



MANAGEMENT BOARD REPORT ON
CD PROJEKT S.A. ACTIVITIES
IN THE FISCAL YEAR 2014

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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General information

I. Key factors affecting Company performance and other important events occurring in 2014 and up until the publication date of this report

1. The Witcher 3: Wild Hunt preorder campaign launched on 5 June 2014. This was the largest such event in the Company's history, covering three hardware platforms (PC, PlayStation 4 and Xbox One) and involving numerous retailers in 10 language zones.
2. Both CD PROJEKT RED and The Witcher 3: Wild Hunt were showcased at the Xbox One conference preceding the E3 fair. The Microsoft press conference, dedicated to presenting key upcoming releases for the Xbox One console, included a six-minute gameplay trailer of The Witcher 3: Wild Hunt.
3. Throughout 2014 CD PROJEKT RED enjoyed a strong presence at key international trade fairs. The game was showcased at E3 in Los Angeles, at Gamescom in Cologne and at Comic Com in San Diego, The Witcher 3: Wild Hunt was also presented at the British EGX2014 videogame fair, at Games 14 in Saudi Arabia, at Pax Prime in Seattle, at Igromir in Moscow (Russia's largest videogame and comic book fair) and at Brasil Game Show 2014 in Sao Paulo.
4. At the beginning of 2015 The Witcher 3: Wild Hunt received two Most Anticipated Game of 2015 awards, respectively from readers of the well-known American Gamespot portal and participants of The Game Awards survey whose results were announced at a gala event in Las Vegas.
5. Up until the publication date of this report The Witcher 3: Wild Hunt has received over 200 awards from the world's top gaming media and online services. In addition to the awards mentioned above, The Witcher 3 was also named the Most Anticipated Game by IGN (readers' poll), Eurogamer (readers' poll), GameTrailers, The Escapist and The Angry Joe Show. The game has been featured on more than 75 printed magazine covers.
6. By the end of 2014 the Company concluded the publisher selection process in all markets where retail editions of The Witcher 3 will be sold. The game is slated for release in 109 countries.
7. On 8 December 2014 the Company announced that it had postponed the release of The Witcher 3: Wild Hunt until 19 May 2015.
8. In January 2015, after the close of the reporting period, the Company held the first of several hands-on preview sessions where Polish and foreign journalists were given several hours to play The Witcher 3 beta on Xbox One, PlayStation 4 and the PC. Altogether more than 300 journalists from 23 countries gained first-hand experience with the game. The event resulted in several hundred publications.
9. The first issue of "The Witcher House of Glass", published by Dark Horse Comics in collaboration with CD PROJEKT RED, was released on 19 March 2014 in American bookstores and digital distribution channels. The entire cycle, comprising five issues, was published in the USA, Poland, Russia, Germany, the Czech Republic, Spain, Turkey and Italy.
10. On 22 May 2014 the Studio released The Witcher 2: Assassins of Kings for the Linux OS.
11. November 2014 marked the release of The Witcher Adventure Game, developed in collaboration with Fantasy Flight Games - a global leader in the development and distribution of board games. Physical and digital editions of the game were released simultaneously.
12. On 22 January 2015 the Company debuted on the mobile gaming market with The Witcher Battle Arena, developed in collaboration with an external development studio. The Witcher Battle Arena is an online multiplayer F2P title available for iOS and Android devices. In February 2015 the Company announced that during the first three weeks following release the game had been downloaded over 1 million times.
13. In June 2014 GOG Ltd. paid out a dividend in the amount of 2.7 million USD to its sole shareholder - CD PROJEKT S.A.
14. In late November 2014 CD PROJEKT S.A. sold the controlling stake in its cdp.pl subsidiary, reducing its capital share in cdp.pl to 8.29%. As a result effective control over cdp.pl was transferred to long-time employees and current members of the company's management board.
15. Sales revenues of CD PROJEKT S.A. in 2014 amounted to 34 455 thousand PLN.
16. EBITDA of CD PROJEKT S.A. in 2014 was 1 381 thousand PLN.

17. The Company registered a net loss of 12 407 thousand PLN in 2014.
18. As of 31 December 2014 the Company held cash assets valued at 12 947 thousand PLN (including cash equivalents), in addition to other financial assets valued at 2 745 thousand PLN. The latter group comprises PKO investment fund shares purchased as a means of temporary allocation of surplus cash.

■ Summary of business activities in the 2014 fiscal year

Videogame development is the main area of activity of the CD PROJEKT RED Studio, a subsidiary of CD PROJEKT S.A. The activity covers creation of videogames, licensing the associated distribution rights and producing tie-in products which exploit the commercial appeal of brands owned by the Company. 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 on the PC and Xbox 360. Both parts of *The Witcher* series are now also available for Apple and Linux machines.

The Company carries out active distribution of its earlier games (*The Witcher* and *The Witcher 2*) for a number of hardware platforms, using traditional and digital distribution channels. Taken together, both installments of the series have received over 200 awards and sold more than 8 million copies.

The Studio is currently working on two triple-A RPG releases: *The Witcher 3: Wild Hunt* and *Cyberpunk 2077*. Each of these games is slated for simultaneous release on the PC and current-generation gaming consoles: Sony PlayStation 4 and Xbox One.

In July 2013 the Studio established a presence in Kraków, with a dedicated branch set up on the premises of the Kraków Technology Park to carry out work on additional videogame projects.

In addition to ongoing work on *The Witcher 3* and *Cyberpunk 2077* the Company is expanding its core franchise with additional tie-in products set in *The Witcher* universe. Throughout 2014 CD PROJEKT RED focused on two tie-in products developed in collaboration with external partners. In November 2014 CD PROJEKT RED released *The Witcher Adventure Game* in both physical (board) and digital editions (for PCs and tablets). On 22 January 2015, after the close of the reporting period, the Company released its pioneering mobile online game - *The Witcher Battle Arena*, available for tablet devices and advanced smartphones running the iOS and Android operating systems.

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.

■ Key events occurring in 2014

Videogame development

By the end of 2014 all distribution contracts covering physical editions of *The Witcher 3: Wild Hunt* had been concluded. In January the Company announced that it had reached an agreement with Namco Bandai Games concerning exclusive distribution rights for *The Witcher 3* in Australia and New Zealand. In February the Company signed a contract with Agora S.A., making Agora a co-publisher of *The Witcher 3* in Poland. Domestic distribution rights were retained by cdp.pl Sp. z o.o., a subsidiary of the Group. In March 2014 the Company confirmed that marketing and distribution activities in the Middle East would be handled by LS2 Pluto, a leader in videogame distribution in this region. LS2 Pluto has a presence in the United Arab Emirates, Saudi Arabia, Qatar, Kuwait, Liban, Bahrain, Jordan and Egypt, among others. In South Africa the game will be distributed by Megarom Interactive - a key importer and distributor of videogames on the South African market. In addition, the Company signed agreements with 1C-SoftClub concerning distribution and promotion of the game in Russia and the CIS countries. Distribution rights in the Czech Republic, Slovakia and Hungary were licensed to CENEGA, while Brazil and Latin America will be handled by NC Games. In Q3 2014 contracts were concluded with Best Distribution (covering marketing and sales of the game in Romania), Edlee (Israel), Express Games (India), Epic Soft (Taiwan, Hong Kong and Singapore), Bilkom (Turkey) and Computerland/Iris Mega DOO (the Balkans). It should be noted that none of these contracts cover high-markup digital sales, the sole rights to which were retained by CD PROJEKT.

The closing days of Q1 2014 saw the debut of the first installment in *The Witcher House of Glass* comic book series, published by the American company Dark Horse Comics in collaboration with CD PROJEKT RED. Dark Horse Comics is among the largest and most highly regarded publishers of comic books worldwide, managing such notable series as *Star Wars*, *Alien* and *Predator*. It also has substantial experience with videogame adaptations, having collaborated on franchises such as *Halo* and *Mass Effect*. Many Dark Horse projects have been spun off into successful motion pictures - *The Mask*, *Virus*, *TimeCop* and *Mystery Men* to name just a few. As of the publication date of this report *The Witcher House of Glass* has appeared in the USA, Poland, Russia, Germany, the Czech Republic, Spain, Turkey and Italy. Following positive reception by fans, the Company, together with Dark Horse Comics, have decided to extend the project into its second season in 2015.

On 14 May 2014 CD PROJEKT RED announced a rebranding of the Studio. Its new logo, inspired by the mythical Slavic Rarog firebird, features the northern cardinal and corresponds to the Studio's passion for videogame development. The Company also changed the official logo of The Witcher 3: Wild Hunt - the game's new logo features the fearsome faceplate of Eredin, one of the generals of the Wild Hunt.

On 22 May 2014 CD PROJEKT RED responded to the increased popularity of the Linux platform by releasing its flagship game - The Witcher 2: Assassins of Kings - for Linux and SteamOS. Like all other releases, the Linux version of The Witcher 2 will be actively supported to ensure customer satisfaction and long-term playability.

On 5 June 2014 the Studio began accepting preorders for The Witcher 3: Wild Hunt. This preorder campaign is the largest such effort for the Studio to-date, with the game being offered for three hardware platforms (PC, PlayStation 4 and Xbox One) and 10 distinct language versions in all key territories. Both the basic and collector's editions of the game have proven enormously popular - in some countries the limited collector's edition was sold out in the first several days following the launch of the preorder campaign. The event was accompanied by the release of a new trailer, which has so far been viewed more than 2.2 million times.

CD PROJEKT RED enjoyed a strong presence at key trade fairs. The game was showcased in the public zone at the E3 fair in Los Angeles. At Gamescom in Cologne The Witcher 3 stand was visited by more than 1000 media representatives and fifteen thousand fans. The Studio also took part in Comic Con in San Diego, carrying out its first-ever public (i.e. not restricted to media representatives) presentation of gameplay footage from The Witcher 3. Presentations of the game were also organized in conjunction with EGX 2014 (the largest videogame fair in the UK), Games 14 (Saudi Arabia), Pax Prime (Seattle), Igromir (Moscow; the largest videogame and comic book fair in Russia) and Brasil Game Show 2014 (Sao Paulo).

The Witcher 3: Wild Hunt received numerous awards and nominations at 2014 trade fairs, including recognition from GameSpot, Destructoid and IGN. For the second time in a row IGN presented the game with its E3 People's Choice award, based on a popular vote among 100 thousand fans. As of the publication date of this report The Witcher 3 has amassed over 200 accolades from respected gaming media and online portals, as well as numerous community awards. The game has also been featured on the covers of global gaming magazines more than 75 times.

During his 2014 state visit to Poland US President Barack Obama singled out The Witcher 3 as an example of the skill and work ethic of Polish entrepreneurs.

CD PROJEKT RED was also highly praised for its decision to extend a special offer to its customers: everyone who purchases The Witcher 3: Wild Hunt will receive - entirely free of charge - 16 DLC packs expanding the game with new quests, features and items. These packs will be released on a weekly basis in order to actively engage the user community following the game's official release and improve the long-term appeal of The Witcher 3, both for new and existing consumers.

On 27 November 2014 CD PROJEKT RED rolled out The Witcher Adventure Game - a board game created in collaboration with Ignacy Trzewiczek and Fantasy Flight Games. Separate physical and digital editions of the game were released, the latter of which was co-developed with the Can Explode studio. This event marked CD PROJEKT's first foray into the board game market as well as the first time a Witcher-themed product would be released for mobile devices via Google Play and Appstore (in addition to GOG.com, cdp.pl and Steam).

On 9 December the Studio announced that the official release date of The Witcher 3: Wild Hunt had been postponed until 19 May 2015. In justifying its decision the Management Board underscored the Company's focus on ensuring the highest possible quality of its RPG releases, both in technical and artistic terms, as a prerequisite of commercial success.

The scope and complexity of The Witcher 3: Wild Hunt, slated for simultaneous release for the Xbox One, PlayStation 4 and PC, has a decisive impact on the game's development process. Having reviewed the current progress and overall workload associated with ongoing adjustments and fine-tuning of the game, the Management Board decided to postpone the global release of The Witcher 3: Wild Hunt by 12 weeks beyond its previously announced release date.

In December the Company began accepting preorders for The Witcher 3: Wild Hunt directly on the PlayStation Network. The game can be purchased in the European, American and Asian PlayStation Stores.

In early 2015 The Witcher 3: Wild Hunt received two Most Anticipated Game of 2015 awards, respectively from readers of the well-known American Gamespot portal and from participants of The Game Awards survey whose results were announced at a gala event in Las Vegas.

On 22 January 2015 CD PROJEKT RED released its first-ever mobile online multiplayer game: The Witcher Battle Arena, developed in collaboration with Fuero Games. The Game, which was designed from the ground up with tablets and advanced smartphones in mind, is available for iOS and Android devices. The project follows the F2P (free to play) model and does not require upfront purchases or subscription fees. Particular attention was devoted to ensuring that the game remains free of "pay to win" elements and that all of

its content can be unlocked by participating in gameplay. The official release was preceded by a series of beta tests held in Sweden and Canada. In February, less than 3 weeks after the release date, the Studio announced that the game had already been downloaded more than 1 million times.

Following the close of the reporting period, in January 2015, the Studio organized the first of a series of hands-on sessions where invited media representatives could try their own hand at playing beta versions of The Witcher 3 on all target platforms - Xbox One, PlayStation 4 and PC. CD PROJEKT RED hosted journalists from Poland, Germany, France, Slovakia, Russia, the Czech Republic, Italy and Spain. Similar sneak preview sessions were organized at the Stirling Castle in Scotland, in Los Angeles and in Sydney. Altogether the game was showcased to more than 300 journalists from 23 countries. The opportunity was greatly appreciated by the media and resulted in several hundred press articles and publications.

The following excerpts are taken from international online gaming portals:

„It's the kind of large scale RPG players always image in their heads, and it's one of the most beautifully-rendered games I've seen.” - Coming Soon

„There's blood, and there's horror. The world of The Witcher 3 will punch you in your face and give you gout.” - Eurogamer

„What I am mostly remembering, however, is what a strong identity The Witcher 3 possesses. You couldn't mistake this role-playing game for another.” - Gamespot.

In conjunction with the previously discussed preview sessions CD PROJEKT RED also released a new 15-minute gameplay footage trailer.

The second round of hands-on preview sessions was held in March 2015, in Germany, France and Scandinavia. Similarly to the preceding event, invited participants could play the game for several hours on Xbox One, PlayStation 4 and PC. Another round is scheduled to take place after the publication date of this report, with gaming sessions held in Brazil, Russia, Japan, Hong Kong and the United Arab Emirates.

Other events

On 6 June 2014 the Company concluded the sale of the office and storage space at 118 Nawojowska street in Nowy Sącz - the Company's former headquarters.

On 26 November 2014 the Company sold its controlling stake in cdp.pl sp. z o.o. Previously, on 12 May 2014, the Company disclosed that it had sold 9 thousand shares back to cdp.pl sp. z o.o. for redemption, retaining 50.2% of cdp.pl's share capital.

As a result of the November transaction CD PROJEKT S.A.'s share in cdp.pl sp. z o.o. capital decreased to 8.29% and cdp.pl was excluded from consolidation within the CD PROJEKT Capital Group. Control over cdp.pl sp. z o.o. fell to its long-term employees and current members of its management board.

The agreement between the parties sets forth conditions for potential future reduction of CD PROJEKT S.A.'s share in cdp.pl capital, predicated on (among others) future financial results of cdp.pl.

Both companies intend to continue long-term cooperation. cdp.pl remains responsible, among others, for domestic distribution of Polish-language editions of The Witcher, The Witcher 2: Assassins of Kings, The Witcher 3: Wild Hunt, as well as various tie-in products.

In the second half of 2014 the Company began deployment of a novel ERP system which will be used by members of the CD PROJEKT Capital Group. The basic components of the system are briefly described below.

IFS Application (Sweden) is among the world's foremost ERP solutions, covering all fundamental aspects of commercial activity: finances, accounting, HR, payroll, production, distribution, inventory management and project management. Deployment of IFS Application at the CD PROJEKT Capital Group will ensure better cohesiveness, reliability and accuracy of data required by the Company's executive staff. This task coincides with further optimization of the Group's business processes. Initial deployment of the system occurred in January 2015.

Tagetik (Italy) is one of the most advanced CPM (Corporate Performance Management) systems available on the market. The purpose of CPM systems is to support the corporate decisionmaking process. The Company has decided to deploy the following Tagetik modules: Budgeting, Financial Consolidation, Liquidity Management, Reporting and Managerial Analyses. This deployment should provide the Company's executive staff with easier and faster access to accurate financial data, enabling them to make correct business decisions. Initial deployment of the system is scheduled for the beginning of the second half of 2015.

Plus Workflow (Poland) is a document digitization system which streamlines the document flow at commercial enterprises. CD PROJEKT will make use of its invoicing, incoming/outgoing mail registration and contract management components. The goal is to institute a fully electronic document flow augmented by a digital archive. Paper documents will be superseded by electronic ones whenever possible, enhancing management, improving control and enabling financial data to be fed into ERP software without undue delays. Initial deployment of the system is scheduled for the second quarter of 2015.

II. Information concerning the Group's core products and services in 2014

In 2014 the bulk of the Company's revenues in the videogame development segment comprised licensing fees associated with distribution of *The Witcher 2: Assassins of Kings* for the PC, Apple and Xbox 360. Additionally, the Company continued to distribute the first game in *The Witcher* franchise (originally published in 2007), which still attracts players' attention.

In Q4 2014 the Company released *The Witcher Adventure Game* - both as a board game and as a digital application available for the iOS, Android, PC and Apple platforms.

The Company also obtained revenues from distributing tie-in products set in *The Witcher* universe, including comic books published in collaboration with Dark Horse Comics.

Throughout 2014 and up until the publication date of this report the Company collected advance licensing fees from future distributors of *The Witcher 3*. These payments are not reported as revenues in 2014.

Since June 2014 the Company's retail partners (including its GOG Ltd. subsidiary) have been accepting preorders for *The Witcher 3: Wild Hunt*.

The Company provided intragroup services to its subsidiaries. Prior to the sale of the Company's immovable property in Nowy Sącz the Company also obtained revenues from renting out the office and storage space comprising said property.

III. Sales markets, clients and suppliers of CD PROJEKT S.A.

The geographical breakdown of the Company's revenues is as follows:

PLN thousands	01.01.2014 - 31.12.2014		01.01.2013 - 31.12.2013	
	PLN	%	PLN	%
Domestic sales	4 165	12%	3 822	14%
Exports:	30 290	88%	23 249	86%
<i>EU member states</i>	7 274	21%	4 449	16%
<i>Former USSR</i>	588	2%	26	0%
<i>USA</i>	22 378	65%	18 731	69%
<i>Asia</i>	5	0%	35	0%
<i>Others</i>	45	0%	8	0%
Total	34 455	100%	27 071	100%

Sales of CD PROJEKT S.A. products are carried out on the basis of long-term licensing and distribution agreements with publishers and distributors worldwide (e.g. Warner Bros. Home Entertainment, Valve Corporation, GOG Ltd., Namco Bandai Partners SAS) as well as domestic partners (cdp.pl Sp. z o.o., Agora S.A.)

In the videogame development segment the largest net purchaser of Company products was Valve Corporation which accounted for over 10% of the aggregate sales revenues of the Company in 2014. Altogether, sales to Valve Corporation amounted to 17 560 thousand PLN which constitutes 51% of the Company's sales revenues.

Valve Corporation is not affiliated with CD PROJEKT S.A.

Another large purchaser of Company products was Namco Bandai Partners SAS. Cooperation with Namco Bandai generated sales exceeding 10% of the Company's sales revenues. Sales to Namco Bandai amounted to 5 819 thousand PLN which constitutes 17% of the Company's sales revenues.

Namco Bandai Partners SAS is not affiliated with CD PROJEKT S.A.

The third largest purchaser of Company products in 2014 was Warner Bros. Home Entertainment Inc. Cooperation with Warner Bros. generated sales exceeding 10% of the Company's sales revenues. Sales to Warner Bros. Home Entertainment Inc. amounted to 5 819 thousand PLN which constitutes 13% of the Company's sales revenues.

Warner Bros. Home Entertainment is not affiliated with CD PROJEKT S.A.

The videogame development process relies on external tools and solutions; this, however does not translate into significant concentrations of supplier dependence.

In conjunction with the run-up to the release of The Witcher 3: Wild Hunt, the Company's largest supplier in 2014 was DARK HORSE COMICS, Inc. which provides, among others, physical components of the game's collector's edition. Purchases from DARK HORSE COMICS, Inc. exceeded 10% of the Company's sales revenues in 2014 - the total value of said purchases was 13 868 thousand PLN.

DARK HORSE COMICS, Inc. is not affiliated with CD PROJEKT S.A.

Additionally, in 2014 the Company collaborated with Testronic Laboratories Ltd., from which it purchased products and services valued at 4 024 thousand PLN. This exceeds 10% of the Company's sales revenues.

Testronic Laboratories Ltd. is not affiliated with CD PROJEKT S.A.

IV. Disclosure of significant agreements affecting the Company (except credit and loan agreements) concluded in 2014 and up until the publication date of this report

In Current Report no. 2/2014 of 7 February 2014 roku the Management Board of the Company announced the conclusion of an agreement with Agora S.A., headquartered in Warsaw, concerning distribution of The Witcher 3: Wild Hunt.

According to the contract the Company grants Agora a license to use the Polish language release of the Game for the PC, Microsoft Xbox One and Sony PlayStation 4 insofar as it is necessary to ensure distribution of the boxed and digital versions of the game throughout the Republic of Poland. The contract broadly specifies how the game should be distributed, including a provision for sublicensing distribution rights to cdp.pl z o.o., and contains provisions governing the game's promotional campaign.

The Company's compensation due to the license grant will be estimated on the basis of Agora's net revenues less the agreed-upon distribution fees and promotional expenses. Financial obligations will be settled on a quarterly basis, according to sales reports prepared by cdp.pl.

In addition to the above, a separate distribution contract was concluded between Agora and cdp.pl, which is a former subsidiary of CD PROJEKT S.A., concerning an exclusive sublicense grant to cdp.pl insofar as it is necessary to ensure distribution of the game within the Republic of Poland by cdp.pl. The sublicensing agreement broadly specifies the manner in which physical and digital releases of the game should be distributed for the PC, Microsoft Xbox One and Sony PlayStation 4.

Agora's compensation due to the sublicense grant will be estimated on the basis of cdp.pl revenues attributable to distribution of the game in each of its distribution channels.

Both contract will remain in force throughout an 18-month period following the game's initial release.

As collateral for financial liabilities associated with the above mentioned contracts, the Company issued a blank promissory note and filed a notarized declaration of submission to enforcement.

In the Management Board's opinion both contracts, which are substantially similar to other agreements previously concluded with Agora and concerning distribution of The Witcher 2: Assassins of Kings within Poland, position Agora as a co-distributor of the game and should result in a marked improvement in the effectiveness of the game's promotional campaign, contributing to its ultimate market success.

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

Since 2008 the CD PROJEKT RED Studio has carried out work on its proprietary game engine named REDengine, created in order to support development of next-generation RPGs for the PC, Mac and gaming consoles. The engine provides a specialized set of tools and supports cutting-edge visuals together with advanced physics. As a result, games based on REDengine transport the player into a pervasive and mature fantasy world, pushing the envelope of modern video RPGs.

The first game based on REDengine was The Witcher 2 for the PC. The game received international praise for its graphics and storytelling. Earlier on the Group's development studio had relied on bought-in resources. Finalizing work on The Witcher 2: Assassins of Kings for the Xbox 360 marked an important milestone in the development of REDengine as the engine was made compatible with additional hardware platforms. These activities continued following the release of The Witcher 2 for the Xbox 360.

Throughout 2014 CD PROJEKT RED carried out intensive development work on REDengine 3 in order to fully exploit the capabilities of the newest generation of gaming consoles (Sony PlayStation 4 and Microsoft Xbox One). Milestones achieved during this period include full compliance with XR and TRC (sets of technical requirements which must be met in order for the game to be legally published for a given platform). Much attention was also devoted to further optimization of engine features. A model dismemberment algorithm was devised to support immersive combat visualization. Support was added for Screen Space Reflection (realistic reflections in liquid surfaces such as water) and Bokeh DoF (depth-of-field manipulation used in cutscene rendering). In collaboration with Nvidia - leading manufacturer of graphics adapters - the Studio also integrated a realistic hair simulation library called HairWorks. Owing to the progress achieved in 2014 the game's visual appeal on current-generation consoles will not lag behind the PC, which the Company views as a major technological breakthrough.

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Financial status of CD PROJEKT S.A. - overview

I. Overview of key economic and financial indicators disclosed in the Company's financial statement

■ Statement of financial position

PLN thousands	Note	31 Dec 2014	31 Dec 2013
FIXED ASSETS	-	78 064	110 188
<i>Tangible assets</i>	12	4 603	9 204
<i>Intangible assets</i>	13	62 372	75 648
<i>Investments in affiliates</i>	15	9 855	24 828
<i>Other financial assets</i>	19	547	-
<i>Deferred income tax assets</i>	6	410	250
<i>Other fixed assets</i>	16	277	258
CURRENT ASSETS	-	130 754	75 840
<i>Inventories</i>	20,21	96 511	44 514
<i>Trade receivables</i>	22	5 360	3 556
<i>Current income tax receivables</i>	-	-	900
<i>Other receivables</i>	23	12 981	5 681
<i>Other financial assets</i>	19	2 745	804
<i>Prepaid expenses</i>	24	210	383
<i>Cash and cash equivalents</i>	25	12 947	20 002
TOTAL ASSETS	-	208 818	186 028

PLN thousands	Note	31 Dec 2014	31 Dec 2013
EQUITY	-	142 264	153 945
<i>Share capital</i>	26	94 950	94 950
<i>Supplementary capital, incl. sales of shares above nominal price</i>	27	110 936	110 936
<i>Other reserve capital</i>	29	1 716	989
<i>Retained earnings</i>	30	(52 931)	(71 228)
<i>Net profit (loss) for the reporting period</i>	-	(12 407)	18 298
LONG-TERM LIABILITIES	-	2 363	4 936
<i>Other financial liabilities</i>	32,38	260	100
<i>Deferred income tax liabilities</i>	6	1 115	3 809
<i>Deferred revenues</i>	39	965	1 004
<i>Provisions for employee benefits and similar liabilities</i>	40	23	23
<i>Other provisions</i>	41	-	-
SHORT-TERM LIABILITIES	-	64 191	27 147
<i>Credits and loans</i>	31	4	1
<i>Other financial liabilities</i>	32,38	397	128
<i>Trade liabilities</i>	34	9 286	10 257
<i>Liabilities from current income tax</i>	-	497	-
<i>Other liabilities</i>	35,36	53 737	16 461
<i>Deferred revenues</i>	39	40	106
<i>Provisions for employee benefits and similar liabilities</i>	40	139	88
<i>Other provisions</i>	41	91	106

TOTAL LIABILITIES	-	208 818	186 028
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The largest component of tangible assets (jointly valued at 4 603 thousand PLN) is buildings and structures, with a net value of 1 904 thousand PLN. This item chiefly comprises the cost of conversion projects at office premises leased by the Company, as well as office equipment and supplies with a reported net value of 1 547 thousand PLN. The significant reduction in the value of tangible fixed assets (by 50% compared to 31 December 2013) is a result of the sale of office and storage space comprising the immovable property at Nawojowska 118 in Nowy Sącz.

The largest component of the Company's fixed assets is its goodwill, defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the Company's share in the net fair value of all assets and liabilities (including conditional liabilities) of the controlled entity on the date of acquisition. The reported goodwill is 39 147 thousand PLN. Another important intangible asset is the CD PROJEKT brand name, valued at 18 364 thousand PLN. The decrease in the value of intangible assets observed in 2014 is chiefly due to the sale of The Witcher trademark, valued at 15 104 thousand PLN to CD PROJEKT Brands S.A., a subsidiary of CD PROJEKT S.A. This transaction was carried out in October 2014. Additionally, the Company possesses computer software and licenses with an aggregate net value of 3 718 thousand PLN as of the balance sheet date.

Investments in subsidiaries, with a reported value of 24 828 thousand PLN at the end of 2013, were comprised of the balance-sheet value of the Company's subsidiaries - specifically cdp.pl sp. z o.o., GOG Ltd, Gog Poland sp. z o.o. and Brand Projekt sp. z o.o. The observed decrease in 2014 is due to sale of shares in cdp.pl sp. z o.o.

The total value of inventories at the close of 2014 was 96 511 thousand PLN which represents an 86% increase compared to the end of the preceding year and results from ongoing development of games. This figure includes half-finished goods and videogames under development (48 193 thousand PLN increase, most of which is attributable to the Studio's major upcoming releases, i.e. The Witcher 3: Wild Hunt and Cyberpunk 2077). Of note is the significant decrease in the value of finished products, from 4 193 thousand PLN to 50 thousand PLN at the end of 2014. This figure covers production costs of The Witcher 2 for the PC and Xbox 360, previously reported as finished goods and entirely discounted throughout the final quarter of 2014. Accordingly, future financial reports will no longer include the game's development expenses discounted in proportion to current sales.

Trade receivables amounted to 5 360 thousand PLN at the end of 2014, which was 1 804 thousand PLN more than at the end of the preceding year (51% increase). The reported total is mostly due to licensing fees covering the fourth quarter of 2014 and collected after the close of the reporting period - particularly fees associated with distribution of The Witcher and The Witcher 2: Assassins of Kings.

Other receivables were jointly valued at 11 981 thousand PLN. This figure was largely comprised by CD PROJEKT S.A. tax receivables (excluding corporate income tax), i.e. 3 979 thousand PLN, as well as advances paid out to manufacturers of components of The Witcher 3 box sets - 3 030 thousand PLN. The total value of other receivables increased by 7 300 thousand PLN compared to the end of 2013 (128% increase).

The "Other financial assets" line item corresponds to PKO retirement fund shares purchased as a temporary means of allocating surplus cash. As of 31 December 2014 these shares were valued at 2 745 thousand PLN. Additionally, this figure covers cdp.pl shares valued at 547 thousand PLN and otherwise reported as fixed assets. The total value of other short- and long-term financial assets increased by 2 488 thousand PLN throughout 2014.

Cash and cash equivalents decreased in value by 7 055 thousand PLN, to 12 947 thousand PLN on 31 December 2014.

Throughout 2014 the total value of fixed assets decreased by 32 124 thousand PLN (29%) while current assets increased in value by 54 914 thousand PLN (72%). The reported decrease in the value of fixed assets is a result of sale of shares in operations which fall out of scope of the Company strategy. The increase in current assets is mostly due to expansion of Company inventories and new receivables (trade or otherwise) associated with the approaching major releases and ongoing sales of earlier videogames.

At the end of 2014 fixed assets comprised 37% of the total assets held by the Company, with the remainder classified as current assets.

Regarding liabilities, 68% of them are attributable to CD PROJEKT S.A. equity, with the remaining 32% comprising short- and long-term liabilities. At the end of 2013 the corresponding indicators were 83% and 17% respectively.

The reported decrease in the Company's equity is chiefly due to the net loss sustained in 2014 and estimated at 12 407 thousand PLN. The bulk of this figure was due to sale of CD PROJEKT Brands S.A. shares to an entity which is wholly owned by the Company and part of its Tax Capital Group.

Deferred income tax liabilities (a component of the Company's long-term liabilities) decreased by 71%, reaching 1 115 thousand PLN at the end of 2014. The reported change is due to a decrease in the positive temporary differences associated with sale of The Witcher trademark to an entity which is wholly owned by the Company. An in-depth presentation of positive temporary differences requiring creation of deferred tax liabilities can be found in the Financial Statement of CD PROJEKT S.A.

Throughout 2014 the Company did not draw upon the available credit lines - it remained capable of financing its activities with its own funds as well as with advance payments collected from customers. The reported value of outstanding credits and loans (4 thousand PLN at the end of 2014) is entirely due to outstanding charges on Company credit cards used to facilitate daily operations.

The Company's trade liabilities as of 31 December 2014 are reported as 9 286 thousand PLN, which represents a 971 thousand PLN decrease compared to the end of the preceding year. This figure is mostly comprised of liabilities due to foreign suppliers (7 308 thousand PLN).

Other liabilities of the Company increased by a significant amount, reaching 53 737 thousand PLN. This increase is mostly due to receipt of advance royalty fees associated with future sales of The Witcher 3: Wild Hunt. Commercial interest in the upcoming release enabled the Company to conclude distribution agreements on more favorable terms than had previously been the case. Licensing and distribution agreements typically contain provisions for minimum guarantees, i.e. minimum amounts payable to the Company in exchange for distribution rights. A portion of these guarantees is often remitted before the game's release (usually as soon as the agreement is signed), which means that the Company collected some payments in 2014, as well as in 2013. Any advance revenues obtained in this manner are aggregated in the "other liabilities" line item. The historical high water mark for this figure is due to substantial interest in The Witcher 3: Wild Hunt on the part of the Company's business partners.

■ Profit and loss statement

PLN thousands	Note	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
Sales revenues	1,2	34 455	27 071
<i>Revenues from sales of products</i>	-	22 298	23 208
<i>Revenues from sales of services</i>	-	2 570	3 489
<i>Revenues from sales of goods and materials</i>	-	9 587	374
Cost of products, goods and materials sold	3	17 683	7 461
<i>Cost of products and services sold</i>	-	8 740	7 254
<i>Value of goods and materials sold</i>	-	8 943	207
Gross profit (loss) from sales	-	16 772	19 610
<i>Other operating revenues</i>	4	7 260	1 609
<i>Selling costs</i>	3	14 661	7 775
<i>General and administrative costs</i>	3	9 179	8 398
<i>Other operating expenses</i>	4	1 479	768
Operating profit (loss)	-	(1 287)	4 278
<i>Financial revenues</i>	5	10 954	15 860
<i>Financial expenses</i>	5	23 083	705
Profit (loss) before taxation	-	(13 416)	19 433
<i>Income tax</i>	6	(1 009)	1 135
Net profit (loss) from continuing operations	-	(12 407)	18 298
Net profit (loss) from discontinued operations	7	-	-
Net profit (loss)	-	(12 407)	18 298
Net earnings per share (in PLN)			
<i>Basic for the reporting period</i>	8	(0.13)	0.20
<i>Diluted for the reporting period</i>	8	(0.13)	0.20
Net earnings per share from continuing operations (in PLN)			

<i>Basic for the reporting period</i>	8	(0.13)	0.20
<i>Diluted for the reporting period</i>	8	(0.13)	0.20

■ Statement of comprehensive income

PLN thousands	Note	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
Net profit (loss)	10	(12 407)	18 298
<i>Other comprehensive income which will be entered as profit (loss) following fulfillment of specific criteria</i>	-	-	-
<i>Exchange rate differences on valuation of foreign entities</i>	-	-	-
<i>Other comprehensive income which will not be entered as profit (loss)</i>	-	-	-
Total comprehensive income	-	(12 407)	18 298

Compared to 2013, the Company's sales revenues increased by 27 071 thousand PLN, reaching 34 455 thousand PLN at the end of 2014. The Management Board would like to note that despite the lack of major releases, earlier products - particularly The Witcher and The Witcher 2: Assassins of Kings - continued to sell well in 2014, confirming the brand's strength and long-term appeal of games developed by the Company. Revenues from sales of services were mostly associated with services performed by the Company for the benefit of other members of its Capital Group. Most of the revenues from sales of goods and materials were due to sales of the first physical elements of The Witcher 3 box sets to external distributors. The Witcher 3: Wild Hunt is scheduled for release on 19 May 2015.

Altogether, 88% of the Company's revenues were due to exports while 12% correspond to domestic sales.

An important item in the profit and loss statement is the cost of products, goods and materials sold - 18 683 thousand PLN in 2014. This category comprises the cost of products and services sold (8 740 thousand PLN) and the value of goods and materials sold (8 943 thousand PLN), with most of the latter figure attributable to the aforementioned sales of The Witcher 3 box sets components to the game's prospective distributors. The relation between gross profits from sales and sales revenues in 2014 was 49%.

Another important cost item was sales costs, which include the costs of marketing and showcasing Company products - particularly at trade fairs - as well as a portion of compensation and other bought-in services classified as sales costs. Due to the approaching release of The Witcher 3: Wild Hunt and the corresponding marketing campaign, sales costs increased by 6 886 thousand PLN, reaching 14 661 thousand PLN at the end of 2014.

General administrative expenses are reported at 9 179 thousand PLN (9% year-to-year increase). This figure is mostly comprised of compensation and bought-in service costs.

Other operating revenues, valued at 7 260 thousand PLN in 2014, comprised profits on sales of fixed assets - particularly the immovable property in Nowy Sącz sold by CD PROJEKT S.A. - as well as reimbursement of civil law transaction tax and re invoicing revenues.

Other operating costs, in the amount of 1 479 thousand PLN, were chiefly due to re invoicing expenses and write-offs of expired receivables set against other operating revenues.

In 2014 the difference between other operating revenues and other operating costs was 5 781 thousand PLN in favor of revenues.

Financial revenues amounted to 10 954 thousand PLN, a figure comprised chiefly of the dividend obtained from the Company's GOG Ltd. subsidiary (8 291 thousand PLN). Additionally, positive exchange rate differences in the amount of 1 301 thousand PLN were reported.

In 2014 CD PROJEKT S.A. incurred 23 083 in financial costs. This is mostly due to the sale of cdp.pl shares back to cdp.pl for redemption, as well as sale of CD PROJEKT Brands S.A. to Brand Projekt sp. z o.o., which is wholly owned by the Company and belongs to the Company's Tax Capital Group.

Net comprehensive income for 2014 was -12 407 thousand PLN, mostly due to the above mentioned disposal of shares in subsidiaries as well as the ongoing development of The Witcher 3: Wild Hunt.

■ Statement of cash flows

PLN thousands	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
OPERATING ACTIVITIES		
Net profit (loss)	(12 407)	18 298
Total adjustments:	(4 671)	(4 274)
<i>Depreciation</i>	2 668	2 355
<i>Interest and profit sharing (dividends)</i>	(8 873)	(13 747)
<i>Profit (loss) from investment activities</i>	18 610	210
<i>Change in provisions</i>	36	(28)
<i>Change in inventories</i>	(51 997)	(18 154)
<i>Change in receivables</i>	(10 147)	9 419
<i>Change in liabilities excluding credits and loans</i>	44 708	14 040
<i>Change in other assets</i>	172	(104)
<i>Change in other liabilities</i>	(105)	793
<i>Other adjustments</i>	257	942
Cash flow from continuing operations	(17 078)	14 024
<i>Income tax on profit (loss) before taxation</i>	(1 009)	1 135
<i>Income tax (paid) / reimbursed</i>	499	(2 766)
A. Net cash flow from continuing operations	(17 588)	12 393
INVESTMENT ACTIVITIES		
Inflows	42 869	13 958
<i>Disposal of intangible and tangible fixed assets</i>	24 257	22
<i>Disposal of financial assets</i>	10 265	118
<i>Other inflows from investment activities</i>	8 347	13 818
Outflows	33 274	13 176
<i>Purchases of intangible and tangible fixed assets</i>	12 233	12 634
<i>Other outflows from investment activities</i>	19 764	5
<i>Other investment expenses</i>	1 277	537
B. Net cash flow from investment activities	9 595	782
FINANCIAL ACTIVITIES		
Inflows	1 329	-
<i>Credits and loans</i>	3	-
<i>Other inflows from financial activities (incl. cash pool agreements)</i>	1 326	-
Outflows	391	5 349
<i>Repayments of credits and loans</i>	-	1 300
<i>Payments of liabilities under financial lease agreements</i>	382	159
<i>Interest paid</i>	9	72
<i>Other outflows from financial activities (incl. cash pool agreements)</i>	-	3 818
C. Net cash flows from financial activities	938	(5 349)
D. Total net cash flow	(7 055)	7 827
E. Change in cash and cash equivalents on balance sheet	(7 055)	7 827
F. Cash and cash equivalents at beginning of period	20 002	12 175
G. Cash and cash equivalents at end of period	12 947	20 002

In the scope of its operating activities the Company reported 17 588 thousand PLN in negative cash flows. The total value of adjustments and income tax charges deducted from the post-tax financial result in the course of calculating cash flows from operating activities was -4 671 thousand PLN. Individual adjustments are presented in Note 58 attached to the CD PROJEKT S.A. Financial Statement for 2014.

Considering the above calculation of cash flows from operating activities, the largest negative adjustment corresponds to increases in inventory value (by 51 997 thousand PLN). This increase is due to intensive development activities carried out throughout 2014, including in particular development of two large-scale videogame projects: The Witcher 3: Wild Hunt and Cyberpunk 2077.

Another important adjustment, in the amount of 44 708 thousand PLN, corresponds to an increase in the value of liabilities except credits and loans. Throughout 2014 the balance-sheet value of the Company's trade liabilities decreased by 971 thousand PLN while the value of other liabilities increased by 37 276 thousand PLN, reaching 53 737 thousand PLN at the end of 2014. This increase is mostly due to receipt of advance royalty fees associated with licensing and distribution agreements which concern The Witcher 3: Wild Hunt. Further details can be found in the commentary section attached to the statement of financial position.

The negative adjustment corresponding to the value of receivables (by 10 147 thousand PLN) is due to an increase in trade receivables by 1 804 thousand PLN and an increase in other receivables by 7 300 thousand PLN compared to the end of 2013.

The positive adjustment corresponding to profit (loss) on investment activities (by 18 610 thousand PLN) is mostly related to cash flows associated with disposal of shares in subsidiaries - cdp.pl sp. z o.o. and CD PROJEKT Brands S.A.

The adjustment corresponding to interest and profit sharing (by 8 873 thousand PLN) is mostly due to the receipt of a dividend from the Company's GOG Ltd. subsidiary, in the amount of 8 291 thousand PLN.

Inflows from investment activities were reported at 42 869 thousand PLN and result primarily from the sale of The Witcher trademark to CD PROJEKT Brands S.A., a subsidiary of CD PROJEKT S.A., the sale of immovable property in Nowy Sącz as well as the receipt of a dividend from GOG Ltd., another subsidiary of CD PROJEKT S.A., in the amount of 8 291 thousand PLN.

The largest contributor to investment expenses was the purchase of 50% of the rights to the CD PROJEKT brand name from the Company's cdp.pl subsidiary in exchange for a net sum of 9 182 thousand PLN, as well as to the acquisition of shares in CD PROJEKT Brands S.A. and CD PROJEKT INC for a total of 17 861 thousand PLN.

In total, the Company reported 9 595 thousand PLN in positive cash flows from investment activities, which represents an increase by 8 813 thousand PLN compared to the preceding year.

Cash flows from financial activities were mainly affected by changes in the status of loans granted in the scope of the Capital Group's cash pooling agreement (1 326 thousand PLN) as well as payments associated with financial lease agreements (382 thousand PLN).

Financial activities brought positive cash flows in the amount of 938 thousand PLN, which is 6 287 thousand PLN more than in 2013.

Overall, due to the intensive development of videogames (increase in the value of inventories by 51 997 thousand PLN) and marketing activities associated with the upcoming release of The Witcher 3: Wild Hunt, the Company reported aggregated net cash flows in the amount of -7 055 thousand PLN. At the close of the reporting period the Company held 12 947 thousand PLN in cash assets in addition to 2 745 thousand PLN in investment fund shares. As of 31 December 2014 the Company had no outstanding debt under any credit or loan agreements.

■ Disclosure of credits and loans in the 2014 fiscal year

Throughout 2014 the Company did not draw upon the available sources of credit. The outstanding debt of CD PROJEKT S.A. in the scope of credit and loan agreements concluded with external parties is described in the following table.

Name of bank/lender and type of credit/loan	Contractual credit/loan amount as of 31 Dec 2014	Amount outstanding as of 31 Dec 2014	Amount outstanding as of 31 Dec 2013
<i>mBank S.A. - revolving credit</i>	19 000	-	-
<i>mBank S.A. - overdraft facility</i>	2 000	-	-
<i>mBank S.A. - credit agreement</i>	11 000	-	-
TOTAL *	32 000	-	-

* The aggregate value of credits and loans listed above differs from the sum of short- and long-term liabilities due to credits and loans reported in the statement of financial position by 4 thousand PLN at the end of 2014, and by 1 thousand PLN at the end of 2013. These differences are due to outstanding credit card charges.

It should be noted that while incurring significant expenses associated with videogame development, the Company was able to finance all of its operations with its own financial resources and from advances from clients, without having to draw upon any of the available credit facilities. High liquidity coupled with the availability of long-term credit options is essential for unhindered development of videogames and other R&D undertakings.

In Current Report No. 10/2014 of 16 May 2014 the Management Board of CD PROJEKT S.A. disclosed that it had concluded a set of amendments to the following credit agreements previously signed with mBank S.A., headquartered in Warsaw:

- agreement of 24 August 2011 concerning an overdraft facility in an amount not exceeding 10 000 thousand PLN, granted to CD PROJEKT S.A. and to cdp.pl sp. z o.o.;
- agreement of 18 April 2012 concerning a revolving credit facility in an amount not exceeding 19 000 thousand PLN, granted to CD PROJEKT S.A.;
- agreement of 23 April 2013 concerning open-end credit in an amount not exceeding 11 000 thousand PLN, granted to CD PROJEKT S.A.

In line with the amendments the collateral pledged in relation to the above mentioned credit agreements was altered by excluding the contractual mortgage on immovable property owned by the Issuer in Nowy Sącz at Nawojowska 118 as well as the corresponding contractual assignment of receivables from insurance agreements covering this property.

■ Disclosure of loans granted in the 2014 fiscal year

In 2014 no loans were granted by any company belonging to the CD PROJEKT Capital Group. The Group implements a cash pooling policy consolidating its members' bank accounts in order to ensure optimal use of the available financial resources.

■ Disclosure of guarantees and sureties granted in the 2014 fiscal year, and other off-balance sheet items

Information on guarantees and sureties granted, and of other important items recorded off-balance sheet, can be found in the Financial Statement of CD PROJEKT S.A. for the period between 1 January and 31 December 2014.

■ Disclosure of the current economic and financial position of the Company and assessment of the management of financial resources

The Company's current economic and financial status is stable. The Management Board perceives no threats to the Company's liquidity or solvency.

In 2014 the Company's equity decreased by 11 681 thousand PLN, which represents an 8% decrease compared to the end of 2013. The aggregate value of long- and short-term liabilities increased by 36 305 thousand PLN while the value of cash assets decreased by 7 055 thousand PLN. These changes are primarily attributable to substantial expenses incurred by the development of new videogames, including The Witcher 3: Wild Hunt, which is scheduled for release on 19 May 2015.

At the end of 2014 the aggregate credit available to the Company under credit agreements was 32 million PLN. As of 31 December 2014 the Company was not in debt due to any outstanding credits or loans. Detailed information concerning the Company's debt management, changes in debt status and any credit agreements concluded by the Company can be found elsewhere in this report.

At the end of 2014 the total value of cash assets and other financial assets (PKO retirement fund shares) held by the Company was 15 692 thousand PLN, which represents a 25% decrease compared to the end of the preceding year. At the same time the value of the Company's inventories increased by 51 997 thousand PLN. A significant portion of expenses borne in association with development of The Witcher 3: Wild Hunt was financed with advance royalty fees from the game's prospective distributors.

Surplus financial assets are made available to other members of the Capital Group under a cash pooling agreement. Assets not subject to cash pooling are typically placed in overnight or longer-term deposits. A portion of surplus cash assets is invested in PKO retirement fund shares.

■ Description and assessment of unusual circumstances and other factors affecting the Company's performance in 2014

On 12 May 2014 the Company effected the sale of 9,000 shares in its subsidiary company cdp.pl sp. z o.o. back to cdp.pl sp. z o.o. for redemption. On the same day the General Meeting of Shareholders of cdp.pl sp. z o.o. voted to redeem the purchased shares from the company's net profit, without lowering its share capital, as regulated by Art. 199 of the Commercial Company Code. As a result of the above described redemption the breakdown of cdp.pl sp. z o.o.'s share capital changed as follows:

- 50.2% of shares were retained by CD PROJEKT S.A.
- the remaining 49.8% of shares were evenly distributed among current members of the management board of cdp.pl sp. z o.o.

In Current Report no. 15/2014 of 1 October 2014 dnia the Management Board of the Company disclosed that on 1 October 2014 a sale transaction had been concluded between CD PROJEKT S.A. and its subsidiary, CD PROJEKT Brands S.A., headquartered in Warsaw, concerning ownership of "The Witcher" trademark. In line with the agreement on the day of its signature the Company ceded ownership of the trademark to CD PROJEKT Brands S.A. in exchange for payment in the amount of 17 622 thousand PLN which represents the estimated value of the trademark as reported by an independent valuation.

The sale of The Witcher trademark is an element of the CD PROJEKT Capital Group's strategy of optimizing its internal policies and links between its subsidiaries. In accordance with this strategy, a separate subsidiary - CD PROJEKT Brands S.A. - has been established to manage the Group's intangible assets, including the Trademark, and to sublicense their use to external parties.

In Current Report no. 19/2014 of 26 November 2014 the Management Board of CD PROJEKT S.A. disclosed that an agreement had been concluded between the current shareholders of cdp.pl sp. z o.o., headquartered in Warsaw (hereafter referred to as "cdp.pl"), i.e. CD PROJEKT S.A., and members of the management board of cdp.pl, as well as with cdp.pl itself, concerning disposal of CD PROJEKT S.A.'s interest in its cdp.pl subsidiary. In line with the agreement existing shareholders of cdp.pl identified the mutual obligations of both parties with respect to the transfer of control over cdp.pl to current members of its management board, including CD PROJEKT S.A.'s due compensation in return for facilitating this action.

The agreement stipulates that immediately upon its signing 457 shares of cdp.pl share capital held by CD PROJEKT S.A., with a nominal value of 1 007.55 PLN per share, would be redeemed from cdp.pl net profit (i.e. without lowering the company's share capital). These shares jointly constitute 45.7% of cdp.pl share capital. CD PROJEKT S.A.'s compensation was set at 4 943 646 PLN. As a result of this transaction and pursuant to §199 of the Commercial Company Code the shareholder structure of cdp.pl changed as follows: CD PROJEKT S.A. retained 45 shares of cdp.pl, i.e. 8.29% of its share capital, with the remaining shares evenly distributed among members of the management board of cdp.pl. Consequently, having fulfilled the above obligation, CD PROJEKT S.A. relinquished control over its former subsidiary.

In addition to the above, the agreement specifies the conditions for potential further reduction of CD PROJEKT S.A.'s interest in cdp.pl, predicating this decision on future financial results of cdp.pl, and contains provisions which enable cdp.pl to publish and distribute certain future products developed by CD PROJEKT S.A. throughout Poland. The compensation due to CD PROJEKT S.A. in return for potential disposal of each further share in cdp.pl was set at 35 556 PLN (this figure will hereafter be referred to as "compensation cost"), yielding 1 600 020 PLN for all shares retained by CD PROJEKT S.A. Furthermore, all parties formally declared that throughout the five-year period following the conclusion of the agreement no further pledges, agreements or preliminary agreements would be concluded by any party to the agreement concerning transfer of shares in cdp.pl to any third party, and that as long as CD PROJEKT S.A. remains a shareholder of cdp.pl, the entry of any new shareholder must be preceded by the buyback or redemption of all cdp.pl shares belonging to CD PROJEKT S.A. at the per-share compensation cost.

In addition to compensation due to CD PROJEKT S.A. in return for redemption of cdp.pl shares the agreement also stipulates that the Company is entitled to further compensation dependent on the redress obtained by cdp.pl as a result of its lawsuit filed on 26 November 2014 against EMPIK sp. z o.o., headquartered in Warsaw, regardless of whether such redress would occur voluntarily or under a court-issued writ of enforcement and irrespective of the manner in which it would be awarded (by way of a binding judgment or an out-of-court settlement). Any amount recovered by cdp.pl in this matter would be reduced by the costs borne by cdp.pl in association with pursuing its legal claims.

The above mentioned transaction as a result of which CD PROJEKT S.A. relinquished control over cdp.pl sp. z o.o. is an element of the business strategy adopted by CD PROJEKT S.A. and its Capital Group. In line with this strategy, as set forth by the Management Board of CD PROJEKT S.A., the Company and its Capital Group focus on global market segments and sales channels. Accordingly,

cdp.pl activities, which specifically serve the domestic market and follow a different set of goals, ceased to play an important role in the scope of the CD PROJEKT Capital Group.

In Current Report no. 21/2014 of 19 December 2014 the Management Board of CD PROJEKT S.A. disclosed that on 19 December 2014 shares of CD PROJEKT Brands S.A. belonging to the Issuer were sold to Brand Projekt Sp. z o.o., which is wholly owned by the Issuer. The transaction concerned 200 000 (two hundred thousand) ordinary shares with a nominal unit price of 1 PLN each, representing the entirety of CD PROJEKT Brands S.A. share capital. The sale price was set at 9.50 PLN per share.

II. Assessment of differences between earlier estimates and reported financial results for 2014

The Company had not published any estimates referring to 2014.

III. Disclosure of allocation of funds obtained via issuance of securities until the publication date of this report

CD PROJEKT S.A. did not issue any securities between 1 January 2014 and the publication date of this report.

3

Growth outlook of CD PROJEKT S.A.

I. Potential growth opportunities for CD PROJEKT S.A. - overview

With regard to further expansion of business activities, the policies implemented by CD PROJEKT S.A. and its Capital Group remain in line with the Group's strategy document adopted on 17 November 2011 and subsequently amended on 21 March 2013.

■ CD PROJEKT Group mission statement

The mission of the CD PROJEKT Group is to develop cutting-edge innovative products and services sought after by clients worldwide. In doing so the Group emphasizes direct, open and honest communication as a means of building trust and long-term relationships with our clients.

The Group seeks to firmly establish itself as one of the foremost videogame developers in the world, whose products are frequently ranked among the best by gamers and critics alike. In addition to achieving global acclaim we aim to ensure excellent financial results and shareholder satisfaction.

In our view, by going from strength to strength CD PROJEKT is fast becoming one of the most widely recognized Polish companies; a global emissary of the modern face of Poland and the aspirations of a new generation of young Poles.

■ CD PROJEKT Group business objectives

To be counted among the foremost videogame developers in the world operating one of the world's most popular digital distribution platforms. In addition, the Group aims to expand its activities to other branches of digital entertainment.

II. Company growth outlook

Through its CD PROJEKT RED Studio subsidiary, CD PROJEKT S.A. carries out videogame development on a world-class level. In particular, it is the producer of the widely acclaimed set of The Witcher video RPGs, the first of which debuted in 2007. The second game in the series was released for the PC on 17 May 2011. Xbox 360 and PC releases of The Witcher 2 Extended Edition followed on 17 April 2012. Both releases met with resounding market success, with sales of The Witcher 2 forming the backbone of the Company's revenue stream in 2011 and in subsequent years. The games are still being marketed and continue to generate revenues.

As part of its work on The Witcher 2 the Company has developed a proprietary cutting-edge videogame engine named REDengine. The third iteration of this engine, completed in February 2013, supports never-before-seen nonlinear storytelling in an open sandbox. The engine also comprises a new animation subsystem, capable of rendering realistic emotions, cinematic sceneries and character interactions. In 2014 work on the engine focused on further optimization and improvements to existing mechanisms. REDengine 3 supports three separate hardware platforms: PC, Sony PlayStation 4 and Microsoft Xbox One. In the future the engine itself may be licensed to third parties, thus generating additional revenues not directly associated with in-house development of videogames.

Key projects currently carried out at CD PROJEKT with the use of the above mentioned technologies include the widely anticipated third game in The Witcher series (The Witcher 3: Wild Hunt) as well as an entirely new franchise - Cyberpunk 2077. The Witcher 3 is scheduled for release on 19 May 2015. Additionally, CD Projekt RED is working on two smaller high-quality products for the PC and the current generation of gaming consoles.

In line with the presented strategy, the Company seeks to expand its activities to the mobile gaming market. Working towards this goal, in 2014 the Company published the digital edition of The Witcher Adventure Game for iPads and Android tablets. This was followed in January 2015 with the release of The Witcher Battle Arena - CD PROJEKT's first online multiplatform mobile game which follows the F2P (free to play) business model. The Witcher Battle Arena is available for modern smartphones and tablet devices running the iOS or Android systems. In parallel with its work of the above mentioned videogames, the Company set up a dedicated team tasked with maintenance of existing products (The Witcher Battle Arena bases on the so-called microtransaction model) and with preparing the ground for future development projects.

■ External and internal factors affecting Company growth - summary

The activities of CD PROJEKT S.A. are affected by external factors such as the global macroeconomic condition, legal reforms and changes in taxation. In this sense the Company is in a similar position to many other companies conducting business on domestic or international markets. Key internal and external factors which may prove detrimental to Company activities and growth prospects are described in a separate section on risk assessment later on in this report.

The most important factors which may affect the Company's performance in the upcoming period are briefly outlined below.

One of the factors directly related to the nature of the activities carried out by the Company and having the potential to affect its performance is technological progress which influences development as well as distribution of videogames.

Favorable reception of CD PROJEKT RED Studio's upcoming games - The Witcher 3: Wild Hunt and Cyberpunk 2077 - by the international media and gaming community may also positively affect future sales. Both games have been very well received and the intensive promotional campaign currently underway is also benefitting the Studio's earlier releases. The Company maintains active contacts with the media and carries out broad dissemination and marketing activities.

Managing two separate franchises - The Witcher and Cyberpunk - enables CD PROJEKT RED to carry out two large-scale development projects in parallel, which serves to stabilize and smoothen out the Company's publishing schedule. Adopting a business model based on two alternating franchises optimizes development, simplifies financial management and contributes to mitigation of potential risk factors.

Another specific factor which may affect the financial position of CD PROJEKT S.A. is the outcome of pending litigation involving the Company, particularly its lawsuit against the State Treasury. A favorable judgment in this case would entitle the Company to collect substantial damages.

III. Evaluation of investment plans

As of 31 December 2014 the Company held cash and cash equivalents valued at 12 947 thousand PLN. Additionally, the Company held PKO retirement fund investment shares purchased as a means of temporary allocation of surplus cash and valued at 2 745 thousand PLN.

Future activities will be financed with the Company's own resources and with bank credit, as required. As of 31 December 2014 the Company had access to 32 000 thousand PLN in unused bank credit.

Videogame development may also be partly financed with advance royalty payments from distributors with whom the Company concludes licensing and distribution agreements concerning The Witcher 3: Wild Hunt.

4

Corporate management and supervision

I. Composition of the Management Board and Supervisory Board

■ Management Board

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

■ Changes in Management Board composition

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

■ Supervisory Board

Chairwoman of the Supervisory Board	Katarzyna Szwarz
Deputy Chairman of the Supervisory Board	Cezary Iwański
Supervisory Board Member	Grzegorz Kujawski
Supervisory Board Member	Maciej Majewski
Supervisory Board Member	Piotr Pągowski

■ Changes in Supervisory Board composition

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

II. Compensation, bonuses and other benefits received by members of the Management Board and Supervisory Board from the Issuer and its subsidiaries

Compensation paid out to members of the Management Board and Supervisory Board of CD PROJEKT S.A. in 2014:

Full name	Position	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
Members of the Management Board			
<i>Adam Kiciński</i>	<i>President of the Board</i>	420	404
<i>Marcin Iwiński</i>	<i>Vice President of the Board</i>	312	286
<i>Piotr Nielubowicz</i>	<i>Vice President of the Board</i>	312	312
<i>Adam Badowski</i>	<i>Board member</i>	572	1 042
<i>Michał Nowakowski</i>	<i>Board member</i>	536	500

Members of the Supervisory Board			
<i>Katarzyna Szwarz</i>	<i>Chairwoman of the Supervisory Board</i>	72	72
<i>Cezary Iwański</i>	<i>Deputy Chairman of the Supervisory Board</i>	18	18
<i>Grzegorz Kujawski</i>	<i>Supervisory Board member</i>	-	-
<i>Maciej Majewski</i>	<i>Supervisory Board member</i>	18	18
<i>Piotr Pągowski</i>	<i>Supervisory Board member</i>	18	18

Compensation paid out in 2014 to members of the Management Board and Supervisory Board of CD PROJEKT S.A. by CD PROJEKT S.A. subsidiaries including cdp.pl:

Full name	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
<i>Adam Kiciński</i>	-	17
<i>Marcin Iwiński</i>	26	21
<i>Piotr Nielubowicz</i>	22	20
<i>Michał Nowakowski</i>	1	-

On 16 December 2011 the Extraordinary General Meeting of Shareholders voted to institute an incentive program under which persons regarded as having a key influence on the performance of the Company and its subsidiaries may be rewarded with warrants entitling them to acquire Company shares. Eligibility criteria are set forth in the Terms and Conditions document adopted by the General Meeting on 16 December 2011 and in the relevant Management Board and Supervisory Board regulations. The value and quantity of warrants which may be issued to members of the Management Board in conjunction with their participation in the incentive program is listed below:

Value of potential benefits associated with participation in the incentive program:

Full name	Position	Warrants granted (quantity)	01 Jan 2014 - 31 Dec 2014	01 Jan 2013 - 31 Dec 2013
<i>Adam Kiciński</i>	<i>President of the Board</i>	<i>200 000 warrants</i>	93	93
<i>Piotr Nielubowicz</i>	<i>Vice President of the Board</i>	<i>150 000 warrants</i>	69	69
<i>Adam Badowski</i>	<i>Board member</i>	<i>150 000 warrants</i>	69	69
<i>Michał Nowakowski</i>	<i>Board member</i>	<i>100 000 warrants</i>	46	46

The fair value of warrants issued under the Incentive Program to members of the Management Board has assessed by a licensed actuary and is included in the 2014 financial statement as a company liability (in the same way as in 2013).

As of the day of publication of this report none of the long-term performance criteria set forth in the Terms and Conditions document governing acquisition of warrants have been met.

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

As of 31 December 2014 and as of the preparation date of this report all members of the Company's managing and supervisory bodies discharged their functions on the basis of General Meeting appointments and there were no provisions in existence regulating compensation in the event of their resignation or dismissal.

IV. Transactions between the Issuer and members of its managing and supervisory bodies not otherwise reported

In 2014 there were no notable transactions between the Issuer and members of its managing and supervisory bodies. This does not include medical insurance premiums, reimbursement of official expenses and minor purchases of Capital Group products by members of the Management Board and Supervisory Board.

V. Company stock held by members of its managing and supervisory bodies

As of the publication date of this report the following quantities of CD PROJEKT S.A. stock were held by members of its Management Board and Supervisory Board:

<i>Full name</i>	<i>Position</i>	<i>No. of shares held on publication date</i>	<i>Nominal value</i>
<i>Adam Kiciński</i>	<i>President of the Board</i>	<i>3 122 481</i>	<i>3 122 481</i>
<i>Marcin Iwiński</i>	<i>Vice President of the Board</i>	<i>12 607 501</i>	<i>12 607 501</i>
<i>Piotr Nielubowicz</i>	<i>Vice President of the Board</i>	<i>5 985 197</i>	<i>5 985 197</i>
<i>Michał Nowakowski</i>	<i>Board member</i>	<i>1 149</i>	<i>1 149</i>
<i>Katarzyna Szwarc</i>	<i>Chairwoman of the Supervisory Board</i>	<i>10</i>	<i>10</i>

According to declarations filed with the Issuer no other members of the Management Board and Supervisory Board hold CD PROJEKT S.A. stock.

Members of the Management Board and Supervisory Board of CD PROJEKT S.A. do not directly hold any shares of CD PROJEKT S.A. subsidiaries or affiliates.

VI. Changes in basic management policies affecting the Company

No significant changes in basic management policies affecting the Company occurred in 2014.

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Supplementary information

I. Shareholders who control at least 5% of the total number of votes at the General Meeting

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 of the parent entity. As of the publication date of this report the following shareholders controlled 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
Marcin Iwiński	12 607 501	13.28%	12 607 501	13.28%
Michał Kiciński ⁽¹⁾	12 281 616	12.93%	12 281 616	12.93%
Piotr Nielubowicz	5 985 197	6.30%	5 985 197	6.30%
PKO TFI S.A. ⁽²⁾	9 000 000	9.48%	9 000 000	9.48%
AVIVA OFE ⁽³⁾	4 940 000	5.20%	4 940 000	5.20%
Amplico PTE S.A. ⁽⁴⁾	5 003 719	5.27%	5 003 719	5.27%
Pozostały akcjonariat	45 131 967	47.53%	45 131 967	47.53%

(1) As disclosed in Current Report No. 2/2015 of 23 February 2015.

(2) As disclosed in Current Report No. 19/2011 of 25 February 2011.

(3) As disclosed in Current Report No. 25/2012 of 6 September 2012.

(4) As disclosed in Current Report No. 20/2013 of 11 September 2013.

The percentage shares in the Company's share capital and in the total number of votes at the General Meeting have been calculated on the basis of the most recent notices received from each major shareholder and in relation to the Company's share capital on the date of publication of this report.

Recent changes in shareholder structure are described in the Financial Statement of CD PROJEKT S.A. for the period between 1 January and 31 December 2014.

Following the close of the reporting period, in Current Report No. 2/2015 of 23 February 2015 the Company disclosed that it had received notice from Mr. Piotr Nielubowicz, acting on behalf of himself as well as the remaining parties to the agreement disclosed in Current Report No. 54/2010 of 2 September 2010, namely Mr. Marcin Iwiński, Mr. Michał Kiciński and Mr. Adam Kiciński, to the effect that the agreement existing between the parties and concerning joint purchases of Company shares and acting in concert at General Meetings of Shareholders of the Company had been dissolved on 23 February 2015. As stated by parties to the dissolved agreement, the agreement itself was a consequence of the merger between the CDP Investment Capital Group and OPTIMUS S.A. carried out in 2009-2010, whereas the current overriding concern of those parties who retain executive positions at the Company is to jointly act in the best interests of the Company and its Capital Group by discharging their executive duties.

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

The Company has instituted an incentive program for its key employees and collaborators. Implementation of this program may result in future changes in the proportion of shares held by the Company's shareholders.

III. Information regarding the control system of employee share programs

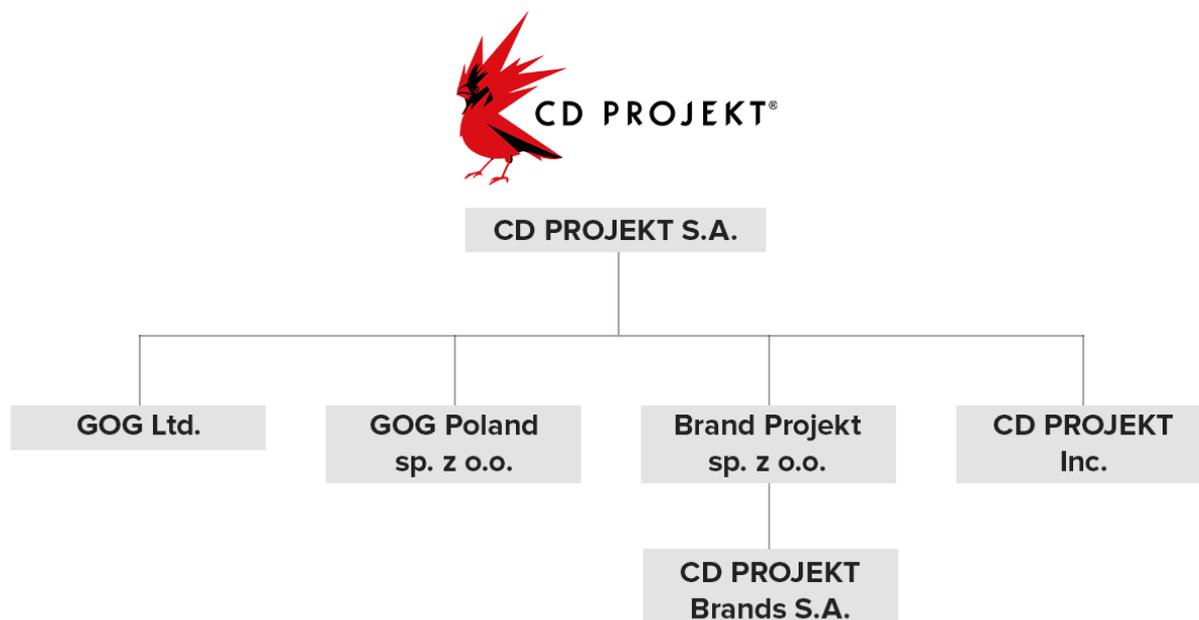
The incentive program under which Company shares may be awarded was approved by the General Meeting of Shareholders on 16 December 2011. A detailed set of terms and conditions was endorsed by the Supervisory Board and subsequently approved by the

Management Board on 30 January 2012. Implementation of the program is directly overseen by the Supervisory Board and Management Board of CD PROJEKT S.A.

IV. Information regarding the purchase of own shares

The Company has never held its own shares.

V. Information regarding capital and organizational affiliations between the Company and other entities



On 4 August 2014 a company named CD PROJEKT Inc. was incorporated under US law in Venice, California. This company is wholly owned by CD PROJEKT S.A.

On 27 August 2014 the District Court for the City of Warsaw, 13th Commercial Department of the National Court Registry performed registration of CD PROJEKT Brands S.A. with a share capital of 200 thousand PLN. On the day of its incorporation CD PROJEKT Brands S.A. was wholly owned by CD PROJEKT S.A. As disclosed in Current Report No. 21/2014, on 19 December 2014 all shares of CD PROJEKT Brands S.A. were sold to Brand Projekt sp. z o.o., which is directly owned by CD PROJEKT S.A.

VI. Companies subjected to consolidated financial reporting

The Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2014 applies to the following companies, each of which is a member of the Group:

	capital share	voting share	consolidation method
CD PROJEKT S.A.	parent entity	-	full
GOG Poland sp. z o.o.	100%	100%	full
GOG Ltd.	100%	100%	full
Brand Projekt sp. z o.o.	100%	100%	full
CD PROJEKT Brands S.A. *	100%	100%	full
CD PROJEKT INC	100%	100%	full

* indirect control

VII. Disclosure of transactions with affiliates

The following types of transactions between the Company and its affiliates have occurred as part of the activities of the CD PROJEKT Group:

- purchases of licenses from CD PROJEKT S.A. by cdp.pl Sp. z o.o. and GOG Ltd. as required by these subsidiaries' business profiles,
- groupwide consolidation of bank account 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,
- 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 Financial Report of CD PROJEKT S.A. for the period between 1 January and 31 December 2014.

Additionally, the following one-time transactions between the Company and other members of the CD PROJEKT Capital Group occurred in 2014:

- on 21 May 2014 the Company sold 9 thousand shares of cdp.pl sp. z o.o. back to cdp.pl sp. z o.o. for redemption;
- on 1 October 2014 the Company sold "The Witcher" trademark to its CD PROJEKT Brands S.A. subsidiary;
- On 26 November 2014 the Company sold 457 shares of cdp.pl sp. z o.o. back to cdp.pl sp. z o.o. for redemption;
- On 19 December 2014, in the framework of its tax capital group, the Company sold all 200 thousand shares of CD PROJEKT Brands S.A. shares to Brand Projekt sp. z o.o., which is wholly owned by the Company.

VIII. Disclosure of key domestic and foreign investments and of the structure of key capital investments

The Company does not pursue direct investment activities in the traditional sense. Nevertheless, the operations of the Company require access to significant financial assets as described below.

Assets disclosed in the statement of financial position of CD PROJEKT S.A. of 31 December 2014 in the "Intangible assets" line item (62 372 thousand PLN) comprise mainly the Company's goodwill, which is defined as the positive difference between the cost of establishing a business combination (also known as acquisition or takeover cost) and the Company's share in the net fair value of all assets and liabilities (including contingent liabilities) of the controlled entity on the date of acquisition. The reported goodwill of CD PROJEKT S.A. is 39 147 thousand PLN. Another significant contribution to the Company's intangible asset pool is the CD PROJEKT brand name, valued at 18 364 thousand PLN. Finally, the Company owns computer software and licenses with an aggregate value of 3 718 thousand PLN at the end of the reporting period.

As of 31 December 2014 the Company held tangible fixed assets valued at 4 603 thousand PLN. This line item chiefly comprises the net value of buildings and land holdings (1 904 thousand PLN) resulting from adaptation work carried out at the Company's premises, in addition to the net book value of office equipment and supplies (1 547 thousand PLN).

Throughout 2014 surplus cash was made available to the Company's subsidiaries under a groupwide cash pooling agreement, or otherwise invested into overnight and longer-term deposits. The total value of cash and cash equivalents held by the Company on 31 December 2014 was 12 947 thousand PLN. Since 25 January 2011 some surplus cash is also invested in PKO retirement fund shares (PKO Skarbowy - FIO and PKO Płynnościowy). As of 31 December 2014 the Group held PKO fund shares valued at 2 745 thousand PLN. These shares are aggregated in the "Other financial assets" line item.

Major expenses on long-term projects carried out by the Group between 1 January 2014 and the publication date of this report were mostly associated with videogame development. Assets generated by these projects include (among others) intermediates and ongoing production, in addition to existing inventories. As of 31 December 2014 the Company's inventories were valued at 96 511 thousand PLN, of which 50 thousand PLN represented the value of finished products (mostly yet-to-be-settled expenditures associated with the development of The Witcher 2 for the Linux OS), while 88 461 thousand PLN was aggregated in the

“Intermediates and ongoing production” line item and comprised the development costs of The Witcher 3: Wild Hunt and Cyberpunk 2077.

Throughout 2014 the Company financed its daily activities and investment projects with its own funds and with advance royalty fees collected from distributors of the Company’s upcoming videogame releases.

The CD PROJEKT Capital Group includes two foreign entities, both of which are wholly owned by CD PROJEKT S.A.: GOG Ltd. and CD PROJEKT Inc., a new company incorporated in Venice, CA under US law on 4 August 2014. Domestic entities wholly owned by CD PROJEKT S.A. are: GOG Poland sp. z o.o. and Brand Projekt sp. z o.o., together with its own wholly owned subsidiary - CD PROJEKT Brands S.A.

IX. Risk Management at the Company

■ Risk factors specific to the activities carried out by the Company

Risk associated with customers

With regard to videogame development the pool of customers of CD PROJEKT S.A. consists of distributors and publishers who purchase licenses to publish and distribute Company products. Efficient cooperation with customers is dependent on a number of factors, including the appeal of the product, customers’ own publishing plans, customers’ preferences in specific countries and the financial terms offered by each customer. CD PROJEKT S.A. makes every effort to ensure high quality of its products, rendering them more desirable and attractive to final customers and increasing licensee and distributor retention.

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

Risk of losing key suppliers

In the course of developing videogames CD PROJEKT S.A. relies on external suppliers for certain components required in the development process, such as physics systems, audio libraries and other specialized software. Given that a wide range of commercial development tools is available the Company actively monitors the market and may take steps to replace selected components or tools used in the production process, should such changes become necessary.

Risk of incorrectly estimating demand and future sales

Developing, publishing and distributing videogames and motion pictures, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential. The Company applies its longstanding experience to determine the commercial potential of each product they release; however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.

Risk of delays in videogame development

Postponed releases are a commonplace occurrence in the videogame industry. Developing games is a highly complex and costly activity, based - to a large extent - on creative effort. This raises the likelihood of incorrect estimation of the required workload, delays due to technical issues in the programming layer (e.g. failure to meet quality assurance criteria or technical glitches), or problems caused by insufficient funding.

With respect to development of proprietary products by CD PROJEKT S.A. the Company actively manages its development schedule in order to minimize the likelihood of delays.

Risks associated with development of games for gaming consoles and iOS devices

Development of console and iOS games requires direct cooperation with the proprietors of each hardware platform. Before a game can be released on the open market it must first undergo certification. Termination of cooperation between the developer

and the platform proprietor is a significant risk, as are delays in the certification process or denial of certification. Each of those events may adversely impact the revenue stream for a given game. CD PROJEKT S.A. devotes substantial effort to meeting its contractual obligations due to platform proprietors and consistently prioritizes the quality of its videogames.

Risks associated with employee retention

Losing key employees may significantly impact the operations and financial status of CD PROJEKT S.A. The activities and growth outlook of the Company are greatly dependent on the skill, experience and knowledge of key Management Board members, middle managers, employees and collaborators. The Company offers competitive employment conditions, benefits and incentives to its employees. In 2012 CD PROJEKT S.A. instituted a long-term incentive program through which persons regarded as crucial for the Company, its Capital Group and individual subsidiaries may be rewarded with CD PROJEKT S.A. stock options.

Risk of insolvency and credit risk

CD PROJEKT S.A. compares its results with annual plans which include liquidity goals. Such evaluation is performed on a monthly basis.

In order to minimize the risk of customer insolvency the Company performs ongoing monitoring of the collection of receivables. Debt collection is subcontracted to specialized third parties. The Company identifies key customers whose total share in the CD PROJEKT S.A. revenue stream exceeds 10%.

The Company actively manages its current assets and monitors debt in relation to its equity and financial results, both current and anticipated.

As of the publication date of this report CD PROJEKT has access to external financing sources, i.e. bank credit agreements, and has set aside provisions in cash and shares in PKO retirement funds which invest in low-risk debt instruments and can be liquidated on short notice. Cash management on the level of the Capital Group is performed in such a way that excess cash in one subsidiary may be loaned to other subsidiaries. The Group relies on this mechanism to perform day-to-day management of its liquid assets, ensure sufficient liquidity, meet any liabilities arising from its ordinary activities and permit unhindered continuation of videogame development projects.

Risks associated with credit agreements and interest rate risks

In order to carry out ordinary activities, CD PROJEKT S.A. may require access to sources of financing. As of the date of publication of this report these sources include credit and lease agreements. Termination of credit and lease agreements may necessitate finding other sources of financing. Credit and lease agreements concluded by the Company are based on variable interest rates. Increases in the cost of capital acquisition may negatively affect the Company's financial standing.

The Company performs day-to-day monitoring of financing costs and analyzes their impact on its own financial condition. Refinancing, prolongation of existing agreements and acquisition of additional financing sources are all taken into account when considering the mitigation of financing and collateral risks. Interest rate hikes may impose an additional financial burden on the Company.

The Company invests its surplus cash in short-term bank deposits and shares in low-risk PKO retirement funds which can be liquidated on short notice. In this context lower interest rates may have a negative impact on the financial revenue from investments in retirement fund shares and bank deposits.

Risks associated with sureties

The credit and cash-pooling agreements concluded within the CD PROJEKT Capital Group involve CD PROJEKT S.A., GOG Ltd., GOG Poland sp. z o.o., cdp.pl sp. z o.o., Brand Projekt sp. z o.o., CD PROJEKT Brankds S.A. and CD PROJEKT Inc. acting as guarantors. These provisions may potentially compel each guarantor to cover the liabilities of other parties to whom guarantees have been contractually provided.

Risks associated with market consolidation trends

There is a notable global tendency for developers and publishers of videogames and motion pictures to consolidate. These trends may ultimately strengthen the market position of several global suppliers, publishers and distributors. The Company mitigates this risk by enlisting additional publishers and diversifying its distribution and sales channels.

Risks associated with illegal distribution of CD PROJEKT RED products

Company revenues are negatively affected by the actions of parties who distribute its products - either directly or over the Internet - without the owner's consent, thus violating intellectual property laws. CD PROJEKT S.A. has no direct control over the scale of such illegal distribution. Insofar as it is possible, the Company tries to attract customers by releasing products in various price brackets, published in an appealing manner and therefore providing good value for money - both on the domestic and international market.

Risks associated with the emergence of new technologies

The digital entertainment segment which is the primary area of activity of CD PROJEKT S.A. is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games and other products are delivered to the final customer, as well as the capabilities of gaming platforms.

The eighth generation of gaming consoles was unveiled in late 2013, approximately 8 years after the debut of the preceding generation. CD PROJEKT S.A. has announced that *The Witcher 3: Wild Hunt* and *Cyberpunk 2077* (currently under development) will be released for the PC and for the newest generation of consoles. Developing games for new consoles carries clear advantages but also introduces certain risks due to the relative immaturity of the underlying technologies and the time it may take to fully exploit their commercial potential. Of note is the fact that early sales of the new generation of consoles compare favorably to the previous generation over an equivalent period.

The Company monitors technological changes which may affect its operations and takes steps to adapt its strategy to such changes.

Asset impairment tests

In accordance with the International Financial Reporting Standards the Company performs asset impairment tests. Positive results of future tests cannot be guaranteed.

Exchange rate risks:

Risks associated with PLN strengthening against EUR and USD

Due to the global character of its activities CD PROJEKT S.A. is subject to risks associated with sudden exchange rate changes involving PLN and foreign currencies, particularly EUR and USD. A significant portion of publishing and distribution agreements to which CD PROJEKT S.A. is party (as a videogame developer) is denominated in foreign currencies. Accordingly, the strengthening of PLN against foreign currencies is viewed as an unfavorable circumstance by the Company, reducing its revenues from distribution and licensing contracts.

Risks associated with PLN weakening against EUR and USD

The licensing and distribution agreements to which the Company is party stipulate that the Company shall receive advance payments for future royalties. These advances, denominated in foreign currencies, are listed in the "Other liabilities" line item in the Company's financial statement. Any weakening of PLN against foreign currencies may result in additional negative exchange rate differences associated with these liabilities.

In order to mitigate exchange rate risks CD PROJEKT S.A. performs hedging as part of its ordinary activities.

Risks associated with major shareholders' actions

As of the date of preparation of this report CD PROJEKT S.A. has several major shareholders as specified elsewhere in this report. Owing to their share in the Company share capital and the total number of votes at the General Meeting the major shareholders, when acting in concert, exercise effective control over the Company. They may use their majority at the General Meeting to effect significant decisions - for example introduce changes in the Company statute, issue new stock, reduce the Company share capital, issue convertible bonds, pay out dividends and perform other actions which, according to the Commercial Company Code, require a majority or supermajority of votes at the General Meeting. The major shareholders acting in concert also possess a sufficient number of votes to exercise de facto control over the composition of the Supervisory Board by directly appointing all or most of its members (depending on whether group voting is instituted). In turn, the Supervisory Board may appoint the President of the Management Board as well as other members of the Management Board in accordance with the major shareholders' wishes. Due to the above listed prerogatives investors should not assume that the major shareholders will always act in the interest of other shareholders of the Company.

■ Risk factors specific to the Company's market environment

Risks associated with changes in macroeconomic conditions

The overall condition of the global economy, including global crises and deterioration of economic conditions both in Poland and worldwide, may have a negative impact on the financial standing of CD PROJEKT S.A.

A negative macroeconomic outlook may force consumers to adopt a conservative stance and therefore negatively affect product sales through official distribution channels. Additionally, negative macroeconomic conditions may hinder access to sources of financing, reducing the scope of game development projects. The Company monitors the impact of global economic conditions on the markets on which it operates, and takes steps to adjust its actions accordingly.

Risks associated with legislative changes and conflicts of jurisdiction

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

CD PROJEKT S.A. is subject to legal regulations in countries where it distributes its products as well as - to some extent - in countries in which it purchases or licenses products for publication, or acquires technologies used in the game development process. Large portions of sale, purchase and licensing agreements concluded with foreign parties are governed by foreign law. This creates the risk of incorrect interpretations by the Company. In order to mitigate this risk CD PROJEKT S.A. enlists the services of foreign legal consultants who specialize in the relevant fields.

CD PROJEKT S.A. has no control over the legislative process either in Poland or abroad.

Risks associated with competitors' actions

The Company's business performance is affected by its competition's strategy, financial standing and the ability to procure financing on favorable terms. CD PROJEKT S.A. mitigates this risk by implementing an active publishing policy and maintaining good relations with its business partners. Additionally, the Company works to diversify its supply and sales channels.

X. Disclosure of significant proceedings pending before courts, authorities competent for arbitration proceedings or public administration authorities

The following proceedings were carried out during the reporting period (the reported status is valid for the publication date of this report):

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

1. 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 the decision issued by the Inspector of Treasury Control on 27 December 2001 in which the VAT liabilities of the Company were estimated at 16 367.4 thousand PLN. This decision was upheld by the Treasury Chamber in Kraków on 3 April 2002, and by the Treasury Office on 21 November 2002, which applied the universal succession principle to hold the Company responsible for tax liabilities incurred by its 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. Additionally, an appeal against the section in which the District Court affirms the Company's claims was filed by the State Treasury. The first hearing before the Appellate Court in Kraków was held on 18 March 2015. Following statements by the plenipotentiaries of each side the Court adjourned the proceedings until such time as additional testimony could be obtained from an expert witness. No further hearings have been scheduled as of the publication date of this report.

2. CD PROJEKT S.A. (formerly Optimus S.A.) vs. Michał Lorenc

On 10 April 2009 Optimus S.A. filed a lawsuit in the District Court for the City of Warsaw against Mr. Michał Lorenc - its former President of the Board. The Company seeks damages in the amount of 507.3 thousand PLN for losses incurred as a result of violation of disclosure obligations associated with the Company's listing on the Warsaw Stock Exchange regarding the issuance of D series shares and purchase of Zatra S.A. stock during Mr. Michał Lorenc's tenure as President of the Management Board. The hearing scheduled by the Court for 2 June 2010 was cancelled.

In mid-February 2011 the Company filed a request to schedule another hearing and it currently awaits the Court's decision in this regard. This case is tied to case no. XVIII K 126/09 described below.

3. Motion to recognize overpayment of civil law transaction tax associated with capital contributions

On 12 April 2011 Optimus S.A. filed a legal complaint in the District Administrative Court in Warsaw regarding an erroneous (in the Company's opinion) individual interpretation of tax law applied by the Director of the Treasury Chamber in Warsaw acting on behalf of the Finance Minister. This decision concerned civil law transaction tax which, in the Company's opinion, was unjustly levied in conjunction with non-monetary capital contributions to CD Projekt Kiciński i Wspólnicy Sp. k. of which CD PROJEKT S.A. is the legal successor. On 15 March 2012 the Court issued a judgment affirming the Company's claim and declaring that the civil law transaction tax levied upon incorporation of CD Projekt Kiciński i Wspólnicy Sp. k. in the amount of 1 118 thousand PLN was unlawful.

On 4 July 2012, the Company received a transcript of the appeal in cassation filed in the Supreme Administrative Court via the District Administrative Court in Warsaw by the Director of the Treasury Chamber in Warsaw acting on behalf of the Finance Minister, which contests the judgment of 15 March 2012 in its entirety. On 4 July 2014 the Supreme Administrative Court dismissed the appeal on formal grounds.

Following issuance of the above described judgment the Company applied to tax authorities for recognition of tax overpayment. On 3 July 2012 the application was denied. On 17 July 2012 the Company filed an appeal and subsequently, on 6 November 2012, filed a complaint in the District Administrative Court in Warsaw against the decision of the Director of the Treasury Chamber in Warsaw upholding the decision of the Head of the 2nd Mazovian Tax Office which denies recognition of overpayment of civil law transaction tax. On 13 May 2013 the District Administrative Court concurred with the Company's claim and issued a judgement overturning the decision of the Director of the Treasury Chamber on the grounds that the Director had not availed himself of the option to file an appeal in cassation having been notified of the legal basis for the previously described judgement. On 31 January 2014, pursuant to the decision of the Director of the Treasury Chamber of 24 January 2014, the Company recovered the overpaid civil law transaction tax plus interest in the amount of 1 361.3 thousand PLN.

4. Motion to recognize overpayment of civil law transaction tax associated with increases in the Company's share capital

On 22 May 2012 CD Projekt RED S.A. filed two legal complaints in the District Administrative Court in Warsaw seeking reimbursement of civil law transaction tax which, in the Company's opinion, was unjustly levied in conjunction with increases in the Company's share capital. The complaints concern two decisions by the Director of the Treasury Chamber in Warsaw of 20 April 2012 upholding the corresponding decisions issued on 26 January 2012 by the Head of the 2nd Mazovian Tax Office in Warsaw, denying recognition of overpayment of civil law transaction tax in the amounts of 158.9 thousand PLN plus interest and 113.2 thousand PLN plus interest respectively.

At a joint hearing on 14 February 2013 the District Administrative Court rejected both complaints against the decisions of the Director of the Treasury Chamber in Warsaw of 20 April 2012. Having been notified by the District Administrative Court of the legal basis for its judgement the Company filed two appeals in cassation in the Supreme Administrative Court. On 7 August 2014 the Company moved to withdraw both appeals in cassation and on 28 August 2014 the District Administrative Court issued a decision terminating the relevant proceedings.

5. Complaint against individual interpretation of tax law

On 18 March 2014, having previously issued a written request to the Director of the Treasury Chamber in Warsaw to rectify an unlawful situation, CD PROJEKT S.A. filed a complaint in the District Administrative Court in Warsaw against an erroneous (in the Company's opinion) individual interpretation of tax law by the Director of the Treasury Chamber in Warsaw acting on behalf of the Finance Minister, concerning the time of deduction of withholding tax at source from the income tax owed by the Company. A hearing was held on 4 February 2015 and subsequently, on 18 February 2015, the District Administrative Court issued a judgment dismissing the Company's claim on the grounds that the contested interpretation does not constitute a breach of tax law.

6. Complaint against individual interpretation of tax law

On 19 August 2014, having previously issued a written request to the Director of the Treasury Chamber in Warsaw to rectify an unlawful situation, CD PROJEKT S.A. filed a complaint with the District Administrative Court in Warsaw against the erroneous (in the Company's opinion) individual interpretation of tax law by the Director of the Treasury Chamber in Warsaw acting on behalf of the Finance Minister. The decision concerned the deduction of expenses borne in association with purchasing new technologies from the Tax Capital Group's tax base, and the duty to reimburse any relief obtained in this manner by increasing the applicable tax base in the event of the dissolution of the Tax Capital Group within three fiscal years following the close of the fiscal year in which the newly acquired technology is entered into the Company's register of tangible, intangible and legal assets. On 20 January 2015 the District Administrative Court dismissed the Company's complaint on formal grounds.

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

Case against Michał Lorenc, Piotr Lewandowski and Michał Dębski

On 27 April 2009 the District Attorney's Office filed an indictment in the District Court for the City of Warsaw against Michał Lorenc, Piotr Lewandowski and Michał Dębski charged with violating sections 296 §1, 296 §3 and others of the Penal Code. The corresponding neutral citation number is XVIII K 126/09. The Company is acting as an auxiliary prosecutor. As of the date of preparation of this statement a number of hearings have been held, the defendants and a majority of witnesses have testified and partial testimony has been obtained from the expert witness.

In the course of the above-mentioned proceedings the Company filed a claim for total damages in the amount of 4 397 thousand PLN.

XI. Information concerning audits of financial statements

On 6 May 2014 the Supervisory Board of the Company selected PKF Consult sp. z o.o. as the licensed auditor responsible for performing audits of the semiannual and annual consolidated financial statements of the Company and its Capital Group for 2014. The corresponding agreement was signed on 1 July 2014.

Detailed information regarding the compensation of licensed auditors charged with performing audits of the Company's financial statement for 2014 can be found in the Financial Statement of CD PROJEKT S.A. for the period between 1 January and 31 December 2014 (see note 57: Disclosure of transactions with entities charged with performing audits of financial statements).

Signatures attached to the Management Board report on CD PROJEKT S.A. activities

Warsaw, 19 March 2015

Adam Kiciński
President of the Board

Marcin Iwiński
Board Member

Piotr Nielubowicz
Board Member

Adam Badowski
Board Member

Michał Nowakowski
Board Member



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