJEKT Brands S.A.	This company manages the Group's intangible assets associated with The Witcher trademark, with a view to maximizing revenues obtained by the Group from license contracts concerning that trademark.
CD PROJEKT Inc.	This company coordinates publishing and promotional activities covering the Group's own products and the GOG.com platform throughout North America. To facilitate this goal, the company operates an office in Los Angeles.

*Source: Company materials*

## Disclosure of business segments, products, services, outlets, suppliers and customers

In the first half of 2016 the Capital Group conducted business activities in three segments:

- CD PROJEKT RED,
- GOG.com,
- other activities.



## CD PROJEKT RED

**265 472 THOUSAND PLN IN  
H1 2016 SALES REVENUES IN  
THE CD PROJEKT RED  
SEGMENT**

**RELEASE OF BLOOD AND WINE  
– THE SECOND EXPANSION  
PACK FOR THE WITCHER 3**

**ANNOUNCEMENT OF GWENT  
– AN ONLINE COLLECTIBLE  
CARD GAME**

### Target and scope of business activities

Videogame development is the main area of activity of the CD PROJEKT RED Studio, a distinct operating segment of the CD PROJEKT Capital Group. The activity covers creation and publication of videogames, licensing the associated distribution rights and manufacturing tie-in products which exploit the commercial appeal of brands owned by the Company.

Sales of The Witcher 3: Wild Hunt, along with the game's expansion packs, are carried out under three distinct business models:

- territorial distribution rights (for box and digital editions), accounted for post factum on the basis of monthly or quarterly sales reports submitted by the Company's business partners, or license reports;
- 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.

Standard digital distribution agreements concluded by the Company call for monthly reporting, while distribution of box sets is typically reported upon in quarterly cycles. Depending on the partner and the associated contract, the Company collects license reports within 30, 45 or 60 days following the close of the reporting period (i.e. each month or quarter).

In the first half of 2016 the Company also obtained revenues from sales of The Witcher, The Witcher 2 and various tie-in products exploiting the popularity of The Witcher brand.

### 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. The Studio followed up in May 2011 with its second release – The Witcher 2: Assassins of Kings for the PC. In April 2012 an extended edition of The Witcher 2 was released for the PC and Xbox 360. Both The Witcher and The Witcher 2 Extended Edition are now also available for Apple and Linux machines.

Key products in the Company's portfolio include the following videogames: The Witcher, The Witcher 2: Assassins of Kings and The Witcher 3: Wild Hunt, which launched on 19 May 2015, in addition to two expansion packs for The Witcher 3 – Hearts of Stone, which debuted on 13 October 2015, and Blood and Wine, released on 31 May 2016. Additionally, in June 2016 the Company officially announced another product set in The Witcher universe – GWENT, an online card game with microtransaction support. This game will be under development at CD PROJEKT RED in the coming quarters.

The Company is actively developing its franchise and expanding its list of tie-in products set in The Witcher universe, often in collaboration with external partners. Examples of such products include The Witcher Adventure Game (a board game also available as a digital release for PCs and tablets), two series of comic books published by Dark Horse Comics, an official Prima Strategy Guide, a book titled The Witcher Universe: Compendium and a variety of Witcher-themed gadgets and apparel distributed internationally by [www.witcherstore.com](http://www.witcherstore.com). Soundtracks from all parts of The Witcher trilogy are available on Spotify, Apple Music and Google Play Music.

### Key sources of revenue

In the first half of 2016 the bulk of revenues in the CD PROJEKT RED segment was generated by sales of The Witcher 3: Wild Hunt. This includes sales of box sets and license fees from external distributors. Another important source of

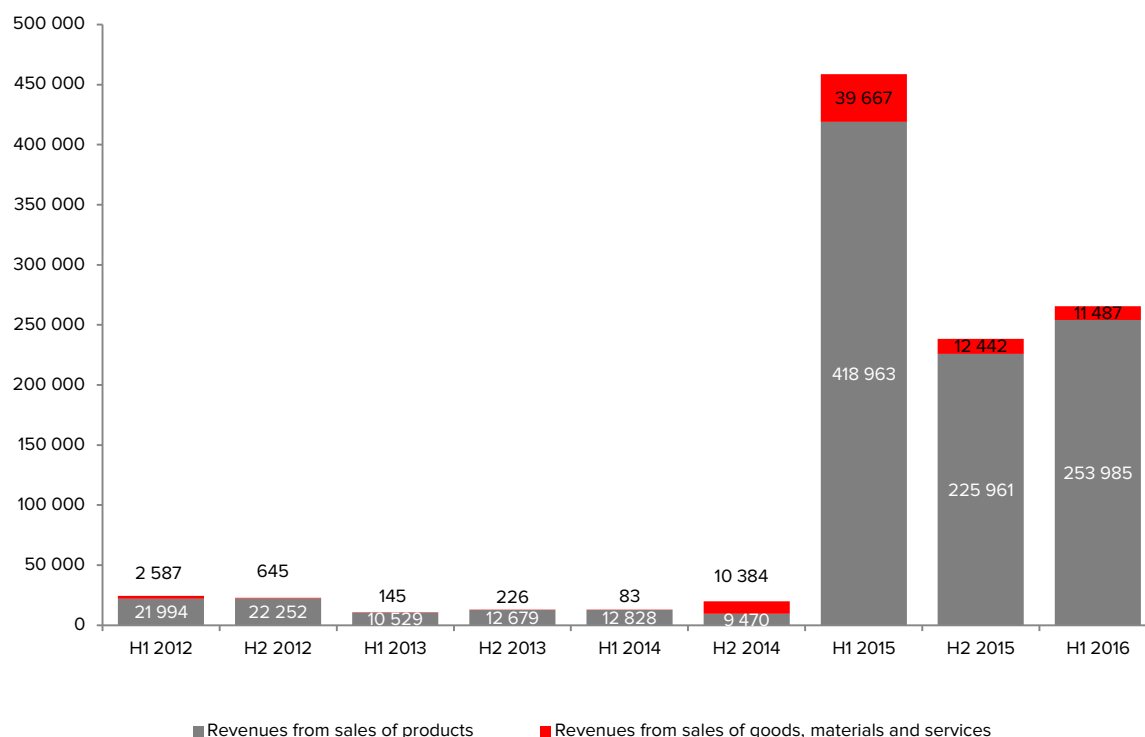
revenues was the second expansion pack for the game – Blood and Wine, released in May and distributed primarily through digital distribution channels.

The Company continued to market its earlier games – The Witcher and The Witcher 2: Assassins of Kings, both of which continue to attract gamer interest.

Sales of CD PROJEKT S.A. products are governed by several dozen long-term licensing and distribution agreements concluded with distributors and publishers, both global (e.g. Warner Bros. Home Entertainment, VALVE Corporation, GOG Ltd., BANDAI NAMCO Entertainment Europe S.A.S.) and domestic (including cdp.pl sp. z o.o. and Agora S.A.)

In the first half of 2016 the Company also obtained revenues from sales of rights to tie-in products exploiting the popularity of The Witcher brand, including comic book series published by Dark Horse Comics, board games, strategy guides, apparel and assorted gadgets.

**Chart 3** Revenues in the CD PROJEKT RED segment in 2012-2016 (PLN thousands)



### Key suppliers and customers

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 and the leading digital distribution platforms (e.g. Steam, GOG.com, Origin, PlayStation Store, Xbox Store, AppStore and Google Play).

In the first half of 2016 the Group reported the following key clients in the CD PROJEKT RED segment:

- Client I – 81 221 thousand PLN, which represents 25.5% of the consolidated sales revenues of the Capital Group. Client I is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Client II – 36 013 thousand PLN, which represents 11.3% of the consolidated sales revenues of the Capital Group. Client II is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Client III – 33 794 thousand PLN, which represents 10.6% of the consolidated sales revenues of the Capital Group. Client III is not affiliated with CD PROJEKT S.A. or its subsidiaries.
- Client IV – 31 857 thousand PLN, which represents 10.0% of the consolidated sales revenues of the Capital Group. Client IV is not affiliated with CD PROJEKT S.A. or 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 supplier accounted for more than 10% of the consolidated revenues of the Capital Group.

## Key product-related and marketing events

### Release of Blood and Wine – the second expansion pack for The Witcher 3: Wild Hunt

From the point of view of marketing activities, an important aspect of CD PROJEKT RED work in the first half of 2016 involved preparations for the marketing campaign accompanying the release of the second expansion pack for The Witcher 3: Wild Hunt, titled Blood and Wine. The Company began accepting preorders on 10 May and released the expansion pack on 31 May. The release was marked by a gala concert – Video Game Show – The Witcher 3: Wild Hunt, which also served as the finale of the 9th edition of the Film Music Festival, held in Kraków. Thousands of fans gathered in TAURON Arena to hear three instrumental and vocal suites based on the newest installment in the adventures of Geralt of Rivia.

Blood and Wine was widely praised by critics and journalists alike. The GRYOnline.pl portal gave it a score of 100/100, while influential foreign portals – PC Gamer and XGN – followed up with ratings of 94/100 and 96/100 respectively. Metacritic aggregate ratings were 92/100 for the PC, 92/100 for PlayStation 4 and 94/100 for Xbox One. Moreover, Blood and Wine graphical art was featured on the covers of several renowned gaming magazines from around the world, including LEVEL, Reboot, PC Guru and PSX Extreme.

The debut of Blood and Wine was also accompanied by a special release trailer, which registered over 2.8 million views on the official The Witcher Youtube channel alone.

On 13 May 2016 the Company organized a pre-launch event at Castello di Pavone in Italy, inviting more than a dozen acclaimed Youtube personalities from around the world (with an aggregate number of subscribers exceeding 18 million) to try their own hand at playing the game.

PR and marketing activities supporting the release of Blood and Wine covered all key markets, including the United States, the United Kingdom, Germany, Russia, Poland, Australia, Japan, Brazil, Italy and Spain. The expansion pack was also promoted in key digital distribution channels, including Steam, Xbox Store, PlayStation Store and CD PROJEKT Capital Group's own GOG.com platform. In selected markets the Company also promoted sales of a limited physical edition of the game, available in large retail outlets, including GameStop and Media Markt.

### Announcement of GWENT: The Witcher Card Game

In June 2016, on the eve of the world's largest gaming fair – E3 in Los Angeles, USA – at the Xbox One conference detailing the most important upcoming releases for that platform, CD PROJEKT officially announced its new project: GWENT: The Witcher Card Game.

The game's announcement was punctuated by the unveiling of a giant mural on the wall of one of buildings adjacent to the E3 venue. An official website was also launched (at <http://www.playgwent.pl>) and the Company began accepting applications for participation in closed beta tests, which are scheduled to begin on 25 October 2016. An official teaser trailer was also shown at the E3 fair. The marketing campaign focuses on popularizing GWENT among players who had previously purchased The Witcher 3, as well as among fans of online collectible card games.

The marketing campaign, initiated at E3, covered several markets of particular importance for CD PROJEKT, including North America (with particular focus on the United States), Russia, Germany, the United Kingdom, Poland, Australia and New Zealand. The campaign made heavy use of online media. In parallel, the Company launched an extensive PR campaign, culminating at E3 with a series of closed media presentations conducted by CD PROJEKT RED staff members. Altogether, approximately 400 invited journalists attended these presentations.

By the end of June GWENT received over 20 awards and nominations, including “Best of E3 2016” recognitions from such notable media as PC Gamer, GamesRadar and jeuxvideo.com.

### Support for sales of The Witcher 3: Wild Hunt

In January 2016 The Witcher 3: Wild Hunt was named 2015 RPG of the Year and 2015 Game of the Year by Game Informer – the world's most widely circulated gaming monthly. The game also won four Best of 2015 awards presented by IGN – the most popular online gaming portal in the world. On the domestic stage, at the prestigious Paszporty Polityki gala awards ceremony, the CD PROJEKT RED studio team received the “Kreator Kultury” (Culture Creator) award. In the accompanying laudation the Studio was praised for “creative use of Andrzej Sapkowski's prose and turning ‘The Witcher’ into a global brand”, “proving that a Polish studio can be a global powerhouse on this dynamically growing market” and “making a profound impact on the development of a wholly new branch of Polish culture”.

On 19 March at the SXSW festival in Austin, TX, The Witcher 3 was named Video Game of the Year and also claimed two other awards (for Excellence in Technical Achievement and Excellence in Narrative). Additionally, the game received the Game Developers Choice Award for Best Technology and the Game of the Year award at the largest annual event targeted at videogame developers – Game Developers Conference in San Francisco.



By the end of the first half of 2016 the number of awards and accolades received by The Witcher 3: Wild Hunt exceeded 800, including over 250 Game of the Year awards. As a result, The Witcher 3 is unquestionably the most acclaimed videogame of 2015 and ranks among the most celebrated videogames ever published.

On 21 January The Witcher 2: Assassins of Kings was released for the Xbox One as a means of providing backward compatibility with Xbox 360.

In February, at Toy Fair 2016, representatives of Dark Horse Entertainment (CD PROJEKT's business partner) announced a collection of Witcher figures which will become available for purchase in fall 2016. A Witcher-themed figure was also announced by J!NX which had previously manufactured collectible apparel and gadgets for the Studio.

## GOG.com

**69 259 THOUSAND PLN IN H1  
2016 SALES REVENUES**

**PARTICIPATION IN THE  
DEVELOPMENT OF GWENT: THE  
WITCHER CARD GAME**

**LAUNCH OF THE BRAZILIAN  
EDITION OF THE GOG.COM  
PLATFORM  
(AUGUST 24, 2016)**

### Target and scope of business activities

Global digital distribution of videogames, carried out by GOG Ltd. (with technical support from GOG Poland), represents a distinct activity segment within the CD PROJEKT Capital Group. At its core, this segment involves digital distribution of videogames via the Company's proprietary GOG.com distribution platform and the GOG Galaxy application, on the basis of contracts signed by GOG Ltd. with producers, IPR holders and external publishers. The platform enables customers to purchase games, remit payment and download game files to their personal devices.

Payments collected by GOG Ltd. from customers are split with the Company's suppliers as agreed upon in distribution contracts. Typical contracts require the Company to submit sales reports in monthly or quarterly cycles, not later than 30 days following the close of the given reporting period.

With respect to certain older products, the Company may be contractually entitled to modify existing games in order to adapt them to modern operating systems or permit multiplayer gaming, depending on whether such features were present in the original product.

The platform was launched in August 2008. The initial mission of GOG.com was to revitalize major PC cult classics and offer them for sale to international clients with particular focus on English-speaking countries, i.e. United States, Canada, United Kingdom and Australia. In addition to English, the platform is now offered in French, German, Russian and Portuguese (Brazilian edition) – this includes full game localizations as well as dedicated customer support and integration with locally popular payment channels. Payments can now be remitted in eleven currencies, including the Polish Zloty. Since 2012 GOG.com carries games for Apple computers while in 2014 its catalogue was expanded with releases for the Linux OS.

### Key products

As of the publication date the GOG.com catalogue comprises over 1 600 products from over 350 publishers and producers of videogames, including such well-known brands as Activision, Bethesda, Disney, Electronic Arts, Ubisoft and Warner Bros. The key difference between GOG.com and its competitors (i.e. other independent platforms – Steam, Gamergate, Humble Bundle etc.) is its set of core principles. As a rule, the Company ensures that all of its games are free of cumbersome DRM measures. In addition, products offered on GOG.com are richly featured and usually include bonus content such as soundtracks, maps and wallpapers. GOG Ltd. also ensures full compatibility of its games with popular versions of the MS Windows, Mac OS and Linux operating systems, and provides technical support in case of installation problems. If a game cannot be made to run on the user's computer, it can be returned within 30 days of purchase for a full refund. Owing to these values GOG.com has become one of the most popular digital videogame distribution platforms in the world.

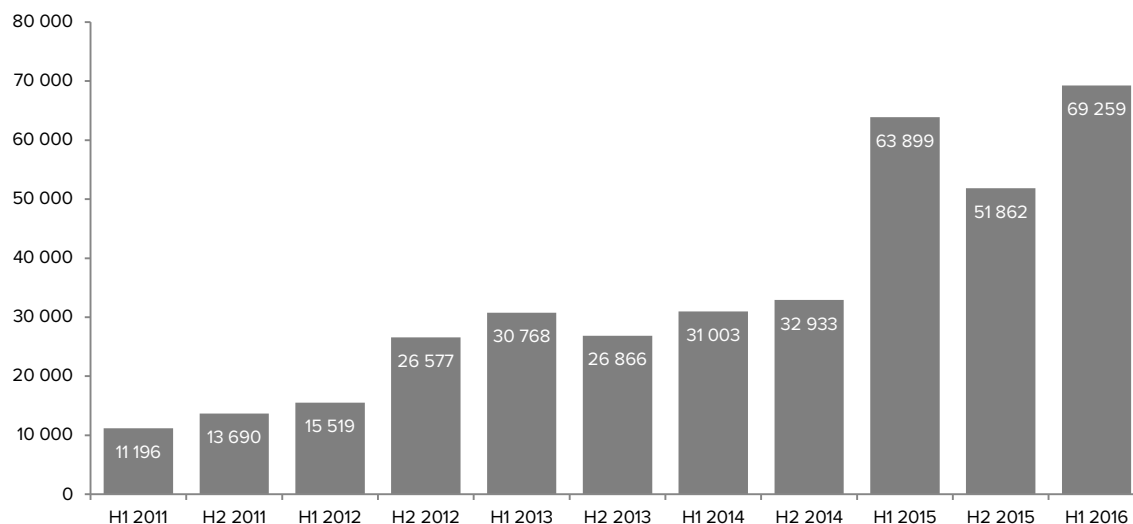


The Group uses GOG.com to market its own products directly to end users – this includes The Witcher and The Witcher 2: Assassins of Kings, The Witcher 3: Wild Hunt (along with its Hearts of Stone DLC pack and a range of bonus content) and The Witcher Adventure Game.

### Key sources of revenues

Revenues obtained in the GOG.com segment are directly dependent on the popularity of games in the GOG.com catalogue, new releases and promotional campaigns. The Company continuously expands the scope of its cooperation with suppliers and seeks new, attractive products to add to its catalogue. GOG.com is also home to seasonal and one-off sales campaigns, including summer, fall and Christmas bargain packages, as well as other periodic sales events which introduce new ways to attract gamers' attention.

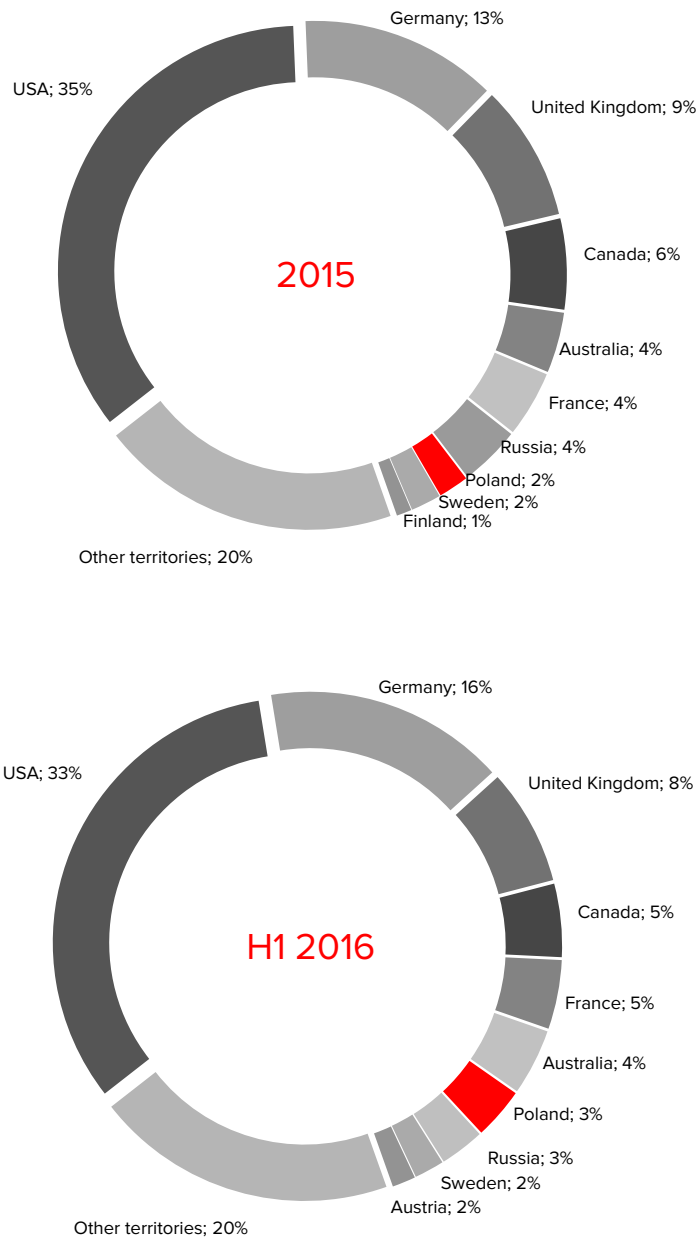
**Chart 4** GOG.com 2011-2016 sales to external clients (PLN thousands).



### Key suppliers and clients

Following its creation, GOG Ltd. quickly secured a strong position on the global digital entertainment market, establishing itself as one of the foremost digital distributors in the world. GOG Ltd. markets games via online channels directly to millions of individual users worldwide. As such, the Company does not have key clients in the usual sense of the term.

**Chart 5** GOG.com sales by territory in 2015 and in the first half of 2016



In the first half of 2016 the plurality of GOG.com purchases were made by US-based customers (33%), although this percentage dropped by 2 percentage points compared to the end of 2015. Runners-up were Germany (increase from 13% to 16%), the United Kingdom (reduction from 9% to 8%) and France (increase from 4% to 5%). Increased participation of Polish gamers was also observed (3% compared to 2% at the end of 2015). The observed increase in sales in non-English-speaking countries is the result of the Company's efforts to reach new customer groups by launching additional language editions of its platform, complete with dedicated customer support, marketing activities and support for local currencies.

As of the end of June 2016 GOG Ltd. distributed games from over 350 suppliers, with no single supplier accounting for more than 10% of the consolidated revenues of the Capital Group.

## Key product-related and marketing events

In January GOG.com entered the steadily growing “games in development” market. The initiative met with resounding acclaim both among gamers and in professional media. As of the publication date of this report GOG.com offers 21 “in development” games, including *We Happy Few*, *Master of Orion* and *The Long Dark*. In the meantime, *Ashes of the Starbound* has successfully completed the program and been released as a full-fledged game.

In late March and early April GOG.com celebrated the first birthday of its Russian edition. To mark this event, the Company’s GOG Poland office invited notable journalists specializing in the gaming sector to discuss further plans regarding Russian-speaking markets, including new exclusive releases of Russian games and extended support for Russian titles (offered through official channels as well as through Russian-speaking gamer communities). Around the same time GOG.com concluded a distribution agreement with 2K / Take-Two Interactive, enabling the Company to add 11 classic games to its catalogue.

In Q1 2016 the GOG Galaxy platform underwent further development work aimed at providing support for multiplayer online gaming in major upcoming releases. In addition to expanding existing features, such as automatic updates and tracking of achievements/gameplay stats, ongoing work focused on cross-platform multiplayer compatibility. The existing release of the platform provided support for *Dying Light* – the newest AAA release available on GOG.com – as well as preorders of *No Man’s Sky* – one of the most hotly anticipated games of the year.

On 5 May GOG Ltd. launched support for six additional currencies: Canadian Dollar, Swiss Franc, Norwegian Krone, Swedish Krona, Danish Krone and Polish Zloty. This brings the total number of currencies supported by GOG.com to eleven.

On 1 January 2016 the “GOG Connect” initiative was officially launched. Under this program, players who have previously purchased games on Steam can add them to their GOG.com collection free of charge over a period of five days. The offer applied to over 20 games, including *The Witcher: Enhanced Director’s Cut*, *Saints Row 2* and *Mount & Blade*. GOG Connect was very warmly received by GOG.com users and the gaming media alike.

On 8 June GOG.com kicked off its two-week summer sale. This year, in addition to over 1,000 discounted games, the event was spiced up with new interactivity features. Gamers could acquire “experience points” by performing certain actions and spending money. These points then enabled gamers to unlock additional free games. A ranking list was also introduced to add a competitive edge to the campaign. The new concept met with enthusiastic reception on the part of players and journalists who noted that it represents an interesting alternative to “eventless” sales on other platforms. During this year’s “Summer Promo” GOG.com reported its highest-ever sales revenues compared to earlier summer sales.

In the second quarter of 2016 GOG.com rolled out several popular titles representing various genres. In addition to *The Witness* – a new videogame by Jonathan Blow (author of *Brainand* and a pioneer of the indie gaming market), the catalogue was extended with another cult classic – *Vampire: The Masquerade: Bloodlines* (Activision), as well as by one of the most important strategy games in the medium’s history – *Homeworld*, bundled with GOG Galaxy support and with revamped visuals.

Regarding new releases, the most important event was – by far – the debut of the second and last expansion pack for *The Witcher 3: Wild Hunt – Blood and Wine*, which earned excellent reviews from professional journalists and gamers worldwide.

A new project carried out during the first half of 2016 in the GOG.com segment, in collaboration with CD PROJEKT RED, involved development work on *GWENT*. According to the consortium agreement, GOG Poland Sp. z o.o. will act as the platform operator and provide dedicated networking services and hardware infrastructure to maintain the game. It will also collaborate with CD PROJEKT RED to provide customer support. The project capitalizes upon the experience gained while developing GOG Galaxy. For its part, CD PROJEKT RED is responsible for design, production and further development of gameplay features, facilitating sales via selected distribution platforms and undertaking marketing activities.

On 23 August, after the balance sheet date, GOG.com held an event for Brazilian journalists, preceding the official launch (on 24 August) of the Brazilian version of the platform – complete with full localization, Brazilian-speaking customer support, integration with locally popular payment channels and pricing schemes (in Brazilian reals) adjusted to match the specificity of the Brazilian market.

## Other activities

CD PROJEKT S.A., which is the holding company of the CD PROJEKT Capital Group, strives to achieve maximum efficiency and synergy in the scope of actions carried out by the Group. To this end, the internal Investment department assists other operating segments of the Group in matters related to corporate and financial oversight, accounting, HR, legal advice (particularly concerning taxation) and investor relations.

## Disclosure of seasonal or cyclical activities

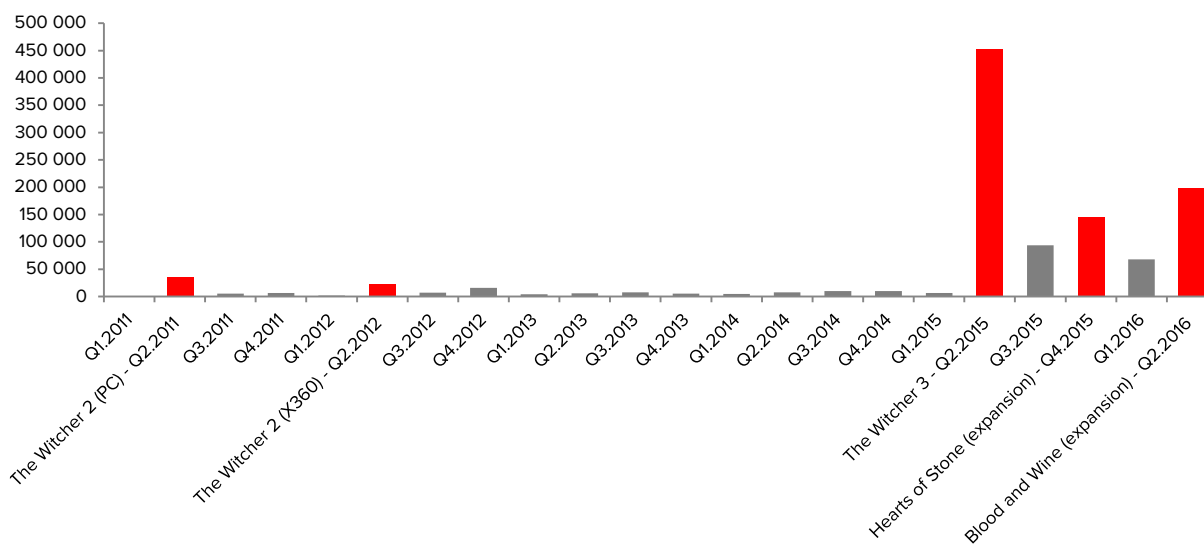
### CD PROJEKT RED

CD PROJEKT RED usually takes between 2 and 4 years to produce a game. Initial development work occurs before the previous game in the series is complete and ready to be released. The Witcher 2 debuted on the PC in May 2011 while the Xbox 360 edition was released on 17 April 2012. The release of CD PROJEKT RED's newest game – The Witcher 3: Wild Hunt – took place on 19 May 2015. Sales of the base game were bolstered by two expansion packs: Hearts of Stone and Blood and Wine, both released within four quarters of the original launch. In subsequent quarters further revenues will be generated – among others – by the release of The Witcher 3: Wild Hunt – Game of the Year Edition.

GWENT – The Witcher Card Game (currently under development) is conceived as a “game as a service” where the scope of development, resources committed to the project and future sales revenues depend on the popularity of the service. The game will be offered under a “free to play” license, with optional microtransactions.

CD PROJEKT RED is also continuing with its work on Cyberpunk 2077 – the largest development project in the Company's history.

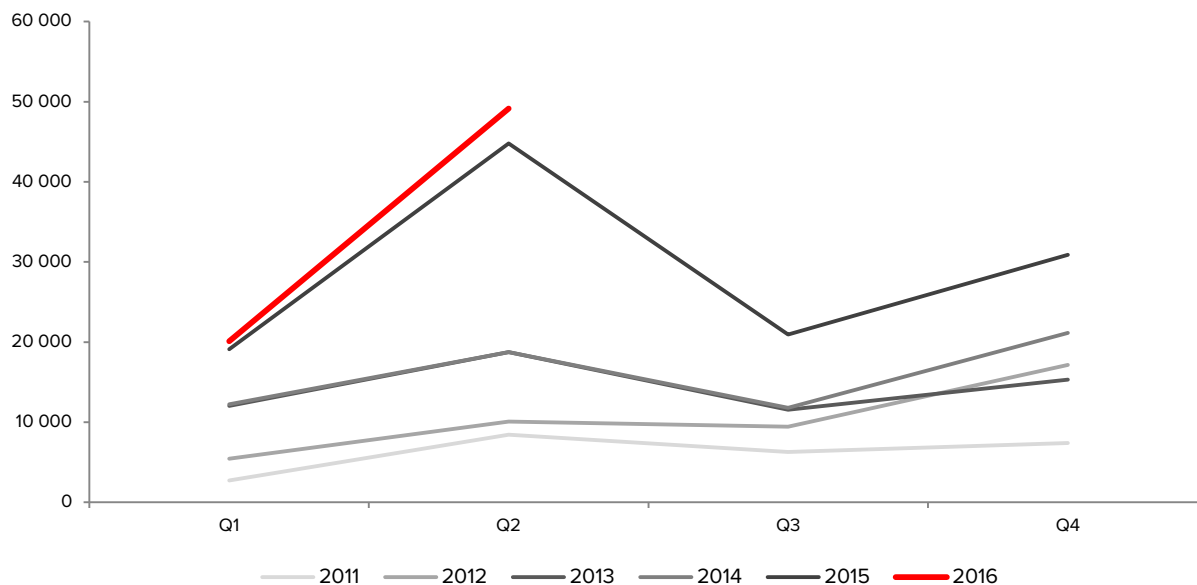
**Chart 6** CD PROJEKT RED release quarters – sales volume in 2011-2016 (PLN thousands)



### GOG.com

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

**Chart 7** Revenues from GOG.com sales to external clients, by quarter (2011-2016; PLN thousands)



GOG.com sales revenues in the second quarter of 2015 were primarily affected by revenues associated with the release of *The Witcher 3: Wild Hunt*. The most important new release of the second quarter was that of *Blood and Wine* – the second expansion pack for *The Witcher 3*.

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

The activities of CD PROJEKT Capital Group member companies are affected by external factors such as the global macroeconomic conditions, legal reforms and changes in taxation. In this sense CD PROJEKT is in a similar position to many other companies conducting business on domestic and international markets. Key internal and external factors which may prove detrimental to the Group's activities and growth prospects are listed in the risk assessment section of the CD PROJEKT Capital Group's consolidated financial statement for 2015, which is available for download at [www.cdprojekt.com](http://www.cdprojekt.com).

The most important identified factors which may affect the Group's future performance are briefly outlined below.

With regard to the third and fourth quarter of 2016, the CD PROJEKT Capital Group intends to develop its activities in parallel in two key segments: CD PROJEKT RED and GOG.com. A description of further growth plans can be found in the Strategy of the CD PROJEKT Capital Group for the years 2016-2021, announced in March 2016. The full text of this document is available on the Company's corporate website at <https://www.cdprojekt.com/en/capital-group/strategy/>.

Key factors which will determine activities in the **CD PROJEKT RED** segment include ongoing project, the scale of development work associated with those projects and their perceived popularity among players. Accordingly, the Group's further growth is dependent on progress on the recently announced project – *GWENT: The Witcher Card Game* – as well as on the game's reception among players and gaming media.

Favorable reception of the CD PROJEKT RED's card game by the international media and gaming community is important from the point of view of future sales, the series' overall recognition and stabilization of the Group's revenue stream. The latter effect is facilitated by turning to a heretofore unexplored business model – F2P "game as a service".

In attempting to attract as many potential customers as possible, the Company has initiated cooperation with a Chinese partner. The agreement with GAEA will enable CD PROJEKT RED to undertake wide-ranging publishing, localization, promotional and sales-related activities. This marks the Company's official entry into the vast Chinese market, where its products had not heretofore been directly distributed.



The market success of the Company's future releases is important from the point of view of the overall commercial appeal of The Witcher series, as well as that of existing tie-in products and other games currently under development at CD PROJEKT RED.

The Company believes that preserving the observed dynamic growth will depend on further enhancement of its world-class videogame development skillset and on maintaining effective communication channels with the global gaming community.

Managing two separate major franchises (The Witcher and Cyberpunk) in addition to several other independent development teams enables the Company to conduct parallel work on several projects and smoothens its long-term publishing schedule. This migration towards a two-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.

The capability for effective management of production and publishing activities which span multiple projects carried out at several geographically distributed offices, with a growing number of involved individuals, is both a risk factor and an opportunity for continued growth of the CD PROJEKT Capital Group.

In the **GOG.com** segment which handles global digital distribution, maintaining the current high sales volume should be supported by the customers' increasing tendency to turn to online channels for purchases. In the near term GOG.com growth will depend on expanding its catalogue and seeking additional brand-new products. Since May 2015 GOG Ltd. is offering access to beta versions of GOG Galaxy, which enables (among others) unhindered online multiplayer gaming. GOG Galaxy permits the Company to begin distributing games which rely on online features and could not previously have been distributed by GOG.com.

As a step towards addressing the demands of international customers, GOG.com is now available in five language versions: English, German, French, Russian and (since 24 August) Portuguese (Brazilian edition). Each version provides a fully localized web portal and dedicated customer support, along with support for locally popular payment channels. In addition, the platform now accepts payments in 11 distinct currencies, including Polish Zloty.

GOG Ltd. is in talks with leading global videogame publishers and continues to expand its portfolio. Each new release on GOG.com contributes to the platform's popularity and drives up sales. In addition to adding new products GOG Ltd. also seeks to increase its user base by attracting new players – those who have not yet set up a GOG.com account. The Company has been successful in this regard, owing to its PR activities and synergies resulting from cooperation with CD PROJEKT S.A. The GOG.com customer pool continues to grow at a steady pace.

Further growth of activities in the GOG.com segment, including the potential to acquire unique know-how and experience, and to fully exploit 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 user support. GWENT's market success should translate into better market recognition of GOG.com, allowing the Company to reach new potential customers around the world.

Activities grouped in the **Other activities** segment comprise mainly intragroup services which exploit synergies between individual subsidiaries of CD PROJEKT. As such, any external or internal factors affecting the segments described above also indirectly affect the "other activities" segment.

An external factor which may positively affect the Group's activities in both of its key segments (CD PROJEKT RED and GOG.com) is the launch of the GameINN sectoral development program, which extends support to Polish videogame developers pursuing R&D projects. 80 million PLN will be disbursed under the program by the end of 2016, with the total funding volume reaching 245 million PLN by the end of 2023.

## Disclosure of factors which may affect future Group results

Much like in the case of other commercial entities which conduct activities on the local and international markets, the standing of the CD PROJEKT Capital Group member companies is affected by a variety of factors, including micro- and macroeconomic conditions, legal regulations and taxation.

Regarding internal factors, in the CD PROJEKT S.A. Management Board's opinion, the results of the CD PROJEKT RED activity segment and – consequently – of the entire Capital Group will, in the coming reporting periods, strongly depend on continued sales of The Witcher 3: Wild Hunt and the game's two expansion packs – Hearts of Stone and Blood and Wine.

Further sales of The Witcher 3 and, consequently, future financial results of CD PROJEKT RED, should be bolstered by the release of The Witcher 3: Wild Hunt – Game of the Year Edition, which will comprise the base game along with both expansion packs. The release is scheduled for 30 August 2016.



Another important event scheduled for the second half of 2016 is the launch of closed beta tests of GWENT: The Witcher Card Game. The game's initial reception by gamers, professional journalists and gaming portals may significantly affect future sales prospects and determine the success of the game. An intensive marketing campaign focusing on GWENT will be launched in the coming months, which should also drive up interest in the Company's earlier Witcher-themed products.

In the scope of the entire 2016 fiscal year and future reporting periods, CD PROJEKT RED results will depend on successful implementation of the CD PROJEKT Capital Group strategy for 2016-2021, approved in March of the current year.

Given the fact that GOG.com growth dynamics are primarily dependent on the activity of existing users, along with the platform's capability to attract new users by offering appealing products, future growth in this segment in subsequent quarters of 2016 will depend on the Company's success in securing access to new releases as well as on further expansion of the "games in development" segment.

The Capital Group strategy for 2016 envisions publication of a new AAA game (not developed by CD PROJEKT) concurrently with its global release date and with full support for GOG Galaxy. Potential attainment of this goal may bolster the growth prospects of GOG.com including, in particular, the ability to expand the platform's catalogue with additional AAA games on their respective global release dates.

In terms of attracting new customers, GOG.com will, in the coming quarters, focus on territories where its customer base is not currently well developed. In line with this strategy in May 2016 the platform began accepting payments in six additional currencies, bringing the total number of supported currencies to 11. On 24 August the Brazilian edition of the portal was unveiled, with additional localizations currently in preparation.

Another factor affecting the growth of GOG.com is the continuing expansion of GOG Galaxy with new features and networking technologies. It should be noted that GOG Galaxy will provide support for GWENT: The Witcher Card Game.

Activities grouped in the **Other activities** segment comprise mainly intragroup services which exploit synergies between individual subsidiaries of CD PROJEKT. As such, any external or internal factors affecting the segments described above also indirectly affect the "other activities" segment.

Another specific factor which may affect the financial standing of CD PROJEKT S.A. is the outcome of the Company's lawsuit against the State Treasury. A favorable judgment in this case would entitle the Company to collect substantial damages.

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## Disclosure of significant agreements

No changes with regard to significant agreements occurred during the reporting period.

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## Risk management at the Capital Group

The CD PROJEKT Capital Group performs ongoing monitoring and assessment of risk factors in order to mitigate their impact on the Capital Group's financial and material standing.

The CD PROJEKT Capital Group is subject to standard risk factors affecting commercial entities, which conduct activities in Poland and which export products to other countries and conduct activities globally, as well as risk factors specifically associated with the electronic entertainment industry.

A detailed overview of risk factors affecting the Capital Group can be found in the Management Board report on CD PROJEKT Capital Group activities in 2015, available on the Group's website at [www.cdprojekt.com](http://www.cdprojekt.com).



CD PROJEKT

## CD PROJEKT Capital Group results

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## **Description of key economic and financial indicators disclosed in the financial statement**

### **Disclosure and assessment of factors and unusual circumstances affecting the Group's financial result in the first half of 2016**

In the first half of 2016 the Group's financial result was primarily affected by continuing sales of The Witcher 3: Wild Hunt as well as by the release of the game's second expansion pack – Blood and Wine – described elsewhere in this report.

No unusual circumstances affecting the Group's financial result were noted in the first half of 2016.

## Consolidated profit and loss account

**Table 3** Consolidated profit and loss account (PLN thousands)

	Note	01.01.2016 – 30.06.2016	01.01.2015 – 30.06.2015*
<b>Sales revenues</b>		<b>318 996</b>	<b>512 697</b>
Revenues from sales of products		239 204	409 105
Revenues from sales of services		165	131
Revenues from sales of goods and materials		79 627	103 461
<b>Cost of products, goods and materials sold</b>		<b>75 293</b>	<b>132 757</b>
Cost of products and services sold	13	32 649	63 511
Value of goods and materials sold	13	42 644	69 246
<b>Gross profit (loss) from sales</b>		<b>243 703</b>	<b>379 940</b>
Other operating revenues	14	834	653
Selling costs	13	70 298	83 097
General and administrative costs	13	10 431	6 807
Other operating expenses	14	690	2 142
<b>Operating profit (loss)</b>		<b>163 118</b>	<b>288 547</b>
Financial revenues	15	4 808	186
Financial expenses	15	410	4 715
<b>Profit (loss) before tax</b>		<b>167 516</b>	<b>284 018</b>
Income tax	8	32 834	47 766
<b>Net profit (loss) from continuing operations</b>		<b>134 682</b>	<b>236 252</b>
Net profit (loss) from discontinued operations		-	-
<b>Net profit (loss)</b>		<b>134 682</b>	<b>236 252</b>
Net profit (loss) attributable to minority interests		-	-
Net profit (loss) attributable to equity holders of parent entity		134 682	236 252
<b>Net earnings per share (in PLN)</b>			
Basic for the reporting period		1,42	2,49
Diluted for the reporting period		1,42	2,49
<b>Net earnings per share from continuing operations (in PLN)</b>			
Basic for the reporting period		1,42	2,49
Diluted for the reporting period		1,42	2,49
<b>Net earnings per share from discontinued operations (in PLN)</b>			
Basic for the reporting period		-	-
Diluted for the reporting period		-	-

\* adjusted

## Consolidated statement of comprehensive income

**Table 4** Consolidated statement of comprehensive income (PLN thousands)

	Note	01.01.2016 – 30.06.2016	01.01.2015 – 30.06.2015
<b>Net profit (loss)</b>		<b>134 682</b>	<b>236 252</b>
<b>Other comprehensive income which will be entered as profit (loss) following fulfillment of specific criteria</b>		<b>425</b>	<b>1 112</b>
Exchange rate differences on valuation of foreign entities		425	1 112
<b>Other comprehensive income which will not be entered as profit (loss)</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>135 107</b>	<b>237 364</b>
Total comprehensive income attributable to minority interests		-	-
<b>Total comprehensive income attributable to equity holders of parent entity</b>		<b>135 107</b>	<b>237 364</b>

CD PROJEKT Capital Group H1 2016 sales revenues were 318 996 thousand PLN, which is 38% less than in the first half of 2015 (coincident with the global release of The Witcher 3: Wild Hunt).

The largest contribution to the above figure was from sales in the CD PROJEKT RED segment (265 472 thousand PLN). This comprises sales of products, estimated at 253 985 thousand PLN (including 14 799 thousand PLN in intragroup sales), most of which is attributable to licensing fees associated with The Witcher 3: Wild Hunt distribution agreements as well as sales of the game's Expansion Pass (bundle consisting of Hearts of Stone and Blood and Wine), as well as revenues from sales of goods and materials, estimated at 10 381 thousand PLN – mainly sales of physical elements of box sets of The Witcher 3: Wild Hunt and Blood and Wine.

The GOG.com segment reported 69 259 thousand PLN in revenues from sales to external clients, which is 5 360 thousand PLN more than in the corresponding period in 2015. Note that the first half of 2015 previously represented the high water mark in terms of GOG.com sales, owing chiefly to the release of The Witcher 3: Wild Hunt.

A detailed description of revenues with respect to activity segments and product categories is provided further on in this report.

Regarding expenses, the largest single item was the cost of products, goods and materials sold. The quoted figure – 75 293 thousand PLN – comprises the cost of products and services sold in the CD PROJEKT RED segment (32 453 thousand PLN), the value of goods and materials sold in the CD PROJEKT RED segment (9 890 thousand PLN) and the cost of products and goods sold in the GOG.com segment (47 549 thousand PLN, including 14 804 thousand PLN in intragroup purchases).

Owing to the release of the Blood and Wine expansion pack, which is distributed primarily through online channels, as well as preorders of the Expansion Pass (accounted for in the current period), the percentage share of gross income in the CD PROJEKT Capital Group's sales revenues increased from 74% in H1 2015 to 76% in the first half of the current year. High profit margins on sales were achieved despite disclosure of all development expenses associated with the Blood and Wine expansion pack as well as those development costs of The Witcher 3: Wild Hunt and Hearts of Stone which had not previously been discounted.

Total gross profit from sales within the Capital Group was 243 703 thousand PLN, compared to 379 940 thousand PLN in the first half of 2015, which coincided with the release of The Witcher 3: Wild Hunt.

Selling costs include advertising and promotional expenses borne in each activity segment (including global promotion costs of the digital edition of Blood and Wine as well as expenses associated with the official announcement of GWENT at E3 in Los Angeles, in June 2016). The aggregate figure also comprises other bought-in services related to sales as well as – following presentation-related adjustments – provisions for employee benefits and bonuses dependent on the Group's financial result (previously aggregated with General and administrative expenses and Other operating expenses). The largest contribution to total expenses was from the CD PROJEKT RED segment (46 324 thousand PLN). The Group's total expenses in the first half of 2016 amounted to 70 298 thousand PLN, which is 12 799 less than in the corresponding period in 2015.

General and administrative expenses, estimated at 10 431 thousand PLN, include employee compensation and related bought-in services. These costs increased by 3 624 thousand PLN compared to H1 2015 due to increased recruitment and expansion of the Group's activities following the release of The Witcher 3: Wild Hunt.



Financial revenues are reported as 4 808 thousand PLN, of which 3 967 thousand PLN is from interest on short-term bank deposits. Comparing financial revenues and financial expenses reveals a surplus of 4 398 thousand PLN, in contrast to the 4 529 thousand PLN deficit reported in the first half of 2015.

Pre-tax profit, in the amount of 167 516, was subject to 32 834 thousand PLN in taxes. This figure comprises current corporate income tax (31 570 thousand PLN) and changes in deferred income tax (1 264 thousand PLN).

The Group's consolidated net profit in H1 2016 was 134 682 thousand PLN, which means that the current period was the second best in the Group's second history (next to the first half of 2015, which coincided with the global release of *The Witcher 3: Wild Hunt*).

The share of net profit in the Group's H1 2016 revenues was 42%.

**Table 5** Breakdown of sales revenues, expenses and financial result into activity segments.

	CD PROJEKT RED	GOG.com	Other activities	Consolidation exclusions (Incl. from business combinations)	Total
<b>Sales revenues</b>	<b>265 472</b>	<b>69 259</b>	<b>4 462</b>	<b>(20 197)</b>	<b>318 996</b>
Revenues from sales of products	253 985	18	-	(14 799)	239 204
Revenues from sales of services	1 106	-	4 450	(5 391)	165
Revenues from sales of goods and materials	10 381	69 241	12	(7)	79 627
<b>Cost of products, goods and materials sold</b>	<b>42 343</b>	<b>47 891</b>	<b>384</b>	<b>(15 325)</b>	<b>75 293</b>
Cost of products and services sold	32 453	342	375	(521)	32 649
Value of goods and materials sold	9 890	47 549	9	(14 804)	42 644
<b>Gross profit (loss) from sales</b>	<b>223 129</b>	<b>21 368</b>	<b>4 078</b>	<b>(4 872)</b>	<b>243 703</b>
Other operating revenues	626	352	255	(399)	834
Selling costs	46 324	12 189	12 796	(1 011)	70 298
General and administrative costs	7 132	2 956	4 186	(3 843)	10 431
Other operating expenses	700	284	104	(398)	690
<b>Operating profit (loss)</b>	<b>169 599</b>	<b>6 291</b>	<b>(12 753)</b>	<b>(19)</b>	<b>163 118</b>
Financial revenues	4 485	5	382	(64)	4 808
Financial expenses	223	213	38	(64)	410
<b>Profit (loss) before tax</b>	<b>173 861</b>	<b>6 083</b>	<b>(12 409)</b>	<b>(19)</b>	<b>167 516</b>
Income tax	33 996	780	(1 942)	-	32 834
<b>Net profit (loss) from continuing operations</b>	<b>139 865</b>	<b>5 303</b>	<b>(10 467)</b>	<b>(19)</b>	<b>134 682</b>
<b>Net profit (loss) from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Aggregate net profit (loss)</b>	<b>139 865</b>	<b>5 303</b>	<b>(10 467)</b>	<b>(19)</b>	<b>134 682</b>
<b>Net profit (loss) attributable to minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net profit (loss) attributable to equity holders of parent entity</b>	<b>139 865</b>	<b>5 303</b>	<b>(10 467)</b>	<b>(19)</b>	<b>134 682</b>

The separate net profit of CD PROJEKT RED in the first half of 2016 was 139 865 thousand PLN, while that of GOG.com was 5 303 thousand PLN. The Other activities segment reported a net loss of 10 467 thousand PLN.

CD PROJEKT Capital Group's H1 revenues and net profit were primarily affected by continuing sales of The Witcher 3: Wild Hunt and the release of the game's second expansion pack – Blood and Wine, along with revenues from sales of the Expansion Pass (reported in the profit and loss account), including preorders which the Company began accepting in April 2015. In the CD PROJEKT RED segment the Group also continued to sell its earlier products, including The Witcher and The Witcher 2: Assassins of Kings, along with a variety of tie-in products rolled out in the run-up to the release of The Witcher 3: Wild Hunt.

Of note is the highest-ever sales volume in the GOG.com segment, with good sales reported across the entire catalogue, bolstered by the release of Blood and Wine and the Expansion Pass. Owing to GOG Galaxy, GOG.com's market share in total sales of both expansion packs for The Witcher 3 significantly outperformed the corresponding results for the base game.

The negative financial result of the Other activities segment comprises part of the separate result of CD PROJEKT S.A. in the amount of -10 467 thousand PLN, representing the activities of its Invest department. The most significant contribution to expenses in this segment was creation of provisions for employee benefits and bonuses dependent on CD PROJEKT S.A.'s financial result, as mandated by the incentive program in force at the Company.



## Consolidated statement of financial position

Table 6 Consolidated statement of financial position

	Note	30.06.2016	31.12.2015*
<b>FIXED ASSETS</b>		<b>140 220</b>	<b>137 997</b>
Tangible assets	2	12 612	9 380
Intangible assets	3	46 825	47 857
Expenditures on development projects	3	33 503	33 581
Goodwill	4	46 417	46 417
Other financial assets	9,12	547	547
Other fixed assets		316	215
<b>WORKING ASSETS</b>		<b>620 540</b>	<b>521 178</b>
Inventories	5	483	619
Trade receivables	6	82 268	87 704
Current income tax receivables	6	3 943	-
Other receivables	6,12	16 838	26 530
Other financial assets	9,12	-	165
Prepaid expenses	7	12 685	12 523
Cash and cash equivalents	12	504 323	393 637
<b>TOTAL ASSETS</b>		<b>760 760</b>	<b>659 175</b>

\* adjusted

	Note	30.06.2016	31.12.2015*
<b>EQUITY</b>		<b>650 846</b>	<b>513 675</b>
<b>Equity attributable to shareholders of the parent company</b>		<b>650 846</b>	<b>513 675</b>
Share capital	16	95 160	94 950
Supplementary capital, incl. sales of shares above nominal price		395 755	120 199
Other reserve capital		3 720	3 354
Exchange rate differences at subsidiaries		2 939	2 514
Retained earnings		18 590	(49 772)
Net profit (loss) for the reporting period		134 682	342 430
<b>Minority share capital</b>		-	-
<b>LONG-TERM LIABILITIES</b>		<b>5 175</b>	<b>3 643</b>
Other financial liabilities		110	-
Deferred income tax liabilities	8	4 450	3 185
Deferred revenues		580	423
Provisions for employee benefits and similar liabilities	9	35	35
<b>SHORT-TERM LIABILITIES</b>		<b>104 739</b>	<b>141 857</b>
Credits and loans	12	-	-
Other financial liabilities		170	293
Trade liabilities	12	28 961	22 603
Liabilities from current income tax		937	7 524
Other liabilities	11,12	5 383	46 965
Deferred revenues		2 889	7 864
Provisions for employee benefits and similar liabilities	9	279	225
Other provisions	10	66 120	56 383
<b>TOTAL LIABILITIES</b>		<b>760 760</b>	<b>659 175</b>

\* adjusted

### Assets

As of 30 June 2016 the total value of the Group's tangible fixed assets was 12 612 thousand PLN, which is 3 232 thousand more than at the end of the corresponding period in 2015. Main contributions are from Machinery and equipment (5 963 thousand PLN) – i.e. computers, servers and other electronic devices used in the development of games, and from Buildings and structures (5 227 thousand PLN), including adaptation of office space owned by the Group's member companies to facilitate ongoing operations.

The Group's intangibles, valued at 46 825 thousand PLN, are dominated by the CD PROJEKT brand name and The Witcher trademark (32 199 thousand PLN in total). This line item also aggregates computer software held by the Group (7 474 thousand PLN). The value of intangibles did not materially change with respect to the first half of 2015.

As a result of presentation-related adjustments, expenses associated with development of videogames were disaggregated as a separate line item in the Fixed assets category (named Expenditures on development projects). The corresponding adjustment was also retroactively carried out with respect to 2015 financial data. Previously, such expenses had been presented in the Inventories section as either Assets under construction or Finished products. This change is meant to better reflect CD PROJEKT RED's focus on development of videogames which constitute intangible assets, and whose development cycle and useful economic life are both longer than 1 year. In addition, this change reflects the accounting practices adopted by other publicly traded entities which develop and distribute videogames.

Expenditures on development projects (borne mostly by the parent entity) were valued at 33 503 thousand PLN. Due to the conclusion of development work on Blood and Wine, the totality of development expenses associated with this product were reclassified from Development projects in progress to Development projects finished. The release of the expansion pack was accompanied by disclosure of its current-period sales revenues, as well as revenues associated with Expansion Pass preorders. In light of the upcoming release of The Witcher 3: Game of the Year edition (scheduled for Q3 2016) the totality of Blood and Wine development expenses were discounted in the current period.



Further reduction in the value of Development projects finished compared to the corresponding data for the end of 2015 was due to discounting of all remaining development costs of *The Witcher 3: Wild Hunt* and *Hearts of Stone*, set against current sales of both products. As a result of these steps, the balance of Development projects finished is reported as 0 PLN. Regarding Development projects in progress, the reported figure – 33 503 thousand PLN – is associated with products which have not yet been released, including the Company's flagship projects: *Cyberpunk 2077* and *GWENT: The Witcher Card Game*.

An important contribution to Fixed assets is the Group's goodwill, valued at 46 417 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 reported goodwill was created in the merger between the parent company and CDP Investment, effective on 30 April 2010, and did not change throughout the first half of 2016.

Consolidated sales receivables were reported at 82 268 thousand PLN. This figure is dominated by CD PROJEKT RED sales receivables (88 881 as of 30 June 2016, including receivables from GOG.com, which are subject to consolidation eliminations). The balance of CD PROJEKT RED receivables includes receivables attributable to CD PROJEKT S.A. and associated with Q2 2016 licensing reports from foreign distributors, obtained after the close of the reporting period (73 851 thousand PLN in total).

The Group's other receivables were estimated at 16 838 thousand PLN, which is 9 692 thousand PLN less than at the end of 2015. The bulk of this figure is associated with CD PROJEKT S.A. mostly withholding tax deducted at source by the Company's foreign distributors and subject to disclosure in the Company's financial statement for the current year, as well as VAT receivables.

The consolidated value of prepaid expenses, i.e. 12 685 thousand PLN, did not change appreciably compared to the end of 2015. This figure aggregates minimal guarantees secured by GOG Ltd. from the Company's distributors and not disclosed in the Company's profit and loss account as of the balance sheet date (10 157 thousand PLN at the end of June 2016).

As of 30 June 2016 the Group held cash assets valued at 504 323 thousand PLN, which represents an increase by 110 686 thousand PLN compared to 31 December 2015. Of this figure 453 539 thousand PLN was held by CD PROJEKT S.A. while 45 819 thousand PLN was held by GOG Ltd.

During the first half of 2016 the total value of fixed assets increased slightly, by 2 223 thousand PLN (2%), while working assets increased by 99 362 thousand PLN (19%). At the end of the reporting period fixed assets constituted 18% of the Group's total assets, with the remainder made up by working assets.

## **Liabilities**

The aggregate liabilities of the CD PROJEKT Capital Group are made up of the Group's equity (86%) and its short- and long-term liabilities (14%). The corresponding figures at the end of 2015 were 78% and 22% respectively. The reported increase in the share of equity in the Group's total liabilities is due to the Group's net profit obtained in the first half of 2016.

Trade liabilities, valued at 28 961 thousand PLN at the end of June, are primarily attributable to the GOG.com segment (31 309 thousand PLN, including intragroup liabilities in the amount of 8 579 thousand PLN and subject to consolidation eliminations). The CD PROJEKT RED segment reported 6 103 thousand PLN in trade liabilities. Consolidated trade liabilities were 6 358 thousand PLN greater than at the end of 2015 (28% increase).

The Group's other liabilities are reported as 5 383 thousand PLN, which represents a reduction by 41 582 thousand PLN (89%) compared to the end of 2015. Following the release of *Blood and Wine*, the Group fully discounted licensing royalties associated with preorders of *The Witcher 3: Wild Hunt Expansion Pass* advanced to the Company, which explains the observed reduction in other liabilities. The bulk of the remaining figure is associated with current VAT liabilities (4 259 thousand PLN).

At the end of June 2016 the Group's other provisions were reported at 66 120 thousand PLN, which is 17% more than at the end of 2015. This figure comprises provisions for future CD PROJEKT S.A. liabilities, including compensation and bonuses dependent on the Company's financial result.

The Group's segmented statement of financial position is presented below.



**Table 7** Segmented consolidated statement of financial position as of 30.06.2016

	CD PROJEKT RED	GOG.com	Other activities	Consolidation eliminations (incl. from business combinations)	Total
<b>FIXED ASSETS</b>	<b>66 983</b>	<b>7 509</b>	<b>95 008</b>	<b>(29 280)</b>	<b>140 220</b>
Tangible fixed assets	7 734	2 951	1 927	-	12 612
Intangible assets	26 494	3 538	60 149	(43 356)	46 825
Expenditures on development projects	32 654	849	-	-	33 503
Goodwill	-	-	-	46 417	46 417
Investments in subsidiaries	-	-	32 117	(32 117)	-
Other financial assets	-	-	547	-	547
Deferred income tax assets	-	171	53	(224)	-
Other fixed assets	101	-	215	-	316
<b>WORKING ASSETS</b>	<b>539 575</b>	<b>59 968</b>	<b>64 031</b>	<b>(43 034)</b>	<b>620 540</b>
Inventories	459	-	24	-	483
Trade receivables	88 881	1 762	223	(8 598)	82 268
Current income tax receivables	1 202	-	2 741	-	3 943
Other receivables	38 156	1 741	11 377	(34 436)	16 838
Prepaid expenses	1 951	10 614	120	-	12 685
Cash and cash equivalents	408 926	45 851	49 546	-	504 323
<b>TOTAL ASSETS</b>	<b>606 558</b>	<b>67 477</b>	<b>159 039</b>	<b>(72 314)</b>	<b>760 760</b>

	CD PROJEKT RED	GOG.com	Other activities	Consolidation eliminations (incl. from business combinations)	Total
<b>EQUITY</b>	<b>530 964</b>	<b>25 170</b>	<b>122 398</b>	<b>(27 686)</b>	<b>650 846</b>
<b>Equity attributable to shareholders of the parent company</b>	<b>530 964</b>	<b>25 170</b>	<b>122 398</b>	<b>(27 686)</b>	<b>650 846</b>
Share capital	7 055	86	95 160	(7 141)	95 160
Supplementary capital from sales of shares above their nominal value	368 242	1 719	112 366	(86 572)	395 755
Other reserve capital	-	-	3 720	-	3 720
Exchange rate differences on valuation of foreign entities	22	2 528	-	389	2 939
Retained earnings	15 780	15 534	(78 381)	65 657	18 590
Net profit (loss) for the reporting period	139 865	5 303	(10 467)	(19)	134 682
<b>Noncontrolling interest equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LONG-TERM LIABILITIES</b>	<b>6 101</b>	<b>12</b>	<b>675</b>	<b>(1 613)</b>	<b>5 175</b>
Other financial liabilities	-	-	110	-	110
Deferred income tax liabilities	6 063	-	-	(1 613)	4 450
Deferred revenues	22	8	550	-	580
Provisions for employee benefits and similar liabilities	16	4	15	-	35
<b>SHORT-TERM LIABILITIES</b>	<b>69 493</b>	<b>42 295</b>	<b>35 966</b>	<b>(43 015)</b>	<b>104 739</b>
Other financial liabilities	-	-	170	-	170
Trade liabilities	6 103	31 309	128	(8 579)	28 961
Liabilities from current income tax	-	937	-	-	937
Other liabilities	9 909	6 249	23 661	(34 436)	5 383
Deferred revenues	324	2 393	172	-	2 889
Provisions for retirement benefits and similar liabilities	1	105	173	-	279
Other provisions	53 156	1 302	11 662	-	66 120
<b>TOTAL LIABILITIES</b>	<b>606 558</b>	<b>67 477</b>	<b>159 039</b>	<b>(72 314)</b>	<b>760 760</b>

## Consolidated statement of cash flows

**Table 8** Consolidated statement of cash flows

	Note	01.01.2016 – 30.06.2016	01.01.2015 – 30.06.2015
<b>OPERATING ACTIVITIES</b>			
<b>Net profit (loss)</b>		<b>134 682</b>	<b>236 252</b>
<b>Total adjustments:</b>	24	<b>16 541</b>	<b>(114 871)</b>
Depreciation of fixed assets and intangibles		2 722	1 354
Depreciation of development projects		31 397	62 329
Interest and profit sharing (incl. dividends)		(3 974)	(151)
Profit (loss) on investment activities		149	589
Change in provisions		9 791	58 070
Change in inventories		136	7 161
Change in receivables		15 028	(217 964)
Change in liabilities excluding credits and loans		(35 224)	(21 631)
Change in other assets and liabilities		(4 980)	(6 017)
Other adjustments		1 496	1 389
<b>Cash flow from continuing operations</b>		<b>151 223</b>	<b>121 381</b>
Income tax on profit (loss) before taxation		32 834	47 766
Income tax (paid) / received		(42 104)	(13 328)
<b>Net cash flow from operating activities</b>		<b>141 953</b>	<b>155 819</b>
<b>INVESTMENT ACTIVITIES</b>			
<b>Inflows</b>		<b>4 116</b>	<b>151</b>
Liquidation of fixed and intangible assets		53	-
Liquidation of financial assets		85	-
Other inflows from investment activities (dividends and interest)		3 978	151
<b>Outflows</b>		<b>35 923</b>	<b>26 025</b>
Purchases of intangibles and tangible fixed assets		7 023	4 409
Purchases of financial assets		-	105
Expenditures on development projects*		28 900	21 511
<b>Net cash flow from investment activities</b>		<b>(31 807)</b>	<b>(25 874)</b>
<b>FINANCIAL ACTIVITIES</b>			
<b>Inflows</b>		<b>903</b>	<b>-</b>
Net inflows from issue of securities (stock) and other equity instruments, and from capital contributions		903	-
<b>Outflows</b>		<b>363</b>	<b>144</b>
Repayment of credits and loans		-	4
Payment of liabilities under financial lease agreements		359	140
Interest payments		4	-
<b>Net cash flows from financial activities</b>		<b>540</b>	<b>(144)</b>
<b>Total net cash flow</b>		<b>110 686</b>	<b>129 801</b>
<b>Change in cash and cash equivalents on balance sheet</b>		<b>110 686</b>	<b>129 801</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>393 637</b>	<b>34 395</b>
<b>Cash and cash equivalents at end of period</b>		<b>504 323</b>	<b>164 196</b>

\* adjusted

In the scope of its operating activities, the CD PROJEKT Capital Group reported 141 953 thousand PLN in positive cash flows in the first half of 2016, which is 13 866 thousand less than in the corresponding period in 2015 (9% reduction). It should be noted that the first half of 2015 coincided with the release of The Witcher 3: Wild Hunt.



An important adjustment was made with regard to the presentation of depreciation of ongoing development projects, valued at 31 397 thousand PLN. This figure corresponds to a decrease in the value of expenses on development projects (disclosed as part of the Group's fixed assets) due to the creation of the corresponding depreciation write-downs, aggregated with the cost of products and services sold.

Another important change involving cash flows from operating activities was the reported decrease in the Group's receivables by 15 028 thousand PLN, most of which is attributable to reductions in other receivables and trade receivables compared to the end of the preceding year.

The reported change in the value of liabilities except credits and loans (-35 224 thousand PLN) resulted from a decrease in the balance of liabilities, including Other liabilities, in association with settlement of advance royalties for The Witcher 3: Wild Hunt Expansion Pass, as described in the commentary section attached to the Group's statement of financial position.

Due to intensive ongoing development of unreleased products and as a result of the presentation adjustments described above (disclosure of development expenses as a separate line item in the Fixed assets section), the CD PROJEKT Capital Group reported 31 807 thousand PLN in negative cash flows from investment activities. This figure is mostly comprised of the aforementioned H1 development expenses (28 900 thousand PLN, compared to 21 511 thousand PLN in the first half of 2015). The observed increase in development expenses is due to a significant ramp-up of CD PROJEKT RED development activities compared to the corresponding period in 2015. The current statement reflects expenses associated with Cyberpunk 2077, GWENT: The Witcher Card Game and the recently released Blood and Wine expansion pack for The Witcher 3: Wild Hunt. Additional outflows from investment activities were due to purchases of intangibles and tangible fixed assets, valued at 7 023 thousand PLN. This line item aggregates purchases of fixed assets, computer software, licenses and other investment-related expenses within each of the Group's activity segments.

The Group reported positive net cash flows from financial activities in the amount of 540 thousand PLN.

As of 30 June 2016, the Group held cash and cash equivalents valued at 504 323 thousand PLN, and had no outstanding debt under any credit or loan agreements. In the first half of 2015 (which coincided with the release of The Witcher 3: Wild Hunt), the Group's cash assets increased by 129 801, while the corresponding increase in the current period is 110 686 thousand PLN.

## **Disclosure of credits and loans in the first half of 2016**

During the reporting period the CD PROJEKT Capital Group had no outstanding liabilities associated with any credit or loan agreements.

## **Disclosure of loans granted in the first half of 2016**

In presented period no member of the CD PROJEKT Capital Group granted any loans to external parties. Capital Group members consolidate their bank accounts under a cash pooling agreement in order to maximize the efficiency of cash management.

## **Disclosure of guarantees and sureties granted in the first half of 2016, and other off-balance sheet items**

A presentation of guarantees and sureties granted, and other off-balance sheet items is included in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2016.

## **Disclosure of transactions with affiliates**

The following types of transactions between the parent company and its affiliates have occurred as part of the activities of the CD PROJEKT Group in the first half of 2016:

- sales of licenses between CD PROJEKT S.A., GOG Ltd. and CD PROJEKT Brands S.A., as required by these companies' respective business profiles,
- groupwide consolidation of bank accounts under a cash pooling agreement,
- procurement of accounting, HR, legal, financial, administrative and managerial services from CD PROJEKT S.A. by its subsidiaries,



- subletting of office space,
- procurement of GOG Poland sp. z o.o. services by GOG Ltd. in the scope of maintenance of the GOG.com platform,
- procurement of CD PROJEKT Inc. services by CD PROJEKT S.A. and GOG Ltd. in the scope of coordinating promotional and publishing activities in North America,
- development work on GWENT: The Witcher Card Game, carried out on the basis of a consortium agreement between CD PROJEKT S.A. and GOG Poland Sp. z o.o.,
- other minor transactions associated with day-to-day activities (e.g. re-invoicing joint expenses).

Transactions between affiliates are concluded on market terms as required by the business profiles of each member of the CD PROJEKT Capital Group. A detailed description of procedures which govern transactions between affiliates is included in the Condensed Interim Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 30 June 2016.

### **Explanation of differences between the financial results reported in the annual financial statement and previously published projections for the corresponding fiscal year**

The CD PROJEKT Capital Group did not publish any projections regarding the 2016 fiscal year. Consequently, no explanation of differences between its financial results and the corresponding projections is required.



CD PROJEKT

## Corporate governance

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# 5

## Disclosure of entities charged with audits and attestation of financial statements

On 1 June 2016 the Supervisory Board of the Company concurred with the recommendation submitted by the Management Board of the Company and selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., headquartered in Warsaw, as the entity charged with assessing the correctness of the semiannual financial statement and performing an audit of the annual financial statement of the Company and its Capital Group for 2016. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. is included on the list of entities authorized to perform audits of financial statement, maintained by the National Chamber of Statutory Auditors (no. 130).

## Disclosure of shareholders who control at least 5% of the total number of votes at the General Meeting

The Company's share capital is 95 820 000 PLN, divided into 95 820 000 shares with a nominal value of 1 PLN per share.

The shareholder structure is determined on the basis of formal notices issued by shareholders who control at least 5% of the total number of votes at the General Meeting of Shareholders.

**Table 9** Shareholders controlling at least 5% of votes at the General Meeting

	No. of shares	Percentage share in share capital	No. of votes at the GM	Percentage share in total number of votes at the GM
Michał Kiciński <sup>1</sup>	12 281 616	12.82%	12 281 616	12.82%
Marcin Iwiński	12 150 000	12.68%	12 150 000	12.68%
Piotr Nielubowicz	6 135 197	6.40%	6 135 197	6.40%
PKO TFI S.A. <sup>2</sup>	9 000 000	9.39%	9 000 000	9.39%
AVIVA OFE <sup>3</sup>	4 940 000	5.16%	4 940 000	5.16%
Amplico PTE S.A. <sup>4</sup>	5 003 719	5.22%	5 003 719	5.22%
Pozostały akcjonariat	46 309 468	48.33%	46 309 468	48.33%

<sup>1</sup> as disclosed in Current Report no. 2/2015 of 23 February 2015

<sup>2</sup> as disclosed in Current Report no. 19/2011 of 25 February 2011

<sup>3</sup> as disclosed in Current Report no. 25/2012 of 6 September 2012

<sup>4</sup> as disclosed in Current Report no. 20/2013 of 11 September 2013

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.

In [Current Report no. 4/2016](#) of 11 March 2016 and in [Current Report no. 5/2016](#) of 22 March 2016 the Company announced that the entitled parties had exercised the rights afforded to them by series A subscription warrants assigned in light of the attainment of the market goal of the incentive program covering the years 2012-2015, in force at the Company. Accordingly, 210,000 series L bearer shares were acquired by the entitled parties.

The aforementioned shares were deposited in the recipients' securities accounts on 20 May 2016. In line with Art. 452 §1 of the Commercial Company Code this action is tantamount to increasing the Company share capital to 95,160,000 PLN, which the Company duly announced in [Current Report no. 17/2016](#) of 20 May 2016.



As a result of verification of the attainment of the incentive program's market goal and the corresponding exercise of rights by holders of series A subscription warrants, on 15 July 2016 a further 660,000 series L shares were claimed by entitled parties. These shares were deposited in the recipients' securities accounts on 18 August 2016, increasing the Company's share capital to 95,820,000 PLN (in line with Art. 452 §1 of the CCC), as disclosed in [Current Report no. 31/2016](#) of 18 August 2016.

Between 1 January 2016 and the publication date of this report, changes have occurred with regard to the proportion of shares held by the Company's major shareholders who are also members of its Management Board. These changes are detailed in [Current Report no. 16/2016](#) of 20 May 2016, [Current Report no. 27/2016](#) of 18 July 2016 and [Current Report no. 28/2016](#) of 21 July 2016.

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

In accordance with a resolution adopted by the General Meeting on 16 December 2011, the Company has instituted an incentive program for parties regarded as having a decisive influence upon Capital Group activities, as described in the section concerning Capital Group growth outlook.

Under the incentive program the Company's share capital is conditionally increased by not more than 1.9 million PLN, which represents 2% of the current share capital of the parent entity. During the course of the program a total of 1.45 million warrants were issued. Following verification of attainment of the program's goals, 1,170,000 series A warrants were assigned to entitled parties, enabling them to claim 1,170,000 series L shares with a nominal value of 1 PLN per share. Implementation of the program may, in the future, result in changes in the proportion of shares held by the Company's shareholders.

In [Current Report no. 2/2016](#) the Company announced that on 29 January 2016 subscription warrants were assigned in light of the attainment of the incentive program's market goal. On the basis of claim forms filed on 29 January 2016 by the entitled parties, a total of 290,000 (two hundred and ninety thousand) series A subscription warrants were assigned.

In [Current Report no. 24/2016](#) the Company announced that on 30 January 2016 subscription warrants were assigned in light of the attainment of the incentive program's result goal. On the basis of claim forms filed on 30 June 2016 by the entitled parties, a total of 880,000 (eight hundred and eighty thousand) series A subscription warrants were assigned.

Up until the publication date of this report, the entitled parties have exercised their right to claim 870,000 series L shares, which represents 74.35% of the total number of shares attainable under the incentive program.

On 24 May 2016 (see [Current Report no. 18/2016](#)) the General Meeting of Shareholders adopted a resolution instituting a new incentive program, covering the years 2016-2021. No warrants have been issued under this program as of the balance sheet date.

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## Disclosure of the purchase of own shares

The Company has never held its own shares.



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

**Table 10** Number of shares held by members of the Management Board and Supervisory Board

Name	Position	as of 25.08.2016	as of 30.06.2016	as of 01.01.2016
Adam Kiciński	President of the Board	3 322 481	3 162 481	3 122 481
Marcin Iwiński	Vice President of the Board	12 150 000	12 030 000	12 000 000
Piotr Nielubowicz	Vice President of the Board	6 135 197	6 015 197	5 985 197
Michał Nowakowski	Board Member	101 149	1 149	1 149
Piotr Karwowski	Board Member	8 000	20 000	-
Katarzyna Szwarc	Chairwoman of the Supervisory Board	10 010	10 010	10 010

According to formal statement submitted to the Company no other members of the Company's Management Board and Supervisory Board hold CD PROJEKT S.A. shares.

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

## Composition of the Management Board and Supervisory Board of CD PROJEKT S.A.

### Management Board of CD PROJEKT S.A.

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

The specific areas of responsibility of individual Board members are described on the company website at <https://www.cdprojekt.com/en/capital-group/board-of-directors/>.

### Changes in Management Board composition

No changes in the composition of the CD PROJEKT S.A. Management Board occurred during the reporting period.

## Supervisory Board of CD PROJEKT S.A.

Katarzyna Szwarc	Chairwoman of the Supervisory Board
Piotr Pągowski	Deputy Chairman of the Supervisory Board
Maciej Majewski	Secretary of the Supervisory Board
Krzysztof Kilian	Supervisory Board Member
Michał Bień	Supervisory Board Member

## Changes in Supervisory Board composition

In [Current Report no. 9/2016](#) of 27 April 2016 the Management Board announced that Mr. Grzegorz Kujawski had tendered his resignation as member of the Supervisory Board, effective on 28 April 2016. As stated in the formal notice, the resignation was due to personal reasons.

In [Current Report no. 20/2016](#) of 24 May 2016 the Management Board announced that the General Meeting had appointed Mr. Michał Bień to the Supervisory Board of the Company.

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## Disclosure of significant ongoing legal proceedings

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

### Cases 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 7 December 2015 the Appellate Court in Kraków decided to petition the Supreme Court for resolution of a legal issue which, in the Appellate Court's opinion, gives rise to significant legal controversies, and to adjourn the proceeding until such time as a resolution is obtained. The issue concerns the question whether the State Treasury can be held liable to CD PROJEKT when the decisions concerning tax arrears were issued not with respect to Optimus itself, but to the company which existed prior to disaggregation of technological operations into Optimus Technologie. As requested by the Company, the Supreme Court declined to adjudicate the issue. Consequently, the case will be further tried by the Appellate Court in Kraków.



## Other proceedings

No new significant legal, arbitration or administrative proceedings have been initiated with regard to the Company or its subsidiaries during the reporting period. The status of all other ongoing legal proceedings has not changed since the publication of the Company's financial statement for 2015.

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



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