CD PROJEKT S.A. Supervisory Board Report

concerning activities in the fiscal year 2016, along with an assessment of Supervisory Board actions and a summary assessment of Company status, its internal control system and risk mitigation strategies

1. Supervisory Board composition throughout the reporting period in 2016

During 2016 the following people performed duties as members of the Supervisory Board:

Between 1 January and 28 April 2016:

- Katarzyna Szwarc – Chairwoman of the Supervisory Board;
- Piotr Pągowski – Deputy Chairman of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Maciej Majewski – Secretary of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Grzegorz Kujawski – Member of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Krzysztof Kilian – Member of the Supervisory Board; Supervisory Board Member meeting independence criteria.

Between 28 April and 24 May 2016:

- Katarzyna Szwarc – Chairwoman of the Supervisory Board;
- Piotr Pągowski – Deputy Chairman of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Maciej Majewski – Secretary of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Krzysztof Kilian – Member of the Supervisory Board; Supervisory Board Member meeting independence criteria.

Between 24 May and 31 December 2016:

- Katarzyna Szwarc – Chairwoman of the Supervisory Board;
- Piotr Pągowski – Deputy Chairman of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Maciej Majewski – Secretary of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Krzysztof Kilian – Member of the Supervisory Board; Supervisory Board Member meeting independence criteria;
- Michał Bień – Member of the Supervisory Board; Supervisory Board Member meeting independence criteria.

2. Scope of Supervisory Board activities in the reporting period:

In discharging its legal and statutory duties the Supervisory Board maintained ongoing oversight of all matters affecting the Company throughout 2016.

In particular, the Supervisory Board assessed the plans of the Management Board concerning business strategies implemented by the Company and the Capital Group, as well as day-to-day activities of the Company and its financial condition.

Throughout 2016 the Supervisory Board faithfully discharged all duties to which a supervisory board of a public company is unconditionally obligated by law, the Company Articles and Supervisory Board regulations.

In 2016 the Supervisory Board held four sessions. The Supervisory Board also executed its duties by adopting resolutions by circulation.

As part of its prerogatives, throughout 2016 the Supervisory Board applied a substantial portion of the Code of Best Practices for WSE Listed Companies insofar as these practices concern the supervisory boards of publicly traded companies.

As the Supervisory Board comprises five members, the duties of the Audit Committee specified in the Act of 7 May 2011 regulating the activities of licensed auditors, their self-government, entities charged with auditing financial statements and public oversight were discharged by the full Board.

In the scope of the abovementioned activities the Supervisory Board oversaw the financial reporting process and discharged its auditory obligations, including reviews of Company financial statements prior to their publication, and periodic meetings with licensed auditors. In the process of selecting licensed auditors the Supervisory Board assessed the independence of candidate auditors and entities charged with attestation of financial statements.

In the Supervisory Board’s opinion, its current composition is sufficient to ensure performance of all duties to which a supervisory board of a public company is legally obligated.

Throughout 2016 the control and oversight duties of the Supervisory Board of CD PROJEKT S.A. were discharged faithfully and with due diligence. The Supervisory Board closely monitored all affairs substantially affecting the Company while the Management Board supplied timely reports on the Company’s legal status and each of its activity segments.

In discharging its control and oversight duties the Supervisory Board relied on written reports submitted by the Management Board and on clarifications provided by Management Board members attending Supervisory Board meetings. As a rule, Supervisory board meetings were attended by members of the Management Board with the exception of matters related to the performance of the Management Board and its individual members. A significant portion of Supervisory Board activities was performed with the use of remote communication tools, enabling better oversight of current Company affairs.

3. Summary assessment of Company status, its internal control system, risk mitigation strategies, internal audit policies and fulfillment of statutory disclosure obligations

Based on Company and Capital Group financial statements for 2016, the Management Board report on the internal control system and risk mitigation strategies for 2016 of 30 March 2017, as well as additional information obtained from the Management Board the Supervisory Board declares that the Company has successfully attained the goals set by the Management Board with regard to its operating activities, i.e. videogame development and digital distribution of videogames.

In the opinion of the Supervisory Board the Capital Group's structure has been optimized in such a way as to enable further dynamic growth in each of its activity segments. The Company's condition is stable. Following assessment of the Company's condition in 2016 as well as key risk factors affecting the Company, the Supervisory Board perceives no substantial threat which could jeopardize the continuation of Company activities.

Throughout 2016 the Company conducted its business in a manner consistent with legal regulations applicable to public companies, including corporate governance law. In the Supervisory Board's opinion, the Company met its disclosure obligations relating to compliance with corporate governance law.

The Management Board of the Company is responsible for its internal control and risk mitigation systems and for periodic assessment of risk factors which may affect the Company during the given fiscal year.

The Management Board of the Company is responsible for effective operation of its internal control system in preparing the Company's financial statements. It is also responsible for ensuring the correctness of said statements, as well as of its own periodic reports. To this end, the Management Board is tasked with supervising the preparation of any legally required documents. Financial data reported in these documents is derived from the Company's accounting system which operates in accordance with the International Accounting Standards.

I. Internal Control System

Throughout 2016 the accounts and ledgers of CD PROJEKT S.A. (further referred to as "the Company") were managed by the Company's internal accounting department. This department also provided paid accounting services to Company subsidiaries – GOG Poland sp. z o.o. and CD PROJEKT Brands S.A. (until 31 December 2016) – and provided HR and payroll services to CDP.pl sp. z o.o., GOG Poland sp. z o.o. and CD PROJEKT Brands S.A. (until 31 December 2016). The accounts and ledgers of GOG Ltd. – a foreign subsidiary – were managed by EKAVI LIMITED, while the accounts and ledgers of CD PROJEKT Inc. were managed internally by that company in collaboration with Armanino LLP, an external accounting office.

In 2015 the core ERP systems used to manage the accounts of CD PROJEKT S.A., GOG Poland sp. z o.o. and CD PROJEKT Brands S.A. were IFS Applications and Workflow Plus.

IFS Applications 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 Applications at the CD PROJEKT Capital Group, finalized in 2015, ensures better cohesiveness, reliability and accuracy of data required by the Company's executive staff. This task coincided with further optimization of the Group's business processes.

Workflow Plus (Poland) is a document digitization system which streamlines the document flow at commercial enterprises. CD PROJEKT S.A., CD PROJEKT Brands S.A. and GOG Poland sp. z o.o. make use of its invoicing, incoming/outgoing mail registration and contract management components. The goal was to institute fully electronic document flow and electronic resource allocation/expense approval mechanisms backed up by a digital archive. Paper documents are superseded by electronic ones whenever possible, enhancing management, improving control and enabling financial data to be fed into ERP workflows without undue delays.

The separate and consolidated financial statements of CD PROJEKT S.A. are subject to review by an independent auditor in accordance with the applicable legal regulations.

From the financial perspective, the internal control system relies on monthly assessment of financial results in relation to previous estimates published by each subsidiary/activity segment of the Capital Group. In justified cases subsidiaries may prepare alternative estimates:

- "conservative" estimate – used to determine the safety thresholds for cash provisions and access to financing sources,
- "target" estimate – submitted to directors of each subsidiary as a business target with ambitious criteria which can only be achieved under favorable circumstances.

In accordance with the reporting and assessment policy in force at the Company the Management Board of CD PROJEKT S.A. performs monthly reviews of financial results and compares them with earlier estimates. Top managers in charge of individual subsidiaries/activity segments of the Capital Group participate in this process. Review meetings also address important events and circumstances affecting each member of the Group as well as the outlook for attaining business goals in subsequent months.

In between monthly review meetings the Management Board of CD PROJEKT S.A. liaises with the managers of each of its subsidiaries and participates in developing joint business strategies.

Liquidity planning within the Capital Group is performed on a monthly basis and the plans themselves are subdivided into weekly periods.

Each payment within the Capital Group is remitted on the basis of a properly filed accounting document. An accounting document may only be filed if it is valid in all respects and has been approved by a party authorized to approve such documents. The person who files an accounting document is also responsible for ensuring its validity. Day-to-day payments are processed by the financial department in collaboration with the accounting department. Any exceptions to this rule require Management Board approval.

All subsidiaries of CD PROJEKT S.A. are entitled to consult with experts working for the parent company under the corporate and legal oversight policy implemented by the Capital Group.

II. Risk factors affecting the Group’s operations, with mitigation strategies

Risk factors specific to the Group’s activity profile

Risks associated with customers

In the CD PROJEKT RED segment the pool of customers consists of distributors and publishers who purchase licenses to publish and distribute Company products. Efficient cooperation with customers is dependent upon 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 to final customers and increasing licensee and distributor retention. Additionally, the Company strives to cooperate with the most reputable business partners, with a proven record of financial stability. In selected cases Company products are distributed on the basis of advance fees.

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

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

The operations of GOG Ltd. depend on cooperation with developers, producers and publishers who supply final products and with whom publishing, distribution and retail sale agreements are negotiated. The Company mitigates the risk of losing suppliers by maintaining good trade relations and by working to diversify its supply chains and attract new suppliers.

Risks associated with technical malfunctions and data loss
The activities of the Group (including those of GOG.com) are dependent upon correct operation of IT systems, computers and servers. Outages and technical malfunctions may render the Group unable to perform its daily activities and may disrupt the operation of the Group’s online services. Data storage and data processing carries the risk of theft or leakage of critical information. Technical issues affecting the Group’s data storage services, or access by unauthorized parties may result in data loss, reduced sales revenues and unforeseen costs. Such occurrences may also negatively impact the Group’s reputation and undermine customer trust.

In order to facilitate uninterrupted operation of its technical infrastructure and mitigate the associated risks the Group has deployed a range of safeguards and backup systems ensuring constant supply of electrical power. All devices hosted in the Group’s main server room are backed up by UPS to protect against power surges and outages. Additionally, the Group has purchased a diesel generator to supply power to its critical systems in the event of a blackout. The main server room is equipped with an automatic fire suppression system. Critical data is automatically backed up to an offsite facility and many key operations are performed using redundant systems, enabling automatic failover and uninterrupted operation in the event of a technical malfunction.

The Group works to ensure proper maintenance of its critical IT infrastructure, with continuous monitoring and periodic upgrades to improve the operation of servers and other systems. Nevertheless, despite the Group’s best efforts, risks associated with hardware malfunctions and data loss cannot be entirely eliminated.

Risk of incorrectly estimating demand and future sales
Developing, publishing and distributing products, whether proprietary or licensed, requires that their sales volume be estimated before the given product is released. In practice, individual products differ greatly with respect to their revenue generation potential. Group members draw upon their experience to determine the commercial

potential of each product they release, however the risk of incorrectly estimating demand and sales volume cannot be entirely eliminated.

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

By undertaking development of GWENT: The Witcher Card Game, the CD PROJEKT Capital Group has entered a new market segment: free-to-play (F2P) games with optional microtransactions. GWENT is a multiplayer online card game which will ultimately include single-player content (add-on campaigns offering multiple hours of gameplay). The business model and lifecycle of F2P games differs from CD PROJEKT RED's to-date experience with RPGs. The Company is currently acquiring experience with development and marketing of "games as a service" including optional microtransactions. The expected release of GWENT in China represents another first for the Company. The Chinese market is, in many respects, unlike other markets where CD PROJEKT has previously conducted business activities. A theoretical inability to ensure market success in China may translate into lower-than-expected financial results, both within the CD PROJEKT RED segment and the GOG.com segment (GWENT is co-developed by both companies as a collaborative undertaking).

Risk of delays in videogame development

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

With respect to products purchased by GOG Ltd. Group members have no control over delays arising on the supplier side. 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. Acting to further improve the effectiveness of videogame development the Company has deployed a standardized and semiautomatic production management system, which enforces best practices in the area of detailed control over the range and course of ongoing development work.

Risks associated with development of videogames for "closed" platforms

Development of games for "closed" platforms, such as gaming consoles or iOS devices, 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. This requirement also applies to new versions of any game, as well as to expansion packs. 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 products.

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

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

Group member companies acquire copyrights (e.g. in the videogame development process) on the basis of contracts concluded with employees, affiliates and external suppliers. Despite introduction of suitable contractual provisions regulating copyright management, situations may arise where copyright has not been effectively transferred to the Group. The Group performs continuous analysis of such risks and works to adapt the material content of its service contracts to minimize the aforementioned risk.

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

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

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

Company revenues are also negatively affected by the actions of parties who infringe its own intellectual property rights. Group members have no direct control over the scale of illegal distribution of their products. Insofar as possible, Group members try to attract customers by releasing products in various price brackets, published in an appealing manner and therefore providing good value for money – both via services operated by GOG Ltd. and with regard to the Group's own products marketed domestically and globally.

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

Risk of inability to recruite employees crucial for realization of future plans

As the Polish videogame industry is arguably less than 20 years old, Polish universities and vocational training schools have not yet had time to train a sufficient number of professionals specializing in videogame development. Current activities of the Group, as well as its future development plans, call for further recruitment of employees, both Polish and foreign. The inability to attract world-class specialists might impact the quality and release schedule of Group products. Member companies work to expand their internal HR and recruitment departments in order to mitigate this risk. Owing to the increasing recognition of CD PROJEKT RED and GOG.com among gamers and developers worldwide, the Group has been able to attract skilled professionals with relative ease.

Due to the increasing competition between game development studios the Group is compelled to provide its employees with good employment conditions, competitive salaries, bonuses, incentive programs and benefits in order to ensure employee retention and motivation.

Risks associated with employee retention

Losing key employees may significantly impact the operations and financial status of the CD PROJEKT Capital Group. The activities of Group members and their growth outlook are greatly dependent on the skill, experience and knowledge of key employees and collaborators. Group members offer competitive employment conditions, salaries, bonuses and benefits to their employees in order to ensure employee retention and motivation.

Risk of insolvency and credit risk

The CD PROJEKT Capital Group compares its results to annual plans which include liquidity goals. Such evaluation is performed on a monthly basis. In order to minimize the risk of customer insolvency the Group performs ongoing monitoring of the collection of receivables. Debt collection is subcontracted to specialized third parties. The Group identifies key customers whose total share in the Group’s revenue stream exceeds 10%. The Group actively manages its liquid assets and monitors its debt in relation to the Group’s equity and financial results, both current and projected, as well as future investment plans.

As of the publication date of this report CD PROJEKT is not in debt due to any credit or loan agreements, and has set aside provisions in cash. Cash management on the level of the Group is performed in such a way that excess cash in one subsidiary may be loaned to other subsidiaries or invested in low-risk financial instruments deposited in banks which cooperate with the Group. The Group relies on this mechanism to perform daily 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 their activities CD PROJEKT Capital Group member companies may, in the future, require access to sources of financing, including bank credit agreements, third-party loans, lease agreements or bonds. In 2016 no Group member had any outstanding liabilities due to bank credit agreements, third-party loans or bonds. Several vehicle lease agreements were in force; however, their aggregate value was much lower than the Group's positive cash account balance.

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

Risks associated with sureties

Credit agreements, selected trade agreements and cash-pooling agreements concluded within the CD PROJEKT Capital Group involve CD PROJEKT S.A., GOG Ltd., GOG Poland sp. z o.o., CD PROJEKT Brands S.A. (liquidated on 31 December 2016) 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 pledged. Detailed information regarding the scope of guarantees granted by each member of the CD PROJEKT Capital Group can be found in the Consolidated Financial Statement of the CD PROJEKT Capital Group for the period between 1 January and 31 December 2016, in the section titled "Conditional liabilities from guarantees and collateral pledged".

Asset impairment tests

In line with International Financial Reporting Standards the Company conducts periodic asset impairment tests. Positive results of future tests cannot be guaranteed.

Risks associated with PLN strengthening against USD and EUR

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

A significant portion of publishing and distribution agreements to which CD PROJEKT S.A. is party (as a videogame developer) is denominated in foreign currencies – typically in USD or EUR. As a result, the strengthening of PLN against foreign currencies is regarded as an unfavorable circumstance by the Group, reducing its revenues from distribution and licensing contracts. CD PROJEKT S.A. performs hedging in order to mitigate exchange rate risks, however such risks cannot be entirely eliminated.

GOG Ltd. revenues are denominated primarily in USD, and to a lesser extent in EUR, GBP, AUD, PLN and RUB, while costs are borne in USD, EUR and PLN. Accordingly, the strengthening of PLN or EUR against the currencies in which GOG Ltd. obtains revenues is viewed as an unfavorable circumstance by the Group, reducing the profitability of GOG Ltd.

Risks associated with changes in macroeconomic conditions

The overall condition of the global economy, including political and economic crises as well as deterioration of economic conditions both in Poland and worldwide, may have a negative impact on the CD PROJEKT Capital Group's financial standing.

A negative macroeconomic or political outlook may force consumers to adopt a conservative stance, or result in restrictions upon the sale of products as a result of economic sanctions, thereby negatively affecting product sales through official distribution channels. Additionally, negative macroeconomic conditions may hinder access to sources of financing, ultimately reducing the scope and quantity of ongoing game development projects. Group members monitor the impact of global economic conditions upon their respective markets and adjust their actions accordingly.

Risks associated with the emergence of new technologies
The digital entertainment segment which is the CD PROJEKT Capital Group's primary area of activity is characterized by dynamic changes in the applied technologies and IT solutions. This rapid pace of development necessitates frequent corrective actions, development of novel systems and increasing sophistication of the products offered. Technological changes may also influence the means by which games 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. The latest version of the Company's proprietary technology – REDengine 3 – used in the development of the Witcher 3: Wild Hunt, supports PCs and the newest generation of consoles. Developing games for new consoles carries clear advantages – as evidenced by sales of The Witcher 3: Wild Hunt – but also introduces certain risks due to vendor lock-in in a dynamically changing market environment. With regard to future gaming platforms, the Group believes that the market is entering an era of more frequent releases, based on evolutionary – rather than revolutionary – technological changes (exmples include PS4 Pro and Microsoft's recently announced Project Scorpio). This shortening of the console generation lifecycle may require videogame developers to adapt their existing standards and technologies, as well as existing games, to new platforms more frequently than has historically been the case. Group members monitor technological changes which may affect development and distribution of games, and take steps to adapt their strategies to such changes.

Risks associated with legislative changes and conflicts of jurisdiction
Legal regulations, both domestic and foreign, are subject to frequent changes. These changes, as well as the variability in the interpretation of existing law, constitute a risk which manifests itself e.g. with regard to taxation, trade regulations, intellectual property law, labor law and capital market law. Any change in legislation has the potential to negatively impact Group activities, either by increasing their costs or invalidating projections concerning future events. Legislative changes may also impact the legal environment in which the CD PROJEKT Capital Group conducts its operations. Introduction of new regulations may be associated with inconsistent case law and conflicting interpretations.

The CD PROJEKT Capital Group has no influence upon the legislative process in Poland or abroad.

On 16 July 2016 a General Anti-Avoidance Rule (GAAR) entered into force in Poland. This rule comprises a series of regulations preventing actions, which – while otherwise legal – are deemed by tax authorities to serve primarily as a means of avoiding taxation. Under GAAR, authorities can interpret the fiscal consequences of activities (or sets of activities) in such a way as to disregard the tax benefits which would otherwise have accrued to the taxable entity. This also applies to fiscal settlements based on individual tax interpretations previously obtained by taxpayers. In summary, GAAR represents a legal tool which authorities can employ to question the fiscal effects of transactions otherwise consistent with the applicable law but carried out in such a way as to avoid – again, in the authorities' opinion – the intended fiscal consequences. Given that the rule is a new addition to Polish law and has only been in force for several months it is currently difficult to reliably estimate the consequences of its introduction.

To mitigate the likelihood of fiscal settlements being questioned by national tax authorities, domestic member companies of the CD PROJEKT Capital Group attempt to obtain official interpretations concerning the applicable fiscal policies, and also employ the services of legal experts specializing in the relevant fields.

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

Risks associated with competitors' actions

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

III. Insurance policies

An important element of the Company risk management strategy is active insurance management, performed in cooperation with an insurance broker. The following (significant) insurance policies were applicable to the Company and its subsidiaries in 2016:

- all-risk insurance against property loss or damage caused by fire and other acts of God, including insurance against additional costs caused by events covered by this insurance policy;
- specialist insurance of electronic equipment;
- general civil liability insurance including product liability insurance;
- professional liability insurance for the Company;
- corporate liability insurance for top managers of the Company and its Capital Group – including insurance against claims associated with the discharge of official duties by members of the Management Board, proxies and members of the Supervisory Board;
- travel insurance – breakdown coverage, assistance and civil liability insurance (Polish AC/OC/NNW) for motor vehicles owned by the Company and its subsidiaries;
- compulsory civil liability insurance associated with provisioning of commercial accounting services;
- foreign travel insurance for employees.

IV. Physical security
The offices of CD PROJEKT S.A., CD PROJEKT Brands S.A. (until 31 December 2016) and GOG Poland Sp. z o.o. are located in Warsaw, at Jagiellońska 74, building E. The offices are equipped with an access control system supporting different security clearance levels for various parts of the premises. At nighttime as well as during weekends and holidays, whenever the front desk is closed, an external security contractor patrols the premises. Vacant sections of the premises are equipped with an alarm system which is capable of dispatching automatic notifications to a monitoring HQ. The entrance and main hallways are monitored by CCTV. The offices are part of a closed industrial complex which provides additional security staff.

V. Compliance and internal auditing
Given the scale and nature of Company activities, no formalized compliance and internal auditing mechanism is in force at the Company and no dedicated organizational unit has been established for this purpose. An ownership supervision department exists within the CD PROJEKT S.A. organizational structure, tasked with fiscal and legal supervision of Capital Group activities and proper discharge of statutory duties incumbent upon the Company. In justifiable cases Capital Group member companies employ the services of external law firms in order to mitigate legal and fiscal rights.

Summary
In the Supervisory Board’s opinion, the internal control system and risk mitigation strategies described above are consistent. As such, the Supervisory Board deems the internal control system and risk mitigation strategies applied in 2016 appropriate and believes that they materially reduce key risks which may threaten Company operations.